

National Policy Responses to the Financial and Economic Crisis: The Case of China

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1. Current Economic and Labour Market Situation

Compared to other countries hit by the current economic crisis, China's economy, the fourth largest one in the world, has performed relatively well. GDP growth slowed to 9% in the year to the third quarter, from 11.9% in 2007. But in 2009 the GDP growth would significantly slow down. The World Bank predicts 7.5% growth in 2009.

It is certain that harder times are ahead. Construction, steel demand, electricity consumption, car sales and air travel have all been falling in recent months. Industrial production grew by only 8.2% in the year to October 2008, less than half its pace a year ago and its slowest for seven years. Share prices have slumped by 70% from their peak and house prices have started to drop. According to China Academy of Social Sciences, the global financial crisis has caused the closure of 670,000 small- and medium-sized firms in China, many of them labor-intensive ones based in coastal regions.

Guangdong province where labour intensive industries of textile, garment, shoes and toy industries are concentrated has been hit hardest. Thousands of firms making shoes, toys and clothing have been forced to close this year. The Dongguan City Association of Enterprises with Foreign Investment estimates that 9,000 of the 45,000 factories in the cities of Guangzhou, Dongguan and Shenzhen - the heart of China's industrial south - are expected to close before the Lunar New Year celebrated in China in late January. That could mean up to 2.7 million workers facing unemployment immediately, the association said.

Yet toys and shoes now account for less than 5% of China's total exports. Exports of machinery and transport equipment (almost half of the total) are still rising at an annual rate of more than 20% in volume terms. The troubles of many firms in low-value sectors, such as toys and shoes, partly reflect China's success in moving up into higher-value industries, which has pushed up wages. Even before the global economic crisis, the industrial restructuring was already underway through relocation of low-cost and low-added value production from advanced coastal areas to inland provinces and less developed neighboring countries.

China is better positioned to deal with the current crisis than any other countries. The government budget surplus stands at 1-2% of GDP (depending on how you measure it) and total public-sector debt at less than 20% of GDP, one of the smallest of any large economy. This means that China has ample room for further fiscal policy intervention to stimulate the economy.

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Registered unemployment was 8.3 million in September, down 50,000 from last year; the registered unemployment rate was 4.0 percent, unchanged from the end of last year. The ministry said that a target of creating 10 million additional jobs was 94 percent completed in the first three quarters of the year and that laid-off workers were finding it easier to find new jobs. But an expert said the final quarter figures will be the most important for estimating the effects of the crisis on China's economy. According to an estimate, 7.5 million migrant workers have already returned to their home villages and towns. Companies are cutting jobs as the economy cools and as many as 20 million migrants may return to rural areas this year, economists have estimated. As companies are cutting jobs, as many as 20 million migrant workers may return to rural areas, some economists predict.

Information from the Ministry of Education shows that a record 5.59 million college graduates entered the labor market in 2008, an increase of 640,000 over last year. Since around 700,000 of last year's graduates have not yet found jobs, more than 6 million graduates are currently looking for work. According to the Ministry of Human Resources and Social Security, there would be 24 million people would be competing for 12 million jobs in 2009.

2. Fiscal and monetary policy packages to stimulate domestic demand, income and employment

Fiscal Policy

The government announced four trillion yuan (586 billion USD) economic stimulus package for two years, which amounts to 14% of estimated GDP of 2008.

The package includes public works, social welfare and tax reform. The main spending areas are public housing for poor households; infrastructure projects such as railways, roads, airports and the power grid; speeding up rebuilding after the May earthquake; and increased spending on health and education. A reform of the VAT system will allow firms to deduct purchases of fixed assets, reducing companies' tax bills by an estimated 120 billion yuan (4% of 2007 industrial profits). This should encourage firms to upgrade their capital equipment. The government also plans to boost rural incomes by raising the minimum purchase price of grain as well as increasing subsidies for farmers, and promises plumper social-security benefits for low-income groups.

Box 1: Sectoral breakdown of stimulus package

Housing: Building more affordable and low-rent housing and speeding the clearing of slums. A pilot program would be instituted to rebuild rural housing. Migrants would be encouraged to settle down through incentive programs.

