

Reform of State-Owned Enterprises and Development of Social Security System in China after 1978

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I Introduction

The reform of state-owned enterprises is the central link in China's reform of the economic structure as well as a basic content of the ownership reform. To do good job in the reform of the state-owned enterprises is of extremely important significance for bringing into better play the leading of the state-owned sector, for the development of the socialist market economy and for the consolidation of the socialist system.

Social Security is comprised with social insurance, social assistance, social benefits, and widow/orphan support in China. The social insurance includes pension system, medical insurance, unemployment insurance and workers' compensation insurance to help the laborers to reduce risks and to guarantee basic living conditions. From the 50's of the 20th century, China began large-scale industrial development, and gradually established the modern social security system for the employees of the city/township enterprises and civil servants of the government. During the planned economic period and the initial stage of the economic system reform in the 80's, China's social security system was not an independent nation-wide system. At that time, the Chinese government did not admit unemployment existence and there were no unemployment benefits. The employment units (*danwei*) were responsible for retirement funds, medical funds, and other benefits for their city/township employees. These expenses were incorporated into the *danweis'* annual financial budget. It could be recognized at that time China's city/township social security system was held accountable at the bottom of the national financial system, namely *danwei* social security programs. Furthermore, many farmers in the countryside had no national or employment unit (*danwei*) provided retirement funds. However, there was cooperative medical care program under the People's Commune system. In the social assistance area, national financial administration only provided minimum living support for a few people who were classified as the "three no's" (no capability to work, no incomes, and no relatives to assist them).

After carrying out reform and opening up policy, the increasingly tough market competition had given significant shocks to the *danwei* social security system in China, especially to the *danwei'* employees. From the middle of the 80's in the 20th century, particularly, from the 90's of the 20th century, China gradually recognized the importance for the creation of a socialized and

independent security system. As a result, China had made continuous reforms to the traditional social security system. First, to oppose huge unemployment and massive layoff phenomenon, China established unemployment insurance program for the unemployed city/township especially the State-owned enterprises(SOEs) workers and set up job retraining and job placement service centers for the laid off SOEs workers. In 2003, China's unemployment insurance system covered 103.73 million people: those were 40.4% of all city/township employees (totally 256.39 millions), or 94.6% of all *danwei* employees (totally 109.7 millions). In the same year, nation wide, there were 8 million unemployed people on the city/township unemployment register (registered unemployment rate was 4.3%). The unemployment insurance funds in the forms of receipts and payments were 25 billion yuan and 20 billion yuan respectively. The job placement service center program had provided job skill training to 28.18 million people who were unemployed during the period of 1998 through 2003 and paid out 73.7 billion yuan for living allowances and re-employment service fees. And the programs had helped 18.9 million the laid off SOEs workers (67.2% of the laid off workers) to find job again.

This paper will analyze the reform of SOEs and the social security system in China after 1978. We simply introduce the course of the reform of SOEs and analyse China's developing social security system deal with these issues. Based on the aforementioned topics, we will forecast the direction of China's SOEs's reform and main issues of social security development and point out some thoughts and solutions for the difficulties that China's SOEs and social security system are facing today. At last, this paper will analyze the further reform of SOEs and the development direction of social security system.

II Exploring Ways for Reform of State-owned Enterprises

2.1 Course of Reform of State-owned Enterprises

Starting from the end of 1978, the course of China's reform of the state-owned enterprises can be divided roughly into three stages, that is, the stage of granting more power and profits to the enterprises (1978-1984); the stage of separating the right of ownership from the power of management (1985-1993); and the stage of establishing the modern enterprise system (1994 onward).

(1) The First Stage

Under the system of planned economy, enterprises were affiliates to government organs. Virtually, all power, including that regarding manpower, finance, materials, production, supply and marketing, rested in the hands of the government, and the enterprises were devoid of any vitality. In order to enhance the vitality of the enterprises, in 1978 the Sichuan provincial authorities selected six enterprises, including Ninjiang Machine Tool Plant, to try out the reform featuring delegation of more power to enterprises. The following year, the former State Economic Commission selected the Capital Iron and Steel Corporation and seven other enterprises for experiment. The trial reform won widespread support and acclaim. In July 1979, the State Council issued five documents, calling for expanding the autonomous power of state-owned industrial enterprises with regard to management and operation and asking the local governments to select more enterprises for the experiment. By 1980, the number of enterprises trying out the reform had reached 6,000, accounting for some 16 percent of all industrial enterprises covered in the state

budget; the output value generated by these enterprises accounted for 60 percent of the national total and their profits accounted for 70 percent. Meanwhile, granting more power to enterprises also meant to increase their responsibility, that is, to compel them to gradually adopt the economic responsibility system. In December 1981, the State Council endorsed and transmitted throughout the country "Proposals Regarding Problems in the Implementation of Economic Responsibility System in Industrial Enterprises" prepared by the former State Economic Commission, thus greatly quickened the pace of the introduction of the production and management responsibility system in enterprises. Towards the end of 1981, more than 42,000 industrial enterprises had adopted the economic responsibility system.

The reform, characterized by replacing delivery of profits to the state by tax-payment, was launched in 1983. It was in fact a continuation of the reform to grant more power to the enterprises. In April 1983, the State Council again endorsed and transmitted throughout the country "Circular on Measures to Try Out Replacement of Profit Delivery by Tax Payment in State-owned Enterprises" drafted by the Ministry of Finance. According to this circular, all large and medium-sized state-owned enterprises that make profits should pay a 50-percent income tax to the state on the profits they reap. As for the post-tax profits, part should be turned over to the state and the rest was to be kept by the enterprises. All small state-owned enterprises that make profits should pay income taxes to the state in line with the eight-grade progressive tax rates on the profits they reap. So long as they pay the tax, the enterprises shall be left to take sole responsibility for their own profits and losses. In 1984, a second step was taken in the reform and appropriate readjustments were made in the tax categories and rates.

In May 1984, the State Council issued the "Interim Regulations on Further Expanding the Decision-Making Power of State-owned Industrial Enterprises." The document listed ten areas in which the power of the enterprises should be expanded -- power to map out plans for their own production and management, power to market their own products, power to set the prices for their own products, power to purchase raw materials and equipment for their own use, power to make use of their own funds, power in production management, power to decide on their organizational setup, power over personnel affairs, power in salary and bonus payment and power in cooperative operations. In September 1985, the State Council again approved and transmitted the "Interim Provisions on Questions to Invigorate Large and Medium-sized State-owned Industrial Enterprises." The document included 14 provisions regarding the decision-making power of the enterprises. Granting more power and profits to state-owned enterprises achieved initial success in breaking the old system in which state planning covered everything, enabled the state-owned enterprises to have more power over their own production and management and, to a certain extent, promoted their development. Yet, such efforts were made under the framework of planned economy and failed to bring into being a comprehensive system in which responsibility, power and interests are organically linked and in which the successful ones survive while the poorly operated die out. At this stage, the state-owned enterprises had not yet become market subjects and independent commodity producers in the real sense.

(2) The Second Stage

The second stage of the reform of state-owned enterprises began with the Third Plenary Session of the 12th Party Central Committee. The objective of the reform was to turn the enterprises into relatively independent entities in management as well as socialist commodity

producers and managers that make their own decisions for their own operation, are responsible for their own profits and losses, are capable to seek self-transformation and self-development, and become legal persons that enjoy certain rights and shoulder certain obligations. The major guideline for the reform was to separate the right of ownership and the right of management. The main methods adopted for the reform were the leasing system and contract system, i.e. to lease out small enterprises and introducing the contract system in large and medium-sized ones.

As of 1987, various forms of contract management responsibility system were introduced in large and medium-sized enterprises. By the end of 1987, 70 percent of the enterprises covered in the state budget adopted the system. In 1988, the State Council issued the "Interim Regulations Regarding Contract Management Responsibility System in Industrial Enterprises Owned by the Whole People." The document provided the legal basis for the contract system. The first round of contract management expired in 1990. In this round, 33,000 industrial enterprises adopted the system, accounting for 90 percent of all enterprises. The second round followed immediately. By the end of March 1991, more than 90 percent of the enterprises that adopted the system in the first round had had their contracts renewed for the second round.

In order to encourage the enterprises to change their management mechanism, while making efforts to establish and improve the contract responsibility system, experiments were made in separating profits and taxes and the joint-stock system. The experiments on the separation of profits and taxes began in 1988, with more than 2,000 enterprises involved by 1991. An initial success was achieved. The joint-stock system was tried out in 1984. Yet, as there had been continuous arguments over the nature of the joint-stock system, the experiments had been going on intermittently. Towards the first half of 1993, the number of joint-stock enterprises exceeded 3,200, most of which issued internal stocks to their workers and staff. In May 1992, the former State Commission of Economic Restructuring and some other government departments jointly issued "Methods on Experiment in Joint-Stock Enterprises," which pushed the development of the joint-stock system towards institutionalization. In line with the spirit of a working conference of the Party Central Committee, which was held in 1991 and laid stress on the necessity to transform the management mechanism in enterprises, the State Council issued the "Regulations on Transforming Management Mechanism in Industrial Enterprises Owned by the Whole People." The document included specific stipulations concerning such issues as the management power of the enterprises, the responsibility of the enterprises for their own profits and losses, as well as the relations between the enterprises and the government as well as their legal responsibilities. But, due to the rapid change in the overall situation, not much progress had been achieved in transforming the management mechanism of the enterprises. Even when the demand to establish a modern enterprise system became very obvious, the contract responsibility system, which laid stress on the separation of the right of ownership and the right of management, still remained as the major form of management in state-owned enterprises in this period.

The reform featuring the separation of the right of ownership and the right of management in enterprises greatly increased the enterprises' autonomy in management, brought into being a more direct interest incentive system and, to some extent, promoted the development of the enterprises. However, the "bargaining mechanism" in contract management had left some loopholes for the enterprises, particularly those who had contracted to manage the enterprises, to pocket the larger part of the benefits reaped from the development of the enterprises, while the government and the

society gained little. Besides, the short-term behavior of the contractors had adversely affected the stamina for long term development. When the power of the enterprises to make their own decisions concerning management was expanded, there lacked a corresponding restrictive mechanism, hence the widespread phenomenon that the enterprises that had adopted the contract management responsibility system were only responsible for their profits but not for their losses. In the final analysis, the contract management responsibility system only touched the surface of the property right relations rather than the real problem regarding the separation of government administration from enterprise management. Therefore, the separation of the right of ownership from the right of management was far from being complete and the objective of the enterprise reform was far from being achieved. At the same time, some new problems that cropped up had made the operation of the enterprises going from bad to worse. A new way must be found to tackle the problem.

(3) The Third Stage

The 14th National Party Congress held in 1992 made the development of the socialist market economy the objective of the reform of the economic structure. The Third Plenary Session of the 14th Party Central Committee, held in November 1993, clearly pointed out that the goal of China's reform of state-owned enterprises was to establish a modern enterprise system, which meets the requirements of the market economy and socialized mass production, and under this system the property rights as well as the rights and responsibilities of the enterprises are clearly defined, government administration and enterprise management are separated and scientific management is adopted. This system refers, in fact, to the modern corporate system, particularly that of joint-stock companies. The aim of the establishment of the modern enterprise system is to turn the enterprises into legal entities that make their own decisions regarding management, shoulder sole responsibility for their own profits and losses, and can seek self-development and discipline themselves.

