Prepare for opportunity™ Economist Intelligence Unit The Economist

Human resources in China
Prepare for opportunity
A practical guide from the Economist Intelligence Unit

www.eiu.com

The outlook for China

Foreign companies continue to be attracted by the opportunities offered by China's large and rapidly growing economy. China has a population of over 1.3bn, and the size of the economy is likely to grow to just under US$13trn a year at market exchange rates by 2015. Although GDP per head will still be relatively low by the end of the forecast period, at just under US$10,000 a year, this will represent a substantial improvement from just under US$4,500 in 2010. Significant regional disparities within China will persist. The provinces of the eastern seaboard enjoy standards of living well above the national average. However, there are also markets to be found in inland China, where many large cities are located. To some extent, the size of the population and the pace of economic growth belie the challenges of operating in China. Nationwide distribution networks will increasingly be put in place, but the Chinese market is likely still to be a fragmented one by 2015.

Market opportunities for foreign companies in China are greatest in those sectors where domestic enterprises are weak, markets are underdeveloped and market opening is proceeding fastest. Although the government continues to ban foreign firms from a number of industries—such as broadcasting and armaments—or to restrict their involvement, overseas companies continue to find numerous business opportunities in a wide range of sectors across the economy. Market opportunities are opening up for companies that can advance the government's strategic objectives either within or outside the country. Chinese enterprises are also looking for joint-venture partners in resource exploitation and infrastructure.

The Chinese government encourages both labour-intensive industries, to soak up surplus labour, and capital-intensive enterprises, which can raise the quality of the national industrial base. Foreign companies are also welcome in infrastructure. The government may shy away from imported technology where there is deemed to be a local substitute. Consumer-goods markets are more open and competitive and do not rely on government procurement.

	2010	2011	2012	2013	2014	2015
Population (m)	1,312	1,320	1,328	1,335	1,342	1,349
GDP (US$ bn at market exchange rates)	5,878	6,821	8,090	9,569	11,196	12,973
GDP per head (US$ at market exchange rates)	4,479	5,166	6,092	7,166	8,341	9,618
GDP (US$ bn at PPP)	10,241	11,388	12,724	14,162	15,756	17,533
GDP per head (US$ at PPP)	7,803	8,625	9,582	10,606	11,738	12,999
Household consumption (US$ bn)	2,050.4	2,498.8	2,995.9	3,614.8	4,314.6	5,075.1
Household consumption per head (US$)	1,560	1,890	2,260	2,710	3,210	3,760
Exports of goods & services (% change)	15.8	8.6	9.6	9.0	8.9	9.1
Imports of goods & services (% change)	14.0	10.0	10.5	12.3	12.0	11.1

Human Resources overview

The Ministry of Human Resources and Social Security said that China had an unemployment rate of 4.3% at the end of 2010, compared with 4.2% a year earlier. The urban workforce was 320m at the end of 2010, according to data from the ministry. The total workforce, including both urban and rural workers, stood at 790m at end-2010. The government acknowledges that the statistics leave out many unemployed workers, including many laid off from state-owned enterprises (SOEs) who are still receiving housing and a minimal living allowance from their former employers. It also does not count unemployment among the estimated 150m migrant workers from the countryside who seek employment in the cities.

For the Chinese government, job losses pose a serious threat to social stability; this is evident in its relative generosity to workers laid off by SOEs and its assertion that 8% annual GDP growth is the minimum level needed to absorb excess labour. The authorities have created employment centres throughout the country—with some success, according to official sources.

Workers' levels of education vary by region. In Beijing or Shanghai, it is relatively easy to find employees with engineering or technical degrees and to select college graduates who speak English. However, it can be difficult to find people with specialised technical skills or with training in accounting, finance, marketing, quality control, retailing and personnel management. More Chinese universities are offering Western-style business classes, and there is a growing trend towards localisation. This takes two forms: hiring Chinese to fill positions previously held by foreigners and hiring foreigners already residing in China. In either case, it is possible to cut the often extremely generous packages offered to senior staff sent to China from abroad.

Staff turnover remains a significant problem, even after the temporary slowdown brought about by the global financial crisis. According to a report published by Hudson, a human-resources consultancy, for the fourth quarter of 2010, 31% of companies had expected turnover of more than 10% in the past six months. Some companies seek to counter this trend with comprehensive retention schemes: they provide valued staff with training and a career-development plan, a generous compensation-and-benefits package and retention bonuses for key employees with high market value.

Efforts by foreign-invested enterprises to implement competitive compensation-and-benefit packages are helping to close the previously huge pay gaps between workers doing the same job, which reflected entrenched beliefs that pay differences should be based on seniority, not ability. The emergence recently of human-resources networks in major cities like Beijing and Shanghai has helped to develop a uniform market for skilled staff.

Labour law

After 15 years and 30 drafts, China passed its first national Labour Law in 1994. Although the ensuing years have seen efforts to keep that basic labour law updated with amendments, both workers-rights groups and employers say a comprehensive revision is necessary. The Standing Committee of the National People's Congress (NPC) in June 2007 passed a law on labour contracts, offering detailed regulations on endorsement, performance, change and termination of labour contracts, and legal responsibilities for violations of contracts. The law came into effect on January 1st 2008.

The part of the law that received the most attention by companies was the guarantee of the right for employees who have been with the same company for at least ten years to require a non-fixed-term contract, which is in effect lifelong employment.

Separate labour regulations govern unemployment insurance, labour management in foreign-invested enterprises (FIEs), maternity insurance and rules on collective labour contracts. Other implementing regulations on labour-dispute resolution, social-welfare benefits, and occupational health and safety are expected over the next few years.

The Labour Law had its greatest effect on the state sector, which was brought into line with labour practices in the foreign sector. Its major elements cover the following areas:

Workers' rights. Workers in all types of enterprises have equal rights to select an occupation and obtain employment, receive remuneration for their work, rest and take holidays, and receive vocational training, health insurance and welfare benefits. By including a worker's right to choose an occupation, the law ended the traditional mandatory job-assignment system (a practice already ignored in most major cities).

Unions. Workers have the right to organise and participate in trade unions, but the law does not allow for the creation of independent unions, which must be organised "in accordance with law". Hence, the only ones permitted are state-approved unions—that is, affiliates of China's only official union, the All-China Federation of Trade Unions.

