

**LABOUR MARKET
PAPERS**

13

**Economic performance,
labour surplus
and enterprise responses**

**Results from the
China Enterprise Survey**

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Foreword

China's labour market is of interest to everyone. It is the largest in the world, the labour force being twice as large as the populations of the United States and Canada combined. As the labour force almost trebled between 1950 and the early 1990s, the employment challenge has been enormous despite impressive economic growth of over 9 per cent per annum over the past fifteen years. The country faces immense employment problems because of continuous and severe labour market supply pressures, large-scale rural under-employment, rising urban unemployment and labour redundancy, and growing income and social inequalities between different segments of the population.

The Labour Market Policies Branch has been collaborating with the Swedish National Labour Market Board (AMS) in a series of activities connected with labour market policy development in China. The project's main objectives are to assist in the reform of labour market policies, which represent a critical component of China's overall economic reform, and to strengthen local capabilities for formulating, implementing and evaluating labour market policies. The components of the project include policy seminars, research on labour market issues, data collection and statistical analysis.

In February 1995, as part of the project and with additional resources from the ILO Beijing Office and its own funds, the Labour Market Policies Branch launched an Enterprise Labour Flexibility Survey (ELFS) in the country's five largest cities, gathering detailed information from 300 industrial enterprises. The Ministry of Labour offered its cooperation to mobilize its personnel and organizational resources to carry out the survey. This paper is the first report on the survey, which is one of a series of ELFS being conducted in a wide range of member countries of the ILO.

The survey provides invaluable information on how enterprises are faring in the reform process in China, on the severity of their labour surplus, and on how the labour administration system has been assisting enterprises to cope with that surplus and with the problems of transition. The results have been discussed at the national level and have provided a basis for the promulgation of the Employment Promotion Law.

Thanks are due particularly to Zhang Xiaojian, Director of the Department of Employment, Ministry of Labour, for his close interest and active involvement in the conduct of the survey and analysis of the results; to the staff of the Ministry of Labour and the employment offices who organized and carried out the survey; to Jean-Victor Gruat, Director of the ILO Area Office, Beijing, for his advice and encouragement; to Gote Bernhardsson and Ragnar Gussing of the Swedish National Labour Market Board for their support and cooperation; and to Laszlo Zsoldos and Tracy Murphy for assistance in the preparation of the paper.

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1. Introduction¹

In the course of moving from a planned to market economy, China has focused on the transformation of its State-owned Enterprises (SOEs) into modern enterprises as the crux of its economic and employment reforms. Enhancing industrial efficiency and productivity and improving labour flexibility of the SOEs is the key to successful reforms and market orientation because the SOEs, particularly the large and medium-sized ones, are the mainstay of the national economy. At the end of 1993, SOEs accounted for 20 per cent of all industrial enterprises in the country, produced 53 per cent of the nation's total industrial output value, employed about 70 per cent of total industrial workers, owned 75 per cent of total industrial fixed assets and contributed 66 per cent of the profit and tax payments of all industrial enterprises.² They have also been providers of housing, health care, educational facilities, pensions and many other social benefits for some 34.4 million workers in industry.³

In spite of having made remarkable progress in the reforms and contributing significantly to real GNP growth of 9.3 per cent per annum between 1979 and 1993, the SOEs face mounting problems and challenges, in terms of both their own internal operations and their competitive position vis-a-vis other types of enterprises. As explained by the Minister of the State Commission for Restructuring the Economy⁴, "their status as independent legal entities has not been fully established; the operational mechanisms of enterprises, particularly large and medium-sized ones, have still not changed over to meet the demands of market competition; and they still shoulder heavy economic and social burdens and have not as yet reversed the trend of reaping low economic returns". The SOEs have borne the brunt of the responsibility for mandatory or indicative production targets, job creation, public welfare and social services, while at the same time they have contributed, through paying heavy taxes, to state revenue and state efforts to encourage collective, individual, private and foreign investment. But in this process, they face increasing competition from the newer property forms and find it more and more difficult to survive in the market economy. One of the most serious manifestations of the problems of the SOEs is the growing labour surplus and the constraints they face in redeploying the redundant workers. In contrast, the township enterprises have become the new production force, the urban collective economy has continued to expand, and the private and individual economic sectors have experienced sustained and rapid development. Solely foreign-funded enterprises, joint ventures and

¹ The authors wish to thank Guy Standing and Gek-Boo Ng for valuable comments.

² Statistics provided by the State Economic and Trade Commission, as quoted in Wu Naitao, "'95 Goals for Reform of State-owned Enterprises", *Beijing Review*, 9-15 January, 1995, pp. 7-14; and in Deng Shi Ji, "The Present Situation and Tasks of Enterprises Reform in China", paper presented at the National Seminar on Enterprise Survey Data Analysis in China organized by the Ministry of Labour, Beijing, 23-25 August 1995. Among the state-owned industrial enterprises, 14,400 large and medium-sized enterprises dominated. While representing 4 per cent of China's total number of industrial enterprises, they accounted for 44 per cent of total industrial output value, 62 per cent of total industrial fixed assets, and 59 per cent of total industrial profit and tax payments. Within the state-owned sector, the large and medium-size establishments represented 20 per cent of all industrial SOEs but contributed over 80 per cent of total assets, sales revenue and sales tax.

³ Data from State Statistical Bureau, People's Republic of China, *Statistical Yearbook of China 1994* (Beijing, China Statistical Publishing House, 1995), p.90.

