

Globalization and Decent Work – an Employment Agenda for China

An Update

This document updates the information and analysis in the ILO background paper “Globalization and Decent Work – an Employment Agenda for China” prepared for the China Employment Forum on its original date of April 2003 (and then postponed due to the SARS (Severe Acute Respiratory Syndrome) epidemic). The update confirms and reinforces the policy conclusions and recommendations of the ILO background paper.

Economic trends and policies

China’s GDP increased by 8 per cent in 2002 and 9.1 per cent in 2003.¹ Economic growth accelerated despite the outbreak of SARS, which caused a short-lived slowdown in the second quarter of 2003. High economic growth was prompted by a rapid increase in total investment, which rose 30 per cent for the first ten months of 2003.² This has raised fears of overcapacity although both producer and consumer price inflation is low. (However, prices declined in 2002). Industrial growth was 16.4 per cent in the first ten months of 2003 - again mainly driven by production of capital goods and IT hardware but also by the expansion of light industry. In contrast, agriculture was negatively affected by weather conditions and changes in agricultural policy. Production of wheat fell by 5 per cent in 2003, compared with 2002, and total grain production declined to the lowest level in the last ten years, leading to the surge of grain and meat prices and of agricultural imports.

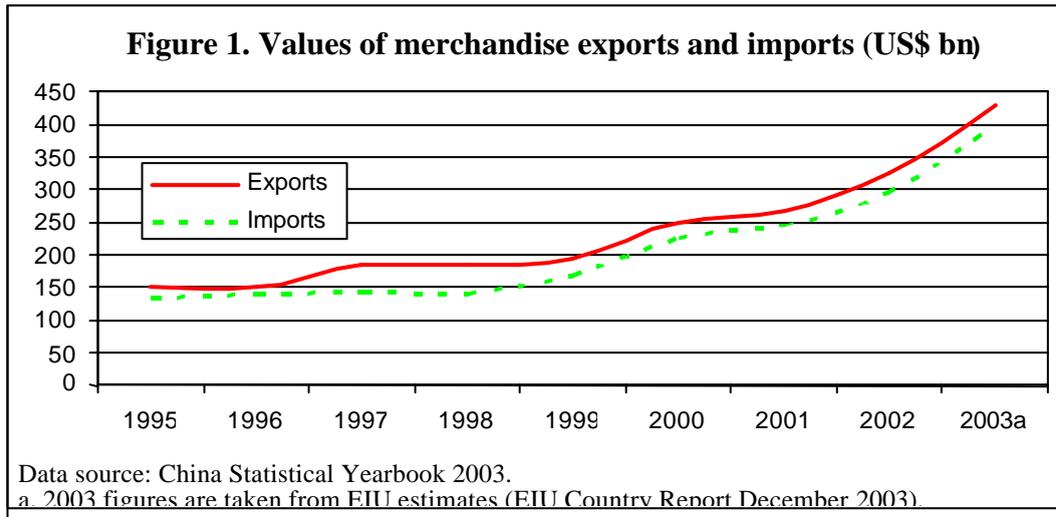
Disposable incomes also increased rapidly in 2003 although this growth was unevenly distributed. In real terms, urban disposable per capita income rose by 9 per cent while rural net per capita income only by 4.3 per cent, leading to a further widening of the income gap between urban and rural population.³

Strong domestic demand has been reflected in a steady increase in merchandise imports since 1999 (Figure 1) and a fall in the current account surplus. Simultaneously, merchandise exports continued to grow strongly. In the first 10 months of 2003, China recorded a merchandise trade surplus of US\$14.9 billion, down from the US\$24.8 billion surplus recorded in the same period of 2002. Manufacturing exports continued to increase strongly during the late 1990s and early 2000s and accounted for 91 per cent of all merchandise exports in 2003. Manufacturing imports also increased and between 1995 and 2002 their share in total imports hovered above 80 per cent. Between 1999 and 2002 China took in nearly 20 per cent of the increase in world imports of manufactured products. The government is attempting to raise the skill and technological level of manufactured exports by granting a higher rebate of value added tax to more capital intensive products.

