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Abstract

This paper discusses one strategy that Chinese crewing agencies adopt to compete with each other in the global seafarer labour supplying market. This strategy is related to Chinese seafarers' social insurance participation. It shows that crewing agencies utilised a dual workforce – 'company-owned seafarers' and 'externally hired seafarers'. Externally hired seafarers, though in precarious employment, are offered higher salaries in place of social insurance coverage. By contrast, company-owned seafarers are paid less, though enjoy social insurance arranged by agencies. This strategy serves to segment the seafarer labour market, conceal the level playing field, and help agencies recruit seafarers cost-effectively, though in violation of labour rights. This paper argues that this strategy grows out of the competitive landscape co-shaped by the national regulatory and institutional settings and the global structure of the shipping industry.

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Abstract

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Key words: agency employment, labour market segmentation, market making, seafarer labour market, social insurance

1. Introduction

Agency work has been a fast-growing form of employment over the past three decades (Forde and Slater 2016a; ILO 2009; Peck et al. 2005). While a large body of literature has been generated discussing both the demand (client firms) and the supply (agency workers) sides of agency employment (e.g. Houseman et al. 2003; Karim 2014; Kunda et al 2002), some scholars (Coe et al. 2010; Forde 2008) have pointed out that research on agencies as labour market intermediaries and their strategies is patchy, and called for research on employment agencies in different national contexts. This paper responds to this call, examining Chinese crewing agencies in the global shipping industry with a focus on their arrangements of seafarers' social insurance.

The types of jobs that agency workers perform vary from low skilled ones to highly skilled positions such as consultants and technicians (Enright 2013; Kalleberg et al. 2015; Kunda et al 2002; Peck and Theodore 2002; Theodore and Peck 2002). While at the lower-skilled end, agency workers tend to be paid less than the permanent employees in client firms, those highly skilled by contrast are likely to obtain a higher income than if they are in permanent employment (Kunda et al. 2002). Despite the differences, a common theme is that agency workers may receive less or no benefits such as holiday pay, pension and health insurance (Kalleberg 2009; 2016; Kunda et al 2002; Peck and Theodore 2002; Standing 2016). Coe et al. (2010) nevertheless point out that in some countries, private employment agencies have been made liable for providing social welfare and protection. In China, under the recent Labour Contract Law (LCL) crewing agencies are required to make social insurance arrangement for their seafarers. However, the LCL is not effectively enforced (Wang 2011; Wang et al. 2009). Based on interviews with 30 crewing agency managers in China, this paper explores how crewing agencies strategically manipulate this requirement to compete with each other in the seafarer labour supplying market.

Previous research has demonstrated that regulatory and institutional contexts condition private employment agencies' strategies and operations (Coe et al. 2012; Forde and Slater 2016a; 2016b; Peck and Theodore 2001; 2002; Peck et al. 2005). More recently, Econie and Dougherty (2019) showed that the client industry has an influence on agency employment. Building on these two strands of research findings, this paper argues that the strategy adopted by Chinese crewing agencies grows out of the competitive landscape co-shaped by the national regulatory and institutional settings and the global structure of the shipping industry. The next section reviews the literature on agency employment, which is followed by a discussion of the research context. After explaining the research methodology, this paper presents and discusses the research finding. The concluding section draws out the implications.

2. Agency employment

A few reasons have been identified in the literature to explain why client firms use the services of private employment agencies. The most common one is that firms need agency workers to buffer their stable workforce from variations in market demand (Barrientos 2013; Davis-Blake and Broschak 2009; Forde and Slater 2016a; Kalleberg 2009). This practice resulted in a dual (core-periphery) workforce. The core, well trained and with secure employment, ensures product quality, while the periphery, whose employment is contingent on demand, provides flexibility at low costs. A second reason is that through outsourcing some non-core business functions, such as recruiting and managing workers, client firms are able to focus on developing core competencies (Coe et al. 2010). Another factor that motivates firms to use agency services is that they can externalise some responsibilities of being employers and the associated risks (Degiuli and Kollmeyer 2007; Houseman et al. 2003; Kalleberg 2009). For example, employers can lay off agency workers as they wish. It seems fair to say that despite various motives and reasons, outsourcing labour enables clients firms to make their businesses more cost-effective.

From the workers' perspective, one body of literature focuses on low skilled agency workers and critically examines their vulnerabilities. Compared with the core and stable workforce employed directly by employers, agency workers in the periphery tend to suffer from job insecurity, have fewer opportunities for work-related training, be paid less, and receive less or no fringe benefits (Forde and Slater 2016a, 2016b; Kalleberg 2009; Miltlacher 2008; Wang et al. 2016). However, there are also highly skilled agency workers, such as technicians and IT professionals, and research evidence shows that despite job insecurity, they prefer to work on a temporary basis because of enhanced income (Enright 2013; Kunda et al 2002). Thus motives for being agency workers vary (Lopes and Chambel 2014).

