

PENSION POLICY IMPLEMENTATION IN TIANJIN:
WHO PAYS PENSION IN LOSS-MAKING PUBLIC FIRMS?

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*Dedicated to my parents
and my husband and baby...*

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Summary

This thesis aims to draw a picture on the implementation progress of the new pension policy initiated from mid-1990s in China. The recent pension reform wave, along with the economic reform of public firms, coincides with the recessions of state-owned enterprises, an obstacle for “social pooling and individual account” pension scheme. On the verge of bankruptcy of public firms, both firms and workers are in the economic morass. Existing studies mainly focused on macro decentralization theory and market theory and reasoned government’s failure to finance pension liabilities and notional individual accounts.

In this study, original data collected in Tianjin shows a scenario different from former research works. Through the elaborations of M. S. Grindle’s framework on analyzing policy implementation, this thesis, focusing on micro-analysis, theorizes why individual workers in loss-making state enterprises pay their pension to promote the present pension scheme. Interviews were conducted in twenty-six public firms in Tianjin. By exploring the power structure, *guanxi* capital and social opportunities within the domestic socio-economic system, a model on local policy implementation context explains the reason on the illegal pension contribution process and sheds light on the political economy of the Chinese pension reform.

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Glossary of Abbreviations

ACFTU	All China Federation of Trade Unions
CCP	Chinese Communist Party
COE	Collectively-owned Enterprise
CPI	Consumer Price Index
GDP	Gross Domestic Product
IPD	Implicit Pension Debt
LOW	Laid-off Worker
MCA	Ministry of Civil Affairs
MOF	Ministry of Finance
MOH	Ministry of Health
MOL	Ministry of Labor (1949-1998)
MOLSS	Ministry of Labor and Social Security (1998 - Now)
MOP	Ministry of Personnel
NPFPC	National Population and Family Planning Commission
NSSF	National Social Security Fund
PAYG	Pay-As-You-Go
SCRES	State Commission for Restructuring the Economic System

SDPC	State Development Planning Commission
SME	Small/Medium-size Enterprises
SOE	State-owned Enterprise
SI	Social Insurance
TJBOLSS	Tianjin Bureau of Labor and Social Security
TJSI	Tianjin Social Insurance Fund Management Center
UNPD	United Nations Population Division

Chapter 1

Cohesion or Conflict: A Study of China's Pension Reform

Policy implementation in transitional countries remains the most pressing challenge to their governments. The process of policy implementation has captured the government's attention because it is evident that a wide variety of factors – from the availability of sufficient resources, to the commitment of lower level officials, to reporting mechanisms within the bureaucracy, to accidents of timing, luck, and to seemingly unrelated events – can and do frequently intervene between the statement of policy goals and their actual achievement.¹ H. D. Lasswell wrote his book *Politics: Who Gets What, When, How* several decades ago, reminding us that even when a policy is successfully implemented, it involves far more than a mechanical translation of goals into routine procedures;² it involves fundamental questions about conflict, decision making, and “who gets what” in a society.³

A range of actors involved in the policy implementation process sets the policy implementation context and influences the policy content and outcome. A branch of the academic work on policy studies relies on the political economy of the power structure among different parts within a policy system.⁴ Following this branch, this thesis employs China's pension reform (from 1997 onwards) as a case study to validate the theory on the importance of the policy implementation context.

Offering pension to retired workers is a merit of socialist welfare states.

¹ D. Van Meter and C. Van Horn, “The Policy Implementation Process: A Conceptual Framework,” *Administration and Society*, 6, No. 4 (February 1975): 446.

² Harold D. Lasswell, *Politics: Who Gets What, When, How* (McGraw-Hill Book Co., 1936)

³ See M. S. Grindle, “Policy Content and Context in Implementation” in *Politics and Policy Implementation in the Third World*, edited by M.S. Grindle. (New Jersey: Princeton University Press, 1980): 68

⁴ *Ibid.*

Moreover, socialist countries are famous for its ubiquitous welfare to secure social equality. China had, until the late 1980s, maintained an urban- and enterprise-based Pay-As-You-Go (PAYG)⁵ system covering mainly state enterprises, including both state-owned enterprises and some collective enterprises.⁶ Although it adequately served China's planning economy for four decades, the conflict between enterprises' social functions and their role as market players has become more and more acute as economic reforms hardened their budget constraints and forced many of them into financial distress. China's recent pension reform (1997), which goes hand-in-hand with the restructuring of its public firms, reveals how the content and context of policy implementation interacts and shapes the ongoing process and ultimate outcome of the new pension scheme.

1.1 Policy Implementation

The question about how the political context of administrative action affects policy implementation is of interest to many scholars because they share a common concern about implementation itself. For these scholars⁷, implementation is an ongoing process consisting of a variety of actors, the ultimate outcome of which is determined by the content of a specific program being pursued and by the interaction of the involved actors within a given politico-administrative context. The task to analyze implementation is to develop generalizations about how and why the content

⁵ Social Security was designed in 1935 for a different world than the one we live in today. It is a "Pay-As-You-Go" system, in which the benefits that go to current retirees come directly from the payroll taxes of current workers. The other system is a fully funded system, in which the benefits that go to current retirees come from the pension funds saved by the current retirees themselves.

⁶ China's pension system consists of two parts -- state enterprises and government institutions. This thesis only focuses on the pension reform in state enterprises. Pensions of civil servants are mostly covered by the annual government budgets on a Pay-As-You-Go system.

⁷ For further readings in this branch, see David Zweig, *Context and content in policy implementation: Household contracts in China, 1977-1983*, (Florida International University, 1983); Randall Baker, *Comparative Public Management: Putting U.S. Public Policy and Implementation in Context*, (Praeger Publishers, 1994)

and contextual variables intervene in the implementation process based on case studies.

This thesis aims to explore the pension policy implementation in China from 1997 to 2002. Before assessing the topic in greater detail, it is useful to state more explicitly the definitions of policy content and policy context, and to consider why pension reform in China has been singled out as a focus out of all the reforms in China.

Policy Content

Policy content defines the intended beneficiaries (what the policy intends to do), execution of programs (how to pursue the policy outcome), site of implementation, and so forth. T. Lowi has pointed out that the kind of policy being made will have considerable impact on the kind of political activity stimulated by the policymaking process.⁸ Grindle applied this observation with equal validity to the implementation process, encouraging consideration of the “implementability” of various programs.⁹ The emphasis on “implementability” draws attention to both policy content and policy implementation context of various programs. These specific features of a policy program will affect the policy outcome significantly.

For example, changing policy content will cause behavior changes for intended beneficiaries as envisioned by the program.¹⁰ The difference in the degree of behavior changes is another way showing the effect of policy content upon its implementation. A good example is the research work comparing the case of

⁸ Theodore Lowi, “American Business, Public Policy, Case Studies, and Political Theory,” *World Politics*, 16, No. 4 (July 1964)

⁹ See M. S. Grindle, “Policy Content and Context in Implementation”: 32

¹⁰ See M. S. Grindle and Thomas, J., *Public choices and policy change: The Political Economy of Reform in Developing Countries* (Baltimore: Johns Hopkins University Press, 1991): 143

introducing new technologies for agricultural development with another case of providing housing for low-income groups.¹¹ The former may require considerable behavioral adaptation and participation on the part of the recipients. In contrast, the latter requires little in the way of changed behavior patterns. Moreover, programs that are designed to achieve long-range objectives may be more difficult to implement than those with immediate advantages to the beneficiaries. If the policy directly affects target groups' economic situation, sense of security and so forth, this policy would receive a small amount of support and participation.

Policy content also dictates the site of implementation.¹² As the site of implementation becomes more dispersed, both geographically and organizationally, the task of executing a particular program becomes more difficult, given the increase in decisional units involved. For instance, it might be expected that implementing an economic development program would be far more onerous than executing a new program for primary school instruction.

Decisions made during policy formulation may also indicate who is to be in charge of executing various programs. Such decisions can affect how the policy is pursued.¹³ There may be, for example, differences in the capacity of various bureaucratic agencies to manage programs successfully. Some will have more active, professional, and dedicated personnel than others. Some will enjoy greater support from political elites and have greater access to resources, and some will be more able to cope with the range of demands made upon them. Therefore, the agency conducting the process may have a decisive impact on implementation.

¹¹ *Ibid:*11

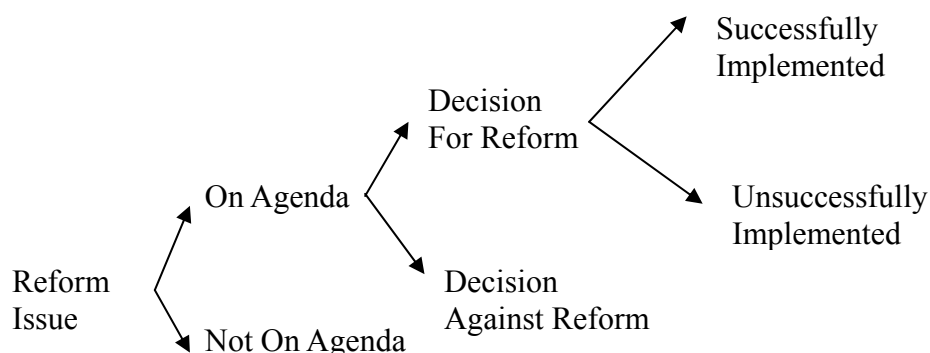
¹² *Ibid:* 178

¹³ Hill, M. and Hupe P. *Implementing Public Policy* (London: Sage, 2002)

Policy Context

Policy contexts vary across cultures and political regimes. As policy implementation theories¹⁴ reveal, policy context has inherent uncertainty along with the policy process, from policy-making to policy implementation.¹⁵ If policy reform is deemed as a linear model, the ultimate policy outcome is, either successfully or unsuccessfully, implemented depending on assorted environmental factors as shown in Figure 1.1. Even if a reform issue is well-designed for implementation, i.e., policy content is sufficiently studied and proved, the policy outcome is not definitely good since the policy environment, which is the policy context in this thesis, may affect the implementation process.

Figure 1.1 The Linear Model of Policy Reform¹⁶



A rough linear model of the policy process is implicit in many analyses of or proposals for reform. According to this model, a reform will go through the following: a proposed reform gets on the agenda for government action, a decision is made on

¹⁴ Alexander, Ernest R “From Idea to Action: Notes for a Contingency Theory of the Public Policy Implementation Process”, *Administration and Society*, Vol. 16 No 4 (February 1985); also see Goggin, Malcolm L, *Implementation Theory and Practice - Toward a Third Generation* (Illinois: Brown Higher Education, 1990); Gunn, Professor L. A., “Why is Implementation So Difficult?”, *Management Services in Government* (November 1978); Mazmanian, Daniel A & Sabatier, Paul, *Effective Policy Implementation*, (Lexington Books, Lexington, Massachusetts, 1981)

¹⁵ *Ibid*: Grindle and Thomas: 66

¹⁶ *Ibid*: 221.

the proposal, and the new policy or institutional arrangement is implemented, either successfully or unsuccessfully. Discussions on why a policy can be successfully or unsuccessfully implemented have yielded several models analyzing the policy context with reference to the power structure and actors' strategies.¹⁷ According to a general model of the politico-administrative process, policy implementation context includes:¹⁸

- power, interests, and strategies of actors involved;
- institution and regime characteristics;
- compliance and responsiveness;

Evaluating policy context is a crucial task in understanding the outcome of a policy or program. Analysis of the implementation context of specific programs may imply assessing the "power capabilities" of the actors, their interests and strategies for achieving them, and the characteristics of the regime in which they interact.¹⁹

For example, social participation in policy implementation is likely to be oriented toward individual or group demand making at the output phase of the policy process.²⁰ This feature makes the analysis on policy context more complex due to policy demands from multiple interest groups.²¹ It requires researchers to aggregate the demands of individuals and interest groups within one analytic framework. The

¹⁷ Power structure is the hierarchical classification of the policy actors' capacities. Actors' strategies refer to the activities aiming to influence the actors' power and capacities, such as negotiations, compromising and persistence. For further details, M. S. Grindle, "Policy Content and Context in Implementation," in *Politics and Policy Implementation in the Third World*, edited by M.S. Grindle (New Jersey: Princeton University Press 1980.): 44-47

¹⁸ *Ibid.*

¹⁹ The term, "power capabilities," is taken from C. Anderson, "The Latin American Political System," in N. Uphoff and W. Ilchman, eds., *The Political Economy of Development* (Berkeley: University of California Press, 1972): 171

²⁰ Pressman, J.L. and Wildavsky, A. *Implementation, 3rd edition* (University of California Press, 1984)

²¹ Multi-level demand model refers to policy demands from the multiple interest groups. For further details, see D. Van Meter and C. Van Horn, "The Policy Implementation Process: A Conceptual Framework," *Administration and Society*, 6, No. 4 (February 1975): 446.

obstacle to construct such a framework emerges from the diversity across countries. Any demographic, economic, social and cultural factor would lead to a widely different policy context. Therefore, researchers on implementation contexts have emphasized the importance of distinguishing the specific implementation context in one country or region from another. This thesis mainly discusses the politico-administrative context which includes the power structure, group interests and actor strategies in China's recent pension reform.

Policy content and context also shed light on a political economy approach explaining the policy process in terms of multi-power interplay²². Accordingly, this approach deals with various politically influential forces and interests and interactions within certain basic economic, social and demographic constraints and pressures. Therefore, pension reforms, as well as other reforms, cannot be seen merely in terms of their nature and feasibility. Reform outcome is heavily determined by deeper dynamics which are propelled not only by broad structural changes in the social, economic and political spheres, but also by the particular constellation of interests and perspectives which cluster around the particular policy issues like iron filings around a magnet.²³

1.2 Dynamics of China's Recent Pension Reform (1997-2002)

Going through the literature on China's pension reform, one may first realize the significance of this topic. As China is aging drastically, the problem on old-age security attracts attention of scholars in their economic and social studies.

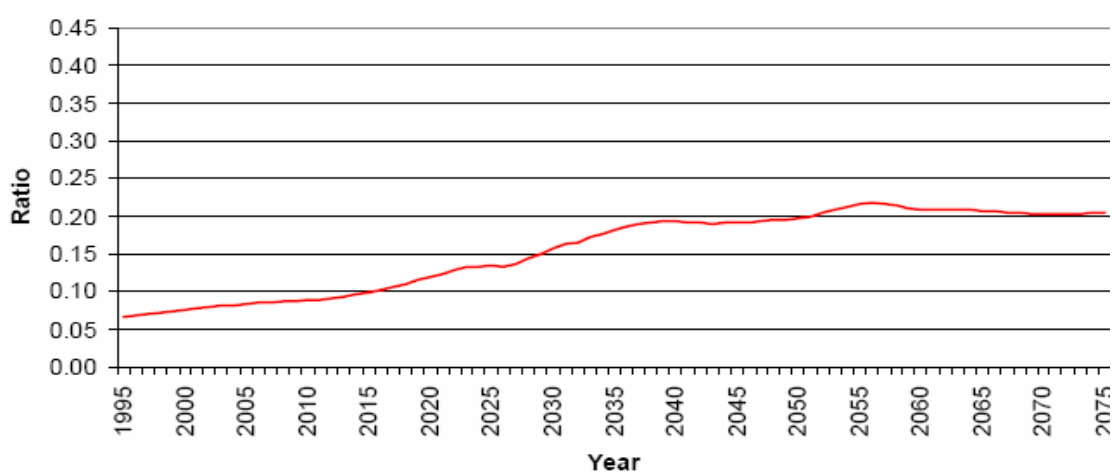
²² Weimer, D. and Vining, A., *Policy Analysis: Concepts and Practice* (New York: Prentice Hall 1999)

²³ *Op. cit.*: Grindle and Thomas: 87

Pressure from Population Aging

Since 1976, China has experienced a major socio-economic change, with important repercussions on the status of its population structure. China, the world's most populous country, is now crowned with another title: one of the world's most rapidly aging nations. China's demographic policy has been implemented for more than twenty years. It forces most of the Chinese families to have only one child. According to statistics from China's population policy maker -- the National Population and Family Planning Commission (NPFPC), residents who are 65 or older had already reached 7.1 per cent of the overall population at the end of 2001. Figure 1.2 reveals that the aging population is increasing drastically in China.

Figure 1.2 Aging Populations in China: Dependency Ratio²⁴



(Source: *China Daily*, available from http://www.chinadaily.com.cn/english/doc/2004-08/21/content_367466.htm, accessed September 10, 2004.)

NPFPC's predictions indicate the proportion of the population 65 or older will surge to nearly 22-24 per cent by 2050. If translated into absolute numbers, that means China will boast a staggering 400 million elders over 65 by around 2050. Meanwhile, China's median age is set to advance substantially from about 30 years

²⁴ Dependency ratio refers to the number of pensioners per 100 working-age workers.

old in 2000 to around 39 years old by 2025, exceeding that of the United States, according to United Nations Population Division (UNPD) projections.²⁵

The ongoing tempo of aging in China is far faster than what was witnessed in more developed regions of the world during the past three decades. Declining fertility rates, partly the result of national family planning policies, and prolonged life expectancies are the two main factors behind the aging crisis. "China is now a country with a very low fertility rate with its total rate consistently below the sub-replacement level since 1990," said Yu Xuejun, director of the Policy and Regulation Department at the NPFPC²⁶. Simultaneously, the national average life expectancy grew from a mere 41 years in 1950 to 70 years in 2000.²⁷

As noted by one article discussing trends in aging of the urban population in Beijing, Tianjin, and Shanghai, aging is proceeding more rapidly in urban areas. Shanghai has the largest proportion of elderly which accounts for 15 per cent of the population. Shanghai's total population increased 1.14 per cent during 1953-1990, but the elderly population increased by 7.55 per cent. Beijing's elderly population grew from 8.2 per cent of total population to 10.27 per cent during 1979-90. The elderly population in Tianjin has increased by 20 per cent during the past twenty years. By the year 2000, the proportion of elderly will increase to 17.7 per cent in Shanghai, 14.6 per cent in Beijing, and 12.7 per cent in Tianjin.²⁸

A related concern is the aging of the working population from 35 to 59 years

²⁵ China Daily, "China Faces Elderly Dilemma". Available from http://www.chinadaily.com.cn/english/doc/2004-08/21/content_367466.htm, accessed September 10, 2004.