To implement the "Decision of the CPC Central Committee on Some Issues Concerning the Establishment of a Socialist Market Economic Structure," adopted at the Third Plenary Session of the 14th party Central Committee, the former State Economic Commission began to organize for experiment in the establishment of the modern enterprise system in 1994. In 1995, the experiment was focused on four areas. The first was the experiment to establish a modern enterprise system in 100 selected state-owned enterprises. The second was experiment to "optimize the capital structure" in 18 cities (this experiment was extended to 111 cities in 1997). The third was trying out setting up enterprise groups and three state stock-controlling companies (The number of enterprise groups was increased to 120 in 1997). The fourth was to spur on the overall reform of small enterprises in line with the principle of "focusing on large enterprises and giving a free hand to small ones" adopted at the Fifth Plenary Session of the 14th Party Central Committee in 1995.

In 1997, the 15th National Congress of Chinese Communist Party pointed out that, to conduct reform of the state-owned enterprises, it was necessary to focus attention on doing a good job in the entire national economy and carry out strategic reorganization of the state-owned enterprises. In 1995, the State Council decided to concentrate attention on 1,000 key state-owned enterprises. In 1997, the number increased to 1,212, of which 512 were enterprises that were granted special government support. Meanwhile, greater efforts were made to give support to the reform of 120 enterprise groups. In accordance with the principle of 'lifting control over and invigorating small

enterprises," the local governments accelerated the pace of the reform of small enterprises. By the end of 1997, more than 50 percent state-owned small enterprises in quite a few provinces and cities had undergone transformation and restructuring in various ways.

Starting from 1998, the Party Central Committee suggested to spend three years to lift the majority of large and medium-sized state-owned enterprises out of their difficult plight and initially introduce in them the modern enterprise system by means of reform, reorganization, transformation and improved management. Consequently, the reform of the state-owned enterprises has developed in further depth. New progress has been achieved in the readjustment and reorganization of the textile, coal mining, petroleum and petrochemical and metallurgical industries as well as defense industries. To strengthen supervision and control over the state-owned enterprises, the State Council has dispatched special inspectors to key state-owned enterprises. A number of enterprises have introduced the corporate system through transformation in line with the demands of the modern enterprise system. Institutional procedures have established in view of the problems arising in the reform of small state-owned enterprises and, meanwhile, efforts have been intensified to give support to small enterprises. Along with the organizational restructure of departments under the State Council, some government departments no longer exercise direct control over the enterprises, and steady progress has been made in separating government administration from enterprise management.

2.2 Major Achievements in the Reform of State-owned Enterprises

2.2.1 Changes in Ownership Structure

Since the adoption of the reform policy, marked changes have taken place in China's ownership structure. The most noticeable change is that the dominant position of the public sector has been maintained while a continuous growth has been achieved in absolute amount despite its proportional decline in the total of the national economy. The growth rate and proportion of the state-owned sector have gone down but its leading position has remained. The non-publicly owned sector has witnessed a rapid growth, But, the development of the individual sector, the private sector, the foreign-funded sector and the sector operating under various forms of mixed ownership has shown different features. According to recent calculations by the State Statistical Bureau, from 1978 to 1997 the proportion of GDP generated by the publicly owned sector (including the state-owned sector and the collective sector) dropped from 94.7 percent to 75.8 percent in the national total, down by 18.9 percentage point in a span of 20 years, or down by one percentage point in each year. By contrast, the proportion of GDP generated by the non-public sector went up from 5.3 percent to 24.2 percent, accounting for nearly one-fourth of the total GDP of the country. The non-publicly owned sector has become an important component part of China's national economy (see Table 1).

Table 1 Structural Changes of GDP Generated by
Publicly Owned Sector and Non-Publicly Owned Sector
from 1978 to 1997
(Unit: 100 million yuan)

Year	Publicly Owned Sector	Non-Publicly Owned Sector
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	Total GDP by State-owned Sector	Proportion of GDP by State-owned Sector (%)	Total GDP by Collective Sector	Proportion of GDP by Collective Sector (%)	Total GDP by Non-Public Sector	Proportion of GDP by Non-Public Sector (%)
1978	2,092	57.7	1,342	37.0	190	5.3
1985	4,288	47.8	3,632	40.5	1,044	11.6
1990	9,039	48.6	7,105	38.2	2,436	13.1
1995	22,222	38.0	23,274	39.8	12,988	22.2
1997	30,777	41.9	24,900	33.9	17,776	24.2

Source of Data: Statistical Data by State Statistical Bureau, Issue No. 9, 1999.

Industry holds a leading position in the national economy. In terms of the structure of total industrial GDP, the gross industrial output value generated by state-owned and collectively owned industry dropped from 100 percent in 1978 to 67.1 percent in 1998, down by about 37 percentage point. Meanwhile, the proportion of gross industrial output value produced by non-publicly owned economy exceeded one-third of the national total (see Table 2).

From the perspective of capital input, the proportion of investment in the public sector of the economy had steadily dropped from 81.5 percent in 1981 to 68.1 percent in 1998 in the composite of investment in fixed assets, down by 13.4 percentage point. At the same time, however, the proportion of investment in the non-publicly owned sector reached one-third of the total invested in fixed assets by 1998 (see Table 3). From the perspective of the ratio between the gross industrial assets and industrial fixed assets, the dominant position of the public sector is even more obvious, with the industrial assets in the non-public sector of the economy accounting only for about 16 percent of the total industrial fixed assets (see Table 4).

Table 2 Composite Structure of China's Gross Industrial Output Value from 1978 to 1998 (%)

Year	State-owned Industry and Industry with Shares Held by the State	Collective Industry	Individually Operated Industry in Urban and Rural Areas	Industry under Other Forms of Ownership
1978	77.6	22.4	--	--
1980	76.0	23.5	--	0.5
1985	64.9	32.1	1.8	1.2
1990	54.6	35.6	5.4	4.4
1995	34.0	36.6	12.9	16.5
1998	28.5	38.3	18.9	19.9

Source of Data: China Statistical Synopsis (1999) by State Statistical Bureau, p.100.

Note: Some of the statistics on the gross output value of state-owned industry and industry with shares held by the state and the statistics on various forms of industry are repeatedly calculated. That is why the add-up total exceeds more than 100 percent.

Table 3 Composite of Investment in

Fixed Assets in Various Economic Sectors (%)

Type of Investment	1981	1985	1990	1995	1997	1998	2002	2003
State-owned Sector	69.5	66.1	66.1	54.4	52.5	55.0	40.9	39.0
Collective Sector	12.0	12.9	11.7	16.4	15.4	13.1	13.8	14.4
Individual Sector	18.5	21.0	22.2	12.8	13.8	12.8	15.0	13.9
Other Types of Economy				16.4	18.3	19.1	27.9	32.7

Data source: China Statistical Synopsis 2004, by State Statistical Bureau, p. 188

Table 4 Structural Changes of Investment by
Industrial Units Practicing Independent Accounting
in Various Economic Sectors

Type of Investment	1980	1985	1990	1995	1997	1998
Percentage in Gross Industrial Assets						
State-owned Industry	87.3	80.9	75.8	58.9	57.2	69.2
Collective Industry	12.3	18.1	20.6	19.1	16.0	14.1
Other Types of Industry	0.4	1.0	3.7	22.0	26.8	16.7
Percentage in Industrial Fixed Assets						
State-owned Industry	90.3	85.2	79.8	63.7	63.5	72.0
Collective Industry	9.4	14.0	16.5	15.7	12.8	12.2
Other Types of Industry	0.6	0.8	3.7	21.6	33.7	15.8

Source of Data: Study on the Quality of Industrial Growth by Guo Kesha, et al., p. 193; China Statistical Almanac (1998) by the State Statistical Bureau, p. 445; China Statistical Synopsis (1999) by the State Statistical Bureau, p. 109. Of the statistics for 1998, the statistics of state-owned industry include those from the industrial enterprises with shares controlled by the state, while the collection of the statistics covered all state-owned enterprises and enterprises under non-public ownership with an annual income of no less than 5 million yuan from sales of their products.

2.2.2 Changes of the Business Behaviors of SOEs

Most of the state-owned enterprises have changed or are changing their management mechanism. The market-oriented reform of the Chinese economy has compelled the state-owned enterprises to gear their production and management towards the market and participate in market competition, whereas in the past they only carried out production and management according to state plans. "All work should center around the market." This has become the consensus among the managers and workers in most state-owned enterprises.

Some state-owned enterprises have enhanced their vitality and developed into key state-owned enterprises with sharper competitive edge. Technological surveys and market

investigations conducted at random show that the average quality of products turned out by state-owned enterprises is better than those made by other types of enterprises. Most of the brand-name products in China are produced by state-owned enterprises: In most of the Chinese industries, particularly those capital and technology-intensive ones, the enterprises that enjoy the largest market share are still state-owned ones. This means large and medium-sized state-owned enterprises are still rather competitive in the market. Key state-owned enterprises are an important force to participate in international competition.

In China, the major proportion of large and medium-sized enterprises is still state-owned. Compared with enterprises under other forms of ownership, they still hold an advantageous position in terms of scale and size.

State-owned enterprises have borne most of the cost for China's economic transition. Although the non-state-owned sectors have made 80 percent of the contribution to China's economic growth in the 1990s and their contribution to the state financial income has also increased constantly, yet, viewed as a whole, the state-owned enterprises still constitute the major source for the country's financial revenue and public spending (the contribution made by the state-owned sector has remained at around 70 percent). So, it can be said that state-owned enterprises have borne the bulk of cost for China's economic reform. Besides, they still bear the major responsibility with regard to employment, social security and so on.

Certain progress has been made in supporting reforms of state-owned enterprises, which included cutting down the size of staff to increase efficiency, launching of reemployment projects and establishing a social security system. In 1998, the number of workers and staff in state-owned units dropped by nearly 25 million as compared with that in 1995, which was the peak year. A socialized social security system has taken initial shape.

A clearer understanding has been acquired regarding the status and role of state-owned enterprises. Now, people have come to realize that there must be state-owned enterprises, but their number should not be too large. Studies have been going on to look for new ways for the reform of state-owned enterprises.

2.3 The State-Owned Economic Sector Still Holds a Important Position despite a Rapid Decline in Its Proportion in the National Economy.

An important objective of China's ownership reform is to alter the situation in which the state-owned economy comprised the sole economic sector formed under the system of planned economy and gradually reduce the proportion of state-owned sector while making sure to maintain its leading position in the national economy.

The leading role of the state-owned economic sector is largely reflected in its strength of control. Under the conditions of the socialist market economy, the strength of control of the state-owned sector means that the state-owned sector can become the dominant force in the overall economic development and operation. The strength of control is manifested in terms of quantity. More importantly, it should be reflected in terms of quality (that is, whether the state-owned sector can really play a leading role in the national economy).

Since the launching of the reform, the absolute amount of GDP produced by the state-owned sector has kept increasing. From 1978 to 1998, the gross industrial output value turned out by the state-owned sector witnessed an annual average growth of 8.7 percent as calculated in comparable prices. The net value of fixed assets of state-owned industry increased by 14.5 percent each year. The total amount of profits and taxes of the state-owned industry was up 11.8 percent annually.