As the third party in the employment relations, private employment agencies have mushroomed and inevitably they compete with each other for market shares (Coe et al. 2012; Peck and Theodore 2001; 2002; Peck et al. 2005). Peck and his colleagues (Peck and Theodore 2001; 2002; Peck et al. 2005) documented how the US and European temporary staffing industry made and developed its markets. According to them, one common 'market making' strategy was occupational diversification (into more industrial/service segments and sectors) and geographical expansion (both nationally and internationally). The other strategy was cost minimisation. Such market-making effort argued by Peck and Theodore (2002: 169), among other things, led to 'the erosion of employer-sponsored benefits typically associated with the standard employment relationship' and 'the displacement of risks, costs and responsibilities for unemployment insurance and workers' compensation' in the US labour market.

The expansion and growth of the staffing industry hinge on the local regulatory and institutional environments. It is the deregulation of labour market that creates some of the demand for temporary agency workers. As deregulatory policies are adopted differently and at dissimilar paces across the world, national variations have implications for the industry. Peck et al. (2005) showed that while the temporary staffing industry markets in countries like the US and the UK where deregulation took place a long time ago were already mature and saturated, Germany and Japan where regulatory reforms had started only recently and cautiously were regarded as emerging markets with huge growth potential. However, Coe et al. (2012) noted that despite its perceived growth potential, Japan's institutional and business environment posed challenges to the operations of international staffing companies. While some of the challenges were related to the fact that the Japanese had different rules and customs in doing business, others were caused by the client base. International staffing companies largely relied on transnational firms for business, but in Japan the transnational client base was small and Japanese clients were reluctant to use foreign staffing service providers. Thus, national variations do seem to have significant implications for the development of the industry.

The literature on the market making strategies of employment agencies so far has predominantly focused on the competition for clients and revealed the underlying regulatory and institutional issues. Market making, however, relies on both an expanded client base and the ability to recruit a pool of temporary workers. It is reasonable to assume that agencies also develop strategies to compete on the recruiting front. Yet, this issue has not been examined. In this context, this paper examines the strategy adopted by Chinese crewing agencies to compete for seafaring labour.

Another area that the market making literature has not explored is the structure of the client industry. As a stable client base is essential to the success of agency firms, the client industry inevitably has an influence on agency employment. In this context, Econie and Dougherty (2019) studied agency employment in the US recycling industry and found that the structure of the industry created the need for such employment. As it would be too expensive to transport unsorted recycling materials abroad for processing, the initial stages of recycling (sorting, shredding, crushing, compacting and bailing), have to be done near the point of disposal. Due to the reductions in government subsidies, commodity price volatilities, and increased processing costs, however, recyclers' profit margins are constantly squeezed. Against this background, the industry resort to using agency workers so that they can reduce costs through the displacement of responsibilities related to health and safety management, insurance and compensations.

To study the strategy adopted by Chinese crewing agencies to compete for seafaring labour, this paper draws on both the market making literature and the insight from Econie and Dougherty (2019). It argues that the strategy was born out of the competitive landscape co-shaped by the national regulatory and institutional environments and the global structure of the shipping industry. In the next section, we discuss the regulatory and institutional settings in which Chinese crewing agencies operate and the structure of the shipping industry.

3. Contextualising the research

3.1 Labour policy reforms in China

The economic reform in China since the 1980s and the ensuing transition from a planned to a market-oriented economy has also transformed the labour market and employment relations. Until the early 1990s, workers in state- and local government-owned enterprises were in general employed for life. In 1996, the Labour Law came into force, which introduced a labour contract system. The main purpose of this system was to 'smash the iron rice bowl', which referred to life-long employment. Gradually, permanent employment was replaced by contract-based employment, even though some contracts were open-ended.

While the Labour Law smashed the iron bowl, China's new Labour Contract Law (LCL), which came into force in 2008, serves to extend labour rights protection to those employed in the private sector. It requires that all workers have a written contract, and stipulates that an open-term labour contract is deemed in effect after an employee has successfully concluded two consecutive fixed-term contracts. In this sense, the LCL encourages and to certain extend forces employers to have long-term contracts with their employees. It also requires employers to make contributions to their employees' social insurance, and social insurance details should be included in the labour contract. There are five types of social insurance, all of which are provided through employers: pensions, medical, unemployment, work injury, and maternity insurances. Both employers and employees are required to make financial contributions to social insurance programs.

In the past, China's social security system only covered workers who were urban residents in permanent employment in state- or local government-owned enterprises; it did not cover migrant workers or those who worked in the private sector (Wang 2011). The LCL aims to extend the system to all workers with employment contracts regardless of where they are from or which employer they work for. To a certain extent the law has protected workers' interests and research evidence suggests that it increased contract and social insurance coverage of migrant workers (Li and Freeman 2015).