Rural infrastructure: Speeding up rural infrastructure construction. Improvement of roads and power grids in the countryside. Increasing the use of methane. Ensuring the purity of drinking water. Expediting the North-South water diversion project. Reinforcing deteriorating reservoirs. Increased water conservation in large-scale irrigation areas. Increased spending on poverty relief.

Transportation: Accelerating the expansion of railways including building a larger number of dedicated passenger rail links and coal routes. Increased airport construction in China's western regions. Upgrading of urban power grids. Building more subway lines and roads.

Health and education: Greater spending on health care services in rural areas. Increased spending on education and more construction of junior high schools in rural areas in central and western China. Increased construction of special education and cultural facilities.

Environment: Improving environmental protection by enhancing the construction of sewage and waste treatment facilities and preventing water pollution in key areas. Accelerating greenbelt and natural forest planting programs. Increasing support for energy conservation and pollution-control projects.

Industry: Enhancing innovation and industrial restructuring and supporting the development of the high-tech and service industries.

Disaster rebuilding: Speeding reconstruction in the areas hit by the May 12 earthquake in Sichuan Province.

Incomes: Raise average incomes in rural and urban areas. Raising 2009 minimum grain purchases and farm subsidies. Increasing subsidies for low-income urban residents. Increasing the number of pension funds for company employees and allowances for those receiving special services.

Taxes: Extended reforms in the value-added tax rules to all industries, which could cut the tax corporate burden by 120 billion yuan (about 17.6 billion U.S. dollars) and allow all companies in China to deduct spending on capital equipment. Technological upgrades will be encouraged.

Finance: Remove loan quotas on commercial lenders to channel more lending to priority projects. Increasing bank credit for priority projects, rural areas, small businesses. Transferring production to create economic efficiency through mergers and acquisition.

Box 2 Impact of rural infrastructure project on improving rural incomes

China's four trillion yuan stimulus package includes USD 14 billion for rural projects, as rural migrant workers who were laid-off are returning to their home villages. Liu Juncheng, a senior researcher with the Chinese government, said that "Increasing expenditure on rural development programs can create jobs directly for surplus laborers in the countryside. They don't even need to move to other cities because they can earn a living at home."

Past spending on infrastructure has made a positive economic impact by reducing transportation time and cost. The results are evident in a small village in Guizhou, where a new expressway has cut travel times to the big city of Chongqing to 45 minutes from more than two hours. That has inspired local businesses to expand and outsiders to look for weekend retreats. Many villages are now resurfacing dirt roads to improve connections and ease travel further. Rather than selling their crop of Sichuan peppercorns from baskets on their backs, local farmers are loading them by the sackful onto trucks. Average annual incomes here reached about 4,100 yuan (\$600) in 2007, up from 3,030 yuan (\$450) three years ago.

Monetary policy

China plans to increase its currency supply by 17 percent in 2009, 3 or 4 percentage points more than the combined GDP and price rise, according to the State Council's public statement.

At the same time, the State Council decides to increase 100 billion yuan (14.61 billion U.S. dollars) of loans this year for the country's policy banks, and encourage commercial banks to

provide loans for projects with central investment to make it possible that the total loans of financial institutions would increase more than 4 trillion yuan in 2008.

"We must strengthen the role of the financial sector in supporting economic growth by better implementing an active fiscal policy and moderately easing monetary policy," the statement said. Other efforts to ensure a stable increase of currency and loan supply include suspending three-year central bank note and cutting issues of both one-year and three-month bank note. The State Council also stressed the importance of increasing more room for lowering lending rate and enhancing the flexibility of foreign exchange rate.

If necessary, the state-controlled banking system can be directed to increase lending to firms. That would raise long-term concerns about the future quality of banks' assets, but in the short term it would help to keep the economy ticking. While fiscal stimulus can jump-start the economy, bank lending is the fuel needed to keep it going.

3. Measures protecting the poor and the vulnerable

China displays a great degree of disparity between regions and between rural and urban areas. Urban incomes are three times higher than rural incomes. With the economic crisis, millions of migrant workers who have lost their jobs are heading back to their home villages. China's social policy responses to the current crisis try to maintain or improve rural incomes through various schemes, and to assist migrant workers who have returned to their home villages and towns in finding jobs or setting their own businesses.