Calculated in current prices, the total inventory of the state-owned economic sector amounted to 2916.2 billion yuan in 1998 as compared with 209.2 billion yuan in 1978, representing a 14-fold increase. The gross output value of state-owned industry increased from 328.9 billion yuan to 2902.8 billion yuan, a 9-fold increase. The net value of fixed assets of state-owned enterprises that practiced independent accounting jumped from 320.1 billion yuan to 2451.4 billion yuan, representing an increase of nearly 8-fold.

Compared with the economic sectors under other forms of ownership, the growth of the state-owned sector has been relatively slow, which explains the obvious decline of its proportion in the total national economy. The proportion of GDP generated by the state-owned sector dropped by 15.8 percentage point from 1978 to 1997, while the proportion of the output value generated by the state-owned industry in the country's total industrial output value dived by 52.1 percentage point, the proportion of investment in the state-owned sector dropped by 17 percentage point and that of fixed assets of state-owned industry dipped by 29.9 percentage point.

Viewing the national economy as a whole, however, the state-owned sector still makes the largest proportion and holds a dominant position in various key industries(see table 5). The portion of State-owned and State-holding Enterprises in Gross Industrial Output Value was 37.5% in 2003. The state-owned sector still holds a control and even monopolist position in basic, naturally monopolist and special industries, such as infrastructure development, which includes resource exploitation, raw materials production, transport and communications, energy, water conservancy, post and telecommunications facilities, as well as such special industries as national defense and tobacco processing. It also exercises a rather tight control in some important key industries that are vital to the national socio-economic development and people's livelihood, such as the petroleum, metallurgical, machine-building, medicinal, chemical engineering, electric power, aeronautics as well as post and telecommunications industries. In these industries, the state-owned sector not only occupies a higher proportion, but also, through controlling the large enterprises, plays a regulatory role in the entire industries.

Table 5 Number and Gross Output Value of All State-owned and Non-state-owned above Designated Size Industrial Enterprises

Item	2002		2003	
	Number of Enterprises (unit)	Gross Industrial Output Value (100 million yuan)	Number of Enterprises (unit)	Gross Industrial Output Value (100 million yuan)
National Total	181557	110776.48	196222	142271.22
Grouped by Status of Registration				
Domestic Funded Enterprises	147091	78317.20	157641	97913.42
State-owned Industry	29449	17271.09	23228	18479.40
Collective-owned Industry	27477	9618.95	22478	9458.43
Cooperative Enterprises	10193	3202.94	9283	3250.90
Joint Ownership Enterprises	1964	941.90	1689	948.67
Limited Liability Corporations	22486	20069.77	26606	26583.94
Sole State-funded Corporations	1349	6215.53	1330	7073.68
Share Holding Enterprises	5998	14119.03	6313	18017.06

Private Enterprises	49176	12950.86	67607	20980.23
Other Enterprises	348	142.64	437	194.79
Enterprises with Funds from Hong Kong, Macao and Taiwan	19546	13668.81	21152	17425.62
Foreign Funded Enterprises	14920	18790.47	17429	26932.18
State-owned and State-holding Enterprises	41125	45178.96	34280	53407.90

Note: All state-owned and non-state-owned industrial enterprises above designated size refer to all state-owned industrial enterprises and the non-state-owned industrial enterprises with an annual sales income of over 5 million yuan. The same as following tables.

Source: China Statistical Synopsis 2004, by State Statistical Bureau, p.459

2.4 Major Problems Encountered by State-owned Enterprises

First, the state-owned enterprises are large in number and are scattered in too many trades. One of the serious problems is their irrational distribution and composition - in those trades that have nothing or little to do with the function of state-owned economy state-owned enterprises make up too large a proportion. For instance, there were 291,000 state-owned enterprises in 1995 and they spread in almost all industries, including agriculture, forestry, animal husbandry, sideline occupations, fishery, industry, architecture, transport and communications, commerce and services. State-owned enterprises could be found in all 39 major industries. In 1997, of the 608 industrial sub-branches, state-owned enterprises were found in 599 of them. Moreover, state-owned enterprises still accounted for a fairly large proportion in most of the industrial subbranches. In terms of incomes from sales, total assets and number of employees, the proportion of state-owned sector exceeded 50 percent in 169 of these industrial sub-branches; 20 to 50 percent in 249; 10 to 20 percent in 108; and below 10 percent in 73. Yet, when viewed from the demand that the state-owned sector should hold a dominant role, obviously state-owned enterprises were stretched too thin in too many industries, most of which were not important trades and key areas in the national economy. For example, nearly 50 percent of the state-owned enterprises were found in 13 of the 39 major industries. These 13 industries had a low content of technology, faced with intense competition in the market and produced little effect in the entire national economy. Of them, 12 were running at losses, and the only exception was the "beverage industry." Judging by this situation, it can be concluded that over spreading of the state-owned sector results in the excessively small size and low technological level of each single industry. It not only has reduced the strength of competition of the state-owned enterprises and made it impossible to concentrate state financial resources in important industries, but also used up that part of the resources and market share that should be given to non-state-owned enterprises and hindered the simultaneous development of the diverse economic elements. In those industries that were not suitable for the state-owned sector to get involved, not only was the state incapable to run so many enterprises (it has been proved that the cost incurred by enforcing direct control over micro-economic operation by the government departments is too high), the efficiency of resource allocation in the whole society was also affected. This "not only causes failure in strengthening the power of influence and control of the state-owned sector but also turns out, to some extent, to be a burden on the state and the society."

Second, the overwhelming majority of state-owned enterprises have not yet adopted the

modern enterprise system that is compatible with the socialist market economy. In 1994, the Chinese government clearly laid down the objective of the reform of large and medium-sized state-owned enterprises, and it is to establish a modern enterprise system in which "the property right relations as well as the fights and responsibilities are clearly defined; government administration and enterprise management are separated; and the management is scientific." Mean-while, it has taken a series of reform measures to ensure the attainment of this objective. Up till now, however, the goal has not been accomplished. First, the reform in property right has lagged behind. On the one hand, the property right of the enterprises as legal persons are hard to materialize, and the government departments in charge still meddle directly in the internal production and operation of the enterprises. On the other, it is difficult for the enterprises under interference from the government departments to fully participate in the market competition in line with the requirements of the market economy. The ultimate out-come is that both the meddlers and the enterprise managers are unable to take responsibility for the operation of the state-owned enterprises as well as for maintaining and increasing the value of state-owned assets, because the responsibility cannot be attributed to any particular natural person. Second, no fundamental change has been achieved in separating the roles of the government from those of the enterprises. The Chinese government has come to see the necessity to separate the roles of the government and those of the enterprises in the course of the reform of state-owned enterprises. It has also made various attempts to separate government administration from enterprise management. However, due to various factors, such as the delayed reform in property right, the phenomenon still exists that the functions of the government and those of the enterprises are not separated or the fights and responsibilities of the government and the enterprises are not clearly defined. So, there is still a long way to go before the functions government administration and enterprise management are truly separated. Without a clear line drawn between the functions of the government and enterprises, it would be impossible for the enterprises to enjoy full rights in their management and operation, and also would it be unlikely for them to have real vitality and get the power for competition. Lastly, it is difficult to establish state-owned assets management system in which rights and responsibilities are clearly stated. The management of state-owned assets is confronted with a series of problems. For example, who should represent the investors in state-owned assets? How should the supervision over state-owned assets be enforced and what incentives should be given to the managers of state-owned assets? And what measures should be taken to guarantee the independence of the enterprises and prevent insiders to harm and control the rights and interests of the owners of state assets? If these problems were not tackled properly in the reform of state-owned enterprises, separating the functions of the government and the enterprises would remain empty talk.

Third, when the market competition turns increasingly fiercer, the numerous difficulties and problems encountered by the state-owned enterprises caused their returns going down continuously. First, their assets-liabilities ratio was too high, and they were under an excessively heavy a debt burden. For them, the assets-liabilities ratio had risen from 18.1 percent in 1980 to 79 percent in 1994. In 1997, of the 15,000 large and medium-sized state-owned industrial enterprises, the debt rate for 40.5 percent of them exceeded 80 percent. Of these enterprises, 2166 (accounting for 14.6 percent) had not enough assets to offset their debts. Of the more than 50,000 small state-owned industrial enterprises that practiced independent accounting, the total loss added up to

6.6 billion yuan. Besides, the state-owned enterprises suffered from heavy historical and social burdens. Their production equipment and technology were obsolete. In addition, they also encountered many problems in management. In face of fierce market competition, the returns of the state-owned enterprises dropped sharply. Since the launching of the reform drive, the proportion of assets in state-owned enterprises had been down by 20-30 percentage point. Although it still accounted for over 60 percent of the total industrial assets of the country, their proportion of output had dropped rapidly from 77.6 percent in 1978 to 28.5 percent, a decrease of 49 percentage point. That the ratio between input and output fell seriously out step indicated a decline in the state-owned enterprises' level of output and level of profit. The rate of losses (total amount of profits of profit-making enterprises divided by total amount of losses of loss-incurring enterprises) rocketed from 10 percent in the 1980s to 67.6 percent in 1998 (see Table 6).

Table 6 Balance Sheet of Profits and Losses of
Stated-owned Industrial Enterprises under Independent

Accounting

Year	Total Loss Billion yuan (1)	Total Profit Billion yuan (2)	Rate of Loss (1) divided by (2) %
1978	4.206	55.086	7.64
1980	3.430	61.970	5.53
1985	3.244	77.064	4.21
1990	34.876	73.687	47.33
1995	54.041	120.601	44.81
1998	102.330	151.370	67.60

Source of Data: China Statistical Almanac (1998), p. 461 and China Statistical Synopsis (1999), p. 108.

2.5 Reform of Large and Medium-sized State-owned Enterprises

2.5.1 Further Clarifying the Role and Tasks of State-owned Enterprises

The 15th National Congress of the Chinese Communist Party defined the status and role of state-owned sector as the "dominant," which mainly referred to its control power over the national economy. Compared with the past situation, this represents a big step forward. It shows that China has decided to cut down the scope and size of and shorten the battle line for the state-owned sector to effect a strategic reorganization of it in line with the demands to develop a market economy. The way adopted for the reorganization is to introduce in the overwhelming majority of large and medium-sized state-owned enterprises the modern enterprise system and make them pull themselves out from their difficult plight in about three years.

To be more specific, the status and role of the state-owned enterprises should be manifested in the following three aspects. First, they should serve as a means for direct intervention in the economy, offset the defects of the market and play an active and positive role in areas where the market mechanism cannot play a role or cannot play an obvious role, such as in infrastructure facilities and the supply of public products. Second, they should serve as a tool or means for the

post-industrialized countries to carry out their economic "catch-up" strategies and play a leading role in the basic industries as well as high and new technology industries of the national economy. Third, they should be used to show the control power of the state-owned economy. As China is now still in the transitional process from the planned economy to the market economy, state-owned enterprises also shoulder the responsibility to reflect the leading role of the state-owned sector in the national economy, i.e., displaying the function of the strategic control power. Considerable numbers of state-owned enterprises of certain scales should be kept in important industries and key areas that are vital to the national economy and the people's livelihood and represent the lifeline of the national economy. In the first two aspects, the condition in China is basically the same as in most of the countries practicing the market economy, particularly the developed countries. Yet, in terms of scale of state-owned enterprises, it should not be too large. Otherwise, they would produce a bad impact on the development of the non-state-owned sector and on the operational efficiency of the national economy as a whole. Along with the improvement of the market system, the number of state-owned enterprises should gradually reduce, as it is too large now.