Nevertheless, it is also widely documented that for a few reasons it is not effectively enforced and that employers adopt various strategies to reduce or evade their obligations (Huang and Han 2021; Wang 2011; Wang et al. 2009). First, while the law is enacted nationally, it is the local authorities that are in charge of implementation and enforcement. Migrant workers tend to be mobile and change employers frequently, as such local authorities find it difficult and costly to supervise their social insurance participation and are reluctant to do so. Second, employers complain that social insurance is too expensive and make them less competitive in the market. As economic growth serves as a major performance indicator for local government officials, they are likely to prioritise attracting investment over labour protection. Third, transferring insurance premiums between provinces is difficult, as local authorities are unwilling to implement geographical transfer policies because they consider it a financial loss to the local social insurance fund. This discourages migrant workers from participating.

Due to these problems, the ambition of the central government to establish a social insurance system that would cover all workers equally has not been achieved, and inequalities persist. Gao and Rickne (2014; 2017) analysed a national panel of firm data and found that state-owned firms were more compliant in social insurance participation and more generous in their benefit levels than local-government owned firms, while private domestic firms were the least compliant and least generous. They further found that social insurance inequalities were an extension of inequalities based on wages, as workers with higher wages tended to have greater social insurance coverage.

3.2 Employment of Chinese seafarers.

This paper focuses on Chinese seafarers and their employment. Apart from the economic and regulatory reforms discussed above, there is another force that has shaped Chinese seafarers' employment: the global structure of the shipping industry. Maritime shipping is a cost-effective mode of transportation. It is cost-effectiveness partially because shipping companies optimise their operations by spreading their businesses across several countries. Since the 1960s, the practice of flagging out has become popular which enables ship owners/managers (regardless of where they are domiciled) to register their ships in Flag of Convenience (FOC) countries (such as Liberia and Panama). FOC is attractive to ship owners/managers because it offers the benefit of low taxation, relaxes regulatory requirements on employment standards and imposes no restrictions on crew nationalities. As such, ship owners/managers are able to source cheaper crews from any seafaring labour supplying countries through local crewing agencies on short-term employment contracts, which gives rise to a global seafarer labour market (ILO 2001; Tang and Zhang 2021). To serve international (as well as local) ship owners and management companies, seafaring labour supplying countries have developed an extensive seafarer recruitment and crewing service industry.

In China, before the economic reform, seafarers worked only in the national fleet controlled by state- and local government-owned shipping companies and crewing agencies did not exist. The reform, however, not only spurred the establishment and growth of private shipping companies, but also enabled crewing agencies to emerge and dispatch Chinese seafarers to work on foreign ships. By 2015, China has become the top seafarer labour supplier in the world with 243,636 seafarers, surpassing other major supplying countries such as the Philippines, India, and Russia (BIMCO/ISF 2015). According to the official statistics (MSA 2019), there were a total number of 226 Chinese crewing agencies licensed to serve foreign shipping companies and collectively they dispatched 145,922[1] Chinese seafarers to work on foreign-flag vessels in 2018.

Chinese crewing agencies are not a homogeneous group. Initially they were established by state-owned shipping companies as they had surplus seafarers to accommodate international demand. China Ocean Shipping Company (COSCO), the biggest shipping company in China, created a subsidiary, COSCOMAN (COSCO Manning Cooperation Inc), which was the first crewing agency in China and controlled more than half of the Chinese seafarer exporting market in its first twenty years (Zhao 2000). Dispatching surplus seafarers to work on foreign ships not only opened a new employment channel but also generated additional incomes for shipping companies and foreign exchange for the country. As such, the authorities actively promoted this as an effective way of employment generation and poverty alleviation (especially for those who lived in poorer areas), and significantly increased the capacity of seafarer training and education over the years (Tang, Llangco, & Zhao 2016). Gradually, several non-shipping related state-owned companies (who specialised in international trade and labour export) saw the business opportunity, built up their pool of seafarers, and entered the agency market (Zhao 2011; Zhao et al. 2016). From the early 2000s, many private crewing agencies also started to emerge. Sinocrew, for example, a privately-owned crewing agency set up in 2002, has today become one of the top players in the market and boasted of having a pool of about 10,000 seafarers.

New entrants in the crewing agency market and further economic and regulatory reforms diversified employment relations and practices. When the employment market was monopolized by state- and local government-owned shipping companies, Chinese seafarers were employed for life and their welfare was looked after by their employers. With the adoption of the Labour Law in 1996, seafarers' employment was changed to a contract-based model (Zhao and Amante 2005): seafarers working in state- or local government-owned shipping companies had open-ended or long-term contracts, while those working for private ship owners and crewing agencies were likely to have medium-term contracts, for five years, for example. At the same time, it became gradually popular for seafarers to go 'freelancing', that is, to secure employment through crewing agencies on contracts covering a tour of duty only. Research evidence in the early 2000s suggested that working on foreign ships was much more attractive than in the national fleet as the former offered a higher salary and more job opportunities (Wu 2004). Consequently, some seafarers employed by state-owned shipping companies tried to break free from their employers in order to work for crewing agencies. This increased the number of freelance seafarers (Wu et al. 2006), and reflected the competition for seafaring labour in the industry. Thus today the employment of Chinese seafarers is no longer universally fixed for life to state-owned companies.