¹ Speech by the Chinese Prime Minister Mr. Wen Jiabao at the Second Session of the 10th China National People’s Congress on 5 March 2004. Source: www.chinadaily.com.cn.

² This figure and other information in this section is taken from: Economist Intelligence Unit (EIU), *Country report: China*. London, December 2003.

³ The Prime Minister’s speech, op.cit.



The exchange rate has depreciated in real terms, despite the surge in capital outflows. Very large reserves have been built up. There is now pressure for revaluation and for greater flexibility in the exchange rate from China's major trading partners.

In 2003 the Government continued to implement a prudent monetary policy, which has been slightly tightened in the middle of 2003 in order to reduce bank lending. While fiscal policy has continued to be expansionary, there are now signs of its gradual tightening, in order to prevent overheating. The steady improvement of tax revenue over the last couple of years has been remarkable: from a low of 11.1 per cent of GDP in 1995 government revenue reached 18.3 per cent of GDP in 2002. This is partly due to a widening of the tax base and better tax collection and partly as a result of increased revenue from tariffs on growing imports. A reduction has been announced in public infrastructure projects partly to curb the investment boom but government expenditure on employment promotion measures and the social security system is increasing and is one of the priority areas for government policy in 2004.

The Second Session of the 10th China National People's Congress (NPC) held in early March 2004 stipulated the main objectives of economic and social policy for 2004. In his report to the Congress, Prime Minister Wen Jiabao emphasized the following objectives:⁴

1. Maintain a stable and rapid economic growth through a balanced macroeconomic policy. The Government has set a (lower) target of 7 per cent for the 2004 growth rate in order to alleviate pressure on resources and the environment.
2. Consolidate and strengthen agriculture, stimulate agricultural production and increase rural incomes.
3. Coordinate economic development in different regions, and in particular stimulate development in Western China and revitalize North-east China and other old industrial regions.
4. Achieve sustainable economic development by promoting science and education.
5. Strengthen health care, culture and sports and promote cultural development.
6. Deepen economic restructuring.

⁴ The Prime Minister's speech, op. cit.

7. Coordinate domestic economic development with the opening up of the national economy to competition in the world markets.
8. Intensify job creation and improve social security. The target is to create 9 million new jobs for urban residents and help re-employ 5 million laid-off workers. Build a national social security system suitable for China's conditions and the level of its economic development.
9. Strengthen democracy and the legal system and safeguard national security and social stability.

Labour market trends and policies

The labour market trends described in Chapter 2 of the ILO background paper have continued. Labour force participation rate increased by 0.2 percentage points in 2002 and reached 57.4 per cent of total population, while employment went up by 1 per cent. Employment growth took place mainly in urban areas while employment in rural areas has stagnated since 1995. Employment in the primary sector continued to increase slightly in absolute terms but kept its 50 per cent proportion in total employment. Both the absolute number of workers in the secondary sector and their share in total employment further declined to 21.4 per cent. Service sector employment raised its contribution to total employment to 28.6 per cent in 2002.