⁴ Li Tieying, "15 Years of Reform for State-owned Enterprises", *Beijing Review*, 9-15 January, 1995. p.17.

cooperative enterprises have experienced rapid development as the country has opened its doors ever wider to the outside world.⁵

China's State Council therefore identified the deepening of enterprise reform as the focus of the economic structural reforms for 1995, with the major goals centring on establishing a modern enterprise system, delineating the property rights relationship of SOEs, making enterprises responsible for their own profits and losses, strengthening the internal management particularly of large and medium-sized enterprises, separating certain social and welfare functions from enterprises, and redeploying surplus workers. The underlying aim is to enable the SOEs to be more competitive vis-a-vis the other property forms. At the end of 1994, one hundred pilot SOEs were selected as experimental units for the establishment of the modern enterprise system, with special attention to the re-employment of surplus workers.

This report provides an empirical perspective of the enterprise reform process, its effects and implications. Based on the results from a survey of 300 industrial establishments in Beijing, Shanghai, Guangzhou, Tianjin and Shenyang conducted in February/March 1995, it examines how different types of enterprises by property form are faring in the reform process. It analyzes their economic performance and social burden; their employment dynamics including their flexibility in hiring and firing workers and setting employment conditions; the nature and extent of their labour surplus problem; how they have attempted to deal with redundant workers; and the role of the labour administration system in assisting them to cope with labour surplus. The final section of the paper highlights some policy issues and implications for enterprise reforms.

2. The Data: The Survey of Industrial Enterprises

The main data source is the Survey of Industrial Enterprises in the People's Republic of China, which was carried out between 25 February and 9 March 1995. The survey involved a sample of 300 establishments selected by property form in five locations. The questionnaire was jointly developed and the survey organized by the Labour Market Policies Branch of the International Labour Office, the ILO Beijing Office and the Ministry of Labour of the People's Republic of China. Officials of the Labour Bureaus from five cities were trained as interviewers and conducted the field work. The survey questionnaire consisted of two parts. Part I was left at the establishment and was completed by the responsible personnel on the basis of establishment records, personnel files, balance sheets, etc. This part dealt with basic quantitative information on production, investment, and various other indicators of economic performance. It also covered the employment level, structure and changes; recruitment and labour turnover; and wages and other cash benefits. Part II involved structured interviews with establishment managers who were asked a series of questions relating to (a) the legal form of the enterprise and organizational changes; (b) production and financial issues; (c) the remuneration system, social benefits and social security, human resource development; (d) expected employment changes; (e) labour surplus and redeployment measures; and (f) the types of assistance the establishments received from the Labour Bureaus and employment service, and management views of Government regulations and labour market programmes.

⁵ Minister Wang Zhongyu of the State Economic and Trade Commission, speaking at a 1995 meeting on economic reform. As reported by Wu Naitao, 1995, *op.cit.*, p.11.

Given the rapid changes taking place in China, the survey aimed to collect the most current information available, while at the same time obtaining data on recent trends and on likely future developments. The bulk of information was for end February/early March 1995 when the fieldwork was conducted. But since establishment records were sometimes not yet available for 1995, more detailed data especially on production and employment were collected for 31 December 1994 and, in relevant cases, compared to 31 December 1993. The managers were also asked about their expectations up to the end of 1995.

Tables A1 to A3 provide some background information on the total number of industrial enterprises and on the employment situation by property form – State-owned Enterprises (SOEs), Labour Services Enterprises (LSEs), Township Enterprises (TEs), Joint Ventures (JVs) and Joint Stock Companies (JSCs) – in the five locations from which the survey sample was drawn. Beijing, Shanghai, Guangzhou, Tianjin and Shenyang are, in fact, the five main cities and the hubs of economic activity in the country, with a combined population of 41.6 million in 1990.⁶ In so far as the survey covered the booming cities and coastal areas, it does not capture the regional and urban-rural differentials in a country as vast as China, where the interior western provinces remain poor and inaccessible and almost three-quarters of the nation's labour force is still located in rural areas. Among the survey locations themselves, there are also differences in levels of development.⁷ Guangzhou and Shanghai along the southern coast have benefited greatly from foreign investment led industrial growth. But the northern cities have tended to rely more on local resources, although Beijing, as the national capital, attracted some 5 per cent of total foreign investments coming into the country between 1979 and 1993. Tianjin is one of China's centres for heavy industry, which is in serious need of restructuring to face international competition, but the reform process has been proceeding comparatively slowly in the city. Shenyang is also a heavy industry centre but here the reform process has had a heavy influence and there are a large number of redundant workers and perhaps one of the highest proportions of loss-making enterprises.

3. The Characteristics of the Sample Establishments

The sample represents slightly over 0.12 per cent of industrial enterprises in the five locations. Except for the Township Enterprises (as explained below), the other property forms in the sample can be taken as representative of the general picture in the country because these are the main property forms in urban areas, and the survey covered five of the largest urban areas in the country. Comparing Table A4 with Table A1 shows that the SOEs were heavily over-sampled in the survey, and the Township Enterprises (TEs) under-represented.⁸ The 300 establishments in the survey employed 475,953 workers or about 3.3 per cent of the

⁶ Beijing 13.4 million, Shanghai 10.9 million, Guangzhou 9.1 million, Tianjin 4.5 million and Shenyang 3.7 million. Data from The Economist Intelligence Unit, *Country Profile: China Mongolia 1994-1995*, London, 1995.

⁷ GDP (in 100 million yuan) in 1992 was 709 in Beijing, 1,114 in Shanghai, 2,293 in Guangdong province in which Guangzhou is located, 411 in Tianjin, and 1,298 in Liaoning province in which Shenyang is located. Data from State Statistical Bureau, People's Republic of China, *Statistical Yearbook of China 1994* (Beijing, China Statistical Publishing House, 1995), p. 36.