Wu and Beaverstock (2013) identified a two-tier seafarer labour market: one consists of national seafarers working in the national fleet, and the other global seafarers employed by crewing agencies to work on foreign ships. About half of Chinese seafarers work in the national fleet and the other half on foreign-flagged ships (MSA 2019). This paper focuses on the latter. Crewing agencies sign (short- or medium-term) contracts with seafarers and are responsible for their social insurance under the LCL when dispatching them overseas. How agencies discharge this responsibility, however, has not been studied. This paper discusses how agencies take advantage of weak LCL enforcement and manipulate social insurance arrangements to compete for seafaring labour.

4. Research methodology

This paper draws on data from a study of Chinese seafarers' rights and protection in the context of the adoption of Maritime Labour Convention (MLC) by ILO in 2006. This Convention is designed to improve working and living conditions on ships and protect seafarers' labour rights, including their entitlement to social security protection. By coincidence, the LCL requirements in China are in line with the social security regulation under the MLC 2006.

In the context that insufficient information was available about how different types of crewing agencies provided social insurance coverage to seafarers under the LCL, the research team adopted a qualitative research strategy and conducted semi-structured interviews with crewing agency managers to explore this issue. China is a big country and crewing agencies are located in various provinces. In order to capture the practices of agencies from different backgrounds and locations, purposive sampling was used. A total of 30 crewing agencies were included in the sample. They were drawn from five major agency hosting provinces, Fujian, Hubei, Guangdong, Liaoning and Henan, to have a wide geographical coverage. Furthermore, they represented all the types of agencies in terms of origin and ownership: three of them were subsidiaries of state-owned shipping companies, one was affiliated with a provincial government-owned shipping company, six of them were created by non-shipping related state- or local government-owned companies, and the remaining twenty were private firms. The variations enabled comparisons, which served to reveal both the similarities and differences in their practices, and to suggest underlying reasons.

Interviews were conducted with crewing agency managers (one manager from each company) between June and October in 2014. As the research was commissioned by the Maritime Safety Administration, they helped with contacting the sampled shipping companies and arranging interview meetings. In Fujian, Hubei, and Guangdong provinces, the local maritime authorities invited the sampled companies to the interview meetings at the same time. In these cases, group interviews were conducted, and the managers attending were able to confirm each other's answers and/or explore the differences between them. In Henan and Liaoning provinces, the interviews were conducted with crewing managers individually. Among other seafarers' rights and protection issues, these managers were asked and talked about various arrangements of seafarers' social insurance coverage that they provided during the interviews.

Due to the circumstances, the interviews were not tape-recorded. However, they were conducted by a research team of two members. While one focussed on asking questions and discussing related issues with agency managers, the other was responsible for taking notes of the interviews. These notes were edited and more details were added based on the memories of both researchers immediately after the interviews. As such they recorded what was said in reasonable detail. As interviews were not tape-recorded and interview notes were not interview transcriptions, no direct quotations from interviewees are used in this paper.

Following an inductive approach (Braun and Clarke 2006), the research team analysed the interview notes thematically. In other words, codes and themes were identified and drawn out of the data rather than predefined based on existing theory. In the analysis, a range of social insurance provision practices was identified and they were associated with different types of seafarers and crewing agencies. These associations and the underlying reasons suggest new ideas that extend our understanding of agency employment. Next, we present and discuss the findings.

5. The dual labour force

For convenience, the crewing agencies affiliated with state-owned or provincial government-owned shipping companies are referred to as subsidiary agencies, and those created by non-shipping related state- or local government-owned companies are referred to as independent agencies. All the 30 agencies interviewed were involved in dispatching seafarers to work in the international fleet and this paper focuses on this aspect of crewing operations. They work in a multi-tiered market. Two small private agencies in this study were subcontracted to provide services to top tier agencies, who were subsidiary agencies. This multi-tiered market means that there could be more than one crewing agencies involved in a seafarer's employment, which extends the labour supply chain further.