²⁶ Xuejun Yu, *China's Response to Demographic Pressures: The Aging Complex*; available from <http://www.inwent.org/ef-texte/kop5/yu.htm>; accessed July 16, 2004

²⁷ *Ibid.*

²⁸ Zhai Z., "Urbanization and the Aging of Urban Population in China: Trend and Countermeasures", *China Journal of Population Science*. Vol. 9 (1): 35-44. (Spring 1997)

old, which comprised almost 60 per cent of the total population in 2000. These workers pose a problem for the competitiveness of enterprises. New technologies will demand a more flexible work force and a younger working population. By 2030, these older workers will be among the aged. In 2030, the old-aged people will account for 39.7 per cent, 35 per cent, and 29.5 per cent of the population in Shanghai, Beijing, and Tianjin, respectively. There will be 3.45 elderly people for every child and one elderly person for every 2.5 people.²⁹ This dramatic shift in population structure is unprecedented in China. These cities will be beset with many problems in intergenerational support and the work force. Typically, families in these cities can be characterized as a 4-2-1 pattern consisting of four seniors, two middle-aged parents, and one child. China's cities will experience waves of population shifts: from an abundant labor supply to labor force shortage and severe aging.³⁰ According to some estimates, population aging will first expand rapidly, then decline quickly over 20 years, and then expand again in 10 years.³¹ These abrupt changes will exert negative effects on industrial adjustment, the social welfare system, and the stability of employment.

Under the current aging tide, the pressure from population aging is apparent. The population dependency ratio³² increases from about 21 in 1995 to 44 around 2025 and then rises again to nearly 70 in 2075. The system dependency ratio, namely, the number of pensioners per 100 contributors, decreases initially from 21 in 1995 to 15 in 2000 when the pension coverage rate for the working age population extends from

²⁹ *Ibid.*: 38-41

³⁰ Sun Fei and Wang Quan, *Labor Shortage in China: An Economic Perspective*; available from http://blog.soufun.com/blog/post/289_92835.htm; accessed May 3, 2003.

³¹ *Ibid.*

³² For the explanation of this term, refer to footnote 23.

25 per cent to 38.5 per cent.³³ This implies more contributors will join the pension pool in the near future. However, this system dependency ratio will quickly rebound to 35.1 in 2025, as the population structure and the pension system mature.³⁴ If the young dependents are also taken into consideration, the total dependency rate will be in around 100 in 2025.

These facts and problems will be aggravated by the difficulties face by Chinese state enterprises (also known as public firms)³⁵. Table 1.1 from the *China Statistical Yearbook* (1990-2000) depicts the basic tendency of the working population covered by state pension scheme in urban China. The dependency ratio of the public firms has increased to 30.8 per cent in 2000, compared with 19.2 per cent in 1990. Therefore, financing old-age workers is a vital task for the Chinese government.

³³ Loraine A. West, *Pension Reform in China: Preparing for the Future*, available from <http://www.census.gov/ipc/www/ebsum97b.html>, accessed June 30, 2001.

³⁴ *Ibid.*

³⁵ State Enterprises include state-owned enterprises (SOE) and collectively-owned enterprises (COE).

Table 1.1: Workers and Pensioners in China, 1990-2000

<i>Year</i>	<i>workers covered</i> ³⁶	<i>workers covered /population</i>	<i>workers covered /urban employment</i>	<i>pensioners</i>	<i>pensioners /population older than 60 years old</i>	<i>dependency ratio</i>
1990	52,000,000	4.6%	31%	10,000,000	10%	19.2%
1992	78,000,000	6.6%	45%	17,000,000	NA	21.8%
1995	87,000,000	7.2%	46%	22,000,000	19.5%	25.3%
1997	87,000,000	7.0%	43%	25,000,000	NA	28.7%
1999	95,000,000	7.6%	45%	30,000,000	NA	31.6%
2000	104,000,000	8.2%	50%	32,000,000	23.5%	30.8%

Source: *China Statistical Yearbook* 1990-2000. (Beijing: China Statistics Press, 1990, 1992, 1995, 1997, 1999, 2000)

³⁶ Workers covered refer to the workers covered by China's current pension scheme.

China's Social Security Model

China has different social welfare systems in urban and rural areas. In the urban area, the social welfare system covers mainly the workers of state enterprises and part of the urban population. On the contrary, rural areas do not have a systematic social welfare system to protect peasants. Although this thesis mainly focuses on the urban pension system, it remains to be noted that China's welfare system, including pension, medical and unemployment insurance are extremely deficient in rural areas. As showed in Table 1.2 below, there are several ministries in charge of different kinds of welfare subsidies. However, existing welfare subsidies in pension are far from sufficiently meeting urban and rural people's demands. In the table, the deficiencies of pension in rural areas are apparent.

Most scholars agree that the rural population is living without government care and a subsidized pension system.³⁷ Only until most recently, the Ministry of Civil Affairs (MCA) provides social assistance for a very small portion of the rural population. That program is the 'local minimum livelihood line' pioneered by MCA. It is a mechanism for determining the entitlement to social assistance. As a major social assistance program in rural parts, 'local minimum livelihood line' remained in place until early 1990s. At present, it is also being developed in some selected cities.³⁸

'Local minimum livelihood line' started in 1991 when the State Commission for Restructuring the Economic System (SCRES) established a rural pension system based on individual pension payment capacities. Prior to this, no pension scheme was implemented in China's rural areas. The new policy allowed rural people above 30

³⁷ Lutz Leisering and Gong Sen, "Old-Age Pensions for Rural China? From Land Reform to Globalization", *Report for the State Development Planning Commission (SDPC)*, Peoples Republic of China, Asian Development Bank, Beijing, 2001

³⁸ Ministry of Civil Affairs, *Decision on Country-level Pension Scheme*, available from <http://www.molss.gov.cn/correlate/mbf19922.htm>, accessed April 3, 2003.

years old to join this pension system. This new pension system had no difference from a pure commercial pension insurance scheme. It emphasized that the family played an important role in supporting elderly people in traditional rural areas. Due to the small amount of participants in this system, the government decided to enlarge the participation. The amended policy greatly lowered the age limit. Newly born children were also included by the new program. This measure indeed helped in promoting the number of participants in the implementation process. However, due to the 1997 Asian Financial Crisis, politicians and bureaucrats considered the pension insurance a risky investment. They cancelled the rural pension scheme, giving the excuse that it was immature to implement.³⁹

³⁹ Lutz Leisering and Gong Sen, “Old-Age Pensions for Rural China? From Land Reform to Globalization”

Table 1.2 Urban Social Security Systems

	<i>Social Insurance</i>	<i>Social Relief</i>	<i>Social Welfare Service</i>	<i>Preferential Treatment</i>	<i>Mutual Help</i>	<i>Personal Savings</i>
Ministry of Civil Affairs	Pension benefits and public health system for special categories of rural pensions	Disaster relief poverty relief, etc	Social welfare units; welfare factories; community services; welfare lottery	Preferential treatment for special categories	Donations mutual help in neighborhoods or units	-
Ministry of Labor	Unemployment insurance	Hardship relief for employees and dependants in enterprises	Welfare in enterprises	-	-	-
Ministry of Personnel	Pension insurance for public servants	Hardship relief for public servants	Welfare for public servants	Arrangements for the former servicemen	-	-
Ministry of Health	Rural health insurance collective health services for public servants	-	-	-	-	-
Ministry of Finance	Supervising social insurance funds tax concessions	Financial arrangements for social	Policy subsidies for urban residents tax concessions for	Special treatment funds	-	-

	for pension contributions	assistance; tax concessions for welfare factories	welfare/community services			
Organizational Department (Party)	Pension insurance and public health system for senior cadres and public servants	Hardship relief for public servants	Welfare for public servants	Arrangement for former servicemen	-	-
All-China Federation of Trade Union	Management of Pension in State Enterprises (Before Cultural Revolution)	Hardship relief for enterprise employees	Management of enterprise welfare and trade union welfare units welfare for servicemen	-	Employees mutual help funds	Supplementary pension fund

(Source: Sarah Cook, *After the Iron Rice Bowl: Extending the Safety Net in China*, IDS Discussion Paper 377, Brighton: IDS, 2001)

Compared with the rural pension policy, urban workers should feel fortunate in view of the government's full welfare subsidies. Urban welfare is financed and organized primarily through state-owned and collectively-owned enterprises (SOEs and COEs) and public institutions. A wide range of benefits are provided including housing, health care, education, pension and childcare. Most full-time workers⁴⁰ in state (and later non-state) enterprises have been receiving basic medical, workplace injury, maternity, and retirement benefits since the early 1950s, when the new government of the People's Republic of China issued regulations on "labor insurance" that encompassed various forms of insurance.⁴¹ The most significant of these measures was old-age or pension insurance for virtually all workers.⁴² This and other forms of labor insurance were to be financed from payroll deductions. During the 1950s, enterprise unions, branches of the All-China Federation of Trade Union (ACFTU) had the administrative responsibility of collecting labor insurance fees and then turning these over to the higher level regional branches of the ACFTU. As noted by scholars on Chinese trade unions, the ACFTU not only acted as an institution of representation and participation to serve as an integral component of the party machine, but also tried to push for a more autonomous role for

⁴⁰ Beginning in 1951, pensions were guaranteed to all state-sector workers when they retired at age 55 for women and 60 for men. Payments were set at a comparatively high level: roughly 80-90 per cent of the workers' salary at retirement. Though inflation has eroded retirement benefits over the years, causing many retirees to complain that they can no longer live off them, the obligation of state-owned enterprises to provide pensions has not been lifted. See William Hurst and Kevin J. O'Brien, China's Contentious Pensioners, *The China Quarterly*, June 2002. Volume 170: 345-360.

⁴¹ These provisions were based on the 1951 "People's Republic of China Labor Insurance Regulations," with revisions in 1953, 1958, and 1978 to expand the scope of coverage and to adjust the way pensions were calculated. See Han and Jiao 1997: pp. 4-7, and Xie and Ba 1999: pp. 199-133

⁴² See Mark W. Frazier. "The Unfunded Mandate of Heaven: The Center, the Cities, and the Politics of Pension Reform in China." *Paper Proceedings at the 2002 Annual Meeting of the American Political Science Association*, Boston, August 29 - September 1, 2002.

the ACFTU, giving priority to the interests of workers.⁴³ Therefore, at that moment, retirees received their funds from union accounts rather than the enterprises themselves.

During the Cultural Revolution, the ACFTU and the Ministry of Labor were abolished, so was the unified pooling of retirement pensions. Social insurance thus became the responsibility of enterprises. The pension funds that had accumulated in the master fund were used for other purposes⁴⁴, eliminating any pre-funding that had built up.⁴⁵ Supervisory responsibilities of the pension funds were transferred to local labor bureaus, while responsibility for managing payments was transferred to enterprises. Pooling ended and so did pre-funding, since each enterprise paid the pension of its own workers out of its current revenues.

However, the pension scheme has been deteriorating in recent years due to the poor business performance of state enterprises in China. Salaries for workers in state enterprise were in arrears. In some regions, unprofitable enterprises could not afford to pay pensions for retirees. Therefore, pension protests have been spreading widely in China, especially in the traditional industrial regions. The Chinese government is fully aware of the situation since the urban working class is a principal supporting force of the state regime. Working-class protests flared up in one Chinese city after another and 55 per cent of the incidents were centered on issues related to wage arrears, pension and “livelihood difficulties”. A further 26 per cent were based on grievances involving “poor

⁴³ Lee Lai To, *Trade Unions in China: 1949 to the Present* (National University of Singapore, 1986). Also see Ng Sek Hong and Malcom Warner. *China's Trade Unions and Management* (London: Macmillan. 1998)

⁴⁴ Yue Guo, *China's Pension System Reform*, available from http://www.gu.edu.au/school/gbs/irl/working_party/Papers/Guo_2_.pdf; accessed November 21, 2004

⁴⁵ Pre-funding system was the pension system in the AFTCU management period. See Ng Sek Hong and Malcom Warner, *op.cit.*, 22-25

labor relations” or “illegal dismissals.”⁴⁶ As Hurst and O’Brien described in their article, the prominence of pension protests became especially apparent in many state enterprises in industrial cities, such as Benxi and Datong.⁴⁷ There were signs that this pattern also held true in other cities. One worker interviewed by Marc Blecher, for instance, reported that “the people who protest down at City Hall are just old workers who are not receiving their pensions.”⁴⁸

Pension reform: a high priority

China's pension reform has entered a critical stage. Various officials and experts report that it is very important to model the new system carefully to ensure the success of the social security system.⁴⁹ China’s pension reform has become the top priority of the government reform agenda and is a widely discussed topic. Without the success of the pension reform, the whole economic reform cannot move forward and would even end up in failure.

China's present pension system was adopted in the 1990s in a number of provinces and cities. It consists of social pooling and individual fund accumulation, with money coming from employers and employees. Employers and employees must deposit money into the accounts regularly. However, the social pooling system has always been short of money because some enterprises or government institutions do not have enough money and some funds have been diverted to non-social security uses.

⁴⁶ Blecher, Marc J. “Hegemony and Workers’ Politics in China”. *The China Quarterly* 2002. Vol 170: 8

⁴⁷ William Hurst and Kevin J. O’Brien, “China’s Contentious Pensioners”, *The China Quarterly*, June 2002. Volume 170: 345-360

⁴⁸ Blecher, Marc J., *op.cit.*

⁴⁹ China Daily, *Lottery Jackpot Joy for the Elderly*. Available from <http://www.globalaging.org/health/world/lottery.htm>; accessed August 20, 2002

Individually accumulated funds were often transferred to social accounts to pay pensions to retired people. Individual accounts were drained dry, said a top official with the State Commission for Restructuring Economic Systems' Institute on Economic System and Management.⁵⁰ The situation is growing more acute because the proportion of China's elderly population to the total population is getting larger by the day.

In addition to cash shortage, there are other problems with China's present pension system. Problems include the inability to make contributions, inaccurate records, lack of proper supervision, lack of a developed regulatory framework, and reluctance to participate in the system for certain industries. Therefore, it becomes an urgent task to set up a uniform, standardized and comprehensive national pension system in China.⁵¹

Experts interested in China's pension reform emphasize that the first step should be working out a pension model and a development strategy that suits China's own situation.⁵² However, there is no existing social insurance or pension model that can exactly fit China's needs. Difficulties exist in forming a national system in China covering provinces and municipalities engaged in different stages of development with different short-term needs. Experts from the World Bank suggested that China could reach a solution by combining the best of the pension models worldwide, including that in Australia, Chile, Singapore and United States.⁵³ They argued that, unlike PAYG system which uses this generation's money to support the elderly generation, the pension systems in most of these countries are based on funded accumulation systems where

⁵⁰ Interview was conducted in December, 2003.

⁵¹ China Daily, "Pension Problems Probed", August 6, 2000; available from http://www.chinadaily.com.cn/chinagate/doc/2000-08/06/content_247147.htm; accessed October 21, 2002.

⁵² *Ibid.*

⁵³ US Ministry of Social Security. *Global Social Security: 1995*. (Beijing: Huaxia Publishings. 1996)

funds can grow and each individual will see to the development of his/her own account.

However, one other critical issue for China is how to invest the pension fund in the capital market to raise more money. World Bank experts recommended four points: (1) paying all arrears of outstanding pensions immediately; (2) enforcing participation in the new system and the timely payments of contributions, (3) establishing a pension supervisory body on par with the central bank, namely, the China Securities Regulatory Commission (CSRC), and the China Insurance Regulatory Commission (CIRC), independent of the Ministry of Finance (MOF) and Ministry of Labor and Social Security (MOLSS); and (4) encouraging both domestic and foreign companies to enter the pension fund market.⁵⁴

So far, China's pension funds can only be invested in treasury bonds and bank deposits which cannot render significant returns. This runs counter to the international practice.⁵⁵ The World Bank insisted that investing pension funds on the capital market not only boosts development of the market, but also helps fund state infrastructure construction. However, this point of view remains to be controversial given the fact that China's securities market is still immature with lots of irregular behavior. As such, it is still unsafe to invest pension funds in the capital market directly.

1.3 Issues and Research Hypothesis

What has happened to the pension reform of China in the last decade? For a start,

⁵⁴ The World Bank, *World Bank Report 1998*, available from <http://www.worldbank.org/html/extpb/annrep98/human.htm>, accessed September 12, 2003.

⁵⁵ Wang, Yan, Dianqing Xu, Zhi Wang, and Fan Zhai., "Implicit Pension Debt, Transition Cost, Options and Impact of China's Pension Reform: A Computable General Equilibrium Analysis", *World Bank Policy Research Working Paper series*. 2000.

this study observes and discusses the status of China's recent pension reform. Previous studies have presented a clear picture of a series of pension policies before the reform. However, very few studies have touched on the most recent reform and its social impacts at the micro level. Based on a 4-month field study on pension policy implementation in Tianjin, this thesis, based on the policy implementation theory, aims to explain why the new pension scheme, which had been initiated by the World Bank and other economists, appears to be running smoothly in Chinese state enterprises, even in those loss-making public firms which fail to protect the workers' pension rights and interests.

This thesis uses basically the qualitative research method. Information gathered from interviews and observations will be analyzed in a descriptive way. Interviews are from three fieldwork investigations. In the first investigation, a small pilot study was conducted among policy-makers and government officials in four cities in China -- Qingdao, Tianjin, Wenzhou and Shenyang in May 2001. Evidence collected from these cities gave a detailed depiction of policy implementation in state enterprises and exposed the failure of the new pension scheme in terms of protecting welfare justice of the weak, especially in traditional industrial state enterprises.

In December 2002, the second investigation was conducted in Tianjin. Face-to-face interviews were conducted with eight government officials in Tianjin government agencies dealing with social security, public finance, and trade unions. It was revealed that laid-off workers (LOWs) in the loss-making enterprises were paying the share of pension to their host enterprises. Most of these workers do not receive salary from their enterprises after being laid-off. It is puzzling to note the absolute compliance of these

poor workers in submitting their share of pension contributions to their enterprises. Poor Chinese pensioners⁵⁶ did not protest or oppose the government in urging them to pay for the pension. Sometimes they sporadically appeal to some government institutions (e.g., the government information office, *xin fang ban*)⁵⁷ or appeal to the courts. Evidently, pension responsibilities of some state enterprises have been transferred to their employees.