Recruitment. Employers are liable for "economic damages" to the previous employer of their newly recruited employees if those employees leave before completing their original labour contracts. This provision appears to target foreign companies, which often poach staff from state-owned enterprises. Foreign companies can be fined tens of thousands of renminbi for encouraging the early departure of a worker from an existing place of employment.

Labour contracts. Employees' rights and obligations must be clearly defined in a written labour contract that must include clauses covering the term of the contract, job description, labour protection and conditions, remuneration, labour discipline, and conditions for breaching and ending the contract. Probation periods, which are standard in foreign-employer contracts, are given wider application under the new law. The law establishes that all labour contracts should now include probation periods of up to six months.

Dismissal. The Labour Law makes it more difficult to make employees redundant than under previous

regulations, which permitted FIEs to dismiss staff as a result of technical and production changes. Now, only imminent bankruptcy and major production problems can justify redundancy. Moreover, under Article 30, trade unions are entitled to raise objections to dismissals they consider inappropriate.

Health, safety and insurance. Employers are responsible for health and safety measures. They must also pay old age, medical and unemployment insurance to local governments or insurance companies. A new system mixing employer, employee and state contributions is being established.

Working hours. There are limits on an employer's freedom to extend working hours. Under the law, workers are guaranteed at least one day of rest a week, and overtime is not supposed to exceed 36 hours a month. In practice, however, labour officials consistently give FIEs exemptions to this rule. The law also clarifies the circumstances in which employees are entitled to overtime pay. Local labour bureaux and unions are supposed to ensure that workers receive rest and overtime entitlements.

Salary increases. Although employers retain the right to determine their own methods of wage distribution and salary levels, the law requires that national compensation trends be in keeping with "economic development". On a practical level, this means that earnings must keep pace with inflation, and minimum-wage levels must be guaranteed.

Although many FIEs are now familiar with the national Labour Law, a lesser-known set of regulations governing FIE workplaces has also been issued. Also promulgated in 1994, the Regulations for Labour Management in Foreign-Invested Enterprises are at odds with some provisions of the Labour Law. These FIE labour regulations appear to take away rights previously granted under other joint-venture laws and regulations, and they increase the potential for government interference in the workplace. They also seem to endorse different labour practices for companies with foreign as opposed to wholly domestic ownership—a point that appears to contravene World Trade Organisation rules that foreign and domestic companies should be treated equally under the law.

Officials of the Ministry of Labour and Social Security have confirmed that where a conflict exists between the two sets of legislation, the Labour Law overrides the FIE labour regulations. However, some foreign lawyers say that companies should not rely on this assurance. Instead, where the law is unclear, foreign companies should try to have the local labour bureau verify the FIE's labour contracts.

Among the areas of conflict that exist between the two sets of legislation are the following:

Resignation. Article 31 of the Labour Law guarantees employees the right to resign, subject to 30 days notice. However, FIE labour regulations are silent on this issue, which may imply that an employee does not have the right to resign a position for personal reasons.

Termination. The FIE labour regulations allow both employer and employee to terminate employment without notice if the other party fails to fulfil the labour contract. The Labour Law, by contrast does not mention the failure to fulfil the contract as a reason for termination.

Union involvement in terminations. The Labour Law requires management to consult with the union only when a company is planning a large-scale reduction in personnel. By contrast the FIE labour regulations specify that management must solicit the trade union's opinion in each individual case of termination by notice.

Autonomy in labour matters. Both the Labour Law and the joint-venture regulations of 1986 and 1988 refer to the autonomy of FIEs in recruiting employees. However, the FIE labour regulations

require FIEs to obtain permission from local labour authorities before recruiting directly or from other regions. FIEs are prohibited from recruiting local individuals who have not been released from previous employment. Moreover, foreign staff may be recruited only where there is "truly a need" to do so and only after approval from local labour authorities.

The government continues to issue new regulations on various labour-related issues. The State Council published a law on May 1st 2002 on preventing and controlling occupational diseases, which aimed to set up health records for all industrial workers. The State Council promulgated rules on May 12th 2002 concerning toxic products in the workplace, which established a series of requirements for employers. The rules outline physical requirements for plants where toxic substances are used, including the separation of areas where toxic substances are employed and where they are not, and also the presence of first aid and alarm facilities. The rules require employers to allow employees working with toxic substances to have health checks and receive proper training. On December 1st 2002 new regulations took effect, strengthening the curbs against the use of child labour (employment of those younger than age 16) and raising the penalties for companies violating the rules.

Industrial labour

There are essentially two labour markets in China: one for domestic enterprises and the other for foreign-invested enterprises (FIEs). In theory, workers in the domestic sector need prior permission from their work place to leave their jobs. In practice, though, many local employees manage to leave their domestic employers for work in the foreign-invested sector with impunity. Once workers enter the FIE labour market, they need not stay in their jobs. Given the greater freedom with which Chinese workers are already seeking jobs of their own choosing, it is likely the two labour markets will eventually merge.

Several factors are contributing to this freer movement of labour, but the most important may be housing reform. State-owned enterprises (SOEs) used to provide free lifetime housing for their employees, as well as healthcare and education benefits for children, giving workers an extra incentive to stay on throughout their careers. As Chinese employees are increasingly forced to buy or rent their own housing and pay for other benefits, the SOEs have lost crucial recruitment and retention tools. Moreover, the increasing sophistication, management skill and language ability of Chinese recruits has spurred multinational companies to hire locals for positions that in the past would automatically have gone to foreigners.

To avoid negotiations, which are mediated by the local labour-service bureau and frequently prove difficult, many joint ventures go directly to Chinese universities and technical institutes to recruit higher-level technical personnel. University recruitment is expected to become more popular. In most surveys, FIE human-resources managers say their most popular ways to recruit local staff are individual referrals by existing employees, job fairs (which are usually sponsored by an official labour-service company), newspaper advertising and personal relationships.

China has a single trade union, the All-China Federation of Trade Unions (ACFTU), with local

chapters at the factory level. The Chinese Communist Party controls the federation, which is a United Front organisation. Independent trade unions are not permitted, and organisers of them have been imprisoned.

Critics contend that the ACFTU is actually more interested in trying to smooth relations between the government and FIEs than in fighting for workers' rights. The day-to-day reality, however, is that the union and its affiliates work to transmit social and political values and do indeed look out for workers' welfare and recreation. In general, joint ventures (JVs) report little union interference, though some ventures have experienced aggressive activities, including strikes. In many FIEs, unions are responsible for distributing wages, bonuses, housing and other payments to workers. Union representatives have the right to attend board meetings when labour matters are under discussion. They may also negotiate with management on the behalf of individual workers.