The agencies reported utilising a dual workforce. One workforce consisted of seafarers who signed medium-term (between 36 and 72 months of shipboard service) contracts; they were referred to as 'company-owned seafarers' and the agency firms act as employers. This practice is underpinned by the institutional environment. As mentioned earlier, Chinese crewing agencies were initially created by state-owned shipping companies to send surplus seafarers to work on foreign ships. These seafarers were permanent employees. The adoption of Labour Law in the 1990s changed their employment status to contract-based. Independent and private crewing agencies set up later largely followed this practice. As will be explained below, the shortage of officers is another reason for this practice. Furthermore, according to the Chinese crewing agency regulation, for an agency to obtain a recruitment license, they need to have at least 100 company-owned seafarers on the payroll. In this respect, Chinese crewing agencies share similarities with some international staffing firms in Europe and the US who act as employers of the temporary workers that they hire out (Forde and Slater 2016a; 2016b).

The other workforce is temporary, either supplied by next tier agencies or employed directly from the spot labour market and were commonly known as 'externally hired seafarers'. The spot market consists of freelance seafarers who leave their contact details to agencies and respond to calls. Freelance seafarers also collect information about crewing agencies, and if they learn that one agency provides better conditions, they would contact this agency directly for employment opportunities. While the ratio between the two workforces varied among the agencies interviewed, in the majority of cases company-owned seafarers were more likely to be seafaring officers and ratings tended to be externally hired. Officers take responsibility for the navigation of the vessel, cargo operations, and monitoring and maintaining the machinery; ratings assist in all other tasks that arise during a voyage, such as painting, cleaning, mooring, assisting in watchkeeping, crane driving, welding and cooking.

The interview data suggest two explanations for the difference in the employment practices of officers and ratings, and both reflect the characteristics of the seafarer labour market. First, it takes years of academic study and practical training to become an officer, while a rating only needs a few months' basic training. Unsurprisingly, Wu and Beaverstock (2013) drew parallels between the officer/rating occupational demarcation and the core/periphery labour market segmentation identified in the wider literature (e.g. Barrientos 2013; Forde and Slater 2016a; Kalleberg 2009). Officers are more akin to highly skilled professionals, and ratings more to low skilled workers. Correspondingly, a rating's wage is much lower than that of an officer. Agencies need to spend a similar amount of resources to keep a seafarer regardless of rank but make more profit from a high-rank officer. Understandably, low wages and thus low-profit margins are less attractive to agencies. Second, it is related to the global supply and demand for seafarers. While there is an over-supply of ratings, the supply of officers has been tight over the years (BIMCO/ICS 2015; Zhao and Amante 2005). For this reason, crewing agencies each year attended job fairs organised by maritime universities and colleges to recruit new graduates; and they used employment contracts to tie the newly recruited, which ensured them a relatively stable pool of 'company-owned' seafarer officers (see also Tang and Zhang 2019; Zhao 2011). When the pool could not meet the demand, an agency would need to hire from the spot market or 'borrow' from other agencies which can be resource consuming due to the tight supply. Regarding ratings, there was an abundant supply in the spot market and agencies could easily recruit them with a low salary (see Zhao 2011 for similar findings). One subsidiary agency mentioned in the interview that although they had a small number of company-owned ratings, they did not plan to renew contracts with them.

Based on data collected in the early 2000s, Wu and Beaverstock (2013) categorised agency-employed Chinese seafarers into three groups: i) seafarers with long-term employment contracts with subsidiary agencies, ii) seafarers with long- or medium-term employment contracts with independents or private agencies, and iii) freelance seafarers. In this section, these seafarers are divided into two groups from the perspective of agencies, and company-owned seafarers include the first two groups in Wu and Beaverstock's scheme. The reason Wu and Beaverstock differentiated the first two groups was that while the first group had welfare and social security benefits, the second group (together with the third) had none. Nevertheless, in 2008 the LCL came into force, requiring employers to make contributions to their employees' social insurance. Our data show that this new law has made the practices of social insurance provision more nuanced than a binary distinction between providing and not providing, as will be discussed below.

6. Social insurance provision

To fulfil the obligations under the LCL, crewing agencies arranged social insurance for company-owned seafarers. Regarding externally hired ones, they shifted this obligation down the labour supply chain to the next tier agencies or freelance seafarers themselves. The interviewed agencies explained the logic behind this arrangement: company-owned seafarers were their employees, while externally hired ones were either employee of next tier agencies or self-employed freelance seafarers. However, when an agency employs a freelance seafarer from the spot market, an employment relationship is established regardless of its duration, and a short-term contract should be signed. Therefore, this agency still has an obligation under the LCL to provide social insurance for the employment period. To discharge this obligation, agency managers mentioned a common strategy, that is, they chose to pay a social insurance subsidy into freelance seafarers' salaries.

This discrepancy is related to costs. Social insurance, if paid in full, is quite expensive. During the interview, a subsidiary agency provided a breakdown of different types of social insurance that an employee is entitled to (see Table 1). It shows that the employee would contribute 26 per cent of his/her salary to social insurance, and that employer would contribute another 52 per cent. For example, if a seafarer's salary is USD 100 per month, s/he pays a social insurance contribution of USD 26 and this leaves him/her USD 74 to take home. Meanwhile the employer needs to make an additional social insurance contribution of USD 52. In total, the employer spends USD 152, but the employee takes only USD 74 home, less than half of the amount that the employer pays.