Expansion of rural anti-poverty programme

The Chinese government plans to expand coverage of its anti-poverty program in rural areas next year to include an additional 28.41 million residents. Rural residents with an annual per capita income of less than 1067 yuan (156 U.S. dollars) would begin to be covered in the country's poverty-relief program next year. Currently, the program only benefited rural residents with an annual per capita income of less than 786 yuan. An annual income of less than 786 yuan is defined as absolute poverty and an annual income of between 786 and 1067 yuan as low income. By the end of last year, the country had a rural population of 14.79 million living in absolute poverty, while the low-income rural population was 28.41 million. The expansion would ensure 43.2 million rural residents benefit from poverty-relief policies. That accounts for 4.6 percent of the country's total rural population. The annual poverty-relief fund from the central budget had increased from 10.6 billion yuan in 2002 to 14.4 billion last year. It was further raised to 16.7 billion yuan this year.

Subsidies for farmers to boost rural consumption for industrial products

A key pillar of the stimulus package is to improve agricultural productivity through modernization of agriculture and to boost rural consumption through subsidies. The government decided to adjust agricultural structure, promote industrialization, improve infrastructure, and step up agricultural product safety work, according to the conference. Major projects include building cotton production bases in the Yangtze River valley and Huanghe, Huaihe and Haihe plain and accelerating application of machinery and modern technology in agricultural production.

The central government would allocate 10 billion yuan (1.46 billion U.S. dollars) in subsidies for agricultural machinery purchases in 2010 to help farmers and returning migrants. The government promised to grant a 13-percent subsidy for farmers' purchase of household appliances including color TV sets, refrigerators, mobile phones, washing machines and freezers starting in December 2007. Local governments should streamline the procedures involving land use, taxation, business registration and other functions as well as providing better financial services to help migrant workers who return home to start businesses, said the meeting.

Nation-wide vocational training schemes for returning migrant workers

The Ministry of Human Resources and Social Security (MOHRSS) has submitted its job stimulus package to the State Council. According to the Ministry, there would be 24 million people would be competing for 12 million jobs next year.

The highlight of the package is the introduction of a special nationwide vocational training program, especially for laid-off and migrant workers, to help ease the pressure on the job market. Local governments will provide most of the finance for the package by making full use of special employment and unemployment insurance funds, sources said. "The unemployment insurance fund has topped 100 billion yuan (\$14.5 billion), and it's high time it is used," Mr. Zheng, the vice-Minister of MOHRSS said.

4. Supporting productive and sustainable enterprises to safeguard employment

The central government encourages local governments to consider reducing medical and accident insurance premiums to ease burdens on businesses and employees, Xinhua news agency cited the Ministry of Resources and Social Security as saying. "In the light of the current economic situation and real conditions in companies, minimum wage increases have been suspended for the near term," the ministry said. China's labor-intensive manufacturing sectors have been hit by a combination of rising labor costs, rising materials costs and the appreciation of the Chinese currency, along with the downturn in demand from the US. The ministry had said that in the first nine months of the year at least 19 Chinese provinces and cities raised their minimum wage by an average of about 15%.

In order to assist export industries which face shrinking demands in overseas market, the government has raised the tax rebates, which were planned to be phased out before the crisis, to support exporting labour-intensive products.

In an effort to "stabilize labor and management relations", the ministry allowed some service-oriented companies to adopt flexible working hours and pay. "With some companies, especially labor-intensive small and medium-sized firms struggling, the employment market has become severe while social security is facing new difficulties, including rising labor disputes," said an MHRSS statement. The top priority was to take concrete measures to help enterprises tide over the tough times and stabilize employment, it said.

Local labor and social security authorities were ordered to monitor the operations of struggling enterprises and be alert to potential job cuts so as to defuse large cutbacks. The ministry is trying to include migrant workers in its unemployment registration network, making it mandatory for those who lose their jobs after having worked for more than six months in a city to be registered by local labour authorities. The possibility of introducing services such as recommending new jobs and paying unemployment insurance to such

workers is also being studied. The ministry is also considering providing unemployment-insurance subsidy for industrial units so that workers are not retrenched.