Although China does not allow independent trade unions, there are signs that the government is willing to tolerate some degree of labour activism—at least where the employer is a foreign-invested company.

Each month, FIEs must contribute 2% of total wages, including those wages payable to expatriate employees, to the trade-union fund. In practice, however, most JVs base this payment only on the Chinese payroll. This contribution comes out of after-tax profits.

Chinese national law requires JVs to permit the formation of unions; indeed, in many areas, local regulations require the unionisation of JV workforces. In practice, however, JVs may operate without a union, especially within the special economic zones, because local authorities are either unaware of the labour situation or decline to enforce the regulations.

The ACFTU launched a drive in 1994 to establish unions in all of China's FIEs, initially to little avail. However, this drive has picked up steam in recent years. The federation reported in October 2008 that 82% of Fortune 500 companies operating in China had permitted unions, up from just 50% in the middle of 2008, following a three-month campaign to encourage organised labour. The scarcity of job opportunities caused by the global recession reduced for a time the bargaining power of the labour force, but the drive to further unionise employees at all kinds of enterprises, including FIEs, has picked up steam since 2010. In June 2010 the ACFTU issued a notice urging local unions to push aggressively for unionisation, especially in small- and medium-sized companies with foreign investment; this was a follow-up on the success in promoting unionisation among Fortune 500 companies.

In the past few years, many union representatives have requested the creation of collective contracts between staff and management. A Notice Concerning Gradual Implementation of a System for Collective Contracts was issued in May 1996 by the ACFTU, the State Economic and Trade Commission, and the China Entrepreneurs Association. It calls for both domestic and foreign-invested companies to consult with trade unions to conclude collective labour contracts. In May 2010 the Ministry of Human Resources and Social Security issued a notice calling for all enterprises where employees have unionised to introduce collective contract systems by 2012. Although individual contracts will remain, the collective contracts will serve as default documents whose provisions will apply whenever individual contracts are vague or entirely fail to specify the rights and obligations of employers and employees.

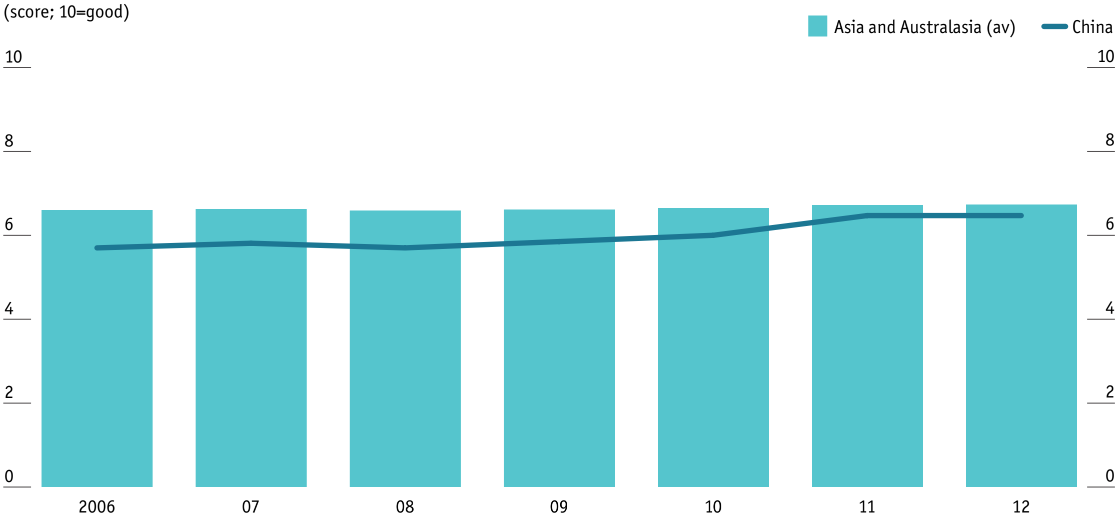
Many FIE managers view the government's push to implement collective labour contracts as a way to gain more control over the wage-determination process. Western observers note that unions in some companies are already trying to shift wage systems back towards the older less-performance-based compensation system. Some foreign executives of enterprises with established unions suggest that union representatives are also becoming more vocal in their efforts to establish a full-time trade-union chairman paid by the enterprise. The union chairman is often drawn from the senior local management staff of a JV. Some Western lawyers warn that the local JV partner might actively seek such an arrangement to strengthen its own influence on the venture's management.

Under the Labour Law of 1994, either workers or employers may take disputes to the labour-dispute-mediation committee in their own employing unit. Such committees, headed by a trade-union representative, comprise staff, worker and trade-union representatives. If mediation fails, the worker or employer may take the dispute to a committee organised under the local labour service bureau (LSB). This committee is headed by an appointee of the LSB and includes representatives of the LSB, the trade union and the employing unit. Arbitration awards must generally be rendered within 60 days of submission. Parties dissatisfied with an award may appeal to the People's Court within 15 days.

Amendments to a separate Trade Union Law, implemented in October 2001, emphasised that all staff at companies in China are entitled to join unions. The law also explicitly outlawed any attempts by individuals or organisations to prevent workers from joining trade unions. Nevertheless, statistics from the ACFTU indicate that only about 100m workers are members of unions, and most of these are employees at state-owned enterprises.

The Supreme People's Court issued a legal interpretation on April 16th 2001 that clarified major points in labour disputes. It states that the burden of proof rests with the employer in disputes arising from a decision to dismiss or lay off a worker or cut his or her remuneration. The interpretation also makes the employer liable for paying remuneration or damages to employees who have worked under especially harsh conditions, have been made to work long hours or have in other ways had their rights curtailed.

Labour market
(score; 10=good)



Source: Economist Intelligence Unit.

Wages and fringe benefits

Foreign-invested enterprises (FIEs) remit wage and benefit payments to the local labour service bureau (LSB) or trade union, or they entrust the matter to their Chinese partners. FIEs are also permitted to appoint a bank to issue wages under the Provisional Regulations on the Payment of Wages (implemented in January 1995) and the Supplementary Regulations of the Ministry of Labour and Social Security on Relevant Issues Concerning the Provisional Regulations for the Payment of Wages (from May 1995).

A joint venture (JV) may determine its wage scales independently of the rates of the Chinese partner and other Chinese enterprises. Most JVs take advantage of this right, believing Chinese wage scales to be cumbersome and inappropriate. The foreign partner in a JV often negotiates a wage scale with the Chinese partner or local LSB and includes this in the labour contract, spelling out carefully what benefits and subsidies are included and which party is responsible for them.