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Thus, for both agencies and seafarers, social insurance is expensive. Subsidiary agencies complained during the interviews that social insurance was a heavy financial burden on them costing up to 52.2 per cent of crewing costs. As it is costly, freelance seafarers did not want employers to buy social insurance on their behalf but preferred the social insurance subsidy arrangement. For ratings whose wages were low, the subsidy was particularly attractive.

There is also a middle way to mitigate the high cost of social insurance. Although all interviewed agencies stated that they bought social insurance for company-owned seafarers, independent and private crewing agencies deliberately chose to pay at a lower level. According to the LCL, agencies should buy social insurance for their employees based on the actual income, but there is a ceiling for high incomes and a floor for low incomes. In the case of low incomes, the minimum social insurance contributions (from both the employer and employee) should not be less than that based on 60 per cent of the local average salary. To save costs, independent and private agencies chose to buy social insurance for their employees at this minimum level rather than based on the actual salaries. Although this practice does not comply with the law, it is a common strategy in China to reduce social insurance costs (Wang 2011).

By contrast, the subsidiary crewing agencies reported paying social insurance in full for their employees. This arrangement obviously incurs a cost and puts these companies in a disadvantaged position. In the interviews, the managers from these agencies acknowledged that due to the cost of social insurance, their employees' salaries were lower compared with that of freelance seafarers. Meanwhile, the managers from independent and private crewing agencies stated that the salary levels of their employees were more competitive than those of subsidiary agencies. It is not surprising then that complaints about low salaries by seafarers working for state-owned shipping companies and their subsidiary agencies are routine (see also Wu 2004; Zhao et al. 2016). These companies face the constant challenge of losing their workforce to independent and private crewing agencies and the spot market. Subsidiary agencies complained that they had become the seafarer training base for others – once they had trained officers up, these seafarers would want to leave for higher salaries.

The reason that subsidiary agencies chose to do so is partially political. It is well known that state-owned companies perform socio-political functions in China. For example, in the late 1990s and early 2000s, for social stability reasons, state-owned shipping companies (including their subsidiary agencies) were refrained from laying off surplus workers (Zhao 2011; Zhao et al. 2016). In the case of social insurance provision, a few interviewed managers explained that state-owned shipping companies and by extension their subsidiary agencies had a political obligation to set a good example as law-abiding organisations. Furthermore, state-owned shipping companies have always been providing good welfare facilities and social benefits, such as housing, pension, education and medication to their seafarers (Wu and Beaverstock 2013; Zhao 2000); they have large followed this tradition and requested their subsidiary agencies to do the same (Zhao 2011). By contrast, even though independent agencies were also affiliated with government-owned companies, the latter did not have a shipping background and their entry into the market was profit-driven. As such, independent agencies were more market-orientated and less constrained by socio-political factors (Zhao 2011).

Therefore, social insurance arrangements serve to section the Chinese seafarer labour market into three segments. The first consists of company-owned employees of subsidiary agencies. Seafarers in this segment enjoy full social insurance, but in general are not content with relatively low salaries. Company-owned seafarers of independent and private agencies occupy the second segment. They are paid better than those working for subsidiary agencies, but their social insurance coverage does not correspond with their actual incomes. Finally, freelance seafarers who are on-call in the spot market are in the third segment. To pursue high salaries, they prefer agencies to give them social insurance subsidies (see Table 2 for an overview of the three segments). The first two segments also provide job security and when their contracts come to the end, seafarers in general are given the choice of renewal. However, a proportion of them choose to become freelance seafarers instead. Furthermore, as working at sea has many drawbacks, such as long-term separation from family and social isolation, seafarers' attrition rates are very high (Tang and Zhang 2019; 2021). Consequently, one interviewed manager complaint that less than half of their employees would choose to renew contracts – the majority of them either moved ashore or went freelance.

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From seafarers' perspective, salaries are more visible; by contrast, social insurance coverage is indirect and less visible. As such, crewing agencies in the interviews pointed out that seafarers tended to prefer higher salaries in place of social insurance coverage. For agencies, however, both are direct costs, and whether it is a salary or social insurance payment makes no difference. In this context, it is one cost-effective strategy to recruit seafarers, especially officers when their pool of company-owned could not meet the demand, in the spot market with higher salaries but no social insurance coverage. It enables agencies to achieve flexibility without much extra cost in a tight labour market.