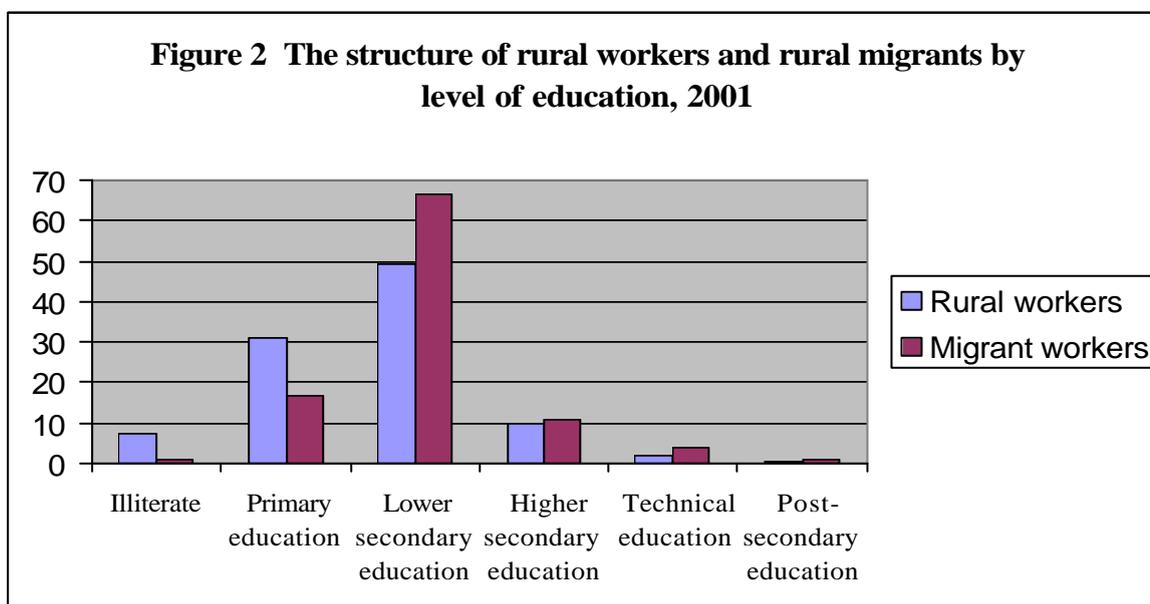
Employment in traditional heavy industries such as mining and steel production, as well as general manufacturing, further contracted. In contrast, employment in construction and in capital and technology-intensive industries grew rapidly as did trade and catering, finance and insurance, real estate, health care and social services. In education, culture, research and development and the civil service employment stagnated, pointing to government efforts at all levels to save on public expenditure. As the main report shows the educational attainment of workers in urban areas is improving. However, in rural areas the share of workers with vocational training reached only 9.1 per cent.

Complete employment figures for 2003 are not yet available. However, the outbreak of SARS at the end of 2002 had an important impact on employment. The short-term effects of SARS were serious for tourism, social services, commerce, trade and catering, and transport. The fear of infection seriously restricted movement and deprived many people of jobs temporarily or even permanently due to shops and restaurants closing, to reduction of public transport or bans on cultural events. Temporary workers were the first to be laid off while regular workers were kept to the extent possible. Migrant workers from rural regions were most hard hit by employment losses as most of them work on a temporary or irregular basis. The estimates go up to 8 per cent of this group (some 8 million persons). Also many laid-off workers from state-owned or collectively-owned enterprises who had been able to find only temporary or non-registered jobs suffered as a consequence of SARS. University graduates were another affected group as many enterprises reduced or even cancelled their recruitment plans and expectations are that their placement rate could be much below the 65 per cent placement rate achieved in 2002. However, the overall economic impact of SARS was not considered dramatic and GDP growth accelerated in 2003. Because most of the sectors primarily affected were labour-intensive, the employment impact was greater than that on GDP.

A quarterly analysis of supply and demand in 90 cities of China, conducted by local public employment agencies, shows that after a steep decline both in labour supply and demand in the second quarter of 2003, labour demand markedly recovered in the third quarter. The number of newly created jobs jumped by 50 per cent compared with the previous quarter while the number of job applicants also increased, but slightly less than labour demand, by 47 per cent. During the third quarter of 2003, altogether 265,000 new jobs were opened in the secondary sector and almost 600,000 new jobs in the service sector. A comparison with the third quarter of 2002 shows 34.5 per cent more jobs created but only 16.6 per cent more jobseekers. In the last three months of 2003 labour demand contracted by 15 per cent in comparison with the previous three months but still remained some 15 per cent higher than the same period of 2002.