2.5.2 Interpretations of the Modern Enterprise System

The objective of China's reform of large and medium-sized state-owned enterprises has been defined as the establishment of a modern enterprise system featuring "clear-cut property rights, distinctive rights and responsibilities in enterprise management, separation of government administration from enterprise management, and scientific management." Modern enterprise system is a concept with a very broad sense and can be interpreted in many different ways. In countries practicing market economy, state-owned enterprise is often used as a concept opposite to non-state-owned enterprise. As what enterprise organizational forms the state-owned enterprises and various kinds of non-state-owned enterprises should adopt, it is determined by various factors, such as the composite structure of investment and enterprise scale. The most common forms of organization are single-proprietor enterprises, partnerships, limited-liability companies and joint-stock companies with limited liabilities.

Apparently, it is imperative for the state-owned enterprises to adopt one of the organizational forms mentioned above. In the theoretical circles of China, people tend to regard the corporate system as the modern enterprise system, and hold that it should be the main organizational form that should be adopted for the state-owned enterprises through the reform of the economic restructure. According to a survey conducted by the State Statistical Bureau on 2,562 major enterprises in 1998, 1,943 (75.8 percent) of them had undergone the transformation towards the corporate system. Among them, 768 had been changed into limited-liability companies, accounting for 39.5 percent; 612 were turned into joint-stock companies with limited liabilities, accounting for 31.5 percent; and 563 remained as single-proprietor (the state as the sole investor) companies, accounting for 29.0 percent.

However, even for these state-owned enterprises that had undergone the reform to adopt the corporate system, there was still a long way for them to go to meet the demands of "clear-cut property rights, distinctive rights and responsibilities in enterprise management, separation of government administration and enterprise management, and scientific management." The reason is that there are still many problems that have remained unsolved. These problems include how to manage state-owned assets in the state-owned enterprises that had undergone the transformation,

how to bring about a real separation of the functions of the government from those of the enterprises, how to ensure the property right of the enterprises as legal persons, and how to establish a structure for management by the legal persons. Inevitably, these unsolved problems make it difficult for the reform of the state-owned enterprises to deepen. To make the establishment of a modern enterprise system the primary objective of the reform appears to be too general a demand. Greater efforts are still called for to seek practical "bridges and ways" to introduce the modern enterprise system in the state-owned enterprises.

2.5.3 Comprehensively Materializing the Demand of "Clear-cut Property Rights, Distinctive Rights and Responsibilities in Enterprise Management, Separation of Government Administration from Enterprise Management, and Scientific Management," and Making Active Exploration for New "Bridges and Ways" to Introduce the Modern Enterprise System in State-owned Enterprises

First, resolutely promoting the property right reform in state-owned enterprises and materializing the property right of enterprises as legal persons. It is necessary to separate clearly the ownership right with management right. The state, as the owner of state-owned enterprises, enjoys the right to returns from its investment and shoulders part of the responsibilities. The enterprises possess all property rights entitled to the legal persons, enforce management independently and shoulder the responsibility to maintain and increase the value of the capital invested by the state.

Second, establishing standard structures to manage corporations in line with the requirements of the "Corporation Law." Now, the government administration is not separated from enterprise management in state-owned enterprises. This is because, on the one hand, the change of the functions of the government departments is slow and the government departments are unwilling to delegate more power to the enterprises and, on the other, the enterprises are devoid of standard structures for management of corporations. The government is unwilling to delegate power to the enterprises for fear that there might be control by insiders and chaos. In fact, a corporation management structure that can ensure a check-balance relationship between the owner and the manager is the core of the modern enterprise system. First, it is essential to ensure that the owner occupies a proper position. Second, it is necessary to guarantee that the board of directors can carry out its responsibilities entrusted by the owner. Third, it is imperative to ensure that the board of directors can exercise supervision over the high-ranking management personnel and provide them with sufficient incentives. In addition, it is necessary to standardize the stock market to enforce its supervision over the operation of the corporations from outside.

Third, accelerating the pace of change in the government's functions and introducing a multi-level ownership and management systems for state-owned assets. Party organizations and government administrative departments must all separate themselves from the management organizations of state-owned assets. In this respect, it is necessary to take resolute actions to separate the functions of the government from those of the enterprises.

2.5.4 Working Hard to Promote the Establishment of a Social Security System, Improving the Capital Market and Developing the Non-Public Sectors to Create a Better Environment for the Strategic Readjustment of the State-owned Sector

By "shock therapy." It means to bring out thorough transformation in property rights. Yet, the results are not as obvious as expected. The reasons are as follows: first, the transformation of property rights is not realized through market exchange. It is, therefore, difficult to achieve a quick

development of the market system. Second, as it is devoid of support from a well-developed non-state-owned sector, it is difficult for the mechanism of competition to take shape, to say nothing of efficiency. It is necessary for China to be fully aware of the urgent need to carry out the strategic reorganization of the state-owned enterprises and to establish the modern enterprise system in large and medium-sized state-owned enterprises, and to push forward the reform unswervingly. Meanwhile, it is necessary to conscientiously sum up the experience and lessons learned in implementing the "gradual reform" approach, vigorously foster the development of the market system and the non-state-owned sectors, particularly the non-publicly owned sectors, make active efforts to establish a social security system and be ready to accept new ideas. It is necessary to take precautions against the frequent use of terminology as "privatization" and "loss of state-owned assets," which have a strong political tone, and against taking liberty to put various sorts of labels on measures taken for the reform and strategic reorganization of the state-owned enterprises. It is necessary to create an economic, social and political environment favorable to reform and make those state-funded enterprises, which cannot play their due role, quit from the public sector, so as to accomplish the objective set for the strategic reorganization of the state-owned capital. In view of the special position occupied by the state-owned enterprises, it is also necessary to handle well the relations between reform, stability and development while making efforts to deepen the reform of the state-owned enterprises, so as to maintain a social and political stability.

2.6 The latest Reform of State-owned Enterprises

III Development of China's Social Security System

The social security system is a "safety net" for society, and it is related to social stability and the balanced and healthy development of the economy. The market-oriented reform of the economic system has put forward a pressing demand for the establishment of a corresponding social security system. In the process of establishing the socialist market economy, China attaches great importance to the reform and establishment of the social security system and it has achieved great headway. China started the reform of the social security system in the 1980s. Since the mid- and late-1990s, China has furthered its achievements in this respect, with the setup of a new social security system, particularly in terms of a framework for a social insurance system.

As one of the most important social projects in the economic transformation and industrialization of the country with the largest population in the world, the reform and development of China's social security system still faces many difficulties and problems.

3.1 From Working-Unit Security to Social Security

The social security system before the reform was one of a working-unit(*Danwei*) security system based on the economic units of state-ownership and collective ownership(township institution units, rural commune, and production brigades), with state financial support to ensure that there would be no bankruptcy of these economic units. It was operated in terms of pay-as-you-go system, and no individuals had to directly pay fees for their security but enjoyed different benefits based on their social identity(civil servants or enterprises worker, residents in urban area or peasants in rural area). The unit security system was a product of the planned

economic system, closely related to the state— owned enterprises and a typical embodiment of the roles of the government and its enterprises. With the enterprises running society, a unit security system was required instead of a socialized social security system. After the implementations of reform and opening, the unit security system was recognized to be drifting farther away from meeting the needs of the competition and mobility of the labor force, and it was quite necessary to establish a social security system independent of the enterprises.

The new social security system is a socialized social security system. It should not only promote the transformation of each worker from being a “person of the unit” to one of being a “person of the society”, but it should also be economically sustainable and be fair in coverage, level, and degree. Hence the new social security system should be changed from that of unit responsibility and total state financial responsibility. The funds should come from diversified sources instead of just one source. The benefits should be linked to contributions instead of one's “identity”, and the system should strive for unity between rights and obligations, and between fairness and effectiveness. The goal of China's social security system, as clearly defined in the process of reform, is to establish a standard, socialized social security system that is independent of enterprises and institutions and has diversified financial resources.

With the above-mentioned goals in mind, China started the gradual reform of social insurance, social aid and social welfare, so as to promote the development of the new social security system. By the end of 2001, 108.02 million workers were covered by the basic pension and old age provisions, 54.71 million workers were covered by the basic medical care insurance, 103.55 million workers were covered by the unemployment insurance, 43.45 million workers were covered by compensation insurance, and 34.55 million workers were covered by reproduction insurance. That year the income and expenditures of the insurance fund were respectively 291.46 billion yuan and 259.10 billion yuan. The accumulative balance from previous years was 139.66 billion yuan. The expenditure on social aid and social welfare was 42.6 billion yuan, covering 15 million urban and rural residents who were at the minimal living standard. A total of 60 million residents were receiving temporary relief as were a great number of the handicapped, retarded, disabled, and others who were economically at risk.

3.2 Great Progress in the Reform of the Social Security System

China began the reform on social security system in the 1980s. Since the late 1990s, along with the deepening of the reform of the state-owned enterprises, the reform and development of the social security system accelerated. At present, a new social security system has been established, particularly one with the framework of an insurance system.

The system of retirement pensions for urban workers went from a scattered system to one of unity. In 1997, the State Council issued a “Decision on the Establishment of a Unified Insurance System of Pensions for the Aged Workers of Enterprises” to give approval to the establishment of the system. In 1998, when the government was restructuring, the Ministry of Labor and Social Security was named as the administrative organization to run the social security system and local governments were given the task of overall management of the social security schemes of the industries.

There was a gradual deepening of the reform of the urban medical care insurance system. This involved the insurer, the insured, medical institutions, and the medicine market traveling

together along a twisted road leading to reform. In 1998, the State Council issued a “Decision on the Establishment of Medical Care Insurance for Urban Workers”, which serves as the basic framework of the insurance system.

There were strides made in the reform of unemployment insurance system. As in the economic transformation, the question of how to digest the large number of redundant “ineffective” workers by the millions in state-owned enterprises became a stumbling block that China had to overcome in the reform of the state-owned enterprises. During the 1980s, China started to set up an insurance system for the unemployed. Due to its narrow coverage and low rate of fund raising, it was difficult for the nation to shoulder the task. China had to find ways to fit the unemployment insurance system to the laid-off workers. Working through both channels was the way to ensure social stability in the process of marketization. In 1999, the State Council issued its “Regulations on Unemployment Insurance”. The rate of the premiums for unemployment insurance increased, insurance funds proportionately increased, and the fund scale expanded. From the year of 2001, China, step by step, had abolished the transitional “lay-off” system and had merged it into the unemployment insurance system.

With the establishment of the “combination of an overall social program with personal accounts”, a social insurance system with Chinese characteristics was implemented. Within the framework of the basic pension system for the aged and the basic medical care insurance system for urban workers, personal accounts were opened, which is a component part of the two basic systems rather than a simple supplement. In the meantime, the system combined the current account of insurance funds with fund accumulation, which is a partial accumulation system of the management of “mixed accounts”, or a mixed form. This is a new experiment in the history of the development of social security systems throughout the world. It faces difficult problems related to how to handle the relationship between the overall social program and the personal accounts.