Labour market segmentation is nothing new. For example, the core-periphery segmentation provides an essential space for the temporary agency industry to survive and thrive; labour exporting/importing relies on the segmentation between migrant and local workers. The segmentation between company-owned and externally hired seafarers adds to the list of segmentation strategies. Furthermore, this segmentation has two dimensions: one dimension along the officer/rating line and the other revolving around social insurance arrangements. While the Chinese regulatory and socio-political settings play a role in this practice, the labour market structure is also an underlying factor. The previous section has discussed how the labour market shapes the officer/rating dimension; the next section will discuss the role played by the global structure of the seafarer labour market in the second dimension.

7. The pressure of global competition

To develop a more adequate understanding of the segmentation practice related to social insurance arrangements, it is necessary to put it in a wider context and examine the configuration of pressures faced by crewing agencies. This configuration has two inter-related dimensions. One is horizontal, competitive pressures among themselves. This horizontal dimension does not work in isolation, but implies and is intertwined with a vertical dimension, that is, pressures from both clients (ship companies) and seafarers. As suggested in the literature, while client firms strive for cost-effectiveness (Coe et al. 2010; Kalleberg 2009; 2016), agency workers are more likely to be motivated by financial returns (Enright 2013; Kunda et al 2002; Lopes and Chambel 2014). Similarly, for survival crewing agencies need to offer cost-effective crewing solutions to clients and at the same time provide seafarers with attractive financial rewards, especially in a tight labour market.

In terms of horizontal pressures, the global nature of the shipping industry should not be overlooked. As Econie and Dougherty (2019) have shown, the client industry has an influence on agency employment. Chinese crewing agencies face global competitions and fight for market shares with competitors not only within China but also from other major supplying countries, such as the Philippines, India, and Ukraine. Compared with the seafarers of other nationalities, Chinese seafarers have a few weaknesses with the major one being poor English proficiency (Tang, Llangco, & Zhao 2016; Wu 2004; Zhao and Amante 2005). As English is the lingua franca of international shipping and English communication skills are regarded as crucial in the industry, Chinese seafarers are disadvantaged. To mitigate this, crewing agencies relied on a low-cost strategy to open and develop the global market for Chinese seafarers (Tang, Llangco, & Zhao 2016; Wu 2004; Wu and Beaverstock 2013; Zhao and Amante 2005). To take advantage of the low-cost offers and alleviate the communication and quality concerns, foreign ship managers often choose an all-Chinese crew, instead of mixing them with other nationalities; furthermore, they are more likely to deploy them on bulk carriers, which are technically less complex than tankers and gas carriers and offer lower salaries (Tang, Llangco, & Zhao 2016).

Regarding vertical pressures, while a low-cost strategy appeals to clients, it does not help with the recruitment of seafarers, especially officers. To manage this challenge, agencies manoeuvres the local regulatory and policy context to open up a space for differentiation, which results in the segmentation of the seafarer labour market. This local context is weak LCL enforcement. As pointed out earlier, the local authorities in China are reluctant to spend resources monitoring migrant workers' social insurance participation due to their mobility (Huang and Han 2021; Wang 2011). Seafarers are also highly mobile. They do not work in cities or towns but on ships sailing around the world. Many of them do not live in the same city where the crewing agency is located. Furthermore, freelance seafarers change agencies quite often. Therefore, their social insurance participation would be more difficult to supervise than that of land-based migrant workers. It is not surprising then that the LCL enforcement authorities have paid little attention to the practices of crewing agencies.

Such a segmentation strategy has implication for labour. In previous research, Peck and Theodore (2001; 2002) documented that the US temporary staffing industry made and developed its markets by diversifying into new industrial/service sectors. In contrast, crewing agencies' segmentation strategy does not aim to expand, but only serves to segment, the existing market. It does not benefit seafarers either but encroaches on their labour rights under the LCL. The various social insurance and salary combinations designed by agencies serve to conceal the level playing field and make the waters murky. For seafarers, the hidden costs related to insecurity and inadequate social protection are not quantifiable. It is impossible for them to have a transparent picture of which combination provides better pay and benefits, and as a result they have to navigate the murky waters, choosing between immediate gain and future security at their own risk.

8. Conclusion

This paper discusses a recruitment-related strategy adopted by Chinese crewing agencies to compete for seafaring labour. It has demonstrated that crewing agencies in China operate a dual workforce system – a stable pool of company-owned seafarers and a temporary workforce of externally hired seafarers. This dual arrangement corresponds with the relative shortage of officers and oversupply of ratings, as company-owned seafarers consist mostly of officers. A more clear-cut defining factor of the dual arrangement, however, is related to the benefits package including social insurance and the salary income. Externally hired seafarers, though in precarious employment, are offered higher salaries in place of social insurance coverage. By contrast company-owned seafarers are paid less, though enjoy social insurance arranged by the companies.