Continuing the research on pension policy implementation in loss-making public firms, a three-month fieldwork was conducted in Tianjin in the third investigation. The investigation targets included seventeen SOEs and nine COEs. The size of these enterprises varies from below fifty people to more than three thousand people. The business performances among them also vary. Managers with responsibility for labor and welfare issue (*lao zi chu/ke or ren li zi yuan bu*) in those firms were interviewed on pension sources and management. Several dozen workers were also randomly interviewed. Among them, fifteen accepted in-depth interviews. Finally, two government officials from the Ministry of Labor and Social Security (MOLSS) at local levels and 6 functionaries from the Tianjin Social Insurance Funds Management Center (TJSI)⁵⁸ at the district-level social insurance agencies (SI) were interviewed.⁵⁹

In the shadow of the continuous business difficulties of state enterprises, the new pension scheme should not have worked well in financing their pension pool sufficiently.

⁵⁶ See William Hurst and Kevin O'Brien, "China's contentious pensioners", *The China Quarterly*, Vol 170, June 2002: 345-360.

⁵⁷ According to the interviewees in MOLSS, information sector basically deals with the appealing letter and requests from the ordinary people. They are in charge of helping local government to reply those requests and appeals. Interviews were conducted on December 23, 2003.

⁵⁸ SI is used as a code for all district level social insurance agencies.

⁵⁹ Tianjin is a provincial level city. It is equal to a province and the districts are equal to cities and counties in other provinces.

SOEs/COEs' capital assets and their zero-profits would not allow them to pay the pension fees for their employees. However, some cities with many loss-making SOEs/COEs in China are working quite smoothly in implementing the new pension policy. The study seeks to investigate and analyze who pays the pension fees if the SOEs/COEs cannot afford them and why the payers pay for them.

This study would focus on a three-party relationship among the government (including TJSI⁶⁰ and TJBOLSS), enterprises and individual workers under the framework of actor strategies. Why do some workers need to pay pension to their host enterprises? How and why did these phenomena exist for a long period? What are the government's reactions to workers' petitions? A verbal unrestrictive model⁶¹ on the interactions of these three parts will be presented. This model will illustrate the pension implementation process and be used to identify the real policy context and the politico-institutional factors. Systematic findings can be deduced through an in-depth policy implementation analysis. Although the fieldwork in Tianjin can by no means represent the whole of China, a micro-level analysis of the situation will add insights to the existing literature on China's pension reform. In addition, this research aims to raise more research questions on state enterprise reform and also challenge some theories on enterprise-worker interactions in Chinese state enterprises.

⁶⁰ In this study TJSI will be treated as a government institution since the staff working for TJSI will enjoy the same salary level and position level as civil servants. However, strictly speaking, TJSI is not a government institution. The staffs there are not attributed to civil servant category.

⁶¹ Game theory models can be classified as quantitative model and verbal model. Verbal model refers to a game theory model without quantifying the player's importance and strategies taken. Unrestrictive models refer to non-zero sum games or open-ended games. For details, see *Game Theory and Decision Theory in Agent-Based Systems*, edited by Simon Parsons, Piotr Gymtrasiewicz, and Michael Wooldridge (Boston, Massachusetts: Kluwer Academic Publishers, 2002)

1.4 Methodology

In this thesis, the analysis is based on case studies in one provincial-level city, namely, Tianjin. Twenty-six state enterprises capturing the variance of policy implementation processes in the same policy framework will be presented. The emphasis of this thesis is on descriptive analysis.

To help describe the dependent variable, namely, policy outcomes, three cohorts of enterprises investigated in the field study will be used. They are:

- Profitable state enterprises
- Barely surviving state enterprises
- Loss-making state enterprises

This thesis only selects state enterprises as investigation targets because workers in these firms constitute the majority of the Chinese urban labor force. Figure 1.3 shows the structure of Chinese urban workers. Even with the reduced workers in urban areas in recent years, they are still the majority compared with other economic sectors.

Table 1.3 State Sector Employments in China: 1978-2002

<i>Year</i>	<i>State Enterprise Workers (Million)</i>	<i>Percentage of state enterprise workers in the whole urban labor force</i>
1978	74.51	78%
1980	80.19	76%
1984	86.37	71%
1986	93.33	70%
1988	99.84	70%
1992	108.89	70%
1994	112.14	67%
2002 ⁶²	81	52%

(Source: *China Statistical Yearbook*, 1980-2003. Beijing: China Statistics Publishing. 1980-2003)

Selecting Tianjin as the only city for case study may dampen external validity of the findings and affects the generalizations and analysis. However, a deeper investigation of Tianjin is productive for the following reasons.

1. Based on two preliminary investigations⁶³, Tianjin captures the main features of China's traditional industrial cities, especially the industrial cities in Northeast China. Studying the pension reform in cities like Tianjin means examining problems of pension reform in a large part of the country. Before the free-market economic reforms, state enterprises in these industrial cities, on behalf of the central government, provided pension and other social welfare for the elderly. However, due to the tight financial budget faced by the central government, subsidies to those enterprises were no longer provided to state enterprises. Therefore, these cities were quite similar in terms of facing financial difficulties to pay pension to workers during the transitional period. In the

⁶² In 2002, workers in the non-state sectors are seventy-four million people, which occupied 48% of the whole urban labor force.

⁶³ First investigation was conducted in December 2002. Second investigation was conducted between November, 2003 and January 2004.

meantime, majority of the population in these cities remains to be urban workers. Examining their pension status will help promote the understanding of pension welfare of the urban populations.

2. The stage of economic development in Tianjin is in the middle of the country. According to the *China Statistical Yearbooks* (1997-2002), most important economic indicators (e.g., average income level, GDP and market price) of Tianjin rank in the median position, from 17-26 among 32 provinces in China. Understanding the pension reform in this city may promote the understanding of average economic indicators affecting the progress of pension reform in other similar cities.

3. Another reason to select Tianjin is because of its political stability. Although, workers' movements were occasionally occurring in this city owing to the issue of laid-off workers, salaries in arrears and insufficient pension, Tianjin is still the most stable place in China from the 1980s. It provides a stable and ideal environment for this study to observe workers in public firms and also government officials without considering other intervening factors.

4. The recession of public firms in Tianjin is similar to those in other parts of Northeast China. Although the government has recognized that state enterprises cannot be profitable without shedding their social welfare responsibilities and trying to find new ways of providing social safety nets, the business performance of state enterprises in these traditional heavy/light industrial cities across China is bad as showed in Table 1.4.

Table 1.4 State-owned Industrial Enterprises Losses in China, 1978 -1996

	<i>Enterprises losing money (per cent of total SOEs in China)</i>	<i>Losses (RMB billions)</i>
1978	-	4.2
1980	19.2	3.4
1982	20.8	4.8
1984	10.2	2.7
1986	13.1	5.4
1988	10.9	8.2
1990	27.6	34.9
1993	30.3	45.3
1994	-	48.3
1996	-	79.1

(Source: *China Statistical Yearbook*, 1980-1997. Beijing: China Statistics Press. 1980-1997)

Fiscal subsidies from the central government and local governments are significantly decreasing in the continual poor performance of state enterprises in the 1990s. Both the central and local governments decided to invest more in the profitable large-scale enterprises instead of spending funds on all of the state enterprises. Therefore, for loss-making SOE/COEs in China, the need to decrease in scale to avoid further losses is apparent. Table 1.5 and Table 1.6 show the reducing subsidies to loss-making SOEs and SOE liabilities during the recent years.

Table 1.5 Fiscal subsidies to Loss-making State Enterprises in China

	<i>Fiscal Subsidies (RMB billions)</i>	<i>Fiscal Subsidies to Loss-making state enterprises / Budget Expenditures from the central government (Per cent)</i>	<i>Fiscal Subsidies to Loss-making state enterprises / GDP (Per cent)</i>
1985	50.7	25	5.7
1986	32.5	15	3.2
1987	37.6	17	3.1
1988	44.6	18	3
1989	59.9	21	3.5
1990	57.9	19	3.1
1991	51	15	2.4
1992	44.5	12	1.7
1993	41.1	9	1.2
1994	36.6	6	0.8
1995	32.8	5	0.6
1996	33.7	4	0.5

(Source: *China Statistical Yearbook*, 1986-1997. Beijing: China Statistics Press. 1980-1997)

Table 1.6 Liabilities of SOEs in China (Per cent of Assets, 1978-1995)

	<i>All SOEs</i>	<i>Industrial SOEs</i>
1978	NA	11
1980	NA	19
1988	NA	45
1989	55	NA
1990	58	NA
1991	61	NA
1992	62	NA
1993	72	68
1994	75	79
1995	85	NA

(Source: *China Statistical Yearbook*, 1980-1996. Beijing: China Statistics Press. 1980-1996)

1.6 Organization of the Thesis

Chapter one has opened the topic by re-visiting the analytic framework of policy content and context. It has also described briefly the dynamics of the new pension policy and its implementation in China under the analytic framework.

Chapter two will recount the history of China's pension reform and initiation of a

new pension scheme. It also explores the advantages and failures of the newly-designed pension policy. Adopting the research design conducted in other transitional countries,⁶⁴ this study will follow the same design in examining the case in Tianjin.

Chapter three will focus on Tianjin. It will examine the distorted policy implementation in pension reform in the city. Having examined Tianjin' economic development, especially its loss-making public firms, this thesis attempts to look into the impact of policy content factors on the pension reform process.

Owing to the explanatory limitation of policy content factors, this research turns its attention to the politico-administrative context affecting pension policy implementation. By elaborating on the power structure, *guanxi* capital and economic opportunities among state enterprises, individual workers and government institutions, Chapter four reveals a relationship map among the actors in the implementation process. However, no solutions have been proposed to solve the current dilemma for workers in loss-making public firms. Nonetheless, the study highlights the need to pay more attention to workers' rights in Chinese state enterprises.

Chapter five will conclude the research project and indicate the implications for the existing literature and analytical theories in pension reform. It also recommends further studies or exploration of China's pension system in public firms.

⁶⁴ Marcus Andrew Melo, "Institutional Choice and the Diffusion of Policy Paradigms: Brazil and the second wave of pension reform", *International Political Science Review/ Revue internationale de science pol.* 2004, 25: 320-341. World Bank Human Resources Development and Operations, "Social Security: Promise and Pitfalls in Privatization Experiences From Latin America", *HRO DISSEMINATION NOTES* Policy Number 10, July 12, 1993; also see McGreevey, W.. "Social Security in Latin America", *World Bank Discussion Paper 110* , 1990; McGreevey, W. "Social Security: Promise & Pitfalls in Privatization." *Paper presented at the 1993 Conference on Social Security and Pension Fund Reform in Latin America*, (Institute of the Americas, March 7-9, 1993)

Chapter 2

Revisiting the Role of Socialist Welfare: Transformations of the Old-Age Security System

Immediately after the establishment of the People's Republic of China in 1949, the Chinese government initiated a socialist pension system in the urban areas. These series of pension policies were carried out by the central government and state enterprises for more than fifty years. However, in the late 1990s, it was abolished by Chinese policy-makers due to the large-scale pension debts and also the exacerbated financial difficulties in the state-controlled businesses. In order to solve these problems, scholars and policy-makers have provided plenty of discussions and solutions to build up a new pension system in the last decade. This chapter will trace the policy reform history in urban China and elaborate on the theoretical literatures on promoting the new pension reform.

2.1 A Brief Historical Overview of Pension Reform since the 1950s

From the 1950s to the Cultural Revolution

China's first pension system was established in 1951 under a series of regulations on labor insurance set by the State Council. The regulations were applied to enterprises with more than one hundred workers in cities and towns. Not surprisingly, it was a small program, since the enterprise sector was small and there were few retirees. One year after the program started, there were only eight million enterprise workers and twenty

thousand retirees, or about four hundred workers per retiree.⁶⁵

The system was administered by the All China Federation of Trade Unions (ACFTU)⁶⁶, a national workers' union directly under the supervision of the CCP which acted as the labor bureau at the local level. Under this system, contributions were made by the state enterprises, but the ACFTU also made contributions if the enterprise contributions fell short of the requirements. A contribution rate at 3 per cent of the wage bill by all employers was sufficient to finance the system on a largely PAYG basis. Old-age pension was provided at a replacement rate of 50 to 70 per cent of workers' wages. The ACFTU managed both the local payment procedures and the master fund.

Subsequent reforms expanded the coverage. In 1955, the Ministry of Finance (MOF) issued the *Temporary Regulations on Retired Employees in Government* in order to establish a separate system for employees of government units, non-profit units and party organizations. In 1958, the *Temporary Regulations on Retirement of Workers and Staff* dealt with both enterprise and government workers, extending coverage to enterprises with fewer than one hundred workers. This system continued until the Cultural Revolution in 1966.

During the Cultural Revolution, the ACFTU and the Ministry of Labor were abolished, so was the unified pooling of retirement pensions. Social insurance thus became the responsibility of enterprises. The pension funds that had accumulated in the

⁶⁵ Andrew Walder, *Communist Neo-traditions: Work and Authority in Chinese Industry* (University of California Press, 1998): 33-57

⁶⁶ Lee Lai To, *Trade Unions in China: 1949 to the Present* (National University of Singapore, 1986).

master fund were used for other purposes⁶⁷. Supervisory responsibilities were transferred to local labor bureaus, while responsibility for managing payments was transferred to enterprises. Pooling ended and so did pre-funding, since each enterprise paid the pension of its own workers out of current revenues.

Post Cultural Revolution Reform

When the Deng Xiaoping-inspired economic reforms began in 1978, the government took further initiatives to develop a social security system consistent with the rest of the economy. The State Council issued new pension regulations (*State Council Document No. 104*) for the SOEs, government workers and non-profit organizations, and recommended large COEs to follow the same rules.

The prevailing retirement ages were reaffirmed to be sixty for men and fifty-five for women, with additional adjustments for hazardous jobs⁶⁸. Qualifications for retirement were eased, allowing a worker to retire after ten years of continuous service rather than twenty. Higher benefits were given. They are related to the length of service and to the final standard wage. Individuals who had worked for at least twenty years continuously would receive a pension of 75 per cent of the standard wage; individuals who had worked for between fifteen and twenty years would receive a 70 per cent of the standard wage as pension; and those who had worked for between ten and fifteen year would be given a 60 per cent of the standard wage as pension. There was a minimum guaranteed pension of thirty *RMB* per month, the subsistence income level at that time.

⁶⁷ Yue Guo, *China's Pension System Reform*; available from http://www.gu.edu.au/school/gbs/irl/working_party/Papers/Guo_2_.pdf; accessed November 21, 2004

⁶⁸ For example, women whose jobs belong to physically strenuous job category retire at 50 years old.

Summary of the Old Pension System

In a communist economy, employment in the state enterprise was not only a market relationship. It was a position that established the worker's social identity and rights to the specific distributions and welfare entitlements provided by the state.⁶⁹ Moreover, the enterprise exercised authority not only over one highly specialized role of the workers, but over the whole person. As noted by Andrew Walder, "the state factory is a branch of government and, through the factory's party branch, exerts a measure of the state's political rule over the worker as a citizen."⁷⁰ China implemented the typical socialist welfare system. All workers were dependent on their enterprises for the satisfaction of their needs. That was the material basis of industrial authority; it provided what Weber called "interests in obedience."⁷¹

The Recent Pension Reform: Implementation Problems

The 1978 Regulations created a number of problems that subsequently had to be addressed. One problem was the inequality of the pension burden between newer enterprises in developing regions with a young work force, and older enterprises where the ratio of pensioners to active workers reached the ratio of 1:1. Another problem was that the Regulations were clearly intended to encourage early retirement in order to create jobs for a large influx of new workers into the urban labor force. Among the incentives were increased retirement benefits, a lowering of the minimum years of service required

⁶⁹ Andrew Walder, *Communist Neo-traditions: Work and Authority in Chinese Industry* (University of California Press, 1998): 33-57

⁷⁰ *Ibid.*: p.60

⁷¹ Max Weber, *Economy and Society: An Outline of Interpretive Sociology* (University of California Press 1978)

to qualify for retirement, and, for a time, the guarantee of a job for one child of each parent who was willing to retire early. The number of retirees jumped five-fold from 1978 to 1985, and pension costs rose from 2.8 per cent of the urban wage bill to 10.6 per cent. As the increase in pension costs became apparent, the incentive to encourage retirement was diminished.⁷²

Other problems persisted longer. Basing the pension on the final standard wage provided an incentive for workers and employers to lift up the final wage in preparation for retirement. The 1978 Regulations provided a generous replacement rate relative to the standard wage, which was the largest part of the wage at that time. Subsequently, labor reforms have increased bonuses to the extent that the standard wage is perhaps only one half of the total wage compensation. While this should have reduced the effective replacement rate and thus helped control the rise of pension costs, actual benefits may be more generous than the rules suggest.⁷³

Pooling at the Enterprise and Municipal Level

Reforms as stipulated by regulations since 1985 have focused on the pension design. *State Council Document No. 77* (1986) established the pooling system across the state enterprises on a limited basis at the municipal level. Enterprises retained the responsibility of distributing pensions. The pool operated with a set contribution rate for participating enterprises. If the pension costs of an enterprise were less than the

⁷² Guo Chongde. 1993. Pension Insurance in China: Reform and Prospects. *Papers presented at the Workshop on "Social Security in the People's Republic of China"*, Hamburg, February 5-7, 1993

⁷³ See Estelle James, "How Can China Solve Its Old-age Security Problem? The Interaction Between Pension, SOE and Financial Market Reform", *Proceedings on the Conference Financial Market Reform in China*, Massachusetts, September 11-13, 2001

contribution rate, the difference was remitted to the pool. If pension costs were higher, the pool would cover the difference. (*State Council Document No. 77*)

Contract Workers

The 1986 pension reforms were accompanied by employment reforms that established labor contracts. New workers were hired on a three- to five- year contract basis with terms of employment set by the state or by contract, while current workers continued as permanent workers. Although the contracts specified that the employer held the right not to renew the contract upon expiration, they were renewed generally. Separate pension pools were established for contract workers and permanent workers. Contract workers made individual contributions, while permanent workers initially did not. Enterprises contributed to both pools.