Large state-owned enterprises were required to shoulder their social responsibilities to avoid firing workers if possible. The ministry is also considering a plan to subsidize industries with unemployment insurance.

Local responses: An example of Hubei province

Under an emergency program to deal with rising unemployment, large state-owned enterprises (SOEs) in Hubei were this month required to reduce salaries first before dismissing staff. Large SOEs and medium-sized local companies need to secure approval for cuts involving at least 50 people. Struggling small businesses in counties and townships were urged to refrain from cutting jobs intensively so as to ease the burden on the local government-financed unemployment insurance fund.

One new policy effective as of Jan. 1 in Hubei is to use unemployment insurance to subsidize companies that offer vocational training for in-house re-employment and reward enterprises that have paid insurance premiums for more than two consecutive years without layoffs. Under current regulations, unemployment insurance can only go to the jobless as living subsistence or subsidies for technical training.

The central government has drawn up plans to create jobs by supporting labor-intensive industries, urging banks to lend to small and medium-sized companies and encouraging self-employment and entrepreneurship.

From next year, Hubei Provincial Government will evaluate officials on whether they meet targets for new self-employment posts and businesses. In the next five years, the province hopes to help 50,000 people start their own businesses and create 200,000 new jobs every year. To that end, the small loan ceiling for individuals has been more than doubled from 20,000 yuan to 50,000 yuan, while that for labor-intensive companies is up from 2 million to 3 million yuan. Commercial banks will receive government rewards, with the amount designated at 1 percent of their total small loans.

All companies that had signed employment contracts with rural workers and paid social security insurance for more than a year would receive government subsidies. Firms making outstanding contributions to local rural labor employment would be rewarded by the provincial government. Firms with a significant rural labor employment ratio would receive tax breaks.

Measures safeguarding workers' rights and role of social dialogue and tripartite cooperation in policy responses

In late 2008, the All China Federation of Trade Unions (ACFTU) initiated a national campaign of 'mutual commitment'. The 'mutual commitment' campaign encourages workers and employers at the enterprise level to cope with the current economic crisis through 'mutual commitment'. Social partners at the enterprise level are urged to work together to ensure enterprise development and protection of workers' rights and interests. The ACFTU reiterates the importance of respecting the country's labour laws, including the newly introduced Labour Contract Law, while emphasizing a need to find win-win solutions through cooperation between employers and workers.

Contents of the mutual commitment may vary from one locality to another. In some localities, it appears that the current economic crisis had some negative effects on development of collective bargaining which was gaining momentum before the crisis, as trade unions take more cautious approach to collective bargaining. But in other localities, trade unions try to manage the crisis through collective bargaining and consultation on variety of issues such as workforce reduction, unpaid leave, working hour adjustments and wage determination. In spite of such local variations, typically the mutual commitment demand includes followings:

- stabilize employment situation at the workplace by making efforts to avoid or minimize lay-off
- when lay-off becomes unavoidable, it has to be done through joint consultation in accordance with laws and regulations
- take low level of business operation arising from low demand as an opportunity to train workers for skill upgrading
- determine wages through bi-partite negotiation;

On 6th January 2009, the National Tripartite Consultation Committee adopted “Joint Guiding Opinions on Coordinating Labour Relations under the Current Economic Situation”, which urges tripartite partners to promote the ‘Mutual Commitment’ campaign across China.

Responding to the national campaign, industrial relations actors at local levels have already begun to take action for the mutual commitment campaign. For example, Sichuan Federation of Trade Unions and Sichuan Enterprise Federation issued a joint statement on the mutual commitment action for jointly overcoming the crisis in a win-win manner. 523 enterprises have already agreed not to lay off their employees, in their positive response to the joint commitment campaign.

In addition, the government tries to avert social tensions by providing workers easier access to the country’s labour dispute arbitration mechanisms. Also local governments set up a mechanism to monitor wage arrear situation so that the wage arrear problems can be handled as priorities to protect the interests of migrant workers and social stability. The MOHRSS also stipulated that migrant workers who lost jobs after having worked consistently for at least six months must receive one-off subsistence benefits and government-funded vocational training.