Favourable labour market development in 2003 was also confirmed by the Prime Minister Wen reporting that some 8.6 million urban residents found new jobs in 2003 and among them 4.4 million laid-off workers.⁵

Migration of rural workers into cities has accelerated over the last decade. One reason for this is the widening gap between incomes of workers in rural and urban areas. In 1990 the income ratio was 2.2 in favour of urban incomes. In 2002 it increased to 3.11.⁶ According to research conducted by the Rural Development Research Institute for the Ministry of Labour and Social Security the share of rural workers leaving their home for work is almost 17 per cent or close to 90 million workers. Migrants are more likely to be men and are on average better educated than those who stay behind as shown in Figure 2. They are also younger and more likely to have received some vocational training (18.6 per cent of migrant workers are trained, compared with only 9.1 per cent of all rural workers).⁷



Source: Special investigation on rural workers. Ministry of Labour and Social Security, 2003.

⁵ The Prime Minister's speech, op. cit.

⁶ Data for 1990 come from the China Statistical Yearbook, data for 2002 come from the 2003 Green Book.

⁷ Response by Dr. J. Liu from the Rural Development Research Institute of the Chinese Academy of Social Sciences to the Employment and Training Department of MOLSS.

Altogether 2.1 million workers were newly laid-off from all types of enterprises in 2002, most of them, 1.6 million, from state-owned enterprises, with an additional 0.4 million from urban collectively-owned firms. While this number has declined, at the end of 2002 a total of 6.2 million laid-off workers remained jobless, of whom 3.5 million remained in the enterprise re-employment centres. Urban registered unemployment climbed to 7.7 million persons at the end of December 2002 corresponding to a 4 per cent unemployment rate, 0.4 percentage points above the rate in December 2001. If workers in the re-employment centres, who still have a formal labour contract with their enterprise but in fact are jobless, are added to registered unemployment, the unemployment rate reaches 5.8 per cent while the inclusion of all jobless laid-off workers would raise the rate to 7.2 per cent.⁸ The fifth national census indicates that the total urban unemployment rate was 8.2 per cent in 2000, 5.1 percentage points above the registered unemployment rate.

Registered unemployment in urban areas increased to 7.9 million at the end of September 2003 and the corresponding unemployment rate reached 4.2 per cent of the urban labour force. The number of laid-off workers staying in the enterprise re-employment centres declined slightly to 3.1 million. The Ministry of Labour and Social Security announced in late October 2003 that the enterprise re-employment centres in seven provinces and municipalities, including Beijing and Shanghai, are to be closed down by the end of 2003 and laid-off workers not placed in jobs by that time to be transferred to labour exchanges. This move will increase the registered unemployment pool.⁹

Active labour market policy

2003 National Re-employment Conference

As a response to the increasing imbalances in the labour market, partly due to the SARS epidemic, and as a follow-up on the 2002 National Re-employment Conference, the second National Re-employment Conference was held in August 2003. It re-emphasized the commitment of the government to promote employment and job creation as its strategic goal through the stimulation of business development and job creation, in particular in labour-intensive sectors; to accelerate the restructuring of state enterprises; strengthen human resource development and employability of workers; and to open up the economy and facilitate properly supervised labour migration abroad. An active employment policy will: (i) stimulate new jobs in small and medium sized enterprises by credit and tax policy and the expansion of flexible forms of employment; (ii) promote the re-employment of laid-off workers by providing them with loans and training to start self-employment and by encouraging enterprises to recruit laid-off workers through subsidies, loans and tax relief; (iii) strengthen the public employment services to provide more vocational guidance, training and retraining to laid-off workers, and improve labour market information and the system of unemployment monitoring; (iv) macroeconomic policy promoting structural adjustment and employment generation; and (v) improve the social protection of workers by expanding and strengthening the social security system. The government will further stimulate public infrastructure and other projects and make sure that they will contribute towards generating more employment. Workers will not be made redundant from public sector enterprises

⁸ Calculations based on the *2003 China Labour Statistical Yearbook*. China Statistics Press, Beijing 2003, pp. 135-136.