Pooling Extended to COEs and Others

In the late 1980s, pooling was extended to workers in the COEs in many cities. Since then, other enterprise types, such as joint ventures, joint stock companies, and foreign enterprises, have been brought into the pension pools in some cities, although participation is generally far from complete. Some provinces are moving toward provincial level pooling, generally only for state enterprise workers. However, participation at that level remains fragmentary.

Introduction of the Three-tier System

In 1991, based on pilot studies in selected cities and provinces, the State Council

issued *Document No. 33* entitled ‘Decision on the Reforms of the Pension Insurance System for Employees in the Chinese Enterprise’. This Document called for the pooling of pension insurance at the municipal level, with costs to be shared by individuals, enterprises and the state. It also called for the expansion of pooling and the establishment of three tiers in the pension system. As *Document No. 33 stated*, the three tiers were: a basic benefit, a supplementary benefit to be provided by those enterprises in sound financial condition, and a benefit based on individual savings. The responsibility of managing the whole system was given to the Ministry of Labor at all levels.

Reform Objectives Specified

In subsequent years, the system of social pooling and individual accounts was further studied in light of China’s local conditions, leading to the *State Council Document No. 6* entitled ‘Notice on Deepening the Reforms of the Pension Insurance System’ in 1995. This Document clearly stated the objectives of the reform to be a broadening of coverage, the setting up of a multi-level system⁷⁴ and strengthening of pension management.

2.2 1997: Revitalizations of the Failing “Centrally-Planned” Pension Scheme

Similar to the other reform measures in China, pension reform also adopted the approach of “crossing the river by touching stones.”⁷⁵ The reform was carried out with the full attention of the central government since 1997. It is not easy for the government to implement the new policy for three reasons. Firstly, the old economic policy and one-

⁷⁴ A multi-level system refers to the divided pension system managed respectively by central government, provincial government and local government.

⁷⁵ Deng Xiaoping initiated this phase in 1993 when he investigated Shenzhen, a city in South China.

child birth policy led to the pension crisis triggered by poor performance of the state enterprises and the rapid aging population. Secondly, the urban workers are the primary support for the Chinese political regime. The financial difficulties of these workers involved in the pension reform may question the governance effectiveness and system legitimacy. Thirdly, the need for an enterprise to provide pension but at the same time to compete with others in the market has increased since the introduction of economic reforms by the state. This has exacerbated the enterprise budget crisis and caused many SOEs and COEs into financial distresses.⁷⁶ However, failing to build up a new pension policy will make the state enterprises less competitive or even to the verge of bankruptcy and thereafter affect the stability and development of the whole country.

The Pilot Reform Program

Between 1995 and 1997, in accordance with *Document No. 6*, more pilot reform programs were implemented. As of the end of 1997, the success of pooling was mostly at the industry level. The successful pooling in these industrial groups⁷⁷ was largely due to the similarities of the enterprises within each industry.⁷⁸ Pooling at the provincial level was less successful. Of the thirteen provinces, autonomous regions and municipalities that experimented with the pooling of contributions, only three municipalities (Beijing, Shanghai and Tianjin) and one province (Hainan) have reported a reasonably harmonious

⁷⁶ Wang, Yan, Dianqing Xu, Zhi Wang, and Fan Zhai., "Implicit Pension Debt, Transition Cost, Options and Impact of China's Pension Reform: A Computable General Equilibrium Analysis", *World Bank Policy Research Working Paper series*. 2000.

⁷⁷ The eleven industries which, with the approval of the State council, achieved social pooling for their affiliated enterprises were: railways; communications; water resources; electrical power; post and telecommunications; construction; coal mining; banking; non-ferrous metal; civil aviation; and petroleum and natural gas.

⁷⁸ For example, since all enterprises within the railway industry, regardless of the province in which they were located, had similar wage levels and demographic profiles, there was little concern about one enterprise subsidizing another. The similarities also made the administrative task much easier.

pooling system. But even in these four localities, the extent of pooling is still questionable.

It was recognized from the results of the pilot program under the guidance of *Document No. 6* that the lack of standards in implementing the basic pension system caused the uneven results.

Following a series of discussions and experiences learned from pilot tests,⁷⁹ there was a realization that unifying a fragmented pension system and extending the coverage to non-state sector was vital to the continued reform and that action was needed immediately. In responding to this, the arrangements of the new pension system for urban employees were laid down in the 1997 *State Council Document No. 26*. *State Council Document No. 26* aims to establish a national unified pension system. It is a “New Deal” for Chinese state enterprises.

Compared with the old system, the new system as detailed in the Document introduced the following three important changes:

1. Extending pension coverage to the entire urban labor force, including the self-employed. Various industrial specific pension schemes would be incorporated in the provincially unified scheme. There would be uniform contribution and benefit rates within a province.

2. The responsibility for the operation of the pension scheme, including the keeping of employee records and payment of pensions, would be transferred from

⁷⁹ Zhao, Yaohui, and Jianguo Xu.. “China’s Urban Pension System: Reforms and Problems,” *Cato Journal* Vol. 21, No. 3. (Winter 2002): 395-414.

enterprises to social insurance agencies. The process is known as “*She Hui Hua Fa Fang*”⁸⁰ in China. Social insurance agencies at the provincial and municipal levels are territorial subsidiaries of the Ministry of Labor and Social Security.

3. The new pension scheme would be multi-tiered. The benefit structure is listed in Table 2.1.

⁸⁰ The term *She Hui Hua Fa Fang* is opposite to the old system in which the government distributed the pension to the retirees. *She Hui Hua Fa Fang* (社会化发放) means that the social insurance agencies would distribute the pension to the retirees.

Table 2.1: The Three- Pillar Pension System of China

	<i>Contribution-Financing</i>	<i>Eligibility</i>	<i>Payment</i>	<i>Status</i>
Pillar 1	<p>Component A: Social Pooling</p> <p>a) 13 per cent pre-tax revenue of the enterprise b) Paid from a social pool financed by employer contribution c). Funding mode: PAYG d). Government making up any deficit</p>	A minimum of 15 years of contribution	a) Defined Benefit; ⁸¹ b) Replacement rate of 20 per cent of the prevailing average wages at retirement	Operational
	<p>Component B: Individual Accounts</p> <p>a) 7 per cent of employer contribution of pre-tax of total enterprise revenue; b) 4 per cent⁸² of employee monthly wage; c) Funding model: Pre-funded, in principle but not yet practised; d) Financed jointly by employers and employees</p>	A minimum of 15 years of contribution or lump-sum if it is less than 5 years	a) Defined Contribution, ⁸³ b) Replacement rate of 38.5 per cent of the prevailing average wages at retirement	Operational in principle. However, individual accounts are notional
Pillar 2	Employer Contributions	Not required	a) Defined Contribution b) Employer Sponsored	Not Operational
Pillar 3	Employee Contributions	Not required	Voluntary	Not Operational

(Source: This table is compiled from interviews conducted among government officials of TJBOLSS and TJSI from November 2003 to January 2004)

⁸¹ Defined Benefit (DB) and Defined Contribution (DC) are two corporate pension schemes. For further readings, see Alexander Michaelides and Francisco Gomes, *Aggregate Implications of Defined Benefit and Defined Contribution Systems*, available from <http://faculty.london.edu/fgomes/dbdc.pdf>, accessed on May 26, 2005

⁸² This rate ranges from 4 per cent to 8 per cent across provinces and cities. The main factors affecting this rate are the dependency ratio in a certain area. If the dependency ratio of state enterprises is high in a city, its contribution rate from individual employee monthly wage will be accordingly high.

⁸³ *Op.cit.15.*

The new system consists of three pillars:

1) a defined benefit public pillar for redistribution (Pillar 1 Component A) and a mandatory funded defined contribution pillar for each worker (Pillar 1 Component B);

2) a voluntary supplementary pension pillar managed by each individual firm (Pillar 2);

3) a voluntary supplementary pension pillar managed by the private insurance company (Pillar 3).

So far, only Pillar 1 is in operation. The objective of Component A within Pillar 1 is to ensure a minimum living standard above the poverty line for all the retirees. Retirees would have a portion of their earnings replaced, consistent with their work history and contribution. In the long run, it would be financed on a PAYG basis by a 13 per cent of contribution from enterprises going into a municipal or provincial pooled fund. This would guarantee a replacement rate at 20 per cent of the prevailing average wages at the time of retirement for workers with a minimum of fifteen years of required contribution. Component B within Pillar 1 is an individual account funded by a payroll tax of 11 per cent.⁸⁴ At retirement, the workers would receive a monthly pension equal to the accumulated account balance divided by one hundred and twenty months. Based on the funded pillar (Pillar 1) and the individual contributions (Pillar 3), a worker who has

⁸⁴ Among these 11 per cent, 7 per cent are from employers. The rest 4 per cent are from employees, increasing by 1 per cent every two years up to 8 per cent as a maximum. Data obtained in interviews conducted in TJBOLSS and TJSI on December 12, 2003

worked for thirty-five years is expected to be provided with a replacement rate⁸⁵ of 38.5 per cent. Of the 38.5 per cent, Pillar 1 provides 58.5 per cent to the workers.

However, problems persist. For example in Tianjin, in the basic benefit scheme (Pillar 1), state enterprise workers are supposed to contribute 4 per cent to 8 per cent of their wage bills⁸⁶. Their employers' contribution has a variation from 20 per cent to 30 per cent of their employees' wage bills. As such, the average pension contribution of an enterprise varies from 300 *RMB* to 550 *RMB* per capita depending on the mean wage of each enterprise. However, the unprofitable enterprises interviewed in Tianjin largely do not possess sufficient financial resources to submit their monthly pension fees even though some regulations and policies may exempt them from part of their duties. This situation is even worse in the small to medium-size SOEs and most COEs. A preliminary investigation on SOE/COE pension policy implementation shows that in some enterprises, their employees have taken the responsibilities to contribute pension fees not only for the individual share but also for their enterprises' share. This practice reveals that SOE/COE workers are the actual undertakers of their own pension fees in loss-making public firms.

The Chinese government realized the problems of the new pension policy and took further adjustment to revitalize the pension system. The most recent amended plan for China's pension reform was defined in the *State Council Document No. 42* in 2000. Based on this document, a pilot program is currently running in Liaoning Province, one province which has the heaviest financial burdens in China due to the large number of state enterprises. This program aims to retain 20 per cent of the enterprise contribution

⁸⁵ The replacement rate means monthly pension received divided by last month salary at work.

⁸⁶ According to the interviews among government officials conducted in Tianjin, there is some variance on contribution rate across different regions. Interviews are conducted in TJBOLSS on December 12, 2003.

into the social pooling fund. By enriching the social pooling fund, it paves another way to lessen the pressure on the *notional individual accounts*⁸⁷. This is done in light of the large number of existing pre 1997 pensioners and their blank individual accounts. In this program, it requires (1) the segregation of the management of individual accounts from the administration of the social pooling funds in order to restrain the growth of notional individual accounts; (2) employers to contribute up to 30 per cent of the workers' wages to the pension fund for those exceeding fifteen years' working. Workers will be paid at 20 per cent of their wages for their first fifteen years of work, and an additional accrual rate of 0.6 per cent per year until 30 per cent is reached.

This program is expected to have the deficit made up by the improved compliance efforts of SOEs, municipal and provincial reallocations, and financial transfer from the central government and the National Council for Social Security Fund (NSSF). If the Liaoning experiment is successful in solving current financing issues, the government hopes to replicate its experience to the entire country.⁸⁸

2.3 Challenges of the New Pension Scheme

Pension reform in China has attracted a lot of attention around the world due to the significance of this issue. This could be contributed by the following reasons:

1. China's aging population has been increasing for the last twenty years.

⁸⁷ The term Notional individual accounts (*Kong Zhang*) are created by Chinese scholars. It refers to the empty individual accounts in the pension fund. Money of individual accounts is used to pay retirees instead of saving for the working-age people themselves. For further details, see Institute of Demography, Liaoning University. *Implicit Debts of Chinese Social Security System*, available from National Council for Social Security Fund at <http://www.ssf.gov.cn/NewsInfo.asp?NewsId=223>, accessed July 4, 2003

⁸⁸ Estelle James, "How can China Solve its Old-Age Security Problem? The Interaction between Pension, SOE and Financial Market Reform", *Proceeding paper on the conference on financial market reform in China*, Massachusetts, September, 2001.

Solving the “white-hair wave”⁸⁹ poses a real challenge to not only China but also all countries in the world. Due to the extremely large population in China, its old-age security is very much related to the well-being of its people and security in other regions.

2. Poor performance of SOEs in China caused financial distresses on pension funds. Public firms are the main pillar of Chinese state business. They employ the majority of Chinese workers, especially in important industries, such as mining, manufacturing, oil, shipping and others. The unfunded pension system will reduce the social stability and also the legitimacy of the present government. Financing pension system is a high priority so as to protect and maintain state legitimacy and social stability.

3. *Notional individual account* is a major flaw in the existing pension scheme. Due to the financial difficulties of both the government and state enterprises, this new pension policy cannot resolve the problem of the implicit pension debt (IPD)⁹⁰ accumulated over the years. Chinese state enterprises have a long history of bad business performances. They have failed to pay the notional individual account.

4. In addition, scholars have criticized the fragmented pension system, incomplete social pooling, high pension contribution rates⁹¹, narrow and uneven coverage across regions.⁹² These issues will be explained in the chapters 3 and 4.

⁸⁹ See Organization and Personnel. *How to deal with “White-hair” Wave?* Available from <http://www.emm.com.cn/zznews/Shownews1.asp?num=rsb-200412315336>, accessed August 27, 2004.

⁹⁰ Ministry of Labor and Social Security, *Shiji Jueze: Zhongguo Shehui Baozhang Tixi Goujia*. (Century Dilemma: China’s Social Security System), Beijing: China Social Security Press. 2000

⁹¹ According to interviewees in Tianjin, the current contribution rate (e.g., in 2003, the rate reaches 38 per cent) may cause the evasion of state enterprises and a heavy burden on the society. Interviews were conducted on November 21, 26, 29, 2004

⁹² China’s pension system mainly covers SOE and COE workers in urban areas. For rural area, there is no government-conducted pension scheme. For more information, refer to chapter 1.

2.4 Objectives and Problems

Looking back at how China pension reform has evolved to its present state, the following three objectives are at the heart of the projected reform:

- Expanding pension coverage to non-state sector speedily
- Unifying pension programs by moving pooling from the city level to the provincial level through risk sharing
- Relieving enterprise burden by gradually reducing its contributions.

The urgency attached to the expansion of coverage and unification of pension systems reflected the financial trouble the pension system has been experiencing. For the government, reform efforts to pursue the above three objectives would help provide extra funding by receiving fund contributions from the private sector. They will also reduce the financial burden of SOEs and improve their competitiveness. Finally, it may improve labor market mobility by expanding pooling coverage from state to non-state sector and from the city level to the provincial level. For instance, if private sector workers were to be brought fully into the system, pension deficit crisis in the state pension system could be alleviated. This is because private firms have a much younger work force with far fewer retirees. Each enterprise would contribute according to its wage bill and all pension costs would be covered out of the broader municipal pool of funds. Flourishing young enterprises would help to subsidize failing older enterprises.

However, the reform missed the most fundamental issue from the very beginning, namely, it has ignored the existing pension debts in the transitional period. Solving the

old debt issue is never a simple thing for any country that has shifted from a PAYG system to a multi-pillar system. In ignoring the old debt, it can only increase transitional costs and problems. In the meantime, it may pave the way to more economic disincentive and political resistance. This is because a failure to achieve expected outcome each time would reduce government reform credibility and affect public confidence in the system.

Evidences of provincial pooling implementation have shown that reform progress is slow. First, provincial pooling is still fragmented after years. Not every province has completed pooling. Most of them are pooled at the city level. For example, by mid-1999, only four municipalities (Beijing, Chongqing, Shanghai and Tianjin) plus Hainan province, among the 31 provinces in China, have achieved full pooling. Most of the other provinces remain at great variation in terms of contribution rates, administration and management.⁹³ Second, only less than 50 per cent of the urban labor force across the whole country has participated in provincial pooling.⁹⁴ Third, major problems have emerged under the pooling arrangement. These include growing pension deficits and inability to fund the individual accounts, moral hazards under the decentralized pension administration system, and inefficient pension fund investment, low compliance rate and high evasion rate.⁹⁵

The inability of solving the pension debts issue has created incentive problem that affects the successful operation of the provincial pooling system over the years. If the new pension system was introduced to an entirely new labor force, it will not have any

⁹³ Yin, Jason, Shuanglin Lin, and David F Gates, *Social Security Reform: Options for China*. (Singapore: World Scientific 2000)

⁹⁴ *Ibid.*

⁹⁵ *Ibid.*

transitional issues, nor will it face the problem of *notional individual accounts*. Like other countries moving from PAYG system to a new pension system, China faces the problem of what to do with old and transitional workers while implementing a new system. However, what differentiates China's reform from other countries is that China does not have much support from a mature capital market. This makes solving transitional issues even more challenging. The 1997 *State Council Document No. 26* officially launched a nation-wide new pension system with priorities in dealing with the transition issues. According to the proposed system, benefit formulas are grouped as follows:

- *New workers* entering the labor force after 1997 will receive a combined pension income of the socially pooled pension benefit plus the individual account-related monthly benefit, provided they have 15 years of creditable service.
- *Middle workers* (those who started work before 1997 but had not retired by 1997) would get a mixture of the benefits from the new and old system. They would receive the same two components as new workers plus a transitional benefit.⁹⁶
- *Old workers*, namely, those who retired prior to 1997, are entitled to benefits defined by the former system. They will receive an average replacement rate at 80 per cent.