Great headway was made in the social aid system. The traditional social aid system mainly covered only those “three no” people, who were physically weak and disabled, who had no children or relatives, who had no incomes or had special difficulties. In 1993, the city of Shanghai was the first to set up a minimum poverty level for urban residents. This was later extended to residents in towns and some rural areas. Faced with the huge population below the poverty level in rural areas, China now implemented an effective strategy (developing program strategies such as building infrastructures, etc) for poverty-relief, which has since become an international example for solving the problems of poverty.

The social welfare system is well under way, and it is a relatively high standard of Social security. In recent years, the state on the one hand has increased the in-put toward welfare for the handicapped, the lonely aged, the women and children, and other people who need aid. On the other hand, it has adhered to the principle of society running social welfare. It has changed its traditional practice of having the state take care of everything in social welfare by actively mobilizing all the forces of society and the market forces to help solve the problem of financial shortages and rigid mechanisms. Local governments have adhered to the principle of compulsory job-arrangement, support for job-hunters and self-employment. The practice of compulsory job-assignments for demobilized army men was gradually reformed to speed up employment of the demobilized army men. By developing a charity and welfare lottery, the financial resources for Social welfare are expanded and the social relief work was put on a routine and standard track.

3.3 Taking Care of the Aged

The basic insurance system of pensions for the aged workers of urban enterprises was set up in line with the “Decision on the Establishment of a Unified Insurance System of Basic Pensions for the Aged Workers of Enterprises”. It is the combination of the two parts, the overall social pension fund and the personal accounts. It is a combination between the pay-as-you-go system and fund accumulation. The purpose is, on the one hand, to meet the needs of the systematic transformation from “unit security” to “social security” so as to provide basic insurance for the retired without accumulated funds, on the other hand, in the hope of making the best use of the golden 20 to 30 years of economic growth and population changes, it is to help incumbent workers accumulate a certain amount of funds for their pensions so as to alleviate the burden of financing by the enterprises and to develop the capital market.

The mixed form has its own operational mechanism. First, it is a joint fund-raising system by both the enterprises and the employees. The new system stipulates that urban enterprises and their workers must fulfill the obligation of the payment of insurance premiums for the basic pension (self-employed and private businessmen are on their own). The ratio for the enterprises is generally around 20 percent of the total wage payment, while it is 8 percent of his wage for an individual worker. Second, it is a method for establishing an overall pension program and individual pension accounts. The basic pension consists of the “base pension” and the individual pension account. The base pension will be paid from the social funds of the overall pension program and the individual pension account can be inherited. Those who started to work before the new system went into effect would be given an additional transitional pension when they retire. Third, the new system requires the investment of the accumulated funds so as to add value to them. The overall social program should guarantee enough funds to give pensions to all the retired. In the meantime, it is important to reap returns from the investment with the accumulated funds of the individual accounts.

Through several year's efforts, the basic pension insurance system for urban workers has developed rapidly. A total of 86.71 million workers joined in the program in 1997 and this increased to 108.02 million in 2001. The pensioners increased from 25.35 million to 33.81 million. The income from the pension insurance funds increased from 196.5 billion yuan to 242.6 billion yuan. The average monthly pension increased from 430 yuan to 556 yuan. In the meantime, social service institutions (such as banks and post offices) were responsible for providing pensions.

Due to the large number of workers leaving the labor market and the rapid increase in the number of retirees, the premium rate for basic pensions was too high (as high as 28 percent of the wage). This imposed a heavy burden on the enterprises and influenced their participation in the program and the amount they provided to the funds. As a result, the income of the overall social pension program could not meet the expenditures because of the serious shortages in payments. If this goes on for long period, it will have an impact on the sound operation of the pension insurance system.

In order to solve the problem of this imbalance in income and expenditures and the dwindling of personal accounts, the government, in 2000, put forward a new program to improve the system and designated Liaoning Province and several other provinces to select a pilot city in which to conduct the experimental program. The new program increased financial subsidies to the

pension system and found new financial resources (the central finance alone gave 86.1 billion yuan of subsidies from 1998 to 2001). At the same time, it changed the ratio to 20 percent for the enterprises to provide to the overall social fund and 8 percent (increased from 4 percent) to be provided by the personal accounts.

4.4 The Multi—layer System of Pension Insurance

Supplementary pensions are an important component of the multi-layer pension security system. According to the foreign theory of “three pillars” for security of the aged, the basic pensions provided by the state are the “first pillar”, the supplementary pensions provided by the work unit are the “second pillar” and those paid by the individuals are the “third pillar”. Since the 1980s, many countries have chosen the multi-layer security system for the aged as a policy to solve the overburden on state finances and to deal with the aging problem. In December of 1995, the Ministry of Labor issued the “Suggestions on the Establishment of a Supplementary Pension Insurance System by Enterprises”, so as to put forth a framework in which develop a supplementary pension system by the enterprises. In December of 2000, in an “Outline of the Experiment to Improve the Urban Social Security System”, the State Council changed the term of the supplementary pension insurance into an “Enterprises Pension”. It clearly stipulated that the 4 percent of the total premium may be counted as cost and the annual funds by the enterprises may be managed and operated in line with market principles.

The supplementary pension insurance by the enterprises may be divided into two categories, an industrial annual fund and a enterprises fund at local government level. The state encourages rather than forces the enterprises to establish Enterprises Pension program. Limited by the management system and the capital market, the accumulated funds from the supplementary pension program lacked any channel to invest in the capital market, so it could only be deposited in banks or increased through buying treasury bonds, the return on which is very low.

Commercial pension insurance is also known as a personal pension or a personal pension plan. As commercial pension insurance is purchased by individuals and families, this together with the public pension and the Enterprises Pension, make up the multi-layered pension insurance system. Along with aging, personal responsibility for the management of old age security is becoming increasingly important in pushing forward development since the 1970s. In the 1990s, China made great efforts in developing commercial life insurance. The total revenue from the life and assets insurance premiums in 2000 increased by 20 times, among which life insurance saw an increase of 37 times. The further opening and sustained development of insurance after China’s accession to the WTO will become an impetus for the transfer of savings deposits in banks to commercial life insurance. Therefore, commercial pension insurance has a bright future of development in China. The government should take the personal pension fund as the “third pillar” for the pension insurance system and promote it as a tax and investment policy.

3.5 The Staggering Reform in the Medical Care Insurance System

During the process of the market-oriented reform, the bulk of the state-owned and collective enterprises could not reimburse medical fees for a large number of workers because of business difficulties or the fact that they were facing bankruptcy, thus workers lost their medical security system. In the meantime, many newly established enterprises, particularly the

non-state-owned ones, did not have a corresponding medical security system. Besides, over demand and mismanagement stimulated some irrational spending on medicine, leading to the rise in the expenses for medical care. The increase in medical expenses exceeded the forgiveness of the national economy. Medical care has to deepen during the reform along with the deepening of the economic reform and enterprise reform.

The period from the early 1980s to 1988 was one of a spontaneous reform in medical care by enterprises and localities. The period from 1988 to 1997 was that of experiment in reform led by the central government. The central government issued its "Suggestions on the Experiment of an overall Program on Workers' Medical Expenses in Case of Serious Ailments" and started pilot reform projects in southern China, in line with the principles of the third plenary session of the CPC 14th Central Committee held in 1993. Summing up the information from these pilot projects, the State Council, in 1998, issued a "Decision on the Establishment of a Basic Medical Insurance System for Urban Workers". This set the basic framework for the new system.

The main features of the new system were low level (insurance coverage corresponding to the stage of economic development), wide coverage (covering all the work units in the urban areas and their employees), joint responsibilities (the work units and workers share joint responsibility for the medical care insurance fund), combination of the overall program and personal accounts (the overall program of the raising, management, and use of the basic medical insurance fund in combination with personal accounts). By the end of 2001, 90 percent of the municipalities at the prefecture level had started medical care insurance, with 54.71 million people having such insurance in 2001 as compared to 15.1 million people in 1998, and pension-earners from 3.69 million people to 18.15 million people. In 2001, the national revenue of funds from medical insurance was 38.4 billion yuan while expenditures were 24.4 billion yuan, providing an accumulative surplus of 25.3 billion yuan.

Although the regions attached great importance to this work and made great efforts at it, the basic medical care insurance system covered just a small number of urban workers. around one quarter of the total number, a lower percentage than those covered by free medical care and the labor protection system in 1995. There were many factors involved in this. Objectively speaking, medical care insurance is called a "worldwide difficult issue" because it involves the relationship between the insured and the insurers and the complicated relations among the medicine producers, providers, and circulators of medical service. Subjectively speaking, in comparison with free medical care and labor protection medical care system, the basic medical care insurance requires workers to pay a certain percentage of the fees (generally 2 percent of one's total wage) and it is good only for "basic medicine" and "basic medical care". And the percentage of reimbursement is not high. To the vast number of workers, this means that the benefits are lower than they were for the past medical care system. So workers who enjoy free medical care are not interested in the new system. There are still debates as to how to look at the function of the medical individual account, how to deal with the ratio between the two accounts, the criteria for payments, and how to define "basic medical care insurance", "supplementary medical care insurance", and "commercial medical care insurance". This influences the popularization of the new medical care insurance system to certain extent. Moreover, the differences in regions, industries, and the turnout of enterprises make the management even more difficult. Hence, how to further develop the basic medical care insurance system in urban areas remain all arduous tasks.

3.6 The Peak of Laid-off Workers and Unemployment Security

Since the launch of the reform and opening up policy to the end of 20th century, China has created 170 million jobs, but the situation of employment is still becoming increasingly serious. Since the mid-1990s, the number of registered unemployed in urban areas shot up, from 3.64 million in 1992 to 6.9 million in 2001 and the unemployment rate has risen to 3.6 percent from 2.3 percent. By 2002, the unemployment rate is expected to get as high as 4 percent. If the laid-off workers from the state-owned and non-state-owned enterprises are counted, there were about 20 million of them, or approximately 10 percent of the total labor force in the cities and towns. This marked the fact that China has entered a new peak period of unemployment.

Under a market economy, unemployment is unavoidable. Since the 1980s, China has started to set up an unemployment insurance fund. According to the “Regulations on insurance for Urban Unemployment” that was issued by the State Council in 1999, the fund for unemployment insurance comes from the work unit and the workers themselves--2 percent of the total wages from the work unit and 1 percent of their wages from the individual workers. By the end of 2001, 103.55 million people had purchased an unemployment insurance policy, which provided an income of 18.7 billion yuan with expenditures of 15.7 billion yuan. A total of 4.69 million unemployed workers enjoyed benefits from this insurance and 3.12 million of the unemployed received subsidies.

The establishment and development of the unemployment insurance fund played a positive role in guaranteeing the basic necessities for laid-off and unemployed workers, promoting the reform of the economic system and the state-owned enterprises, maintaining social stability, and improving the social security system. Nevertheless, facing 10 percent of laid-off workers in cities and towns and a large number of potentially unemployed (the one-third redundant workers of state-owned enterprises and state institutions and the potential transfer of 150 to 200 million surplus labor force in rural areas to cities), 3 percent of the wages for the unemployment insurance fund is obviously too small. At present, China uses the registered unemployment rate as the controlling benchmark, which is now approaching the ceiling. Clearly the present unemployment insurance fund falls short in terms of being able to compensate all the unemployed and laid-off workers.