The Labour Law of 1994 stipulates that wages are to be paid according to the principle of equal pay for work of equal value, a notion often invoked by Chinese JV partners, who insist on comparable pay for Chinese and expatriate managers. Apart from meeting minimum-wage requirements, the law reaffirms the right of FIEs and state-owned enterprises (SOEs) to set their own wages. The Provisional Regulations on the Payment of Wages clarify that wages must be paid in currency and not in goods or vouchers.

Daily wages are calculated on the basis of 21.5 working days per month under the working-hour system of eight hours a day and 40 hours a week. However, enterprises that are still operating under the old system of 44 hours a week may calculate daily wages on the basis of 23.5 working days per month. The regulations permit payment on an hourly, daily, weekly or monthly basis. China’s labour law empowers the central government to implement “macro-control” over the “total amount” of wages and salaries, leaving open the possibility of a wage freeze as an inflation-fighting measure in future.

Starting annual salaries for foreign managers in China are US$60,000–200,000 or more, depending on the type of operation and the location. Housing and schooling allowances, benefits and hardship pay are added to this salary. Wages and salaries for Chinese staff vary widely by region, and total labour costs can be as much as five times higher than basic wages, with a range of benefits and subsidies making up the balance.

Managerial salaries for Chinese staff vary widely by skills but generally start at around Rmb10,000 per month (about US$1,450, at Rmb6.9:US$1) for junior managers. Skilled financial officers working in JVs can earn as much as US$80,000 per annum, but salaries may be substantially higher for local executives working in representative offices. (Compensation packages tend to be more generous at representative offices because local staff members are recruited via government-approved labour service agencies, which take a share of the employee’s income as a commission.) JVs in the southern special economic zones frequently pay managers according to Hong Kong salary scales. Despite enjoying higher salaries than their state-sector counterparts enjoy, most FIE employees feel underpaid.

Under a rule in effect since July 1994, each province or municipality must set a minimum wage that is not less than half the local average wage.

Many JVs pay a single sum to a comprehensive insurance scheme administered by the LSB, which then divides the premiums. This costs about 35% of total wages in the south, more in the north. If paid separately, insurance premium rates are as follows: unemployment, 1.5% of basic wages; pensions, 20–30% (though this is limited to 20% under the 1997 regulations); and health and other insurance, 10–30%.

Employers' contributions to housing vary by city. In Beijing, the government requires FIEs, in the period from July 1st 2010 to June 30th 2011, to contribute 12% of an employee's monthly salary to the Housing Provident Fund, up to a maximum of Rmb2,906 per month. In Shanghai, the contribution rate is 7%, up to a maximum of Rmb2,568. For the nation as a whole, it is typically 5–20%. The money is set aside exclusively for home purchases, and is paid out as a lump sum when an employee leaves or retires. The funds are managed at the city level by Housing Provident Fund management centres, supervised by the city governments.

There are nine state holidays, following a legal revision in September 1999. Most JV employees are entitled to another 6–12 days of annual leave. Employees separated from their families may be entitled to additional leave. The Labour Law required the State Council to formulate specific regulations on annual paid leave. As a result, the government has decreed that employees who have been with a company for more than one year enjoy paid annual leave, which usually totals about two weeks.

In one of the largest social projects ever undertaken by any government, China has set itself the task of completely revising its social-security system to complement its ongoing efforts to restructure the economy and streamline the state-owned sector. Several pieces of legislation promulgated in recent years cover all the social-security functions previously provided by individuals' workplaces, although actual nationwide implementation will probably take several years.

The government spent Rmb358bn on social security in 2010, up by 8.7% from 2009. By the end of 2010, the number of people participating in basic pension insurance, unemployment insurance, medical insurance and industrial-injury insurance in urban areas had reached 257m, 134m, 432m and 162m, respectively.

The Social Security Law, which introduces a number of new principles, was passed in October 2010 and will take effect in July 2011. Among other things, it allows workers to receive pension payments from a different workplace than the one(s) in which premiums were paid. This is meant to account for the growing labour mobility in China and help China's 150m migrant workers.

This follows a series of earlier social-insurance laws. These laws adhered to the principle of creating particular forms of insurance for specific needs, rather than providing overall insurance that covers all the needs of a worker. Past examples include the Pilot Procedures Regarding Maternity Insurance for Enterprise Staff and Workers, implemented on January 1st 1995; the Pilot Procedures Regarding Industrial Injury Insurance for Enterprise Staff and Workers, implemented on October 1st 1996; and the Decision on the Establishment of a Unified Basic Old Age Insurance System for Enterprise Staff and Workers, implemented on July 16th 1997.

The 1997 reform of the old-age-insurance system was originally to be up and running by the turn of the century; although coverage is expanding fast, it is still not yet universal. The most important reason for the delay is that cash-starved SOEs do not have the funds to make their required contributions. The Ministry of Human Resources and Social Security (previously the Ministry of Labour and Social Security) reported that 257m people were insured at the end of 2010, up from 235m a year earlier. The government has said it will seek to include all FIEs under the system to ensure universal coverage.

The social-security regulations set up a three-tiered structure: basic pension, personal accounts and supplementary schemes.

Basic pension. For the first tier, the system requires employers (including state-owned, collective, foreign-invested, private and joint-stock enterprises) to contribute about 20% of basic payroll to the basic pension. When an employee moves to a new location, he can carry 60% of this pension with him, according to the Urban Employee Pension Transfer and Continuum Regulations from the Ministry of Human Resources and Social Security, implemented on January 1st 2010. Although most of the pension payments go into a municipally run pension fund, the government aims to transfer this by 2012 to a national pension pool to fund the basic pension; this is partly to facilitate portability of the pension if an employee crosses provincial borders to a new job.

Personal accounts. For the second tier, employee contributions to personal accounts are 8% of salary. The personal account is portable when an employee moves to a new location. In early 2003 the Ministry of Human Resources and Social Security published a draft of trial measures concerning this tier. They state that companies may place the funds either in bank accounts or with qualified fund managers selected by a council consisting of at least one-third employee representatives.