The problem of dealing with *old and middle workers* lies in the existence of notional individual accounts accumulated before the 1997 reform. Therefore, transitional problems arise from the financial gap between the revenue generated from the pooled system and the promised payment to the pensioners. The amount of transitional cost

⁹⁶ The traditional benefit comes from the 1.72 per cent of the average wage in the final working year for each year of service before 1997. The information was obtained from interviews conducted with the government officials in TJMOLSS on November 21, 2003.

depends on the length of the transitional period. There will be a period that some old pension programs and the new pension program coexist together. After that, the system will be completely converted to the new program.⁹⁷ However, the difficulty China faces now is how to finance the pension cost in the transitional period. It is apparent that China has not been able to deal with this issue well so far.

Some have argued that the 13 per cent contribution rate by the enterprises would not be enough in the light of 20 per cent replacement rate for Pillar 1 unless China relies on early retirement and allows the pension fund to have access to the capital market.⁹⁸ As it is, the system could experience pension deficits in a matter of a few years. As a matter of fact, current pension system is already in a deficit position, and it is evident that many provincial or local pension pools are financially bankrupt as evidenced by the fact that many provincial or municipal pooled accounts have been experiencing deficits over the past few years.⁹⁹ In this regard, it is estimated that more than one half of Chinese cities are incurring pension deficits.¹⁰⁰ It remains to be noted that places like Shanghai and Shenzhen are having surpluses.¹⁰¹

⁹⁷ Hussain, Athar, Demographic Transition in China and its Implications. *World Development* Vol.30, No.10, 2002: 1823-1834.

⁹⁸ It has been estimated that without any parametric changes, China will require a long run contribution rate that exceeds 40 per cent, but if China raises the retirement age to 65 both for men and women, switches to price indexation of pensions, changes the annuitization method to become actuarially fair and funds the individual accounts, the required long run contribution rate would be cut in half. See Yue Guo, *China's Pension System Reform*, available from http://www.gu.edu.au/school/gbs/irl/working_party/Papers/Guo_2_.pdf; accessed November 21, 2004

⁹⁹ According to MOLSS report of 2001, in 1997, there were 5 cities running pension deficit, and that number increased to 21 in 1998, and later to 25 in 1999.

¹⁰⁰ China Security Weekly, available from <http://www.globalaging.org/foreignlang/chinese03.htm>, July 1, 2002

¹⁰¹ Feldstein, Martin, "Social security pension reform in China", *China Economic Review* 10 (1999): 99-107

One of the explanations for the inconsistency is because of the fact that pension financing problems vary across provinces. Provinces with fast growth and fewer older workers are likely to accumulate surpluses than provinces with declining industries and large number of older workers.¹⁰² If provincial surpluses can surpass provincial deficits, it may create a national pension system with a surplus. However, a group of scholars¹⁰³ view that deficit provinces receive no cross-subsidies from surplus provinces because the current pension scheme is not pooled at the national level. In most cases, provincial pension deficits are covered by the central government through budget transfers. Therefore, *notional individual accounts* are more likely to exist in the financially poor provinces. For these provinces, percentages of enterprise contribution to Pillar I will not sustain the pension payment (basic accounts) to current pensioner (old workers plus middle workers) even in the short term. The reasons are:

First, it is hard to imagine that enterprise contributions will be sufficient to support the 75 to 80 per cent of income replacement rate for *old and middle workers* during the transitional period.¹⁰⁴ Some have argued that this is because the current

¹⁰² For example, some argue that while China's IPD for the country as a whole may be only 70 per cent, the IPD relatively to local GDP is probably much more than 100 per cent in regions that once flourished but now are burdened with declining industries and old non-functioning state enterprises. See Estelle James, "How Can China Solve Its Old-age Security Problem? The Interaction Between Pension, SOE and Financial Market Reform", *Proceedings on the Conference Financial Market Reform in China*, Massachusetts, September 11-13, 2001

¹⁰³ See Xiang Huaicheng. *The Duty of Chinese Social Security*. Available from http://www.zfcg.net.cn/cj/cj_show.asp?id=1482, accessed December 22, 2003.

¹⁰⁴ The promised benefit level to current pensioners and *middle workers* pensioners in China is about 75-80 per cent of final year's wage, compared with 40 per cent in the US and 50 per cent in many countries. However, many pensioners in China live in poverty. The average wage was low until the early 1990s. Full pensions are slightly higher than the local poverty line. They are getting what is needed to sustain a socially acceptable living standard. For example, in Beijing city, the minimum pension is set as RMB 441 per month in 2001. The information was obtained from interviews conducted in MOLSS, Beijing on December 13, 2003.

pension system exists in principle and that the old system is still in practice.¹⁰⁵ This is because pensioners from the old system continue to receive their old benefits and new workers enter directly into the new system. *Middle workers* would use a combination of the old and new benefit formula, as they have a short period of contribution and credits from previous working years (before 1997). Currently, the old defined benefit formula with income replacement rate of 75 to 80 per cent applies to most old pensioners and middle pensioners. Their entitlements are unfunded from the previous system and far exceed current revenue generated from basic pension pillar I.

On the average, contributions of enterprises to pillar I was 20.6 per cent of total wage in 1996. Having deducted the share going into individual accounts, basic pension accounts only received 7.6 per cent of total wage.

However, actual pension payment out of basic accounts in 1996 was about 18 per cent of total wage, and the gap between revenue and expenditure was 10.4 per cent. As such, the shortfall requires financing from other sources, such as individual accounts.¹⁰⁶ This is why reserves accumulated in individual accounts over the past few years were transferred to basic pension accounts to cover higher costs of paying the pre 1997 pensioners. The individual accounts remain *notional* and empty with no assets in them.

Second, accelerated increase in dependency ratio in recent years is another important factor causing pension shortage and notional individual accounts. Data from *China Labor Statistic Yearbook* shows that the dependency ratio in 1983 was 1:8.9 and it

¹⁰⁵ *Op.cit.* 94.

¹⁰⁶ Zhao, Yaohui, and Jianguo Xu. "China's Urban Pension System: Reforms and Problems." *Cato Journal* Vol. 21, No. 3. (Winter 2002): 395-414.

increased to 1:3.5 in 2000. This means 3.5 workers have to support one pensioner now compared with almost nine workers supporting one pensioner twenty years ago. The number of Chinese pensioners grew at the rate of 6.8 per cent annually since 1983. This means that there have been more workers retiring from the workforce than new workers joining the labor force, and pension expenditure to current pensioners would exceed pension income contributed by new employees. Therefore, the number of retirees increases faster than the growth in the working population, making the benefit system financially difficult to sustain.

Third, *Middle workers* were required to contribute but they never did before. If the government does not finance their pension accounts, their enterprises must do it. As such, it becomes an additional burden for the state enterprises. In order to pay for every pensioner, many enterprises have opted to skim off money destined for current workers' pensions to meet their obligations to the present retirees first.

Fourth, the social pool is managed publicly with the support of individual accounts. This practice makes it easier to transfer money to meet the financial need created when expenditures on pension must continue. Inter-generational inequity has become an issue when 1) current contributions from employees are used to pay for present pensioners; 2) contributions to fund pension replacement rates for *middle workers* are higher than what the current employees will get when they retire; 3) future benefits to current workers are so uncertain due to an immature financial capital market.

Finally, low compliance in contribution to the pension fund has resulted in increasing municipal and provincial deficits. For example, in 1998, evasion of

contribution and delayed payments reached up to 34.8 billion *RMB*, about 36.8 per cent of total pension payment in 1997.¹⁰⁷ Recently, government officials acknowledged that reported wage by many firms to social security agencies are sometimes 20 per cent to 30 per cent lower than actual total enterprise wage. In addition, there was a decline of collection rate¹⁰⁸ in the last decade. The collection rate was 95.7 per cent in 1992. It dropped to 92.4 per cent in 1993, 90.1 per cent in 1995 and 80 per cent in 1998.¹⁰⁹

The Chinese government is facing the most difficult time in financing pensioners. The obligation to solve the financial constraints lies on the shoulders of policy-makers and implementation agencies. However, what demands more concerns are the future retirees who are struggling to raise their families. They are supposed to be the main beneficiaries of the pension system. Unfortunately, nobody takes up the responsibilities for them other than their loss-making enterprises who have been failing to finance the pension fund for them. The worker will not be able to pull themselves out of their predicament in spite of the pension system. The next chapter analyzes the situations of loss-making state enterprises and their employees in Tianjin, the focus of this study.

¹⁰⁷ Vivian Y. Chen, "A Macro Analysis of China Pension Pooling System: Incentive Issues and Financial Problem", *Proceedings for International Conference on Pensions in Asia: Incentives, Compliance and Their Role In Retirement*, Tokyo, Japan, 22-24 February 2004

¹⁰⁸ Collection rate refers to the percentage of the enterprises submitting pension in China.

¹⁰⁹ Guo Chongde. 1993. Pension Insurance in China: Reform and Prospects. *Papers presented at the Workshop on "Social Security in the People's Republic of China"*, Hamburg. February 5-7, 1993

Chapter 3

Assessing Pension Policy Implementation in Tianjin:

Systems and Policies

China's recent pension reform called for a well-designed pension payment system. As introduced in the first two chapters, the responsibilities of pension payment were loaded on both the state enterprises and the workers. However, due to the fading business performance of state enterprises, both parties (state enterprises and workers) have no financial capabilities to contribute to their portion of pension payment. To protect the retirement welfare and workers' rights, a critical problem for each loss-making enterprise is to ensure its financial sources and to maintain normal production.

The existing studies discussed the institutional failures on a macro level (provincial-level) during the Chinese pension reform and also the financial imbalance among provincial level pension funds.¹¹⁰ However, there were very few micro analyses on the implementation of the new pension policy in loss-making state enterprises. This chapter attempts to answer the questions of who paid the pension contribution for the current workers in the loss-making enterprises and how the payers financed themselves. There are two parts in this chapter. The first part revisits the business performance and social roles of state enterprises in Tianjin. Second, it elaborates on the pension payment of state enterprises and workers from 1997 to 2003.

¹¹⁰ Wang, Yan, Dianqing Xu, Zhi Wang, and Fan Zhai. 2000. "Implicit Pension Debt, Transition Cost, Options and Impact of China's Pension Reform: A Computable General Equilibrium Analysis", *World Bank Policy Research Working Paper series*.

3.1 The Social Role of Public Firms in Tianjin since 1980s

Tianjin was a typical city with a centrally-planned economic system in China. State enterprises were responsible for all social welfare benefits of their workers since the 1950s. Urban workers which were the “vital source of regime support for the Chinese Communist Party (CCP)”¹¹¹ had their golden age under such a system and enjoyed more privileges when compared with peasants. In the centrally-planned economic system before the economic reform, state enterprises not only provided complete health insurance and pensions but also direct medical care in their own facilities or in an attached hospital. State enterprises were also the main source for housing. They also provided loans, subsidies, child care, meal services, and, sometimes, education; and they were an important source for the procurement of certain consumer goods. People employed in the non-state sector were not entitled to such a generous array of benefits, although the specific mix varies across enterprises. The enterprises were also the main source of certain socio-political services peculiar to the communist setting.¹¹² These included obtaining official certificates of permission for workers to travel, getting another job for the worker, getting local residence registration for the worker’s spouse or relatives, intervening with public agencies on behalf of workers for housing, and attaining higher quality medical care or medications, or lessening the punishment for a criminal offense for the worker.¹¹³

However, with the increasing business difficulties of state enterprises, the enlarged social role of state enterprises as analyzed above would reduce their

¹¹¹ Frazier, Mark W., “The Unfunded Mandate of Heaven: The Center, the Cities, and the Politics of Pension Reform in China”. *Paper presented at the Annual Meeting of the American Political Science Association*. Boston, Massachusetts. 2002

¹¹² Andrew G. Walder. *Corporate Organization and Local Government: Property Rights in China, in Changing Political Economy: Privatization in Post-Communist and Reforming Communist State*, edited by Vedat Milor. (Boulder and London: Lynne Rienner Publishers. 1994): 53-67.

¹¹³ *Ibid.*

competitiveness in a free market. As such, this new pension policy (1997) was meant to regain the economic viability of state enterprises and find out a way to alleviate their financial pressures. Unfortunately, the implementation of the new policy did not produce any business improvement as anticipated. The asset-liability ratio in some SOEs and many COEs are still quite high. New investments into these enterprises were even stopped by the state banks due to their low return rate. Consequently, the total number of state enterprises and the scope of state economy assets decreased due to less funds for investment and poor management.

Despite major efforts made by the government to lessen the state enterprises' financial burdens, there was still a lack of progress in enterprise performance. The data on *China Labor Statistical Yearbook* (2000) reveals that state enterprises accounted for 67.2 per cent of the total number of SOEs participating in the pension program.¹¹⁴ This figure dropped from 84 per cent in 1992 to 67.2 per cent in 2000, although SOEs are still the predominant contributors to the pension system. Urban COE employees (2001) accounted for 14.5 per cent of the total participation number in the pension system, whereas other private companies and the self-employees accounted for 18.3 per cent. High percentage of state enterprise's participation in the pension system means that financing these state workers has to rely on the state sector itself. However, due to the high proportion of pensioners in state enterprises, it is not optimistic that pension contribution and distribution will be met by the state.

The pension contribution of the state enterprises has been declining in the last few years. This is caused by several reasons. First, continuing poor financial performance and unrealistic high pension benefit make it difficult to finance pension

¹¹⁴ *China Labor Statistical Yearbook* (2000). National Statistics Press, 2001

expenditures. Second, the pension reform did not lead to a great reduction of the social security burdens of state enterprises which continue to face high social security contribution costs. Third, the downsizing of state enterprises and their privatization have led to a massive increase of laid-off workers (LOWs). This automatically reduces the size of the current contributing population and makes it even harder to support the rapidly increasing number of pensioners with the declining number of current workers. Moreover, privatization involves ownership change. After ownership has been changed to private-owned or foreign-invested companies, they are no longer keen to participate in the current pension program. According to the Chinese laws, the Chinese government can only impose strong administrative controls on state enterprises but not other types of enterprises in protecting workers' retirement rights and benefits. Therefore, other types of enterprises are not forced to participate in contributing to the new pension system. This reduces the contribution to the pension funds and also makes the burdens of state enterprises even heavier than ever before. The increasing heavy burdens of state enterprises restrict them to compete with other enterprises in the market.

The recent pension reform had a clear goal of reducing social security burden of state enterprises by separating social security functions from its production function so that these enterprises would be able to enhance its competitiveness in the market and attract more new investments. Years of SOE restructuring has shown some progress. However, these efforts have not succeeded in ending their operational inefficiencies and non-commercial lendings to state enterprises. Poor enterprise management and excess labor force are the obstacles in revitalizing many medium to large-scale state enterprises. And the pace of reform remained to be concerned with the social stability and an inadequate social safety net. The financial performance of

state enterprises is still lower than that of the non-state enterprises. Thus, an IMF paper noted that the profitability of state enterprises was the weakest among all the types of enterprises – state-owned, collectively-owned, shareholding, and foreign-invested enterprises.¹¹⁵ Foreign-invested enterprises were the most profitable, with an operating profits-to-assets ratio of 17 *per cent*, almost double that of state enterprises. As a whole, the profitability of state enterprises from 1994 to 2000 has actually fallen and their financial performance was very weak.¹¹⁶

Social Benefit Burden of State Enterprises Remains Heavy

Although the provincial-level pooling of the pension funds has already become a significant improvement over the enterprise-based pension system, the social security burden of the state enterprises remains heavy.

Based on some scholars' studies on current pension system, it is noticed that the state enterprises have a double financial burden, namely, financing the current pensioners and the future retirement of current workers. The new pension reform did not change the nature of pension finance of the state enterprises and their financial burdens to fulfill their social roles remains high. According to the State Council's Document No. 26 (1997), the pension contribution rate of state enterprises is 20 per cent of the workers' total monthly salary. However, when taking into account of other enterprise social security contributions for unemployment insurance (1.5 per cent), medical insurance (9 per cent), work injury insurance (from 0.2 per cent to 1.9 per cent), maternity benefits (0.8 per cent) and housing provident fund (from 5 per cent

¹¹⁵ Heytens, Paul J. & Karacadag, Cem, "An Attempt to Profile the Finances of China's Enterprise Sector," *IMF Working Papers 01/182*. International Monetary Fund. 2001. Using aggregate data, it compared profitability of the Chinese industrial enterprises from 1994 to 2000 by ownership.

¹¹⁶ *Ibid.*

to 10 per cent), the overall contribution by employers is between 35 per cent and 42 per cent of their monthly salary.

Based on the field study in Tianjin¹¹⁷, the social insurance contribution rate in the state enterprises is very much in line with the national average as showed in Figure 3.1.¹¹⁸ If the high dependency ratio of state enterprise is counted, their overall contribution rate can reach over 50 per cent. If related financial burden is included, the percentage is heavier. While unification of the pension scheme has been achieved within each municipality, large differences exist across municipalities. Thus, the total contribution rate varies from 27 per cent to 50 per cent of wages, depending on the locality.¹¹⁹

Table 3.1: Social Insurance Contribution Rate (Percentage of Wage) in 2002¹²⁰

<i>Type of social insurance and others</i>	<i>Employer</i>	<i>Employee</i>
Pension insurance	19 %	7 %
Unemployment insurance	1.5 %	0.50 %
Medial insurance	9 %	2 -3 %
Work injury insurance	0.2 % - 1.9 %	-
Maternity Benefits	0.80 %	-
Housing provident fund	5-10 %	-
Total	35.5% - 42.2%	9.5% - 10.5%

(Source: Interviews conducted in December 2003)

How is this rate when compared with the pre-reform days in state enterprises? A previous study has shown that the cost of providing social security for the state enterprises has risen drastically since 1992. Notably, one of the important factors in a study of poor business performance in these enterprises was the rapidly rising salary

¹¹⁷ The third investigation was conducted from November, 2003 to February, 2004. Interviews were conducted in TJSI and TJBOLSS on December 1, 5, 17, 2003.

¹¹⁸ The country-wide average percentage is also from 35.5 per cent to 42.2 per cent.