There are three approaches to solving the contradictions between the supply of insurance funds and the demand for unemployment security. The first is to increase the rate of collections for unemployment insurance, with the consequence of increasing the costs of labor. The second is to take various treasures to open up re-employment channels so that there are more job opportunities and jobs. Because of technical advancements, it is quite difficult to keep a high rate of employment over a long period of time. The third is to upgrade the qualifications for receiving unemployment insurance while in the meantime lowering the criteria for compensation so as to reduce the actual expenses. At the moment, China has mainly adopted the last two approaches with some achievements. But in facing the big shortage of jobs during the 10th Five-year Plan period, urban areas may see the unemployment rate exceed the international alarming rate of 12 percent. To deal with the pressures of employment and unemployment, it is necessary to think ahead toward an adjustment in the revenue mechanism of the unemployment insurance fund, and to do research on the appropriate methods of payment and how the insurance is used. In the

meantime, it is imperative to make great efforts to implement an active employment policy.

3.7 How to Give Farmers Security?

Since the launch of the program of restructuring, urbanization and urban reform have become a key to the national strategy of development, and naturally urban social security has become the core of the social security system. This does not mean that rural social security is unimportant, nor does it mean that the vast number of farmers does not need social security. In fact, since the late 1980s and early 1990s, China has encouraged and resumed the co-operative medical care service in rural areas and positively pushed forward the establishment of the pension and old age insurance system. The socialized pensions, old age insurance, and co-operative medical service, have developed relatively fast in certain regions over time, but generally speaking the development has not been great with some halts in certain respects. The number of people who joined the social pension program in rural areas went down to 50 million in 2001 from 80 million in 1998. Rural co-operative medical services are still limited, and are mainly in the outskirts of metropolitan cities and developed coastal areas.

The halts and setbacks in rural pensions can be attributed to many factors, among which a major one has been different opinions on whether it is necessary or not to set up social pensions in rural areas. Those who were against it have offered the following argument: "Farmers are not capable or do not have the conditions to participate in social pension program." They point out that rural families can still accommodate to old age, and so it is not necessary to go in for social pensions. The plot of land that a farm family has can serve as the last safety net for farmers. There is some truth to this argument but it should not be used as a reason for denying the needs of rural areas for social pensions. Those who are for such rural coverage give the following arguments. First, it is an objective demand resulting from the change in the social and economic structure and an important treasure for dealing with the coming aging problem. Second, rural families face many challenges in old age. Along with the development of non-agricultural industries in the rural areas, migrant farmers, changes in family values, and the large number of rural labors migrating to cities, more and more of the aged living in rural areas will have to live by themselves and will thus need the support of the social security system. Third, it is difficult for the rural persons of old age to entirely depend on farmland security. Though farmland has served as the last safety net for many centuries, its function should not be overestimated today because of the limits of the farmland system, farmland acreage, and the income from it. Simple dependence on it cannot maintain daily life. Fourth, those regions that have already had the ability and conditions for it should be encouraged to continue the social pension program in rural areas in line with their own decision.

Co-operative medical care, free medical care. And labor protection medical care in the cities used to be the predominant three pillars of medical care systems. In the 1970s, co-operative medical care covered 90 percent of the administrative villages throughout the whole nation. Co-operative medical care and public health protection movements and a huge number of bare-foot doctors were the three treasures that solved the basic medical problems in the countryside. They were honored by the World Bank and UNESCO as "the only model for solving health care expenses in developing countries". With the implementation of the family contractual responsibility system for production, the co-operative medical care system based on agricultural

co-ops met setbacks. In 1985, co-operative medical care covered only 5 percent of the total farmers. In the early 1990s, the only co-operative medical care that could be found was mainly in Shanghai and Southern Jiangsu Province. With encouragement and some pilot projects, the rural medical security program only covered 12 percent of the total farmers in 1998. Although “primary health care” and health environment in the rural areas was made great headway in recent years, the lack of a co-operative medical care system has posed grave obstacles to the upgrading of farmers’ health and to the social and economic development of the rural areas. Almost 90 percent of farmers are responsible for their own medical expenses. This has hindered the development of the rural health care system as much as has the costs for farmers’ health. It has made it harder to solve poverty problems (about 50 percent of poverty is caused by ailments and disease). Therefore, the question of how to establish a medical security system in rural areas under the market economy has become a major issue to which governments at various levels must turn their attention.

3.8 Improving the Last Safety Net

Social relief is the most fundamental element in the social security system, and is known as the last “safety net”. The minimum living standard of security is a system of social relief aimed at the group living in poverty. Therefore, It is an important part and infrastructure of the social security system of the nation. It was the former traditional social relief system formed under the planned economy that was specially designed for “the disabled”. Along with the deepening of the reform in the economic system and the emerging of a poverty group in urban areas, the traditional social relief system has found it difficult to solve the problem of basic necessities for a large number of urban dwellers living in poverty, particularly those unemployed and laid-off workers with the ability to work.

In 1993, Shanghai took the lead in experimenting with an urban social relief system by setting up a security system minimum living standards. In 1996, the National Peoples' Congress passed the 9th Five-year Plan that set the establishment of a security system of minimum living standards for urban residents as an important task. This promoted the development of the security system of minimum living standards. By 1999, all the cities and towns had established the minimum living standards system. In the same year, the Central Government issued its “Regulations on Security of Minimum Living Standards for Urban Residents” to provide the most basic security for urban residents. From 1996 to 2000, 2 million, 2.34 million, 2.66 million, 3.82 million, and 11.71 million urban residents respectively benefited from the minimum living standards system. The finances came from the financial budget of the local people's governments. The local governments set the minimum living standards according to the necessary basic expenses of urban residents and families with an average income. Those with lower than the minimum standards could apply for subsidies. From 1997 to 2000, local governments put in 1.15 billion yuan, 1.2 billion yuan, 1.54 billion yuan and 2.96 billion yuan respectively. In 2001, the Central Government increased its funding for those with minimum living standards to 2.3 billion yuan to be obtained from the Central Government's finances.

The security system of minimum living standards in the cities effectively made up for the resolution of the poverty problem that the other social security system missed. It played its part as the last “safety net” and assumed an important role in promoting social fairness, maintaining social stability, and pushing forward social development.

The more arduous task is now to establish the social security system of minimum living standards for rural residents. Because of the huge rural population there are a large number of “three no” (no income, no working ability, and no financial resources) who need social relief, as well as the 30 to 40 million rural population who live under the poverty line level. To solve the poverty problems and lack of food and clothing for a large number in the rural population, China should continue to carry out the effective strategy of eliminating poverty. This is a positive policy in rural social security and the key element to the establishment of a rural social relief system. Without developing programs and developing the economy in poor areas so as to eliminate poverty, pure dependence on social relief and a social security system of minimum standards of living will lay gigantic pressures on the national finance. Since 1997, localities with proper conditions began to phase in the social security system of minimum living standards in rural areas. By 2000, 3 million rural residents had subsidies from the social security system of minimum standards of living, and 3.38 million did by the end of May of 2002, which accounted for 10 percent of the total rural population under poverty line. Along with the economic growth, the governments at various levels are attracting great importance to the rural poverty problem, and the rural social security system of minimum living standards has big momentum for development.

3.9 Continuous Development and Improvement of the Social Welfare System

Social welfare means that the government and society provide for the citizens' basic life security with a social policy and social security that continues to improve living conditions through various welfare services, welfare enterprises, and welfare subsidies. It includes national education welfare, housing welfare, professional welfare, social welfare for the aged, children and women, and welfare for the handicapped. The purpose of social welfare is to improve and upgrade the quality of life of the citizens. Social relief is applied mainly to solve poverty and crises of existence problems for the unfortunate. Social insurance security is mainly applied to solve the basic life security of workers. Besides solving the problems of the life security of some citizens, social welfare is used to satisfy the welfare service needs of all citizens. It is honored as a higher standard of social security.

The social welfare system in China mainly refers to the system in which the government gives financial aid to the aged, orphans, and handicapped who have need of life security. With a view toward guaranteeing the right to live of these groups with special difficulties, the state has enacted laws, such as the Law of the Peoples' Republic of China for the Protection of the Rights and Interests of the Aged, the Law of the Peoples' Republic of China for the Protection of the Rights and Interests of Women, the Law of the Peoples' Republic of China for the Protection of the Rights and Interests of the Handicapped, and the “Regulations on the Provision of Basic Needs for the Handicapped, Aged and Weaker Persons in Rural Areas”. By the end of 2001, governments at various levels ran a total of 3,327 welfare institutions that took care of 190,000 people in urban areas. The collective organizations ran 35,000 welfare institutions catering to 668,000 people especially in rural areas. There were 934 privately-run welfare institutions taking care of 34,000 people. The government adopted a preferential policy toward the handicapped in running its welfare enterprises (38,000 enterprises in 2001). The policy required these enterprises to provide a certain percentage of employment for the handicapped, so as to help the handicapped who were fit to work with job opportunities. From 1996 to 2000, 11 million handicapped were

trained and employed through government appropriations and security funds for the employment of the handicapped.

China also exercises a preferential arrangement. This refers to giving compensation and praise to those who have attained merit in the country and society. In order to protect their rights and interests, the state issued regulations such as the “Regulations on the Commendation of Revolutionary Martyrs”, “Regulations on Preferential Treatment for Army Men”, and the “Regulations on Job Arrangements for Demobilized Soldiers WHO Joined the Army from Cities and Towns”. These regulations include preferential treatment such as regular Subsidies to family members of the martyrs, wounded army men, and veteran soldiers, universal subsidies to families of compulsory army men, waivers and deductions of medical charges for wounded soldiers, one-time offers of job arrangements or one-time economic subsidies for those who choose to be self-employed upon demobilization provided by the government for the demobilized army men who joined the army from cities and towns. In 2001, a total of 38.259 million people enjoyed the above-mentioned preferential treatments, including 4.506 million at the national level, with a financial expenditure of 3.25 billion yuan.

Social mutual aid is another non-governmental form of social security, which has developed under governmental encouragement in recent years. The Law of the People’s Republic of China on Donation and Contribution to the Public passed in 2000 gave legal standardization and encouragement to the regularization and systemization of social donation activities. The Central Government also enthusiastically encouraged governmental departments, institutions, and social groups to help and support families with difficulties in getting rid of poverty and becoming rich. Local governments provided aid and services to those in difficulty through community services.

3.10 The Latest Development of China’s Social Security Programs

Entering 21st century, China has paid special attention to the construction of the social security system, which is experiencing a new period of great development and improvement.

The coverage rate of the social security is expanding constantly. By the end of 2003, 116.46 millions enterprises workers have participated in the basic old-age insurance system. The number of people who have participated in unemployment insurance, basic old-medical insurance, work injury insurance, baby birth benefit insurance are up to 103,730,000, 79.75 millions, 45.75 millions, 36.55 millions respectively. By the end of September 2004, the above figures are as follows: 120.37 millions in basic old-age insurance, 103.67 millions in unemployment insurance, 92.24 millions in basic old-medical insurance, 58.83 millions in work injury insurance, 40.92 millions in baby birth benefit insurance. All the cities and towns have generally set up the minimum living standard guarantee system, 22,470,000 urban residents got the minimum subsistence allowance in 2003. Some coastal provinces and the suburb of some big cities have set up the minimum living standard guarantee system for farmers also.