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without proper assistance. Finally, discriminatory regulations applied to migrant workers from rural areas will be abolished and a training programme for them launched.

National Training Programme for Rural Workers

The National Training Programme for Rural Workers was formulated in close collaboration of the Ministry of Labour and Social Security with the Ministry of Agriculture, Ministry of Education, Ministry of Construction and Ministry of Finance and launched in 2003. It covers the period 2003 – 2010. Its objective is to upgrade the level of education and skills of people in rural areas and thus to increase their employability in non-agricultural activities. It should stimulate job creation outside farming in rural areas and replace unskilled by skilled rural-urban migrants. Courses will include such topics as the protection of rights and interests of workers, relevant labour legislation and job search techniques.

The training plan is implemented in two stages. During 2003 to 2005, about 10 million rural workers will receive vocational guidance and a half of them vocational training. Another 50 million rural migrants already working in cities will undergo on-the-job training. In the second stage from 2006 to 2010, vocational guidance will be provided to 50 million rural workers, among which 30 million are expected to receive vocational training. In addition, on-the-job training will be offered to 200 million rural workers. Expenses will be jointly shared by the government, employers and the workers themselves.

Employment, income and social protection of part-time workers

The expansion of flexible forms of employment is considered an important way to create jobs. Private employers are increasingly offering part-time jobs. However, most such jobs are low paid, and without social security. Nonetheless, part-time employment does have advantages for many jobseekers. In order to make part-time employment more acceptable, the Ministry of Labour and Social Security has emphasized that (i) the hourly pay in part-time employment should not be less than the minimum fixed by the local government; (ii) part-time workers should be encouraged to participate in basic pension schemes; (iii) that part-time workers can join the basic health insurance programme; (iv) employers should pay the social and health insurance contributions for part-time workers with whom they conclude labour contract; and (v) local labour and social security offices should provide policy advice on labour contracts, wage policy, labour dispute settlement and other issues and thus promote the expansion of flexible forms of employment.

New municipal jobs for laid-off workers and assistance to displaced farmers

Regional governments and municipalities have been urged to find new jobs for workers laid off from state-owned enterprises. Thus Shanghai municipality plans to create 60,000 new jobs in 2004 and their number may reach 100,000 in 2005. Shanghai has also launched a project for farmers in suburban areas whose land was taken for the city's expansion. They receive compensation and the Labour Office provides job search assistance, vocational training to younger ex-farmers and subsidizes business start-ups. Over 10,000 ex-farmers received subsidies and other assistance to establish their own business. By the end of

2005, 400,000 new jobs are planned for redundant farmers with subsidies and tax concessions given to enterprises offering these jobs.¹⁰

Rural-urban mobility issues and policies

There have been important policy developments in regard to rural-urban mobility. In January 2003, the State Council issued a Directive aimed at dismantling the regulations imposed under the household registration system that controlled internal labour mobility and contributed to the segmentation of the rural and urban labour force. The Directive makes it clear that rural migrants have a "legal right" to work in cities. It prohibits job discrimination based on residency, potentially opening all jobs to rural migrants, and orders the police to provide urban residency documents to any migrant who finds employment. In addition, the extra school fees earlier collected from migrant children have been made illegal. However, it will take some time before central government policies are translated into practice by local governments.

A related measure has been the abolition of extra-judicial detention of migrant workers without residence permits. The new rules shift responsibility for the detention centres from the police to civil affairs bureaux, which are more capable of providing shelter and support.

However, other obstacles to migration still need to be properly addressed, such as the lack of affordable housing for rural migrants in urban areas, their exclusion from urban welfare provision and the lack of any mechanism for selling or mortgaging their land use rights when migrating.¹¹

Directive on payment of wages

A major problem affecting migrant workers has been the delayed payment or non-payment of wages even by the public sector employers. According to the All-China Federation of Trade Unions (ACFTU), outstanding wage arrears are estimated at around 100 billion yuans (US\$12 billion). The problem is most severe in the construction industry. The State Council has issued a circular demanding that migrant workers be treated fairly and be paid on time. Localities such as Beijing have also issued new regulations demanding that contractors pay workers according to the rules. However, enforcement is difficult because many employers either do not issue contracts to migrant workers or hire them through intermediaries.