¹¹⁹ Lin, Yi. *Pension system reform in China: theories and policies*. (United Kingdom: Sedgwick Noble Lowndes, 1997)

¹²⁰ Contribution rate is calculated as a percentage of last year workers' average monthly wage. Also see *Beijing City Labor and Employment*, (Beijing: Beijing Statistics Press). 2002.

and fringe benefits, such as housing, health care, education, etc.¹²¹ during the early stage of the reform. The share of benefits in terms of workers' income in the state enterprises was around 35 per cent in 1997, if housing subsidy was added. The share could be as high as 50-60 per cent of total monthly income in some cases.¹²² As economic reform went on, the number of state workers was shrinking and the number of pensioners was rising. As such, many state enterprises were forced to draw on production revenue to finance the increasingly expensive social security benefits prior to the pension reform. In order to reduce the cost in financing the benefits and improve competitiveness, pension reform was initiated primarily to help keep the state enterprises. However, in actual practice, it is not clear if the pension reform has achieved its goals since the current social security contribution of state enterprises did not reduce their social security cost. Their financial burden remains heavy.

SOE/COEs' Poor Financial Performances

It is not difficult to understand that the poor financial performance and heavy social security burden have forced many state enterprises to delay, reduce and even default on pension contribution. Moreover, declining SOE/COE employee pension contribution accompanying by the rapidly rising number of the pensioners would mean that defaults in the pension contribution and delays in benefit payment is likely to increase in the future. Unless the central government can impose stringent administrative controls and provide extra funds to alleviate the problems, these problems cannot be solved in the near future.

¹²¹ Jeffrey D. Sachs and Wing Thye Woo, "Understanding China's Economic Performance," *NBER Working Papers* 5935, National Bureau of Economic Research, Inc. 1997.

¹²² Interviews were conducted in SOE 5 and SOE 7 on December 4, 8, 14, 2003.

The recent pension reform helps to lay off extra workers and to remove impediments to restructure state enterprises. But it had negative effects on current pension contributions. The most recent state enterprise reform focused on privatizing the small enterprises and commercializing the large ones. By cutting excess labor and shrinking the workforce, the social welfare burdens have been reduced and the efficiency of the state enterprises has been promoted. This has become the trend in most of the state enterprises as more enterprises started their restructuring programs. As a result, the labor force in the state enterprises dropped from 66.4 per cent (1994) to 51.1 per cent (2000) of the total work force. In 2002, the number of SOE employees was reduced by 5.5 per cent and that of urban COEs was dropped by 12.4 per cent. At the same time, the employee number in the private enterprises was increased by 8.4 per cent compared with that in 1999.¹²³ A set of new data shows that number of pensioners covered by the urban pension scheme is 31.7 million and that there are 32 pensioners per 100 contributors.¹²⁴ *China Labor and Social Security Paper* mentioned that the recent restructuring program of the state enterprises and their bankruptcy can further shrink pension fund revenue by reducing pension contribution directly. As the reform went on, a large number of workers were leaving state firms and looking for jobs in other places. For example, in Ding City in Hunan province the total number of contributors was 130,000 in 1999. About 300 enterprises participated in the pooling fund. The pensioners were 4,200, and the dependency rate was 3.1 to 1. However, the enterprise restructuring resulted in the ownership change and 117 firms and 12,000 laid-off workers were involved due to the large-scale bankruptcy of state enterprises. Rapidly, the actual number of contributors decreased to 5,000, and the dependency ratio was dropped to 1:1.

¹²³ *China Statistical Yearbook: 2001*. (Beijing: China Statistics Publishers. 2002): 220-223.

¹²⁴ Interviews were conducted in MOLSS in Beijing on December 12, 2002.

The privatization process and restructuring programs also reduced the enterprises' compliance rate. Some enterprises were aggressive in squeezing pensioners out of their current program to avoid paying more benefits in the name of privatization. Some state enterprises have changed their company names sounding more like private or foreign-invested firms in order to make less pension contribution.¹²⁵ Moreover, enterprise bankruptcies and closedown in the recent years have left thousands of retirees with little or no pension to live on and many laid-off workers without coverage by the current pension system.

Thus, the current pension system of the state enterprises will not become sustainable without a substantial increase in the number of participants from the non-state enterprises. These are private and foreign-invested enterprises and others. But the extension of the program is facing a huge challenge, namely, the credibility of the government in paying the pension eventually in return for current contribution by workers. Whether this promise can be delivered or not affects not only the current contributors, but also the confidence of the non-state sector employees. Given the accumulation of notional individual accounts, widespread of delays or defaults on pension contribution and payment, there is a serious doubt about the reform. In other words, the public confidence in the reform is low. Forcing the workers in joint venture enterprises and private enterprises to participate also may not help at least in the short and medium term, as there are simply a large number of SOE workers. Raising contribution rate is also not financially viable given the fact that the current contribution rate is already high. And, increasing contribution rate would accelerate more non-compliance of state enterprises.

¹²⁵ Interviews were conducted with 2 senior officials in Ministry of Labor and Social Security in Beijing on December 12, 2003.

3.2 State Enterprises and the Pension Reform in Tianjin

Tianjin and SOEs

Tianjin Statistical Yearbook 2003 shows that there were 1625 large to medium-scale state enterprises in Tianjin.¹²⁶ Among them, there were 1534 *pure* state enterprises (94.4%), i.e., enterprises where state capital is 50% or above. The number of state enterprises' workers reduced from 573,100 (2000) to 452,100 (2003). After the economic reform, Tianjin still has 1111 enterprises whose ownerships have not been restructured, including 1057 local-government controlled enterprises.¹²⁷

In Tianjin, the state enterprises have also been experiencing business difficulties and financial distresses similar to that of other provinces across the whole country. As showed in Figure 3.2, although the pure wage is increasing, the wage index, namely, the ratio of the workers' total wage to living expenses, is actually decreasing.

¹²⁶ Statistical indicators are taken from Tianjin Statistical Yearbook 2003. *Tianjin Statistical Yearbook 2003*. Tianjin Statistics Press, 2004

¹²⁷ Most of them are COEs

Table 3.2 Total Wages of Staff and Workers and Wage Index in Tianjin (RMB Yuan)

<i>Year</i>	<i>Total Wage</i>	<i>Wage Index</i>
1978	468.7	100.2
1980	627.9	144.5
1985	1064.8	312.3
1990	2324.1	581
1991	2594.9	658.6
1992	3090.4	743.2
1993	3812.7	849.9
1994	5177.4	1023.3
1995	6080.2	1182.0
1996	6792.7	1241.0
1997	7211	1253.4
1998	6812.5	1021.6
1999	7160.8	962.7
2000	7612.9	919.0
2001	8355.6	864.6

(Source: *Tianjin Statistical Yearbook, 1978-2002*. Tianjin Statistics Press, 1978-2002)

The Pension Reform in Tianjin

Tianjin has implemented its pension forms since April 1987.¹²⁸ From then on, all workers in the state-owned enterprises were forced to join the social pooling of pension accounts. In July 1990, the second policy came out to tell workers from all the collectively-owned enterprises to join the social pooling program. A pension fund to manage the social pooling was initiated in September 1993. It set up the contribution proportion of both the enterprises and workers. In early August 1992, some foreign-invested companies are dragged into this pooling program to protect the pension interests of workers and also to lessen the burdens of state enterprises. The local government unified the reform based on the principal of “social pooling and individual account” in 1994 and set a series of laws and regulations on the workers’

¹²⁸ Tianjin local government regulated pension policy through the government document on “Methods on State Worker’s Pension Management in Tianjin”. (*Tianjin Guoying Qiye Guding Zhigong Tuixiu Feiyong Guanli Banfa*, 1987)

pension accounts. It stipulated the contribution responsibilities between state enterprises and individual workers and also ensured the workers' pension distribution after retirement by setting a set of laws in January 1996. In 2003, the coverage of pension scheme reached 80 per cent of all the workers in Tianjin.

3.3 Policy Content and its Impact on Implementation

Guided by the implementation theory of Grindle, the examination on Tianjin's pension policy implementation will first look at the pension policy content and analyze its impact on the implementation process.

Since 1987, Tianjin has been implementing the pension payment system based on the principle of "*Collection based on Distribution (yi zhi ding shou)*".¹²⁹ With this principle, a guideline was set for Tianjin's local pension distribution system. After ten years' practice, it reached its success by distributing the pension to workers timely and sufficiently. In conjunction with the central government pension reform in 1997, Tianjin, like other provinces, stipulated a fixed rate on contribution from public firms and individual workers. The worker's contribution to individual account starts from 4 per cent of average monthly salary and rises to 8 per cent as a maximum rate in a few years' time.

However, due to the financial distress of the loss-making public firms, some workers have to submit their pension payment themselves. Their host enterprises fail to submit the 20 per cent of pension contribution for the workers. According to Tianjin local regulations on pension contribution, if workers' individual account cannot be paid on time annually, the pension benefit level will be reduced due to the

¹²⁹ Interview was conducted with a government official from TJSI on November 21, 2003. The Chinese of this principle is *yi zhi ding shou* (以支定收).

payment arrears. In the fieldwork conducted by this study in Tianjin, one government official from TJBOLSS said:

*We often meet such a kind of situation. Some workers' host enterprises are facing financial difficulties and can't afford workers' pension contribution. They are really poor and have no money to satisfy individual accounts. Workers usually will wait till the business performance of their host enterprise turns better. However, these payment arrears will affect a worker's future pension after his or her retirement. Say, if one worker pays regularly on time to his individual account, he will get RMB 800 after retirement. But if he has 5 years' payment in arrears, he will receive only RMB 500-600 according to the policy.*¹³⁰

This policy regulation forces both public firms and state workers to pay pension contributions regularly and on time. It did raise the contribution rate to a certain extent. However, it also caused some problems when public firms refuse to pay or cannot afford pension contributions. As investigated in one loss-making public firm in Tianjin, some workers pay for the arrears to their own individual accounts. One worker described his situation:

*I am 55 years old this year. Because my host enterprise has been making losses for several years, my individual account has some payment arrears. Now I need to retire after 55, government regulates that I can't retire unless the payment arrears in my pension account can be made up. My host enterprise is a really poor enterprise. So I need to pay the arrears by my savings in order to retire at 55.*¹³¹

As predicted by policy implementation model, the policy content confines the

¹³⁰ Interview was conducted on November 10, 2003

¹³¹ Interviews were conducted on November 10, 12, 13, 15 and December 5, 6, 7, 2003

actors involved in certain implementation scenario. It also defines the actors' responsibilities by legitimating the policy content. From the interviewee's story above, it can be seen that if one actor refuses to pay, other actors may take over the responsibilities to fulfill the role.

3.4 Pension Reform in Loss-making Public Firms

On account of the continuous business recession faced by the state enterprises, the new pension scheme should not have worked well to sufficiently finance their pension pool. The capital assets of the state enterprises and their loss suggest that they would not be able to pay the pension fees for their employees. Nonetheless, some loss-making public firms in Tianjin are working quite smoothly on the new pension policy. Therefore the puzzle is who pays the pension fees if the state enterprises cannot afford it and why these payers pay for it.

Undoubtedly, the workers in the profit-making enterprises do not worry about their pension contribution since their enterprises pay the pension contribution regularly every month. However, in loss-making enterprises, workers have to urge their enterprise to pay for them. In the 4-month fieldwork in Tianjin, the observations show that in loss-making public firms, enterprises normally sell properties and organize small-scale production to earn money to pay for workers' pension. In one enterprise, one manager revealed how his enterprises survived in paying all kinds of social welfare to workers:¹³²

I was in charge of everything, including tax, pension, and health insurance. The most important part is pension contribution to workers' individual accounts. If

¹³² Interview was conducted in SOE 9 on November 23, 2003.

we pay late, we will receive a fine. And if we refuse to pay monthly pension contribution, our workers can't retire at their right age which is 50 to 60. They will go to the street to seek some assistance from the court or government. That will cause a lot of trouble to our enterprise. We don't have too much energy to deal with the workers' protest or government inquiries. So the only thing we can do is to sell or rent our properties. We have a 3-level building. Now we rent the first level to one restaurant and rent another two levels to some small companies. Because we need to pay the pension before the 15th of every month to SI,¹³³ we urge the tenants to submit their rental before the 15th of each month. If they don't submit, then we have to wait for the money until they pay us.

Due to the regulations from the local government, enterprises that pay late on workers' pension every month have to pay a fair amount of fines (3% of the amount they should submit). This part of money will be transferred to the city pension fund management instead of the workers' individual account. Therefore, most enterprises will pay the pension on time because they will have to come up with more money if they have to pay fines.

However, some loss-making enterprises will refuse or cannot afford the pension each month. Some have only a small amount of money and some are at the verge of bankruptcy. A worker in one loss-making firm said:

I know my firm really does not have money. Even the firm manager himself has not received his salary for quite a few months. We have sold out all properties and now we just wait for government subsidies. But the government has given up on

¹³³ Interviews were conducted on Dec 3, 8 and 9, 2003. SI refers to the district-level social insurance agency.

us because we are a small-scale SOE. The only thing we can do is to wait, wait and wait until some government officials allow us to skip the payment. We can pay pension only if we don't pay the salary of workers. If we pay the salary, then we can't pay the monthly pension contribution.

In some loss-making firms, the workers choose to pay for themselves the monthly pension contribution. This is the only reason sustaining the existing pension scheme. A female worker, aged at 49, said that she chose to pay for herself because her firm could not afford to pay the pension for her. If no payment is sent to her individual account, she could not claim the pension benefit after her retirement in about one year.¹³⁴ Among all the interviewees from the loss-making public firms, 50 per cent of them chose to pay for themselves. Most of them are laid-off workers and do not have other income except for the *RMB* 200 every month, the payment for laid-off workers.

In one case, a worker refused to pay for himself. He said:

I know why my colleagues chose to pay for themselves. Because they can't see any hope from our enterprise. But I still don't understand why the government will not care for us since we are also state workers (guo jia gong ren).¹³⁵ They should know that we have worked for half of own life for the state and that our enterprise was making losses just for the past few years. According to the law, I shouldn't pay by myself. I will insist not paying for myself and see what is going to happen in the end.

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¹³⁴ Interview conducted on December 16, 2002 in preliminary fieldwork in Tianjin.

¹³⁵ *Guo jia gong ren* (国家工人).

¹³⁶ Interview conducted with a worker in a loss-making public firm on November 30, 2003.

One of the government officials in charge of the pension fund management responded as follows:

*In this case, we will not let him retire according to the law. If his enterprise does not pay for him, we cannot proceed with his retirement application. Because his individual account is blank, he can't claim his pension after retirement. We show sympathy for his case and we also know his firm is poor. But the only thing we can do is to urge his firm to pay for him.*¹³⁷

In the end, that worker had to choose to pay for himself and made up for the amount in his blank individual accounts by his savings. He was sad when he retired. He said:

*I never thought that having worked for the county for 40 year, I got no pension eventually unless I pay for myself by using my own savings. I can understand why the laid-off workers chose to pay for themselves instead of pleading with the firm. Although I have made up for the amount in my individual pension account now, my pension salary is not high due to the deficiencies for the past years. I will only say to other workers who are in a similar case as mine, pay for yourself as early as possible.*¹³⁸

The fieldwork findings also reveal that pension contribution is an important concern of the state enterprises. Unless they really have no resources to pay the workers' pension, they will try to pay them on time and regularly because the pension is an important component of workers' benefits. In addition, if a firm chooses not to pay the pension for workers, its retired workers cannot enjoy free health insurance. It

¹³⁷ Interview conducted with one official in TJBLOSS on December 4, 2003

¹³⁸ Interview conducted with a worker in a loss-making public firm on December 4, 2003

means that the retirees' health insurance has to be paid by the host enterprise itself. But why did some firms still choose not to pay the pension for their workers? Why did the workers pay for themselves without complaint?

In answering these questions, chapter 4 will be using a political economy approach which analyzes the policy process among the various politically influential forces and interests within the current economic, social and demographic constraints and pressures. The reason is that welfare reforms cannot be understood merely on the surface. The applicability of other approaches is heavily determined by the deeper dynamics which are propelled not only by broad structural changes in the social, economic and political spheres, but also by the particular constellation of interests and perspectives which cluster around welfare issues.

Chapter 4

The Local Context of Pension Policy Implementation:

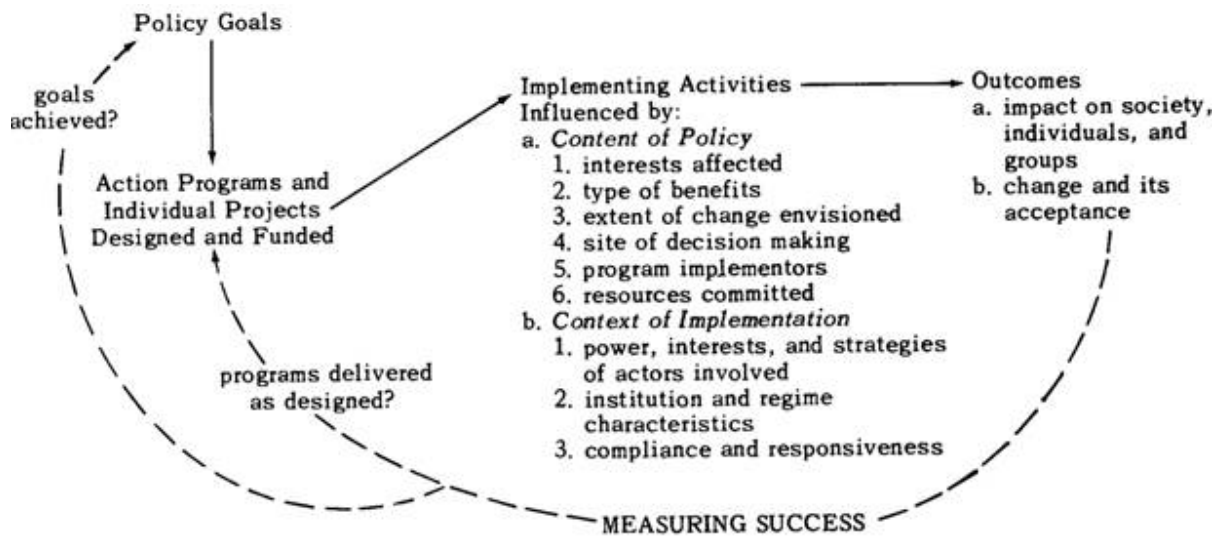
Power Structure, *Guanxi* Capital and Social Opportunity

The fieldwork in Tianjin shows that the workers in the loss-making state enterprises are self-raising their individual pension accounts now. By law, these transactions are illegal and against the regulations set by the government. Therefore, it is important to find the reason why the workers are contributing to their pension accounts instead of fighting for their legal rights with the government, court and their enterprises. Based on Grindle's model, the reason should be due to either the policy content or policy implementation context, namely, the social and economic context in the country. As examined in chapters two and three, the policy content itself does not have any violation of labor rights. Therefore, it is necessary to investigate the implementation context, which probably can explain the formation of the distorted policy outcome. By investigating the implementation context, this chapter will come up with a generalization of the case study materials in Tianjin on how and why contextual variables intervene in the implementation process in the new pension reform.