The construction of legal system for social security is moving forward constantly. The Constitution Amendment passed by the National Congress of the People’s Republic of China in 2003 proposes that China should establish and perfect the system of social security which is suiting with the economic development of the country. After the SARS incident last spring, China accelerated the process of setting up the information system of national public health and public safe service system in 2003. According to “suggestion on setting up new-type rural co-operative

medical treatment system” issued by the State Council in January of 2003, the pilot work of the new-type rural cooperative medical treatment system begin to be carried out in more than 20 provinces since July in the same year, involving more than 40 million peasants. New-type rural co-operative medical service fund has been set up, which include 10 yuan subsidized by the central government, 10 yuan subsidize by the various local governments, 10 yuan paid for each participants of the farmer family members who participated in voluntarily every year, used for solving the compensation for peasants’ serious disease. This pilot project is moving forward steadily in 2004. China also issued “the Regulations of the Work Injury Insurance” in April of 2003, which has been put into effect since January of 2004.

The system of the multi-level old-age insurance system is setting up progressively. While improving urban enterprises worker's basic old-age insurance system actively, China also explore how to consummate the new mechanism of the personal account positively. The pilot work that began in Liaoning Province in 2001 which determined to put money in the personal accounts is to be confirmed. The money into the personal accounts should be paid all by individual, its scale changing from 11% to 8%. The total amount of the personal accounts fund was up to 11.1 billion yuan by the end of the year 2003. All the contributions paid by enterprises are for the social pension fund, and the central government also put some subsidies to the social pension fund. According to the mode of Liaoning test, Jilin and Heilongjiang also launch a pilot project from 2004, but the personal account is accumulated at the rate of 5%. In 2004, Ministry of Labor and Social Security issued and implemented some regulations on enterprise pension, which is covering nearly 7 million people. The national social security fund established in 2001 is strengthened progressively, has already accumulated 143.2 billion yuan by June of 2004, the comprehensive investment yield is about 3.7%. The commercial insurance developed rapidly these years. The remaining sum of commercial insurance fund has reached 1,001.2 billion yuan by August of 2004, 5 percent among which is allowed to invest domestic stock market directly.

The system of the unemployment benefits and social assistance are developing smoothly. In order to guarantee the basic life and re-employment for more than 24 million laid-off workers of state-owned enterprises, China has founded “re-employment training center” and established the minimum living standard guarantee system. With the constant expansion of the coverage of unemployment insurance system, the government merged the minimum living standard guarantee system of laid-off workers of state-owned enterprises with the unemployment insurance progressively from 2001, strengthened the links between the unemployment insurance service and re-employment service. While expanding the coverage of the minimum living standard guarantee system, China positively perfect the system of calamity assistance, vagrant and beggar personnel assistance, medical rescue and educational assistance, set up the framework of the social assistance system.

The management service of the social security is being strengthened increasingly. In recent years, China sets up the work station of social security in the urban community, which is about 95% of the total urban communities by the end of 2003. Meanwhile, China advances the socialized management system for the retired, laid-off enterprises workers in a more effective manner. With the development of information technology and internet, the ability to deliver social security services also improves to some extent.

IV Some Lessons and Difficulties for the Further Reform of SOEs and Social Security System

4.1 Experience and Lessons Learned from the Reform of the State-owned Enterprises

The reform of the state-owned enterprises is the central link and a hard nut to crack in China's economic restructuring. Certain experience has been accumulated and some lessons have been learned from the reform over the past two decades.

First, China's reform of the state-owned enterprises has taken a typical step-by-step gradual approach. This is a road chosen in view of the country's own actual conditions. There are two major modes in the economic restructuring of socialist countries -- the "shock therapy" adopted in the former Soviet Union and some other countries, and the "gradual approach" adopted in China and some other countries. As China's reform started in the countryside and the reform of the state-owned enterprises was only launched when most of them operated well and produced good economic returns, and the call for reform was not as urgent as in the former Soviet Union. At the same time, China's state-owned enterprises were and still are the main contributors to the country's financial revenue; they controlled a massive amount or proportion of assets; and it was extremely hard to reposition the large numbers of redundant workers and staff if drastic reform measures were adopted. In addition, political, ideological and even state security considerations made it difficult for China to adopt the "shock therapy" in its reform of the state-owned enterprises. So, China could only choose the easiest link where there was the least resistance as the point for a breakthrough and follow the procedure of "the relatively easy aspects first and the difficult ones later" for the reform in a step-by-step manner. Certainly, this is a fairly long course of treatment and the effect of the treatment would not be obvious in a short period of time. Over the past two decades, however, China's reform of the state-owned enterprises has never been interrupted, and this has enabled the organizational structure of the state-owned enterprises to gradually cater to the needs of the market economic system. More importantly, in view of the numerous tasks of the economic transition, the state-owned enterprises, while being the objects of reform, must at the same time provide the material guarantee to reforms in other fields. They have been and are the major force that bears most of the cost for the reform, which has ensured the progress and breakthrough in other aspects of China's economic reform.

Second, China's reform of the state-owned enterprises has never been carried out in the enterprises only. One more important task of the reform is to create conditions for the development of the non-state-owned sectors, particularly the non-publicly owned sector. As it is relatively easier to seek development of new economic elements than to alter the old system and, moreover, as there are important differences between the non-state-owned economic sector and the state-owned enterprises in terms of system, the development of the non-publicly owned sector can give better expression to the demands of the market economy-consistent with the market-oriented objective of the reform. The rapid development of the non-state-owned sectors has fundamentally changed the external environment of competition for the state-owned economy and created new favorable conditions for the reform to the state-owned enterprises. First, it has brought about a rapid economic growth and increased their contributions to the country's financial revenue, resulting in gradually reducing the financial burden on the state-owned enterprises. Second, it has created more chances of employment as well as the necessary conditions for

repositioning the workers and staff laid off from the state-owned enterprises. Since the early 1990s, the number of workers and workers in state-owned enterprises has kept decreasing, and the newly increased population for employment together with the workers laid off from state-owned enterprises mostly obtained job opportunities in the non-state, particularly non-public, sectors. Third, it has brought into being a large number of non-state enterprises and entrepreneurs, thus laying the practical foundation for the transformation of the state-owned enterprises. Fourth, it has compelled the state-owned enterprises to adapt to market competition and played an "exemplary role" for the reform of the state-owned enterprises. Competition in the domestic market together with external competition from foreign enterprises has produced the pressure, motivation and opportunities to push the reform of state-owned enterprises to a substantial stage. Since the mid-1990s, China's reform of the state-owned enterprises has entered a crucial stage that is marked by strategic reorganization, which will undoubtedly enable the reform to advance in still bigger steps.

Third, correctly handle the relations between reform, stability and development and combine the continuous deepening of the reform with the reorganization, transformation and the efforts to improve management. The reform of the state-owned enterprises is an extremely complicated and difficult undertaking. China's reform of the state-owned enterprises is not just for the sake of reform. The ultimate objective is to promote the development of the state-owned enterprises as well as the development of the productive forces. To bring about this objective, China has all along made efforts to handle well the relations between reform, stability and development. Development is the absolute principle, reform is the motive power and stability is the key. Therefore, while reforming the state-owned enterprises, China has done its best to coordinate well the efforts for reform, the pace of development and the forbearance of the society -- pushing forward the reform and development under the precondition of maintaining social and political stability and securing social and political stability through reform and development. In order to make a breakthrough in the reform of the state-owned enterprises, it was decided to combine enterprise reform with efforts made in enterprise reorganization and transformation as well as strengthening enterprise management. To run the enterprises well, it is imperative to focus on the development of the national economy as a whole and reorganize the state-owned enterprises and restructure the state-owned sector strategically. At the same time, it is necessary to combine efforts to deepen the reform with efforts to promote development and raise the quality of economic growth, and combine the efforts for enterprise reform with efforts to strengthen enterprise management. The 20 years of China's reform of the state-owned enterprises are also 20 years in which efforts have been made to continuously strengthen enterprise management. In this process, a large group of enterprises, including the Shanghai Baoshan Iron and Steel Corp., the Handan Iron and Steel Corp. and the Northeast China Pharmaceutical Group, have emerged as enterprises with modern management.

Fourth, China has, in practice, formulated a series of important principles to promote the reform and development of the state-owned enterprises and made active efforts in effecting the separation of government administration from enterprise management and carrying out various supporting reforms. For instance, the objective for the reform of the state-owned enterprises is defined as establishing a modern enterprise system. The focus of work is to do a good job in the development of the national economy as a whole, to readjust the distribution and structure of the

state-owned sector of the economy, to do well in the development of the large enterprises and invigorate the small ones, and to strategically reorganize the state-owned enterprises. Encouragement is given to the merger of enterprises and procedures to declare bankruptcy have been codified so as to bring into play the mechanism of competition to let the successful enterprises survive and the unsuccessful ones perish. At the same time, the request is raised to improve leading bodies and management systems of the enterprises in accordance with the laws of the market economy and the actual conditions in China; to wholeheartedly rely on the working class and bring into play the role of Party organizations in the enterprises as the political core; to promote the separation of government administration from enterprise management and coordinate various supporting reforms; to continuously improve laws and legal regulations that are conducive to the reform and development of the enterprises; and so on.

Although China's reform of the state-owned enterprises has been going on for nearly 30 years, there are still many problems. For instance, the reform is conducted in an excessively extensive range, the property right relations still remain unclear, the functions of the government and the enterprises have not yet been completely separated, the rights and responsibilities of the government and enterprises in terms of enterprise management have not been clearly differentiated, management in the enterprises still lags behind and the economic returns of the enterprises have kept declining. All these indicate that up until now, no fundamental breakthrough has been made in the reform of the state-owned enterprises. On the one hand, the reason is that China has adopted the "gradual approach" in the reform, and the guidelines for the reform have taken shape gradually. The objective of the reform was not clear at the start and the measures adopted have to be modified from time to time. On the other hand, the subject of the reform has been the government rather than the enterprises. This not only hurts the enthusiasm of the enterprises but also makes it possible for the government to push forward the market-oriented reform of the state-owned enterprises with methods used under the planned economy. Besides, due to the restriction by various factors, the government has from time to time moved away from the issue of reform of property rights either intentionally or unintentionally while making efforts to expedite the reform. This has made it difficult for the large numbers of medium-sized and small enterprises that are inappropriate to retain their state-owned nature to "quit." Moreover, this situation also has made it impossible to carry out the desired strategic reorganization of the state-owned sector.

4.2 Some Suggestions for the Further Reform of the State-owned Enterprises

4.3 Some Difficulties for Social Security Construction in China

Since the economic reform and with a view toward establishing a sound social security system corresponding to the socialist market economy, China has made rigorous experiments and practice in this respect. Up to now, China has set up an initial framework of a new type of social security system with multiple channels of financial resources and management. This framework, though still imperfect, faces many difficulties and challenges.

The most challenge issue in this area is how to expand the coverage of social security

especially the urban employees' coverage of social insurance system in a low income level per capital. Comparing with the social security system in developed country which is almost full coverage and high financial support with the expenditure of 1/5 to 1/3 total GDP, China's total expenditure in social security is only about 10 percent of GDP and 20 percent of the population, most of them are located in urban areas and for the employees in formal sectors of the economy with urban household or *city hukou*. I don't think that the Chinese government does not pay attention on this issue especially in the years after 1990s, but it really a tough task for the government and society with the serious aging problem, heavy medical expenditure, global competition, huge population and labor force with comparatively lower job training and skills, especially the lower income per capital. It exceeds the image that China can build a perfect social security system at the only beginning period of developing and modernization. I would like to say that it is a long struggle or no-endless task for China. But this does not mean I or many people are satisfied with the current situation because of the small coverage, lower management level and the unfairness in many aspects of the social insurance system.