This paper has further revealed that this segmentation strategy is a product of the competitive landscape co-shaped by the national regulatory and institutional environments and the global structure of the shipping industry. Situated in the middle of global labour supply chains, Chinese crewing agencies link global ship managers and local seafarers in China. As they make money by providing cost-effective crewing services to ship managers globally, fierce competition comes from both ends. At one end, crewing agencies compete with both overseas and domestic competitors to serve international ship managers and to expand their global market. To this end, Chinese crewing agencies rely on a low-cost strategy in the global market (Tang, Llangco, & Zhao 2016; Wu 2004; Wu and Beaverstock 2013; Zhao and Amante 2005). At the other end, they compete with domestic agencies for a pool of officers in a tight labour market. To this end (and at the same time to sustain the low-cost strategy), they manoeuvre the local regulatory and socio-political settings to open a space for the labour market segmentation. As such, while all agencies arrange social insurance for company-owned seafarers, subsidiary agencies provide full coverage (combined with lower salaries) in order to fulfil not only the legal but also political obligations, independent and private agencies provide partial coverage (combined with higher salaries) to meet the minimum legal requirements. Regarding externally hired seafarers, they earn more than company-own seafarers but are not provided with social insurance coverage. This differentiation in the design of benefit packages serves to conceal the level playing field, which helps agencies recruit seafarers cost-effectively, but at the cost of seafarers.

It is an open secret that the LCL is not effectively enforced in China and it has become a norm that the majority of medium- and small-sized companies only provide minimum social insurance coverage (Wang 2011; Wang et al. 2009). In fact many small companies do not sign employment contracts with workers. To be sure, enforcement has always been a challenge in a range of contexts and countries, and as such regulation evading practices are common in agency employment across the globe (Andrijasevic and Sacchetto 2017; Knox 2018). Thus, to call for the authorities to step up their enforcement effort and pay more attention to migrant and agency workers may be too generic. What is more specific in this case though is that seafarers do not have effective union or collective representation in China (Tang, Shan, & Yang 2016). It can be envisaged that some forms of collective representation would make seafarers more able to pressurise the enforcement authorities, bargain with crewing agencies, and raise awareness of social security issues among themselves.

This paper makes a contribution to understanding the complexity of Chinese seafarer labour market. In an early study, Wu and Beaverstock (2013) differentiated groups of seafarers based on whether they were provided with social welfare and benefits. This binary distinction, however, needs to be revised in the wake of CLC implementation. To fulfil their obligations under the CLC, subsidiary agencies nowadays provide full social insurance to company-owned employees, while independent and private agencies only provide their company-owned seafarers with minimum social insurance. Regarding externally hired freelance seafarers, they receive a social insurance subsidy instead.

More broadly, this paper advances the understanding of market making strategies in the temporary staffing industry. Previous research that explored agencies' marketing making strategies focussed on how they compete for customers and expand the client base, and the research findings suggest that the expansions hinge on the local regulatory and institutional environments (Coe et al. 2012; Peck and Theodore 2001; 2002; Peck et al. 2005). This paper argues that in the market making process, agencies compete not only for clients but also for labour, because market making also relies on recruiting enough temporary workers. Starting from this premise, this research examines the recruiting front in the context of Chinese crewing agencies competing for seafaring labour. It demonstrates that apart from the national regulatory and institutional environments as suggested in the extant literature (Coe et al. 2012; Peck and Theodore 2001; 2002; Peck et al. 2005), the global structure of the shipping industry also underpins the practices of crewing agencies. The latter is in line with Econie and Dougherty's (2019) argument that the client industry influences agency employment. As such, it can be argued that to develop an understanding of the market making strategies adopted by agencies, it is important to examine them in relation to the broad competitive landscape, which may stretch from the local to the global and is co-shaped by both the national regulatory and institutional environments and the structure of the client industry.

This paper focuses only on one element – the arrangement of social insurance. Arguably, crewing agencies may adopt a wide variety of strategies to compete for seafaring labour in accordance with local contexts as well as global pressures. To explore these strategies and their impacts on labour, further research is required which should take into account, and be sensitive to, the industrial competitive landscape.

Note:

1. There was also a similar number of Chinese seafarers working in the Chinese national fleet.

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Table 1: An example of social insurance that state-owned companies buy for employees

Social insurance type	Employee contribution (as percentage of salary)	Company contribution (as percentage of salary)	Total
Pension	8%	20%	28%
Medical insurance	2%	14%	16%
Unemployment insurance	1%	2%	3%
Work injury insurance	0	0.8%	0.8%
Maternity insurance	0	0.2%	0.2%
Housing provident fund	15%	15%	30%
Total	26%	52%	78%

Table 2 An overview of the three segments

Employment status	Benefits	Drawbacks
Company-owned seafarers of subsidiary agencies	Stable employment, full social insurance	Lowest salaries
Company-owned seafarers of independent and private agencies	Stable employment, medium salaries with minimum social insurance	medium salaries with minimum social insurance
Freelance seafarers	Highest salaries (including social insurance subsidies)	Precarious employment, no social insurance