As elaborated in chapter one, policy implementation is an ongoing process of decision making by a variety of actors. The ultimate outcome of which is determined by the content of the program being pursued and by the interaction of decision makers and implementers within a given politico-administrative context. Based on the analysis in chapter one and Grindle's model, Figure 4.1 shows the relationships among policy content, policy implementation context and policy implementation

outcome.

Figure 4.1: Politico-administrative Process of Policy Implementation¹³⁹



Based on this model, the field work in Tianjin mainly focused on the actors in pension policy implementation, namely, the three contributors of workers' pension accounts. They are:

1. Government Institutions, including but not limited to the local government, local courts and fund supervision authorities;
2. State enterprises;
3. Workers.

4.1 The Implementation Context

According to the general model above, the implementation context includes:¹⁴⁰

¹³⁹ For details, see M. S. Grindle, "Policy Content and Context in Implementation": 68; see also the analysis in chapter one, pp 5-7.

¹⁴⁰ See also D. Van Meter and C. Van Horn, "The Policy Implementation Process: A Conceptual

- power, interests, and strategies of actors involved;
- institution and regime characteristics;
- compliance and responsiveness.

For this study, the above three context components are the independent variables of this thesis. To be more specific, they are:

- power structure among actors;
- social network possessed by actors in the implementation process;
- social opportunities outside the state enterprises.

Twenty-six state enterprises were investigated in Tianjin in the three-month fieldwork from November 2003 to February 2004. Among them, there are fourteen state-owned enterprises (SOEs) and twelve collectively-owned enterprises (COEs). The industrial fields of these enterprises are shown in Table 4.1.

Table 4.1 Industrial Fields of Twenty-six State Enterprises in Tianjin

<i>Industrial field</i>	<i>Number</i>
Commercial Service	5
Commodity Manufacture (e.g., Textile, Food, Watches)	5
Construction	1
Communication and Information Technology	2
Plastic Industry	5
Steel and Iron metallurgy	5
Transportation	3

Face to face interviews were conducted, including all the managers and pension functionaries of these state enterprises. This study also interviewed eleven high level government officials from Tianjin Social Insurance Center, Tianjin Bureau (*ju*) of Labor and Social Security, Tianjin Bureau (*ju*) of Finance, and six district-level

social insurance centers. Phone and personal interviews were conducted with the retirees and employees from these state enterprises as well.

4.2 The Power Structure

Power performs differently in various types of political system. The implementers need to be aware of the power distribution in the society that influences policy outcome. China is regarded as a close-system in Grindle's model of political system, characterized by the following:

- The state apparatus itself monopolizes economic and social power in the society and retains the full discretion over policy initiatives
- Its policies generally respond to the institutional interests of the group that dominates the government machinery.¹⁴¹

In such a system, it is common that policy recommendations on economic development or national security are prejudiced by the existing social and economic patterns. It is also known that government policies in the close system are usually inconclusive, and determined by the behavior of different interest groups. Interestingly, although a unified core may dominate organized political activity in the country, such a system may not have sufficient power to force compliance from disorganized but wary people who think that the government is not responding to their particular needs.¹⁴² These are recognized by Oksenberg and Lieberthal that different pressures and influences shape the behavior of officials at each level.¹⁴³ They also found that the reforms in China have increased the financial resources available for

¹⁴¹ See M. S. Grindle, "Policy Content and Context in Implementation": 32

¹⁴² *Ibid.*

¹⁴³ Kenneth Lieberthal & Michel Oksenberg, *Policy Making in China: Leaders, Structures, and Processes*, Princeton University Press, 1988: 22-23

various units to undertake activities outside of the state plan. This has increased the opportunities for units to use their efforts on state-mandated activities. The case of Tianjin verifies Grindle's model of the power structure in the Chinese pension reform.

The investigation results prove that there is a power imbalance among government institutions, state enterprises and their workers. It is obvious that government institutions are on the highest power level in terms of resources owned and working conditions. As mentioned by one of the interviewees from TJBOLSS,

"We, TJBOLSS and TJSI are government offices and policy-making centers. We are at a higher level than other actors in the pension plan because we own more resources than them in terms of authority and legitimacy. Our office equipment and environment are much better than the enterprises" ¹⁴⁴

On the other hand, state enterprises are financially difficult due to the unprofitable business performance, which has affected the workers' living conditions. One worker described his factory as follows:

We are really poor, and poorer than what people could imagine before they saw the factory. You know, it is mid-December in North China now. The temperature on the street is below zero. Can you imagine that we don't have any heaters at all? No, we don't. Both our plants and offices are without any heaters. So, we don't have warm water in such a cold weather. We must bring some hot water from home. We wear cotton-wadded jackets which are already out of fashion. Our manager and his office is in the same condition. ¹⁴⁵

¹⁴⁴ Interview conducted in TJBOLSS on December 12, 2003

¹⁴⁵ Interview conducted on December 2, 2003

In another factory, the manager showed the author his office. It was a small shabby room, no heater inside but an old coal stove only. His lunch was brought from his home.¹⁴⁶

In loss-making state enterprises, managers always chose to sell their land properties to pay workers' salary if the government was not helpful in coping with their situations. An enterprise interviewed by the author was a very profitable enterprise before the mid-1990s.¹⁴⁷ It became a bankruptcy enterprise in recent years. This enterprise has been leasing five stories of its 6-storey office building to other tenants. Each office on the sixth storey has only old coal stoves for the managers and staff in the winter. The rest of the workers have to stay at home because there is no space to stay and no job to do in the enterprise. There are no subsidies for the laid-off workers.¹⁴⁸

Out of the twenty-six state enterprises included in this study, three are still making a slight profit. Five enterprises are barely surviving with a fair financial balance but no profits. The rest are losing money. It is easy to understand why these state enterprises cannot contribute to their workers' pension accounts.

The Falling of State Enterprises

Historically, Chinese state enterprises operated as semi-enclosed communities, more akin to the army than to firms in market economies.¹⁴⁹ They provided either free or a wide range of services at low prices to their current and retired employees, and often to their families as well. Chinese workers in state enterprises were looked upon

¹⁴⁶ Interview conducted on November 17, 2003

¹⁴⁷ Interview conducted on December 23, 2003

¹⁴⁸ Interview conducted on January 13, 2004

¹⁴⁹ Athar Hussain, "The Social Role of the Chinese State Enterprise", in *Changing Workforce Relations in the Chinese Economy*, edited by Malcolm Warner. (New York: St. Martin's Press, 2000): 57-77

as a vital source of regime support for the Chinese Communist Party (CCP). Most of the full-time workers in state enterprises received basic workplace injury, maternity, and retirement benefits since the early 1950s, when the new government of the People's Republic of China issued regulations on "labor insurance" that encompassed various forms of insurance. Prominent amongst these are housing, in- and out-patient medical treatment, schooling of children and (in some cases) even public utilities. The cash wage has traditionally been just one component of a package with an array of benefits in kind.¹⁵⁰

The extended social role of Chinese state enterprises binds much of the urban labor force to their respective work units (*danwei*) as they take care of not merely their working lives but also retirement¹⁵¹. This role is increasingly perceived as a major barrier in the restructuring of state enterprises. Besides, faced with worsening financial conditions in recent years, many state enterprises have defaulted on their social obligations, such as pensions to their retirees, and have laid off their employees in large numbers. As a result, the urban labor force no longer perceives employment in a state enterprise as a secured guarantee of income for life complemented with generous benefits in kind. It offers, in Chinese parlance, neither an 'iron rice-bowl' nor an 'iron chair'. A manager from an enterprise said:

"We do want to pay for the pension. We know the pension is critical for everyone. For our workers, including myself, the only possible income after retirement is the pension. Every month, we need to wait for the cash or cheque from those who rent my factory land. If the tenants delay to pay, we also delay to pay the pension to our workers' accounts. Most of the time, we need to bargain with the local

¹⁵⁰ Hu Angang, Wang Shaoguang and Kang Xiaoguang. *Zhongguo diqu chaju baogao* (Regional disparities in China). Shenyang: (Liaoning Renmin Chubanshe, 1995)

¹⁵¹ Walder, Andrew, *Communist Neo-traditionalism* (University of California, Berkeley, 1986)

*SIs on when to pay. They normally will not agree and warn us that delayed payment will incur fines of 0.3 per cent of the contribution amount. This worsens our situation. You know, it would be harder for us if we have to pay extra fines? In addition, the fines will not attribute anything to our workers' pension accounts. They are also not refundable.*¹⁵²

The Bottom People: State Workers

The salaries of the workers in these enterprises are very low. There is no salary promotion at all in the last ten years. The all-in-salaries of the workers in this investigation are below *RMB* 650 (approximately USD 80). The salaries of the laid-off workers are even lower, ranging from 0 to a maximum of *RMB* 200. Constrained by the financial conditions, workers in the state enterprises are very weak if they want to fight for their legal rights.

4.3 Guanxi Capital

Actors, namely government institutions, state enterprises and their workers, carry different weights in the economic power structure. Of three actors, the weakest group, namely, workers, would shoulder the recurring costs of the pension reform. In the Chinese context, there is a kind of social capital called “*guanxi*” capital which forms the basis of economic power.

Guanxi capital refers to the relationships that an individual maintains in social networks. It plays a critical role in Chinese economic transactions as well as social life¹⁵³. Oi regards *guanxi* as the “operational code” to get things done in China.¹⁵⁴ The

¹⁵² Interview conducted on December 25, 2003

¹⁵³ Bian Yanjie. *Work and Inequality in Urban China*. (Albany, NY: State University of New York Press.

traditional strength of *guanxi* may stem from the lack of a comprehensive legal structure¹⁵⁵, and its recent economic importance may be due to the inconsistent enforcement of laws¹⁵⁶, risk reduction in an uncertain socio-politico-economic environment¹⁵⁷, risk spreading in an economy characterized by shortages,¹⁵⁸ and information sharing in imperfect markets.¹⁵⁹ Meals and gifts are common and effective methods of cultivating *guanxi*.¹⁶⁰ The associated gift economy is prevalent in both urban and rural China.¹⁶¹

A method to understand *guanxi* networks and participants is to evaluate the location of actors in the network. In the locations of actors in the network, it is important to find the *centrality* of the node which plays a decision role in the network.

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The profit that a person gains in the interaction is measured by the rewards received minus the costs incurred. Homans argued that 'no exchange continues unless

1994): 38-42; Kipnis, Andrew, *Producing Guanxi: Sentiment, Self, and Subculture In A North China Village*. (Duke University Press, 1997)

¹⁵⁴ Jean Oi, "Property Rights in The Chinese Economy: Contours of the Process of Change," in Jean Oi and Andrew Walder, eds., *Property Rights and Economic Reform in China* (Stanford University Press, 1999): 1-26.

¹⁵⁵ Tsui, A. S., Farh, J. L., and K. R. Xin, "Guanxi in the Chinese Context", in Li, J. T., Tsui, A. S.; & Weldon, E. *Management and Organization in the Chinese Context*. (London: McMillan, 2000)

¹⁵⁶ Yang, M. M. F., *Gifts, Favours and Banquets: The Art of Social Relationships in China*, (New York: Cornell University Press, 1994); Also see Lee, Dong-Jin., Pae, Jae H., and Wong, Y. H., "A Model of Close Business Relationships in China (*guanxi*)". *European Journal of Marketing*, 2001, 35 (1/2):51-69

¹⁵⁷ Jean Oi, "Property Rights in The Chinese Economy: Contours of the Process of Change," in *Property Rights and Economic Reform in China*, edited by Jean Oi and Andrew Walder (Stanford University Press, 1999): 1-26

¹⁵⁸ Kipnis, Andrew, *Producing Guanxi: Sentiment, Self, and Subculture In A North China Village*. (Duke University Press, 1997)

¹⁵⁹ Knight, J. and L. Song, "The Determinants of Urban Income Inequality in China". *Oxford Bulletin of Economics and Statistics*, 1991, 53(2): 123-154.

¹⁶⁰ For further reading, see Jean Oi, "Property Rights in The Chinese Economy: Contours of the Process of Change," in *Property Rights and Economic Reform in China*, edited by Jean Oi and Andrew Walder (Stanford University Press, 1999): pp. 1-26; Also see Kipnis, Andrew, *Producing Guanxi: Sentiment, Self, and Subculture In A North China Village*. (Duke University Press, 1997)

¹⁶¹ Yang, M. M. F., *Gifts, Favours and Banquets*: 51-69

¹⁶² *Op.cit.* 158

both parties are making a profit¹⁶³, which means that unless each participant finds it profitable, the interaction will not continue. The person who experiences a 'loss' finds the interaction more costly and will have an incentive to withdraw. A sustained social relationship, therefore, rests upon a balance of mutual profitability. Participants in social interaction engage in a calculation of rewards and costs and the interaction will continue in a stable form only if all participants are making a profit. Those who experience a loss will withdraw and will seek out alternative interactions where they are more likely to earn a profit.

4.3.1 State Enterprises vs. Government Institutions

When we look at strategic interactions between state enterprises and government institutions, the government institutions are undoubtedly the node in the social network. After all, these institutions hold all the resources and the ultimate interpretation of policies.

In the pension reform, due to the historical debts and financial constraints of state enterprises, they are in a disadvantage position in the network. Accordingly, the government is not willing to provide loans to maintain such enterprises. In this study, it was found that state enterprises had to bribe the government officials to exempt their historical pension debts. After the exemption of their debts, they can have a new start by paying just the current monthly pension contribution. As such, they can lessen their burdens and pay the salaries of their workers. Hence, these enterprises have no bargaining power in negotiating with the government institutions on policy and finance.

¹⁶³ Homans, G., *Social Behavior: Its Elementary Forms* (New York: Harcourt, Brace and World 1961)

4.3.2 Workers vs. State Enterprises

The workers of state enterprises know that their enterprises are losing money.

A worker said:

Our factory has not produced any products for the last two years. Usually, workers have nothing to do for months. Sometimes, our factory calls us to work because of some small orders. After that, we have to go back home and wait for further notice. The factory is leasing the building and plants to earn some money. Our factory also opened a restaurant to earn money. I know they are raising money from all kinds of possible places to pay our pension every month. So everybody knows that squeezing the enterprise has no effect. Complaints to the enterprise do not work.¹⁶⁴

The case study shows that many workers become less dependent on their enterprises. In response to the question of why they choose to pay their pension accounts, a worker, aged 48, replied:

My salary is very low, below 600 RMB every month. I need to raise my family. Unfortunately, my wife is in the same enterprise. We are both in difficulties. However, we have to pay the pension accounts by ourselves. If we don't pay, we cannot retire. If we don't pay the required amount, our future pension will be discounted. So if we pay, at least we can earn a stable pension every month. I am 48 now. If I pay for myself, I can retire in a few years later and enjoy my stable pension at that time. We will consider this option for paying the pension accounts seriously, especially for those in their 40s.¹⁶⁵

¹⁶⁴ Interview conducted on December 13, 2003

¹⁶⁵ Interview conducted on January 4, 2004

4.3.3 Workers vs. Government Institutions

In this study, it was also found that most of the workers did not sue their enterprises in the courts. Their explanation was that they knew the enterprises could not pay for them at all. Some took their actions to the street and organize strikes. Occasionally it might work. However, the government recently stipulated that it is illegal to strike without government permission and offenders will be arrested by the police force. The government will regard these protesters as offenders obstructing public transport.¹⁶⁶ After this stipulation, there are no more strikes now.

Workers are the weakest. An important reason is that they do not have social network or *Guanxi* with the legal institutions. On the other hand, government officials have more *Guanxi* in the courts. Even though there were some lawsuits on pension contribution against the government, they were unsuccessful. One government official explained:

*First of all, they are not familiar with the pension policy. The government in charge of pension policy knows much more than they do. Second, the government and the court are acting together on these cases to strengthen their power and protect their legitimacy. Because once a case is won, other SOE workers will sue in the same way and hope for the same results. It will cause troubles to both the government and courts.*¹⁶⁷

4.4 Social Opportunity

Some scholars argue that the government should release more job

¹⁶⁶ Interview conducted on December 5, 2003

¹⁶⁷ Interview conducted on January 4, 2004

opportunities to the workers.¹⁶⁸ They regard the expanding job market can solve the financial problems of these workers. However, this study shows that there is actually no vibrant job market to employ many state enterprise workers. In fact, workers are still at the bottom level.

Constrained by their age, technical skills, *guanxi* and social insurance problem, interviewees in this study cannot take advantage of these job opportunities created by the economic reform.

1. Age matters

*Respondent A: I am 45 years old this year. It is very hard for me to find another job. Other companies only recruit young people. Normally, their age limit is 35 years old.*¹⁶⁹

2. Skills and capabilities matter

*Respondent B: My age can't meet their requirements from the recruitment advertisements. They only ask for those below 35-year-old. Some jobs may recruit older people. But they are cleaners for gardens and condominiums. My health will not allow me to do those heavy jobs. And actually cleaners' wage is not high enough for me to raise my family.*¹⁷⁰

3. Social welfare matters

Respondent C: Although I am absolutely not satisfied with the current job and enterprise, I have no choice but to stay with it. If I quit this job, my accumulated

¹⁶⁸ Zhao, Yaohui, and Jianguo Xu. "China's Urban Pension System: Reforms and Problems." *Cato Journal* Vol. 21, No. 3 (Winter 2002): 395-414.