⁸ For a detailed analysis of the types of enterprise ownership, see N. G. Lichtenstein, *Enterprise Reform in China: the Evolving Legal Framework* (Washington D.C., World Bank, 1993).

total labour force. The sample covered large and medium size establishments, rather than smaller ones. Only establishments with more than 10 workers were included. 13.7 per cent of the sample establishments reported average employment size below 100 workers, whereas in Table A2, the actual average sizes of the LSEs, the JVs and TEs were all less than 40 workers each.

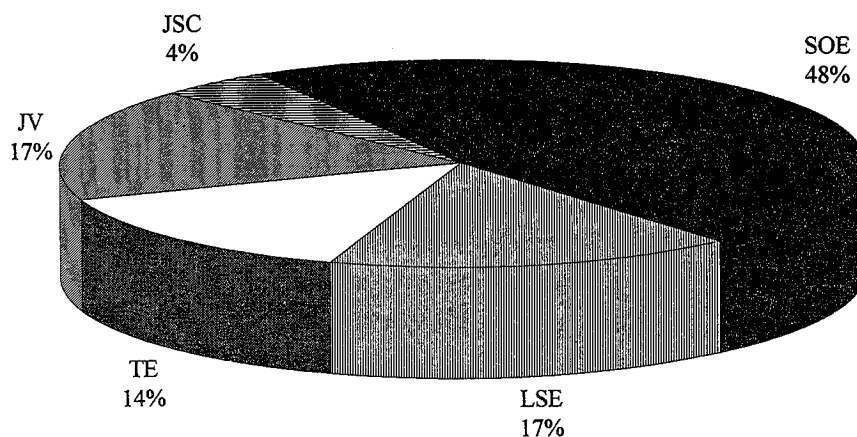
Instructions had been given for the selection of as many of the 100 state-owned pilot reform enterprises as possible in the sample. Unfortunately, it was not feasible to obtain global information on these pilot reform enterprises as they tended to be parent companies with very large numbers of subsidiaries and production units under them.⁹ Instead, the subsidiaries were selected to represent profit-making, loss-making and average performance establishments. The State-Owned Enterprises (SOEs) were deliberately over-sampled (Figure 1) because they have been the focus of the labour market reforms. The challenge of the reforms is to make these enterprises profitable without laying off hundreds of thousands, if not millions, of workers and creating social instability. Their problems have been traced to: heavy long-term tax burden, heavy debt burden, excessive redundancies, heavy social burden in terms of the provision of welfare services for workers, heavy burden for pension and medical expenses, and poor production capacity and low productivity.¹⁰

The Labour Service Enterprises (LSEs) are collectives set up by parent companies, which are normally state-owned enterprises. The establishment of LSEs has been a very popular policy for dealing with the problem of labour surplus. The LSEs normally receive from their sponsoring agencies start-up capital, operating funds and technical or managerial staff. A major constraint faced by the LSEs is that they tend to remain largely dependent upon and controlled by the SOEs which set them up; although recent reforms aim at making enterprises responsible for their own financial resources and organizational management and therefore at enabling the LSEs to become more independent. The current situation is that the parent enterprises often keep their modern production lines and skilled workers, while they transfer out-dated technology and less productive surplus workers to their LSEs, which then face problems of cost efficiency and viability and budget constraints. A third of the establishments covered in the survey (SOEs and LSEs themselves) reported that they had set up LSEs; about 57 per cent of these had set up just one LSE each, but there were ten parent companies that had set up more than 10 LSEs each. Another 10 per cent of the managers interviewed also indicated that they planned to establish LSEs in 1995.

⁹ The survey actually covered 27 of the pilot reform enterprises.

¹⁰ These are the problems identified by Minister Wang Zhongyu of the State Economic and Trade Commission. As reported by Wu Naitao, 1995 op.cit., pp.10-11.

Figure 1: Distribution of Establishments, by Property Form, 1995



n = 298

Source: CLFS2

The Township Enterprises (TEs) are collectives which play a major role in absorbing agricultural surplus labour in small cities, towns and the suburbs of the larger cities. The collectives are owned by the workers, but, in practice, controlled by the local authorities. The TEs operate under a much stricter budget constraint than the SOEs, but they often enjoy a greater degree of operational autonomy. Throughout most of the 1980s, the TEs were the leading force of industrial output growth. But especially since 1992, they have shared this role with the foreign-funded ventures.¹¹ They have also displayed a large potential for employment generation.¹² The TEs in the sample can be taken as representative of urban collectives, in particular those in the vicinity of the booming cities, but they differ from the collectives in the rural areas. The Village Enterprises invest agricultural surpluses in manufacturing, normally based on small-scale, low-technology and labour-intensive processes, so that they often face problems of poor product quality, unsold goods, inefficient operations, etc.¹³

The Joint Ventures (JVs) are the enterprises that have local (which can be state, village and township authorities or private individuals) and foreign participation. Since the early 1990s, China has been the largest recipient of foreign direct investment in the developing world. There were 84,371 JVs and wholly foreign-owned enterprises (which were not covered in the survey) by the end of 1992. About 56 per cent of the foreign capital for the

¹¹ Industrial output of the TEs grew by 27.3 per cent in 1994, as compared to only 5.5 per cent growth of the SOEs. The corresponding figure for private and foreign enterprises was 27.9 per cent.

¹² Village and Township Enterprises together currently provide jobs for some 130 million persons. Data supplied by Employment Department, Ministry of Labour.