Supplementary schemes. The third tier consists of voluntary supplementary schemes that individual employees can choose to join. Employers have some freedom in designing these plans. They can pay the entire monthly contribution or share the burden with the employee, but the employee's portion is not to exceed 50% of the total.

l Under the new social-security system, an individual's benefits upon retirement will be as follows:

- If contributions have been made for at least 15 years, a monthly payment equal to 20% of the previous year's provincial or municipal average monthly salary will be payable from the basic pension fund plus 1/120 of the personal account balance.

- A benefit equal to the remaining balance in the personal account will be payable to a designated beneficiary upon death.

- If the contributions have been for fewer than 15 years, a lump sum equal to the personal account balance will be payable.

Since these schemes are voluntary, participation varies considerably among industries. It is particularly high among monopoly industries such as electricity, gas and petroleum; for example, the electricity industry accounts for about 13% of the national total.

Like all other social-security reforms over the past years, the new unified pension regulations cover

only urban workers and not the 80% of the population living in the countryside. But the longer-term objective is to extend coverage to the rural population, who now rely entirely on their families for support in old age.

The Decision on the Establishment of a Basic Medical Insurance System for Urban Staff and Workers, which came into force in December 1998, foresees a healthcare system to which employers contribute 6% of a workers' salary, and employees 2%. Like the revised regulation on old-age pensions, the medical-insurance decision foresees a three-tiered structure: a basic pool, a personal account (into which all the employee contributions and 30% of the employer contributions are deposited) and supplementary schemes. Medical expenses of less than 10% of the employee's annual salary will be paid entirely out of the personal account; expenses exceeding that will be paid out of the personal account, the pooled fund and, possibly, supplementary schemes.

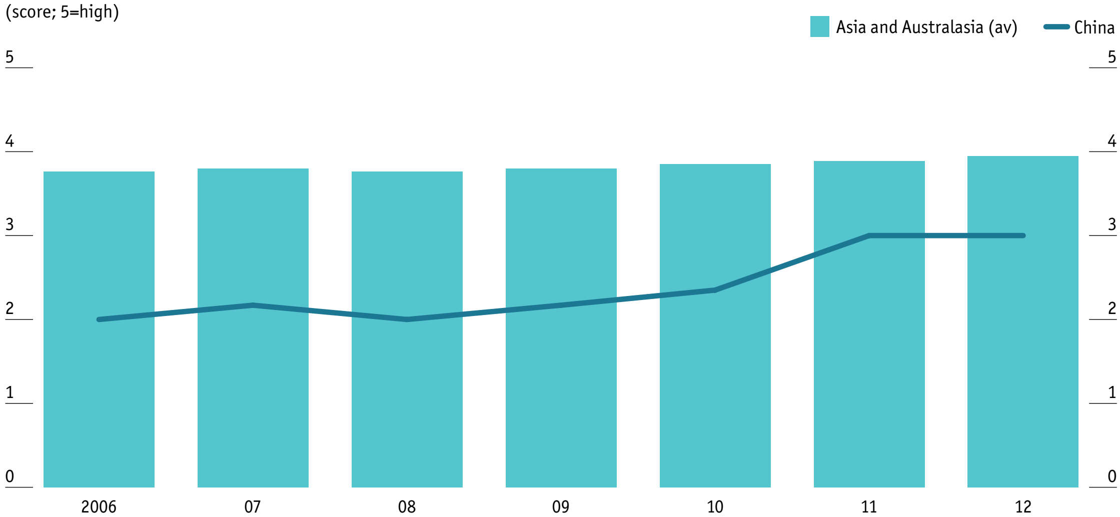
Basic medical-insurance coverage continues to expand. The Ministry of Human Resources and Social Security said that 432m people had basic medical insurance by the end of December 2010, an increase from 401m a year earlier. The Ministry of Human Resources and Social Security, the Ministry of Health and the Ministry of Finance in January 2010 issued a new circular, allowing workers to carry their medical insurance with them to new employers. The measure, which took effect on July 1st 2010, was expected especially to benefit the 150m migrant workers, who are more likely than others to change jobs frequently. Previously, workers lost their medical insurance, if they had any, when moving to a new job. This might still happen to some workers, depending on how well the new rules are implemented.

The final piece of legislation completing social-security reform, the Unemployment Insurance Regulations, was adopted in December 1998 and came into force in January 1999. The regulations require employers, including FIEs, to pay the equivalent of 2% of the total payroll for unemployment insurance funds. Previously, FIEs were not subject to national legislation, but they typically complied with local rules requiring them to pay 1% of wages. The new regulations also require employees to pay 1% of their wages to unemployment insurance funds (up from zero); government agencies are to supply an unspecified amount.

A worker is entitled to unemployment insurance benefits after involuntary dismissal for up to two years while actively seeking new employment. If the person has not found employment at the end of this period, he or she is entitled to regular benefits, as stipulated in the Circular on the Establishment of a Minimum Livelihood Assurance System for Urban Residents, implemented on September 2nd 1997. The Ministry of Labour and Social Security reports that unemployment insurance covered 134m employees at end-2010, up from 127m a year earlier. Although the scheme's rules look workable on paper, even government think-tanks admit that funds may actually be insufficient to implement the programme.

The government has also started to reform its work-injury insurance programme; it issued the Work-Injury Insurance Regulations on April 27th 2003, implemented on January 1st 2004. In principle, the employer shoulders all contributions, with the rate varying among specific industries for a national average of about 1% of the employee's salary. According to a report released by the Ministry of Labour and Social Security in January 2011, some type of work-injury insurance covered 162m people at end-2010, up from 149m at end-2009.

Availability of skilled labour
(score; 5=high)



Source: Economist Intelligence Unit.

Working hours

China moved to an eight-hour working day, or 40-hour working week, for all employees without reducing wages, beginning on May 1st 1995. The measure applies to staff of all government entities, institutions and companies, including foreign-invested enterprises (FIEs). For state employees, Saturdays and Sundays have been designated as rest days.

Labour-law provisions on overtime are strict. Overtime generally may not exceed one hour per day or three hours in "special" circumstances that are not defined. Monthly overtime is limited to 36 hours. FIEs consistently receive exemption from the overtime restrictions. Overtime pay is 150% of the normal base wage, 200% if the work occurs on non-holiday rest days when substitutes cannot be arranged, and 300% if work is performed on statutory holidays.

This is not necessarily enforced in practice. Apple, a computer maker based in the US, in February 2009 issued its annual supplier-responsibility progress report, based on an audit among 83 suppliers in China. According to the report, Apple's investigators found "instances of pay calculations that resulted in underpayment of overtime wages" at 45 of these suppliers.