Trade union rights for migrant workers

All Chinese rural migrant workers who work away from their homes can join branches of ACFTU nationwide. A circular issued on August 9 stipulates that all migrant workers are legally entitled to join the trade union, irrespective of their household address and work experience. Hindering and limiting their entry, by any individual or organization, is declared to be illegal.

¹⁰ "Shanghai creates jobs for relocated farmers." *China Daily*, 26 September 2003

¹¹ More on these issues see World Bank, *China. Promoting growth with equity*. World Bank, Washington 2003.

Statistics show that 34 million migrant workers have joined branches of ACFTU at various levels but still very many have not. Unions lack resources to extend their services to migrant workers. However, efforts to establish trade union rights for migrant workers are necessarily compromised by their inability to establish organizations of their own choosing, which can defend their rights.

Social security

At the end of 2003, 21.82 million urban low-income citizens received cash benefits under the minimum living standard programme, representing a four-fold increase in coverage in two years¹². At the end of June 2003 the number of persons covered by old-age insurance exceeded 150 million, up 2 million from the end of 2002, while those with health insurance reached 100 million, or 6 million more than half a year before¹³.

Nevertheless, workers' coverage by social insurance is still very low: even the most widespread pension scheme covers only some 45 per cent of urban economically active persons. The October 2003 Party Conference formulated an important "Decision on Improving the Socialist Market System", which established the goal of universal old age insurance coverage of the urban population. The Government has subsequently facilitated the inclusion of informal sector workers into the pension, health and employment injury insurance schemes¹⁴.

The "Decision on Improving the Socialist Market System" also calls for a multifaceted old-age security system for the rural population, which would consist of family support as a basis, community social security scheme and state social assistance. A minimum living standards programme for the rural population needs to be set up as soon as local conditions permit.

Occupational safety and health

Occupational safety and health (OHS) has been an issue of grave concern in recent years. The number of work-related accidents and diseases increased by 7.3 per cent in 2002 and those with fatal consequences rose by 6.8 per cent. However, in 2003, safety and health conditions slightly improved as the number of work-related accidents fell by 10.4 per cent and the number of fatal cases by 2.4 per cent.¹⁵ In contrast, in industrial and mining enterprises, the number of accidents reported to the State Administration of Work Safety (SAWS) has continued to increase during the last two years. These increases may reflect a better reporting system.

¹² Announced by Mr. Yang Yanyin, Vice Minister of the Ministry of Civil Affairs at a Press Conference held by the Press Office of the State Council on 22 October 2003. Xinhua News Agency.

¹³ *China Social Security* 2003/08, p. 16. Ministry of Labour and Social Security of the Republic of China.

¹⁴ *China Social Security* 2003/08, p. 17.

¹⁵ Speech delivered by Mr. Huang Ju, Deputy Prime Minister, at the National Occupational Safety and Health Conference held in Beijing on 17 January 2004. <http://www.chinasafety.gov.cn>.

At the end of 2002, only some 43 million workers (a minority even of urban workers) were insured under the Work Injury Insurance (WII).¹⁶ To address this problem more effectively, the Regulation on Work Injury Insurance came into effect as of 1 January 2004. This gives further protection to the rights and interests of injured workers, ensures their access to medical treatment and financial compensation and promotes the prevention and work injuries rehabilitation. Coverage has been expanded to include workers employed by both public and private firms, including migrant workers.

In addition, in January 2004, a new regulation on work safety permits was issued. This applies to hazardous work including mining, construction, and the production of dangerous chemicals, fire works and civil explosives. Local governments should issue a work safety permit without which an enterprise cannot operate. Enterprises are required to establish an OSH management system defining their responsibilities for safety procedures.

¹⁶ *China Social Security* 2003/06.