¹³ See, for example, ARTEP ILO, *Reabsorption of Surplus Agricultural Labour into the Non-Agricultural Sector: A Study of Township Enterprises in China*, (New Delhi, ARTEP ILO, 1992).

joint ventures surveyed came from Hong Kong, Macau or Taiwan.¹⁴ Investors from these countries, who are mainly ethnic Chinese, tend to favour labour-intensive processing and assembly operations, whereas western investors are more likely to be in the higher value-added sectors involving technology transfer which China needs.¹⁵ Most JVs are still required to export at least 80 per cent of their output, but an increasing number are now looking to the enormous potentials of the Chinese domestic market.

The Joint Stock Companies (JSCs) have become an increasingly common form of raising capital for the enterprise; stock options are offered to those already employed in the company or to outsiders (both private individuals or establishments). Transforming SOEs into share-holding companies has been a recent enterprise reform. In so far as the JSCs were SOEs which were recently restructured, those in the sample may still display some characteristics related more to the SOEs than to modern private sector enterprises. Also, the JSCs tend to be large and may still not have been able to restructure their labour force or social burden. They may have been legally and financially restructured but may not have been transformed yet into "modern enterprises" in terms of their internal labour market or social assets.

The merging of enterprises, like the splitting up of enterprises into smaller units, has been an aspect of the economic restructuring process aimed at improving economic efficiency. However, certain organizational changes, especially if externally imposed by government authorities rather than determined by internal needs of the organization, can have negative impacts. Over the past two years, 33 out of the 300 establishments surveyed reported that they had merged. But the merging was mainly with loss-making establishments. To avoid closure of one loss-making enterprise and the associated redundancies, local governments often order another thriving firm to merge with it, a practice that, unless carefully organized, could unnecessarily burden a successful firm.

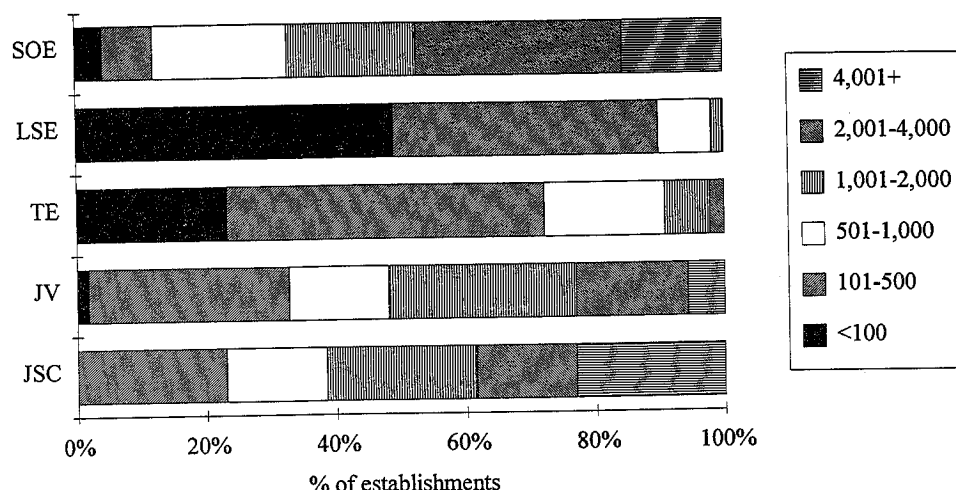
Only 5 per cent of the managers indicated that they planned to change the property form of the enterprise within 1995¹⁶). What is worth noting is that the proposed change was to a joint venture or a joint stock company – both of which were seen as not only providing access to financial resources but also modern and more efficient organizational structures.

¹⁴ Figures from the Ministry of Foreign Trade and Economic Cooperation showed that, up to the end of 1993, Hong Kong and Macau together accounted for 68 per cent of the total foreign investment, followed by Taiwan with 8.3 per cent.

¹⁵ The Economist Intelligence Unit, *Country Profile: China Mongolia 1994-1995*, (London, 1995), p.14.

¹⁶ This may be another sign of the gradual introduction of organizational changes in the Chinese context as opposed to the "shock therapy" approach adopted in the transition economies in Central and Eastern Europe.

Figure 2: Distribution of Establishments, by Property Form and Employment Size, 1995



n = 298

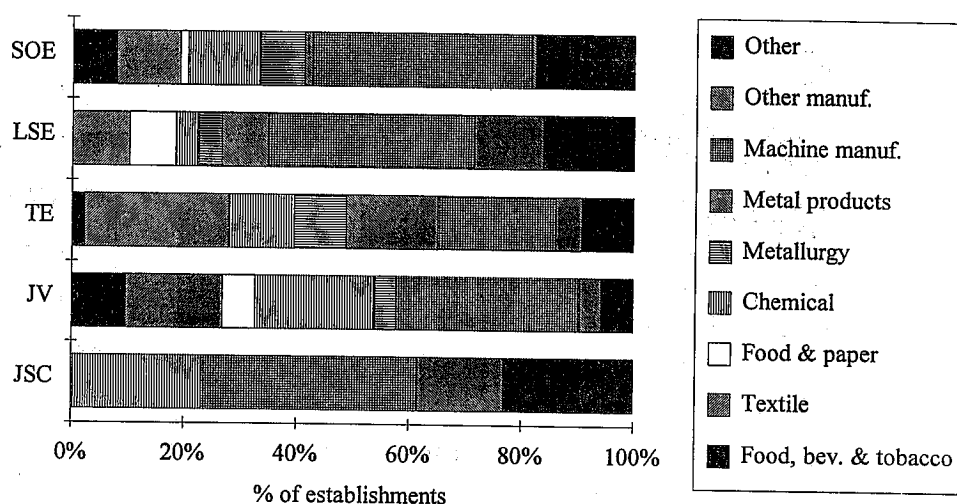
Source: CLFS2

The establishments covered in the survey tended to be large; average firm size in 1995 was 1,569 workers.¹⁷ The largest firm had 14,506 workers on the payroll. A major constraint of the SOEs in restructuring is their large employment size (average 2,385 workers) (Figure 2). The LSEs were considerably smaller, their average employment size (206 workers) being less than one-tenth that of the SOEs. The TEs were also relatively small (average employment size 395 workers), but the JVs (1,434 workers) and joint stock companies (2,276 workers) tended to be large.