Compensation, 2010

The table below shows typical median cash salaries paid in 2010 (in renminbi per month) by job category for local staff in offices in Beijing, Guangzhou and Shanghai. Salaries are based on a 13-month per year payment.

Title	Experience	Qualifications	Monthly salary range (Rmb)
Vice-president, human resources	15 years+ in management	Master's degree	70,000–90,000
Director, human-resources	10 years+ in management	University graduate	60,000–80,000+
Manager, human-resources	5 years in management	University graduate	19,000–35,000
Office manager	3+ years	University graduate	17,000–27,000
Business manager	5+ years	University graduate	15,000–25,000
Training manager	5+ years	University graduate	15,000–24,000
Senior secretary	5–8 years	College and above	10,000–14,500
Secretary	3-5years	College and above	6,500–9,500
Senior receptionist	2–4 years	College	3,000–5,500

Source: J.M. Gemini, Guide to China Market Salaries, Fourth Quarter 2010.

Part-time and temporary help

Foreign-invested enterprises are generally allowed to hire temporary workers, but local regulations govern hiring and registration procedures in each locale. So-called temporary-work periods can vary between regions, from 3–12 months, but national regulations generally define temporary workers as those employed for up to one year for temporary or seasonal work. These regulations are in the Administration of Temporary Workers in State Enterprises Tentative Provisions (October 5th 1989).

Termination of employment

The Labour Law of 1994 allows foreign-invested enterprises to dismiss workers (without advance notice) if they do not fulfil requirements during the probation period, if they "seriously" violate labour discipline or company regulations, if they are "seriously" derelict in their duties, or if they engage in graft, favouritism or other activities that cause "serious" damage to the employer. Workers may be dismissed for other reasons in particularly egregious circumstances. These provisions are stricter than earlier rules, and most foreign partners find that firing employees is almost impossible without the support of the union and the local labour service bureau (LSB).

Employers may dismiss an employee with one month notice if the employee remains incompetent after training or rearrangement of duties, or where there are "major" operational or production difficulties. The trade union must then be advised 30 days in advance, and permission from the local LSB is required. Employees dismissed because of major difficulties must be given priority if the same enterprise recruits employees within the subsequent six months. Trade unions are entitled to "raise

objections" to dismissals they deem inappropriate. If disputes arising from such dismissals cannot be resolved, the courts or labour-arbitration boards should handle the matter, with union representatives retaining the right to assist with such actions.

The Labour Law requires employers to make severance payments; local regulations generally govern the amount. The Ministry of Labour and Social Security's Measures for Economic Compensation for Violations and Cancellations of Labour Contracts, implemented on January 1st 1995, calculates severance payment on the basis of one month salary for every full year worked by an employee. A worker whose contract is terminated for incompetence is limited to a total possible payment of 12 months salary.

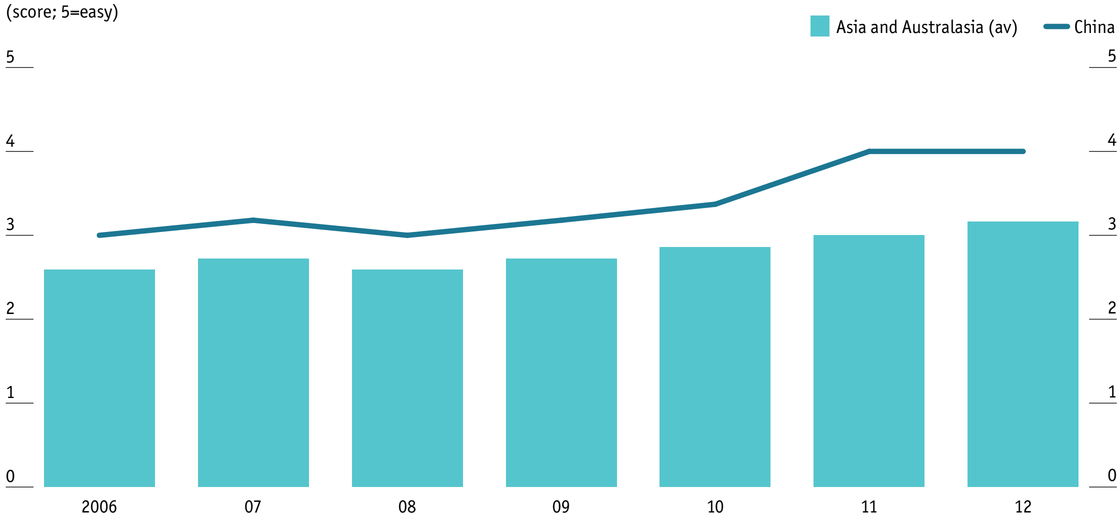
Employment of foreigners

The Chinese generally do not object to employing foreign managers. The ability to hire expatriates appeared to be circumscribed by a stipulation that foreigners may be hired only where there is demonstrated need to do so and where approval is obtained from local labour authorities under the Regulations for Labour Management in Foreign-Invested Enterprises of 1994 and the Regulations for Administration of the Employment of Foreigners in China of 1996. But these requirements have not been enforced.

The rules subject foreigners to a licensing system before they can start working. The system requires employment certificates, professional visas and residence permits. But foreigners in the following categories do not need such certificates:

- foreign diplomats;
- foreign companies' representatives based in China;

Hiring of foreign nationals
(score; 5=easy)



Source: Economist Intelligence Unit.

- chief representatives and other foreigners with advanced and special skills or managerial titles;
- professionals and executives with senior titles and special skills employed and financed by government departments and institutions; and
- foreigners engaged in Sino-foreign-exchange programmes sponsored by Chinese and foreign governments or international organisations.

The Ministry of Foreign Affairs and other governmental agencies issued regulations in 2002 allowing certain groups of foreigners to obtain multiple-entry visas of up to five years. Persons eligible for such visas include the following: consultants and advisers to the Chinese government; personnel above the level of assistant general manager; and persons who have invested at least US$3m in China.

Regulations concerning residents of Hong Kong, Macau and Taiwan were relaxed in October 2005, giving them the same status as mainland residents in seeking jobs with domestic Chinese companies. Previously, they were considered foreign workers, and local employers could hire them only if they could not find suitable local candidates after three weeks of public recruitment. Residents of these areas need not to go through employment procedures before entering China, but they must proceed to the labour bureau after entering China and follow its procedures to obtain an employment certificate.