¹⁶⁹ Interview conducted with a worker on November 27, 2003

¹⁷⁰ Interview conducted on November 26, 2003

*pension account will end and so will my health account. It is not a cost-effectivet decision for me to leave my current enterprise. I would rather stay here and earn a small salary.*¹⁷¹

4. Guanxi capital matters

*Respondent D: I can't quit my job and start my own business on the street. Because of the transportation regulations by the local government, we are not allowed to start small businesses, say selling breakfast along the street. If we break the law, we will be punished. And we have to pay a big amount of fines. We simply can't afford it. We don't know any government officials. Our business could be destroyed by them.*¹⁷²

Rational choice theorists see social interaction as a process of social exchange. As it is not possible for individuals to achieve all the things that they want, they must also make choices in relation to both their goals and the means for attaining these goals. They act within specific and given constraints and on the basis of the information that they have about the conditions under which they are acting. Individuals must anticipate the outcomes of alternative courses of action and calculate which option will be best for them. Rational individuals choose the alternative that is likely to give them the greatest satisfaction¹⁷³.

In the case of pension reform, workers are exposed to an open social context to exchange and interact with other actors. Nonetheless, realistically speaking, workers, after balancing cost and benefits, might choose to stay in their enterprises.

4.5 Summary

¹⁷¹ Interview conducted on January 7, 2004

¹⁷² Interview conducted on December 9, 2003

¹⁷³ James Samuel Coleman. *The Mathematics of Collective Action*. (Aldine Pub Co. 1973): 100-112

This chapter has dealt with the power structure, *Guanxi* capital and social opportunities in the implementation context in Tianjin. Table 4.2 shows the context of the three actors in the Chinese pension reform.

Table 4.2 Pension Policy Implementation Context in Tianjin

	Government Institutions	State Enterprises	Workers
Power Structure	Strong	Medium	Weak
<i>Guanxi</i> Capital	Strong	Medium	Weak
Social Opportunities (alternative job opportunities)	-	-	Few

The conclusion of this study shows that Chinese pension reform is constrained by several factors. To adjust the policy outcome, it requires a long time to restructure the social and economic system and energize the economic market for the workers. These adjustments cannot be completed in a short time. Therefore, Chinese state workers, especially those from loss-making state enterprises, have to take care of themselves until the government has further policy actions to improve the situation.

Chapter 5

Conclusion: Policy Content and Context in Implementation

It is a normal and ongoing process of the government to make deliberate efforts to bring about changes in public policies and in the structure and function of public institutions.¹⁷⁴ On the government side, a policy reform is a pathway towards building and maintaining its legitimacy and social justice. However, evaluations on the policy process reveal that not the entire deliberate efforts yield benefits and moral justice. The policy outcome, especially the benefits and social justice assistance to the weak group, will at times not be fully achieved. It could be distorted by the internal and external factors within the politico-administrative context.

5.1 A Brief Review of the Study

This thesis documented the pension reform over the past decade in China. Through the investigation of loss-making state enterprises in Tianjin, it verifies Grindle's framework by analyzing the three actors within the implementation process. This study echoes on the role of implementation context in shaping reform agendas and progresses.

One of the targets set in the pension reform aimed to solve the financial difficulties of state enterprises. However, failing to protect workers' pension interests in those loss-making enterprises revealed the administrative incapacity of the local government and brought out challenges to its legitimacy. The pension reform was also

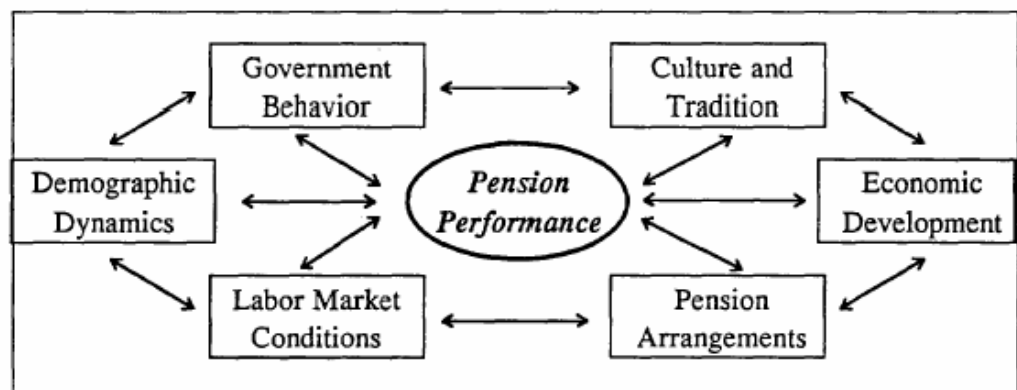
¹⁷⁴ See M. S. Grindle, "Policy Content and Context in Implementation" in *Politics and Policy Implementation in the Third World*, edited by M.S. Grindle. (New Jersey: Princeton University Press, 1980)

expected to alleviate the financial pressure of the state enterprises. Unfortunately, the liabilities of state enterprises are still very high. Workers in this study are taking care of their own pension accounts, which is obviously a failure of the new pension policy.

5.3 Retrospections on the Theoretical Framework: Does the context really matter?

This study focuses in the political economy of the pension reform. The policy context - power structure, *Guanxi* capital and social opportunities – are analyzed. Figure 5.1 highlights that pension performance is determined by the factors of socio-economic development.

Figure 5.1 Pension Performance¹⁷⁵



In this figure, pension performance is influenced by economic development, government behaviours, demographic dynamics, culture and tradition, labor market

¹⁷⁵ See M.S. Grindle, “Policy Content and Context in Implementation” in *Politics and Policy Implementation in the Third World*, edited by M.S. Grindle (New Jersey: Princeton University Press, 1980): 68

conditions and pension arrangements. The fieldwork in Tianjin verifies that all these factors produced an unsatisfied pension performance. Aging population, business difficulties in state enterprises and also the social or legal structure in Tianjin were discussed in the previous four chapters. Together, these actors distorted the original policy design. No matter what the policy makers wanted to achieve by the new pension policy, the workers had no choice but to pay for their future retirement in the end. It demonstrated how the policy context can distort the original policy content during the implementation process.

5.4 The Recommendations for Further Studies

There are several important issues that need further investigation. They are as follows:

a. This investigation was only conducted in Tianjin. Further investigations therefore should be conducted in other regions of China to improve the effectiveness of the analytic framework of this thesis, and to confirm the observations in loss-making public firms.

b. For a broader generalization of China's pension reform, foreign-invested firms and private firms could be included in further studies. The compliance or evasion of these firms could provide new evidence to judge whether the entire pension scheme is fair and successful.

c. It is always desirable that research projects can offer policy recommendations.

This study is a small-scale investigation. Limited by the investigated area, this thesis is not in a good position to provide any solutions to loss-making enterprises. Further studies are needed to verify the theoretical framework and provide empirical solutions to the Chinese government.

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Appendix A : Interviewee List

<i>S/N</i>	<i>Position</i>	<i>From</i>
1	Director (Pension Department)	Ministry of Labor and Social Security
2	Senior Officer	Ministry of Labor and Social Security
3	Executive	Ministry of Labor and Social Security
4	Executive	Ministry of Labor and Social Security
5	Head of Bureau	Tianjin Bureau of Labor and Social Security
6	Director (SOE Labor Force)	Tianjin Bureau of Labor and Social Security
7	Executive	Tianjin Bureau of Labor and Social Security
8	Dean	Tianjin Social Insurance Fund Center
9	Senior Officer	Tianjin Social Insurance Fund Center
10	Senior Officer	Tianjin Social Insurance Fund Center
11	Senior Officer	Tianjin Social Insurance Fund Center
12	Senior Officer	Tianjin Hexi Social Insurance Fund Center
13	Senior Officer	Tianjin Heping Social Insurance Fund Center
14	Senior Officer	Tianjin Hebei Social Insurance Fund Center
15	Senior Officer	Tianjin Hongqiao Social Insurance Fund Center
16	Senior Officer	Tianjin Hedong Social Insurance Fund Center
17	106 workers	State enterprises in Tianjin

Appendix B : Interview Question List 1: Enterprise Manager

Background Information

Gender: Male Female

Age: _____

Occupation: _____

Education Level: _____

Working Year: _____

Interview Date: _____

Interview Starting At: _____AM/PM

Interview Ending At: _____AM/PM

Ownership of Host Enterprise: SOE COE

Part One

1. In which year did your firm join the social pooling pension system?
2. In which year did your firm begin to establish the pension individual account for each worker?
3. How many current workers do your firm have from 2000-2003? How many laid-off workers do you firm have now? How many retired workers do your firm have now?
4. Monthly pension contribution amount (1997- 2002)
5. On average, among all the retired workers, how much is their monthly pension? What is the lowest amount? What is the highest amount?
6. Monthly pension distribution amount (1997-2002)
7. How many workers do your enterprise cover to pay the pension accounts?(If the amount has different with Q3a, ask the reason)
8. How many workers claim pension in your enterprise? (If the amount has different with Q3c, ask the reason)
9. From 1997 to 2003, when your enterprise couldn't pay pension accounts, what measure did the enterprise take to meet the contribution?
10. How is the business performance of your enterprise? Do you have annual profit?
11. Did you have loans from state banks? Have you returned the loans? If not, what did the enterprise do during the loans period?

Part Two

1. How many times did your enterprise visit SI except pension payments? For what reason?
2. Did you experience any payment arrears in the last 5 years?
3. (Ask those answering "yeas" in Q2), did you receive any fine bill due to payment arrears?
4. What is the relative policy on payment arrears?
5. When you meet difficulties in implementing the pension policy, did you complain to

the SI or TJSI or TJBOLSS? If Yes, about what reason?

6. Did the SIs or TJSI contact with your enterprise in the last 5 years? For what reason?

7. In your memory, did the SI or TJSI organize any meetings to solve the payment arrears or payment affording abilities?

Part Three

1. As a state enterprise manager, what are your comments on the current pension system? (Compare with the old system)

2. Do you have any benefit from the new pension policy?

3. Do you have any difficulties when submitting the pension contribution to workers' individual accounts? If yes, how did you solve it?

4. Do you have any difficulties when implementing the pension policy?

Appendix C : Interview Question List 2: State Workers/Retirees

Background Information

Gender: Male Female

Age: _____

Occupation: _____

Education Level: _____

Working Year: _____

Interview Date: _____

Interview Starting At: _____ AM/PM

Interview Ending At: _____ AM/PM

Ownership of Host Enterprise: SOE COE

Part One: Workers

1. How much is your basic salary currently? Do you have any bonus?
2. How much do you contribute to your individual account every month?
3. How much does your enterprise contribute to your individual account every month?
4. What are your comments on current pension policy?
 1. Did you experience any salary arrears in the last 5 years?
 2. How much is your expectation on your future pension?

Part Two: Laid Off Workers

1. How much is your total income every month?
2. Do you have other job except the job in your host enterprise?
3. How much do you contribute to your individual account every month?
4. How much does your host enterprise contribute to your individual account every month?
5. What are your comments on current pension policy?
6. Did you experience any laid-off allowance arrears in the last 5 years?
7. How much is your expectation on your future pension?

Part Three: Retired Workers

1. Which year did you retiree?
2. How much is your total monthly pension?
3. Do you think your pension amount is enough for your daily life?
4. How much do you spend every month on food, room rental and transportation?
5. Do you leave part of your pension into bank savings?
6. Do you have savings in the banks?
7. Do you have health insurance?

Appendix D : Interview Question List 1 (Chinese Version)

天津市国有企业养老金缴费基本情况调查

尊敬的受访者：

您好！

伴随着改革开放政策的实施，特别是社会主义市场经济体制的建立，中国的各项事业都逐步通过改革稳步走入良性发展的轨道。养老保险事业是我们社会主义国家制度优越性的体现，也是国家安定团结的重要组成部分，同时对于国家的国有企业改革方案也有着举足轻重的作用。本调查的目的在于，全面而准确地了解天津市养老保险事业目前发展的基本状况，为其进一步有序和健康的发展提供建设性的研究意见。

非常感谢您在百忙中拨冗接受我们的采访。您的意见对我们的研究非常重要，我们诚恳地希望得到您的支持和帮助。本问卷所有信息仅用于学术研究，绝对不涉及您的任何隐私，我们保证不在任何情况下以直接或者间接的方式提到您本人和您的所在单位。

在回答问题时，您的回答并不一定必须是贵单位的正式意见，第一、二部分问题为您单位的客观情况介绍，请您尽量从您单位的立场回答这些问题；对于第三部分，则请您依据个人的观点回答。

真诚请求并衷心感谢您的理解和合作！

2003年11月
天津养老金政策调查项目组

受访者基本情况：

性别：男 女 年龄：_____岁
部门：_____ 单位编号：_____号
从事养老金工作的时间：_____年 采访日期：_____年____月____日
采访开始时间：_____AM/PM 采访结束时间：_____AM/PM

第一部分

1. 企业是从哪一年开始加入养老保险的？
2. 企业是从哪一年开始为在职职工缴费的？
3. 请问贵企业 2002-2003 年度企业在职人员（包括下岗人员）有多少人？退休人员有多少人？您能提供一些历史数据吗？比如从 1997-2002 年的六年中，企业每年在职人员，退休人员的人数。
4. 请问贵企业在 2002-2003 年度平均每月为企业在职人员缴纳的养老保险费共计是多少元？
5. 请问贵企业现在已经退休人员每月领取的养老金共计大约是多少？在已经退休的工人中，领取到的退休金最低是多少元？最高是多少元？您能提供一些历史数据吗？比如从 1997-2003 年的七年中，企业在职人员个人养老金缴纳的年度报表，退休人员领取养老金的年度统计。
6. 请问贵企业上缴养老保险费的职工人数为多少人？（如果和上面的在职职工人数不相等，则继续提问未缴费的原因和人员的分类）。
7. 请问贵企业现在领取退休金的人数是多少？（如果与退休职工人数不相等，则继续提问未领取养老金的原因和人员的分类）。
8. 从 1997 年-2003 年的七年中，对于未能缴费的在职职工，企业都采取了什么方法解决养老保险费上缴的
9. 从 1997-2003 年的七年中，企业为在职人员缴纳的养老基金的年度报表。
10. 从 1997 年开始，企业的盈利情况/亏损情况：具体盈利额/亏损额。
11. 1997 年开始，企业有否找银行贷款，贷款的基本用途有哪些？企业的贷款偿还状况。现在欠款的额度是多少？

第二部分

1. 贵企业在一个月的时间中除了交费以外还需要去几次所属社险区分中心？都是完成什么任务？
2. 贵企业有否拖欠养老金上缴的现象，发生的日期？拖欠原因是什么？拖欠的款额？拖欠持续了多长时间？
3. 贵企业拖欠的养老金，后来有没有按时补交？管理机构有过罚款吗？额度是多少？
4. 贵企业若未能补交养老金，请问是否影响了后来退休人员领取养老金？如果影响了，是何种影响？如果没有影响，那么后来企业有没有类似的拖欠现象？

5. 贵企业有没有就养老基金的上缴问题，有没有过向区分中心管理机构/市级社县中心/劳动和社会保障局/中央级别的管理机构提建议或者投诉？如果有过，请讲述具体的建议和经过。

6. 区分中心经常以什么样的方式和贵企业联系？多长时间联系一次？如果区分中心需要贵企业执行新的文件/政策时，通常以何种方式告知企业？区分中心有没有定期的组织沟通交流，提供意见和建议的讨论平台？

7. 市社险中心/中央级别的养老金相关机构，和您的企业联系过吗？因为何种情况下联系您的企业，多长时间和您的企业联系一下？有没有过组织相关的活动，提供意见和建议的平台？

第三部分

1. 作为企业养老金的负责人，您认为自 1997 年后实行的新的养老金政策，对您的企业经济效益有没有很大的影响？这种影响是正面的还是负面的？请详细谈谈具体的影响内容。

2. 在新的缴费标准施行后，您觉得企业的福利负担是减轻了，还是加重了，还是没什么变化？

3. 企业在筹集养老金的时候，有没有过各个方面的困难？企业面对困难的时候，采取什么样的方式解决困难？您觉得企业解决的方案是成功的吗？

4. 您觉得现在的养老金政策，需要在哪些方面还要进行改进才能更有利于国有企业的经济发展？

第四部分

1. 请问贵单位自 1997-2003 年，有没有向国有银行贷款的项目？

2. 请问贵单位自 1997-2003 年，向国有银行贷款总额度是多少元？

3. 请问贵单位自 1997-2003 年，向国有银行偿还贷款多少元？

Appendix E : Interview Question List 2 (Chinese Version)

天津市国有企业退休工人养老金基本情况调查

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真诚请求并衷心感谢您的理解和合作！

2003年11月
天津养老金政策调查项目组

受访者基本情况：

性别： 男 女 年龄： ____岁
行业： _____ 文化程度： _____
工龄： _____年 采访日期： ____年__月__日
采访开始时间： _____AM/PM 采访结束时间： _____AM/PM
(原)工作单位所有制类别： 全民 集体 其他

第一部分： 在职在岗职工

1. 您现在每个月的收入大概是多少钱？
2. 您现在每个月个人缴纳的养老保险费是多少钱？
3. 您所在的企业为您缴纳的养老保险费是多少钱？
4. 您认为现在个人缴纳的养老保险费数额额度合理吗？
5. 您认为企业为您缴纳的养老保险费额度合理吗？
6. 您每月能够按时领到工资吗？
7. 您对退休金的期待大概在多少元？

第二部分： 下岗职工

1. 您现在每个月的收入大概是多少钱？
2. 您现在有工作吗？
3. 您现在每个月个人缴纳的养老保险费是多少钱？
4. 您所在的企业为您缴纳的养老保险费是多少钱？
5. 您认为现在个人缴纳的养老保险费数额额度合理吗？
6. 您认为企业为您缴纳的养老保险费额度合理吗？
7. 您每月能够按时领到下岗补贴吗？
8. 您对退休金的期待大概在多少元？

第三部分： 退休职工

1. 您是哪一年退休的？
2. 您每月的退休金多少元？
3. 您认为退休金数额合理吗？
4. 您每月的生活开支大概有多少元？
5. 您每月有积蓄吗？
6. 您在银行里有积蓄吗？
7. 您享受医疗保险吗？