It was not possible logistically to stratify the sample by industrial sectors. The sample showed a bias towards certain industries. More than a third of all establishments are in machine manufacturing, followed by textiles and chemical firms. The machine manufacturing sector tended to be large, almost 40 per cent of the establishments employed more than 2,000 workers each. The metallurgy sector was also large by employment size. But more than half (53.7 per cent) of the textile establishments had less than 1,000 workers each, and about half of the chemical establishments employed between 500-2,000 workers each. Firms producing metal products and wood and paper products were generally smaller. The majority of both the SOEs and LSEs operated in machine manufacturing and the other industry sector. LSEs were also overrepresented in other manufacturing, metal products and the wood and paper industry – all dominated by small-sized enterprises. The TEs were mainly producing textiles, followed by machine manufacturing and metal products, while both the JVs and JSCs were heavily concentrated in machine manufacturing and the chemicals industry (Figure 3).

¹⁷ In China, enterprises are classified as small, medium or large according to three different criteria: by employment size (small below 100 workers, medium between 100-1,000 workers, and large above 1,000 workers); by production or output value; and by equipment type and value.

Figure 3: Distribution of Establishments, by Property Form and Industrial Sector, 1995



n = 298

Source: CLFS2

4. The Economic Performance of Enterprises

This section examines selected indicators to determine which types of establishments by property form and employment size have been growing and which have been performing poorly in the reform process. The economic indicators used in the analysis include industrial output, export, capacity utilization, productivity, investment and profit. The access of establishments to credit and financial assistance is also considered.

The average gross industrial output per establishment in 1994 was the highest in JSCs, followed by the JVs and SOEs, while it was very modest in the TEs and LSEs (Figure 4); but this pattern tends to reflect the industrial and size distribution of establishments in the different property forms, rather than their economic performance. In terms of change in the gross industrial output, the picture is different. On average, the value of gross industrial production, calculated on comparable prices, increased by 14 per cent in the 300 surveyed establishments between 1993 and 1994. There were wide variations: 26 per cent of the establishments increased output by over 30 per cent, 37 per cent registered an output growth of 30 per cent or less, while another 37 per cent of the establishments reported a fall in production. The TEs and JVs led the economic expansion, with 56 per cent of the TEs and 48 per cent of the JVs reporting an output growth of over 15 per cent (Figure 5). The outstanding performance of the TEs is closely related to their strong export orientation; in 1994, 36 per cent of their total production was sold in foreign markets (Figure 6.). The JSCs also developed rapidly, but output growth of SOEs, and especially that of LSEs, was less remarkable. In fact, almost half the LSEs experienced contraction in output, indicating the serious economic difficulties of this sector.

Figures 7 to 9 also show that the SOEs and LSEs performed relatively poorly compared to other types of enterprises. The SOEs and LSEs had lower capacity utilization, lower productivity (measured as gross industrial output per worker), and were more likely to be

making lower profits in 1994 than in 1993. It is especially significant that out of 59 loss-making establishments in the sample, 35 were SOEs and another 11 were LSEs, meaning that 78 per cent of all loss-making establishments were in the group of SOEs and LSEs, or that almost a quarter of the establishments in this group were losing money in 1994.¹⁸

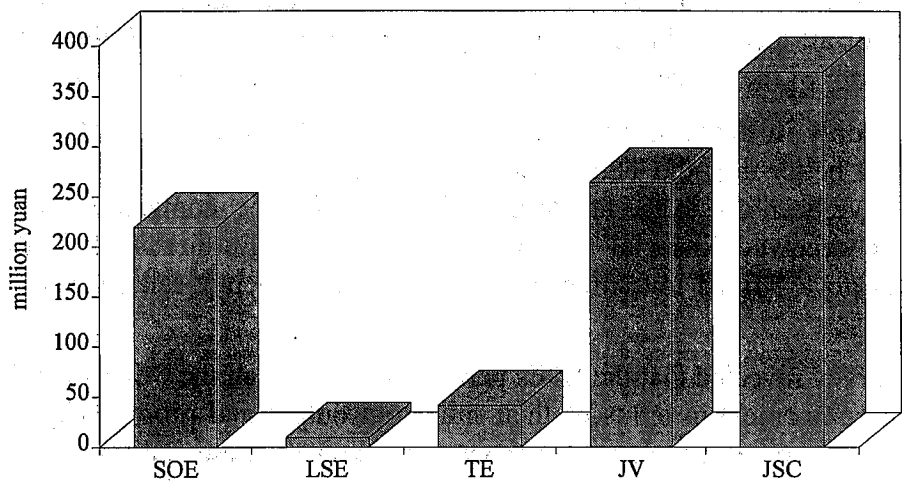
It was only in terms of investment, both total and production-related investment, that the SOEs did better than the TEs and JSCs, though not as well as the JVs (Figure 10). But this could have been due to the fact that despite their poor economic performance, the SOEs continued to receive financial support from the State. Furthermore, funds which were supposed to go to "fixed investments" were often used to pay salaries and for other non-capital purposes.