Key contacts

- American Chamber of Commerce in Beijing, Tower AB, Sixth Floor, 10 Jintongxi Lu, Chaoyang District, Beijing 100020; Tel: (86.10) 8519-0800; Fax: (86.10) 8519-0899; Internet: http://www.amcham-china.org.cn.
- Beijing Municipal Administration of Industry and Commerce, 36 Suzhou Jie, Haidian District, Beijing 100080; Tel: (86.10) 8269-1919; Internet: http://www.baic.gov.cn.
- British Chamber of Commerce in China, The British Centre Room 1001, China Life Tower, 16 Chaoyangmenwai Dajie, Chaoyang District, Beijing 100020; Tel: (86.10) 8525-1111; Fax: (86.10) 8525-1100); Internet: http://www.britcham.org.
- Canada–China Business Council, Suite 11A16, Tower A, Hanwei Plaza, N7 Guanghua Lu, Chaoyang District, Beijing 100004; Tel: (86.10) 8526-1820/21/22; Fax: (86.10) 6512-6125; Internet: http://www.ccbc.com.
- China–Australia Chamber of Commerce, Eighth Floor, Office Tower, Beijing Hong Kong Macau Centre, 2 Chaoyangmenbei Dajie, Beijing 100027; Tel: (86.10) 6595 9252; Fax: (86.10) 6595 9253; Internet: http://www.austcham.org.
- China Banking Regulatory Commission (CBRC), A-15 Jinrong Jie, Xicheng District, Beijing 100140; Tel: (86.10) 6627-9113; Fax: (86.10) 6551-7664; Internet: http://www.cbrc.gov.cn.
- China Copyright Protection Centre (CCPC), Third Floor, Yonghe Plaza, West Building, 28 Andingmendong Dajie, Dongcheng District, Beijing 100007; Tel: (86.10) 6800-3887/5912/5814; Fax: (86.10) 6800-3945; Internet: http:// www.ccopyright.com.cn/cpcc/index_en.jsp.
- China Council for the Promotion of International Trade, 1 Fuxingmenwai Dajie, Xicheng District, Beijing 100860; Tel: (86.10) 8807-5000; Fax: (86.10) 6801-1370; Internet: http://www.ccpit.org.
- China Electronic Commerce Association (CECA), 27 Wanshou Lu, Haidian District, Beijing 100846; Tel/Fax: (86.10) 6820-8238; Internet: http://www.ec.org.cn.
- China Export and Credit Insurance Corp (Sinosure), Fortune Times Building, 11 Fenghuiyuan, Xicheng District, Beijing 100032; Tel: (86.10) 6658-2288; Internet: http://www.sinosure.com.cn.
- China Finance Certification Authority (CFCA), 20-3 Caishikou Nandajie Pingyuanli, Xicheng District, Beijing 100054; Tel: (86.10) 8352-6530; Fax: (86.10) 6355-5032; Internet: http://www.cfca.com.cn (Chinese only).
- China International Electronic Commerce Network, 11 Ronghua Zhonglu, Beijing Economy Technology Development Area, Beijing 100176; Tel: (86.10) 8751-9058; Fax: (86.10) 8751-9036; Internet: http://www.ec.cn.
- China Internet Network Information Centre (CNNIC), 4 Nansi Jie, Zhongguancun, Beijing 100190; Tel: (86.10) 5881-3000; Fax: (86.10) 5881-2666; Internet: http://www.cnnic.com.cn.

- China Software Industry Association, 55 Xueyuan Nanlu, Haidian District, Beijing 100081; Tel: (86.10) 5152-7160/7167; Fax: (86.10) 6218-6579; Internet: http://www.csia.org.cn.
- Export-Import Bank of China (Chexim), 30 Fuxingmennei Dajie, Xicheng District, Beijing 100031; Tel: (86.10) 8357-9988; Fax: (86.10) 6606-0636; Internet: http://english.eximbank.gov.cn.
- General Administration of Customs (GAC), 6 Jianguomennei Dajie, Beijing 100730; Tel: (86.10) 6519-4114; Fax: (86.10) 6519-4004; Internet: http://www.customs.gov.cn.
- Internet Society of China, 20 Zhaofu Street, Dongcheng District, Beijing 100009; Tel: (86.10) 6603-6137; Internet: http://www.isc.org.cn.
- Ministry of Commerce (MOFCOM), 2 Dong Chang'an Jie, Beijing 100731; Tel: (86.10) 6512-1919; Fax: (86.10) 6519-8173; Internet: http://www.mofcom.gov.cn.
- Ministry of Environmental Protection (MEP), 115 Xizhimennei Nanxiaojie, Xicheng District, Beijing 100035; Tel: (86.10) 6655-6006; Fax: (86.10) 6655-6010; Internet: http://www.mep.gov.cn.
- Ministry of Finance (MoF), 3 Nansanxiang, Sanlihe, Xicheng District, Beijing 100820; Tel: (86.10) 6855-1114; Fax: (86.10) 6855-1562; Internet: http://www.mof.gov.cn.
- Ministry of Housing and Urban-Rural Development, 9 Sanlihe Lu, Haidian District, Beijing 100835; Tel/Fax: (86.10) 5893-3575; Internet: http://www.mohurd.gov.cn.
- Ministry of Human Resources and Social Security, 12 Hepingli Zhongjie, Dongcheng District, Beijing 100716; Tel: (86.10) 8420-1114; Internet: http://www.mohrss.gov.cn (Chinese only).
- Ministry of Industry and Information Technology (MIIT), 13 Xichang'an Jie, Beijing 100804; Tel: (86.10) 6601-4599; Fax: (86.10) 6605-1370; Internet: http://www.miit.gov.cn (Chinese only).
- Ministry of Land and Resources, 64 Funei Dajie, Beijing 100812; Tel: (86.10) 6655-8682; Fax: (86.10) 6655-8114; Internet: http://www.mlr.gov.cn.
- Ministry of Transportation, 11 Jianguomennei Dajie, Beijing 100736; Tel: (86.10) 6529-2818; Fax: (86.10) 6529-2819; Internet: http://www.moc.gov.cn.
- National Copyright Administration of China (NCAC), 40 Xuanwumenwai Dajie, Xuanwu District, Beijing 100052; Tel: (86.10) 6512-7869/4433; Fax: (86.10) 6512-7875; Internet: http://www.ncac.gov.cn (Chinese only).
- National Development and Reform Commission (NDRC), 38 Yuetannanjie, Xicheng District, Beijing 100824; Tel: (86.10) 6850-2401/6850-2117; Fax: (86.10) 6850-2728; Internet: http://www.ndrc.gov.cn.
- Patent and Trademark Office, 800 Guoshun East Road, Yangpu District, Shanghai 200433; Tel: (86.21) 6553-0729; Fax: (86.21) 6552-3115; Internet: http://www.chinatrademarkoffice.com.
- People's Bank of China (PBoC), 32 Chenfangjie, Xicheng District, Beijing 100800; Tel: (86.10) 6619-4114; Fax; (86.10) 6619-5370; Internet: http://www.pbc.gov.cn.