One of the strongest critics for China's social security system is about the unfairness and low efficiency of the medical care system. As a developing country having numerous populations, China established a medical service network that covers most residents in the urban and rural areas in the planned economic period. Furthermore, this network has gotten a conspicuous effect. Now there are many serious problems in China's medical service system and medical security system. Conspicuously, the medical security is especially unfair and runs inefficiently. First, there is an extreme inequality of the medical security between the rural residents and the urban ones, which is the biggest problem faced by the medical security system. Secondly, the medical security in the cities and towns now just covers the employees in the units. Social disadvantaged groups such as the employees in private and privately-run sectors, flexible professional, those who do work for others in cities, laid-off workers and land-loss farmers in cities and towns don't join the medical insurance. Thirdly, medical prevention system in favor of public revenue is too frail and it is unable to form a major pillar of medical social security. China's reform in medical service system doesn't take this public service's whole development into account; instead it separated itself from the whole and launched a reform in the medical institutions. Accordingly the whole healthcare undertakings are partial to market orientation. Fourthly, the efficiency of medical social security system is very low. There is a rapid increase in China's medical cost in the past ten or more years. Our country's total medical cost rose from 70 billion yuan in 1990 to 476.4 billion yuan in 2000 which is seven times the amount in 1990. China's medical service cost in 2002 reached 568.46 billion yuan, which is 1.24 times that in 2000, and the total cost of medical service that year took up 5.42% of the GDP. This proportion surpassed the minimum level (5%) WHO formulated and the world's average level (5.35%). In 2002 national average medical cost of farmers was 268.61 yuan, which exceed 10% of their average income that year. As the total cost of China's medical resources was increased, the quantity and the quality offered by medical service institutions weren't improved correspondingly. It is obvious that China's efficiency of medical service system is extremely low. Therefore how to improve the efficiency of medical service system and how to expand the coverage of medical security is a key link of completing China's social security system and medical service system.

A practical difficulty is the pressure of the increasing number of payments from the overall

social security fund. From 1990 to 2000, the number of retired employees of the whole nation increased from 23.01 million to 38.76 million, with an annual increase of 1.57 million. In the same period, the registered number of the urban unemployed and laid-off workers increased from 4 million to 12 million. The drastic increase in the number of the unemployed and laid-off workers has led to a dramatic increment of expenditure from the social security fund. The total national premium for social security increased from 98.3 billion yuan in 1990 to 400 billion yuan in 2001, far surpassing the increase in the GDP and that of worker's wages. This rapid increment in the expenditures for the social security fund did not alleviate the burden of enterprises, but made the goal of "partial accumulation system" of the new model of pension insurance void. Along with the intense aging problem, the pressure of "expenditure increments" in the social security fund increased. This poses as a serious problem for the sustainable development of the new type of social security system.

The Chinese pension and old age insurance system practices partial accumulation, with the aim of investing the accumulated fund for higher returns, lower payments, and the provision of more services for the old age security of retired persons in the future. The present practice of fund management and approaches can no longer meet the needs of "partial accumulation system". Influenced by the sluggish economy after the Asian financial crisis in 1997 and the big decrease in the interest rate of state treasury bonds, the returns from bank deposits and treasury bonds of the social insurance fund are quite low. The channels for the capital market investment are not yet smooth and the system faces the difficulty of keeping and increasing its value. If the returns from investments are lower than the increases in wages and the inflation rate over a long period, the goal of partial accumulation system will fall into a void.

The urban social security system faces long-term pressures as to how to "increase the volume" and "improve the system". The chief foundation of social security in the past twenty years has been the "Regulations" or "Decisions" issued by the State Council or local governments without a national "Social Security Law", "Social Relief Law" or "Social Insurance Law". The procrastination in developing legislation on social security failed to give sufficient authority to the new type of social security system and showed that the reform of social security lacked legal guidance. This resulted in difficulties involved in effectively implementing many reform measures.

4.4 Some Suggestions for the Future Development of China's Social Security System

As pointed above, to build a modern social security system that can meet the basic needs of the people and be healthy for the economic and social development is a very important but also a long struggle or tough task for China. I cannot give all the solutions for how to perfect the social security system even we had just delivered a comprehensive report which contains 12 sub-reports to the central government for the 11th five-year period (from 2006 to 2010) plan design. Now I would like to focus on one issue as the end of my paper that is how to expand the coverage of social security system in the near future.

How to expand the urban employees' coverage of social insurance? Urban employees' social insurance is the major part in China's social security system, it is also social security's typical form related to industrialization and urbanization. Compared to the planned economic period, nowadays there are some changes in China's labor market. The number of the employees in the state-owned

and collective enterprises has been greatly falling, and meanwhile the employees in the non-public ownership unit and flexible professionals and jobs in informal sectors become the majority of all city employees. In 2003, there are about 110 million current working unit employees and 140 million employees in informal sectors in China's urban areas. Social insurance only covered the current employees in formal sectors and it is difficult for non-unit employees, especially for the migrate workers to participate the insurance system in terms of current high contribution rate. The civil servants and the employees in public institutions don't join this system either is another element that influences the coverage. I think there are several solutions to expand social insurance coverage of the labor force in urban areas. Firstly, speed up the social insurance system reform in state institutions and public sectors and incorporate all employees into the insurance system, step by step, to expand the basic pension insurance and basic medical insurance from the employee themselves to for the employee's family members. Secondly, expand the social insurance coverage of the informal sector employees, especially migrants farm workers in the cities and change current policy thought and system design which take current social security system as a framework, appropriately reduce participation contribution rate standard. To begin with, we should realize that the number of formal sector employees takes up a lower percentage in China's labor market, and it will not growth faster, some people think the formal sector employees will be likely to fall. As China's current nominal contribution rate are too high, basic pension insurance and basic medical insurance are unlikely to cover the majority of informal sector employees whose income is relatively unstable and lower. Thirdly, clearly propose to impose social security tax and establish national residents' basic pension (or old-age benefit) system and public medical system, thus cover those city/township employees who don't join basic pension insurance and basic medical insurance. Condition permitting, citizens' basic pension (or old-age allowances) system and public medical system can be extended to include all the rural areas. Moreover, it is inappropriate that the social security tax must be very low and the benefit will not be high in a long period. Specific contribution percentage should be confirmed by calculating the cost of citizens' basic pension (or old-age allowances) and of public medical system.

How to build the social security programs for the residents in the rural areas? There are a large number of farmers in China's rural areas and even rapid urbanization is unable to incorporate most rural residents into the cities and towns in the long term. Obviously, it is totally impossible for urban social security system to cover all the farmers over a short period of time. So the problem of farmers' social security will continue to exist and there are some differences between the social security of the city/township residents and that of the farmers. The urgent task in rural areas is still to combat with the poverty problem. China has adapted a development-oriented poverty relief in a positive way which will still be carried out in future. But there is need to build the minimum living standard guarantee system at the same time in rural areas. In fact, some coastal areas and some outskirts of cities have gradually established farmers' minimum living security system. The economically better regions are allowed to launch socialized old-age insurance and the co-operative healthcare insurance in countryside. However, due to some hindrances in management cost and raising funds, it is too difficult to form unified farmers' socialized security system including old-age security program and cooperative healthcare program. From the development prospect, if cities and towns gradually establish the residents' pension system and public medical system on basis of social security tax, it will become an urban and rural

residents' (or citizens) old-age security system and public medical system in favor of the country's finances. In the countryside, the social security should still attach great importance to some families with special difficulties such as the "three-no" people. Based on the minimum living security system, China should gradually establish the social assistance system consisting of healthcare, education, house assistance and other interim measures, and then the government should encourage some economically better areas to develop a nationally unified program including citizens' old-age pension system and public medical system.

How to expand the coverage of the healthcare security and improve the efficiency of the medical service system? Every labor and every citizen are both faced with medical risk, so establishing a nationally medical security system is an important target of welfare countries and some other countries which compel to carry out social insurance system. The most urgent task of completing medical security is to expand its coverage. Firstly, increase the providing of public healthcare, build a nationally public healthcare system that covers the rural and urban areas and strengthen the foundation of the whole healthcare system. Government should gradually mitigate the serious problem of public healthcare, at the same time she should enhance supply ability of medical service. Secondly, make great effort to expand the coverage of basic medical insurance system for urban working people, incorporate the employees who join urban medical insurance and directly-related members of their families into the basic medical insurance system, and thus the coverage will rise to once or twice. Thirdly, as for those urban residents who can't join the basic medical insurance, government should gradually establish public healthcare system, and within the permission range of social security tax government can provide them with some free medical service or medical cost subsidies. Fourthly, accelerate the reform pace of medical system, gradually complete the public healthcare service system, enhance the efficiency of medical service, and reduce the rapid growth rate of medical expenditure in order to accompanied with the economic growth and aging problem.

V. Conclusions

The Third Plenary Session of the 11th Party Committee made the Strategic decision to shift the focus work of the party and state to the socialist modernization. In the nearly past three decades, in view of the situation in economic growth as well as new problems arising in the course of development, China has launched reforms in its economic system, including the reform of SOEs to build the microeconomic foundation of the market system and the reform of macroeconomic regulation and control such as the construction of law system, social security especially social insurance system, new distribution system, the role of government, etc. These reforms have opened up a broader vista for economic development. The 27 years of reform has been proved to be the rapid period of economic development and social stability in China. Correctly handling the relations between reform, development and stability is one major line to understand the historical process and Characteristics of China's reform and economic structural transition.

The reform of state-owned enterprises and the social security system are the most important part of China's reform process. We could say that China had been achieved great progress in these two fields in the past years, but there are still many difficulties that China is facing today. In China's economic structure transition in the future, not-only the deep-rooted contradictions accumulated over a long period of time will come to the surface, some new factors of instability and

contradictions will also emerge. The economic challenges are well known and include: guaranteeing adequate resource and energy supplies; ensuring investments, whether domestic or foreign, are used efficiently; integrating peasants into the urban workforce; undertaking structural banking reform; and encouraging enterprise in both the private sector and the state-owned sector. Worsening environmental degradation could reduce China's long-term economic sustainability significantly. The significant social transformation taking place in China, with growing urbanization, significant demographic changes and changing family structures, will also impact on long-term economic growth. There is also growing diversity in Chinese society with the spread of wealth, education and familiarity with the outside world. Economic growth has also created large numbers of "losers" such as the poor areas and rural population and the laid-off or unemployed labors in urban areas.

It can be said that China's reform has reached its most difficult "fortification-storming" stage. If China is to sustain its economic growth rate at 7% or more over the next 20 years it will need to overcome significant economic, social, human and environmental challenges. One lesson or experience from the reform is that China should make continuous efforts to handle well the relations between reform, development and stability. There is no doubt that China should make vigorous efforts to deepen the reform in various fields and promote the economic development, but full account should also be given to the endurance of various sectors to the reform. It is worth to concern of the further reform and development of China's SOEs and Social Security system in the future.

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