The survey revealed that the LSEs performed worse than the SOEs (which were usually their parent companies) in terms of their industrial output and productivity and investment levels. Their poorer economic performance according to these indicators was most likely related to their smaller size, their older and less productive machinery, the lower quality of their labour force and their recent difficulty in having access to financial resources both from their parent company and the State. But the LSEs had somewhat higher capacity utilization than the SOEs and a smaller percentage (22 per cent) were loss-making, as compared to the SOEs (25 per cent).

The TEs in the sample reported high capacity utilization, the smallest proportion of loss-making establishments and a large proportion (57 per cent) experiencing higher profits in 1994 than in 1993. Furthermore, productivity in the TEs (0.11 million yuan per worker) was higher than in either the SOEs (0.09 million yuan per worker) or the LSEs (0.05 million yuan per worker). These findings fit the picture of TEs as a leading source of industrial growth. But it is worth noting that the TEs covered in the survey were all in the booming regions of the country. The collectives in the smaller towns and villages (i.e., the Village Enterprises), especially in the more remote areas, are often characterized by economic stagnation.

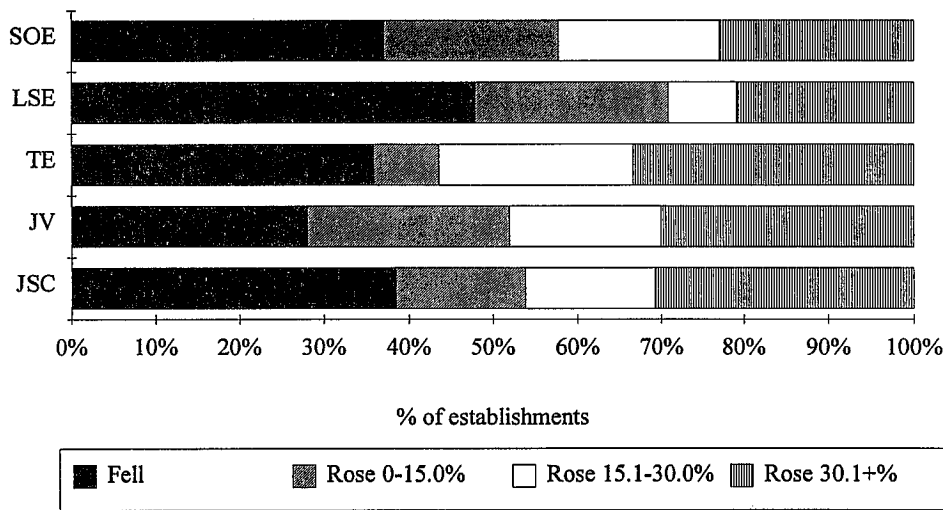
¹⁸ At the end of 1994, 34.4 per cent of SOEs were loss-making. Most of the SOEs making losses were small enterprises. Information from the State Economic and Trade Commission. See Deng Shi Ji, 1995, op.cit., p. 4.

Figure 4: Average Gross Industrial Output by Property Form, 1994



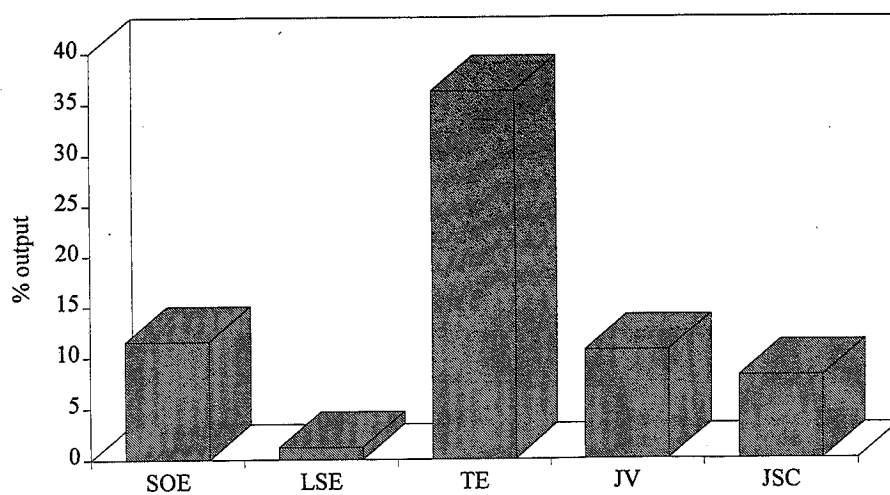
n = 298
Source: CLFS2

Figure 5: Change in Gross Industrial Output, by Property Form, 1993-94



n = 290
Source: CLFS2

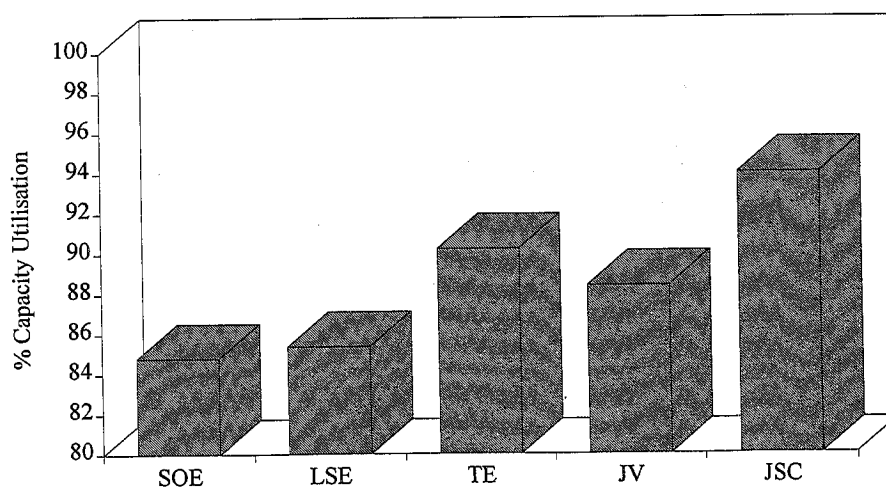
Figure 6: Per Cent of Output Exported, by Property Form, 1994