- Quality Brands Protection Committee, Room 228, 2F, 82 Dong'anmen Avenue, Dongcheng District, Beijing 100747; Tel: (86.10) 8522-6276; Internet: http://www.qbpc.org.cn.
- State Administration for Foreign Exchange (SAFE), 18 Fucheng Lu, Haidian District, Beijing 100048; Tel: (86.10) 6840-2265; Fax: (86.10) 6840-2147; Internet: http://www.safe.gov.cn.
- State Administration of Industry and Commerce (SAIC), 8 Sanlihe Dong Lu, Xicheng District, Beijing 100820; Tel: (86.10) 8865-0000; Fax: (86.10) 6857-0848; Internet: http://www.saic.gov.cn.
- State Administration of Taxation (SAT), 5 Yangfangdian Xilu, Haidian District, Beijing 100038; Tel: (86.10) 6341-7114; Fax: (86.10) 6326-3366; Internet: http://www.chinatax.gov.cn.
- State Assets Supervision and Administration Commission (SASAC), 26 Xuanwumen Xidajie, Beijing 100053; Tel: (86.10) 6319-2000; Fax: (86.10) 6319-2325; Internet: http://www.sasac.gov.cn.
- State Intellectual Property Office (SIPO), 6 Xitucheng Lu, Jimenqiao, Haidian District, Beijing 100088; Tel: (86.10) 6208-3114; Fax: (86.10) 8208-6768; Internet: http://www.sipo.gov.cn.

China Hand

The complete guide to doing business in China:

Further content on how to do business in China is available from our China Hand service.

China Hand is the only practical China business reference guide with timely monthly updates

China Hand is the most comprehensive reference guide available on the political, economic and business environment of the PRC. Establishing a profitable China business venture has never been easy. Current reforms are generating new opportunities, but China's business environment remains complex. Whether you are a business executive just starting to explore the country's vast market potential or have operated there for some time, **China Hand** is the one source that will answer all your questions. **China Hand** is made up of 12 chapters, with one published each month.

China Hand will help you to:

- Navigate China's complex laws and regulations.
- Select the most suitable region and location for your investments.
- Stay up to date on all key issues affecting foreign business in China.
- Learn from the positive and negative experiences of other companies currently operating in China.

CONTENTS

Map
List of China's provinces and their capitals
Chapter 1: Politics, economy and basic data
Chapter 2: Trade
Chapter 3: Finance
Chapter 4: Investing
Chapter 5: Investment locations
Chapter 6: Land and property
Chapter 7: Taxes
Chapter 8: Human resources
Chapter 9: Consumer marketing
Chapter 10: Intellectual property and licensing
Chapter 11: Distribution
Chapter 12: Infrastructure

Should you wish to speak to a sales representative please telephone us:

Americas: +1 212 698 9717
Asia: +852 2585 3888
Europe, Middle East & Africa: +44 (0)20 7576 8181

Access analysis on over 200 countries worldwide with the Economist Intelligence Unit

The analysis and content in our reports is derived from our extensive economic, financial, political and business risk analysis of over 203 countries worldwide.

You may gain access to this information by signing up, free of charge, at www.eiu.com.

Click on the country name to go straight to the latest analysis of that country:

G8 Countries

- Canada
- France
- Germany
- Italy
- Japan
- Russia
- United Kingdom
- United States of America

BRIC Countries

- Brazil
- Russia
- India
- China

CIVETS Countries

- Colombia
- Indonesia
- Vietnam
- Egypt
- Turkey
- South Africa

Or view the list of all the countries.

Further reports are available from Economist Intelligence Unit and can be downloaded at www.eiu.com.

Should you wish to speak to a sales representative please telephone us:

Americas: +1 212 698 9717

Asia: +852 2585 3888

Europe, Middle East & Africa: +44 (0)20 7576 8181

Media Enquiries for the Economist Intelligence Unit

Europe, Middle East & Africa

Grayling PR
Angelina Hunt
Tel: + 44 (0)20 7592 7932
Mobile: + 44 (0)7850 311 441
Sophie Kriefman
Tel: +44 (0)20 7592 7924
Ravi Sunnak
Tel : +44 (0)207 592 7927
Mobile: + 44 (0)7515 974 786
Email: allgraylingukeiu@grayling.com

Americas

Grayling New York
Ivette Almeida
Tel: +(1) 917-302-9946
Ivette.almeida@grayling.com
Katarina Wenk-Bodenmiller
Tel: +(1) 646-284-9417
Katarina.Wenk-Bodenmiller@grayling.com

Asia

The Consultancy
Tom Engel
+852 3114 6337 / +852 9577 7106
tengel@consultancy-pr.com.hk
Ian Fok
+852 3114 6335 / +852 9348 4484
ifok@consultancy-pr.com.hk
Rhonda Taylor
+852 3114 6335
rtaylor@consultancy-pr.com.hk

Australia and New Zealand

Cape Public Relations
Telephone: (02) 8218 2190
Sara Crowe
M: 0437 161916
sara@capepublicrelations.com
Luke Roberts
M: 0422 855 930
luke@capepublicrelations.com

LONDON
26 Red Lion Square
London
WC1R 4HQ
United Kingdom
Tel: (44.20) 7576 8000
Fax: (44.20) 7576 8500
E-mail: london@eiu.com

NEW YORK
750 Third Avenue
5th Floor
New York, NY 10017
United States
Tel: (1.212) 554 0600
Fax: (1.212) 586 1181/2
E-mail: newyork@eiu.com

HONG KONG
6001, Central Plaza
18 Harbour Road
Wanchai
Hong Kong
Tel: (852) 2585 3888
Fax: (852) 2802 7638
E-mail: hongkong@eiu.com

GENEVA
Boulevard des Tranchées 16
1206 Geneva
Switzerland
Tel: (41) 22 566 2470
Fax: (41) 22 346 93 47
E-mail: geneva@eiu.com