n = 296

Source: CLFS2

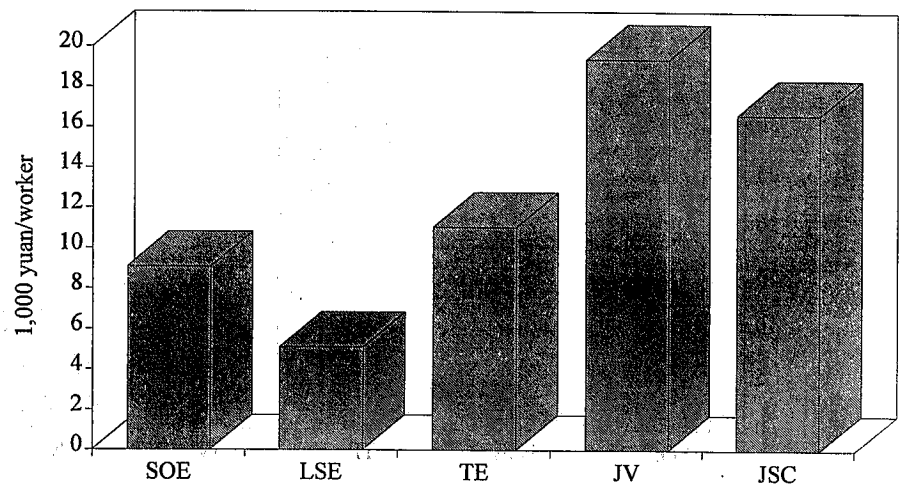
Figure 7: Capacity Utilization by Property Form, 1994



n = 290

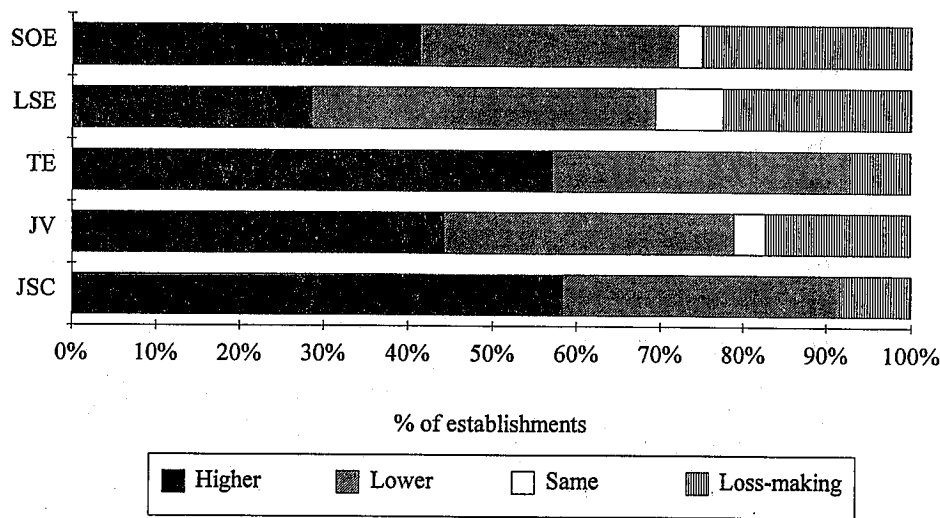
Source: CLFS2

Figure 8: Productivity (Gross Industrial Output/No. of Workers), by Property Form, 1994



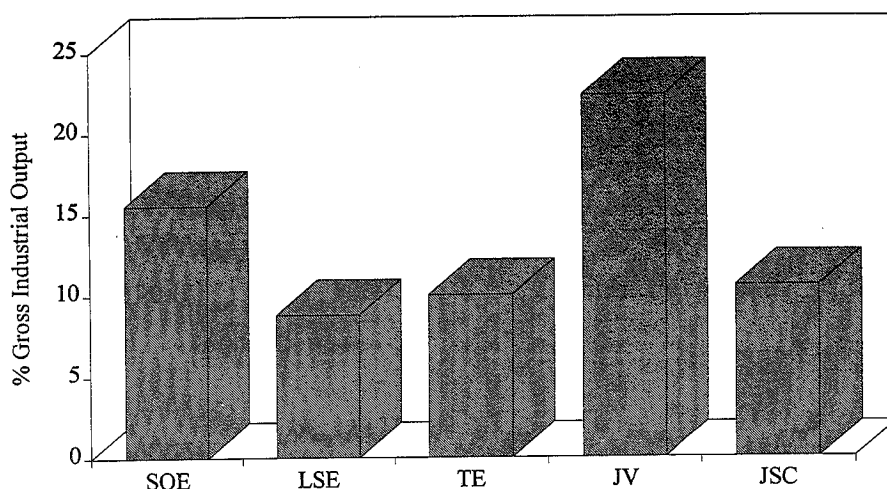
n = 295
Source: CLFS2

Figure 9: Change in Net Profits, by Property Form, 1994 compared to 1993



n = 257
Source: CLFS2

Figure 10: Average Level of Investments, by Property Form, 1994

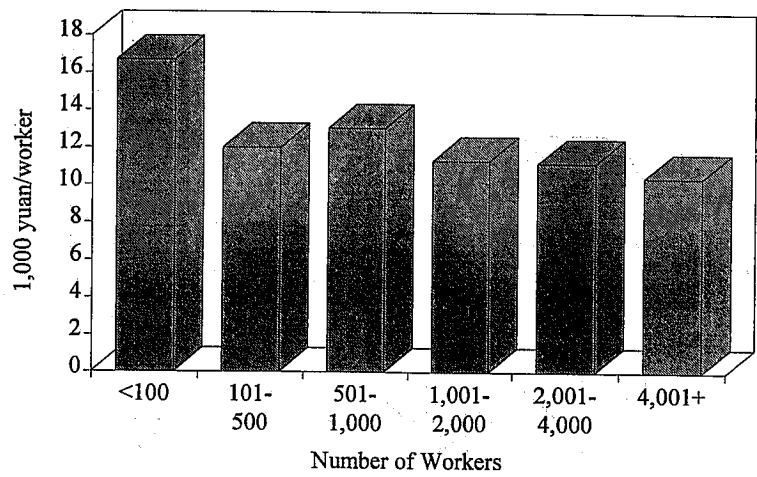


n = 296

Source: CLFS2

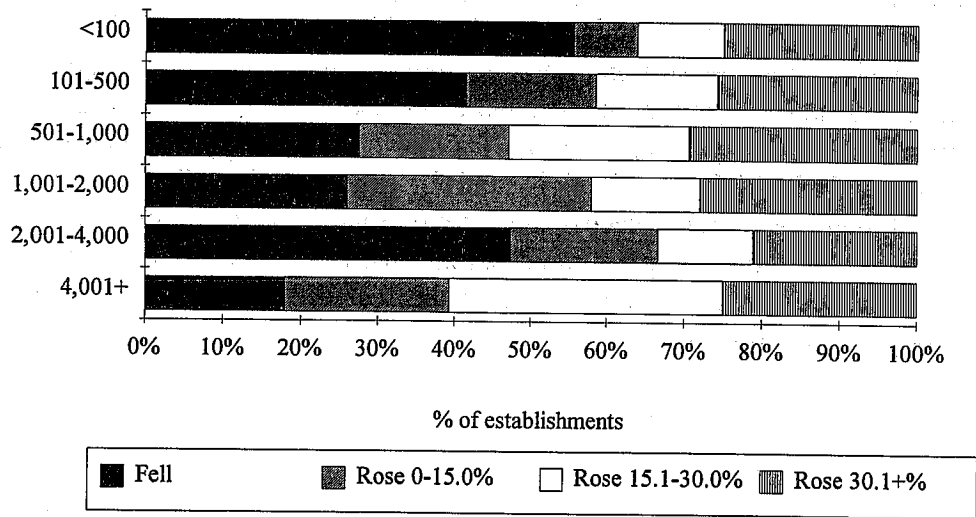
The survey results suggest that employment size was also an important factor influencing the economic performance of establishments. For example, while there were no significant differences in capacity utilization by employment size, the smallest establishments (with 100 or less workers), reported the highest export share in total production and the highest productivity level (Figure 11). (This was mainly due to some very efficient TEs and SOEs among small firms, rather than to the small LSEs.) These findings may point to the potentials of small enterprises, which do not appear, to date, to have been promoted in the Chinese context. On the other hand, the largest establishments (with more than 4,000 workers) registered the largest output growth (Figure 12) and the highest level of investment. Further analysis is needed to examine the relationship between economic performance and establishment size, but the striking findings suggest that small and large establishments operate under different "budget constraints". As the subsequent analysis shows, small establishments have to rely much more on their own economic performance and resources (hence their search for higher productivity and for export markets for their products); while large establishments have better access to both credit and financial support (hence their high investment level and the consequent rapid output growth). In addition, the uneven access to external financial resources is likely to mask the real differences in profitability between small and large establishments.

Figure 11: Productivity (Gross Industrial Output/No. of Workers), by Employment Size, 1994



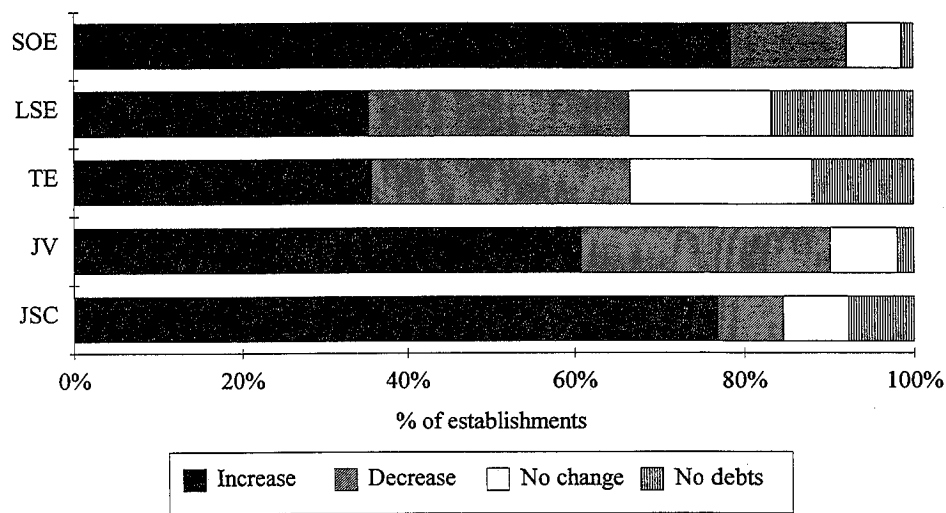
n = 300
Source: CLFS2

Figure 12: Change in Gross Industrial Output, by Employment Size, 1993-94



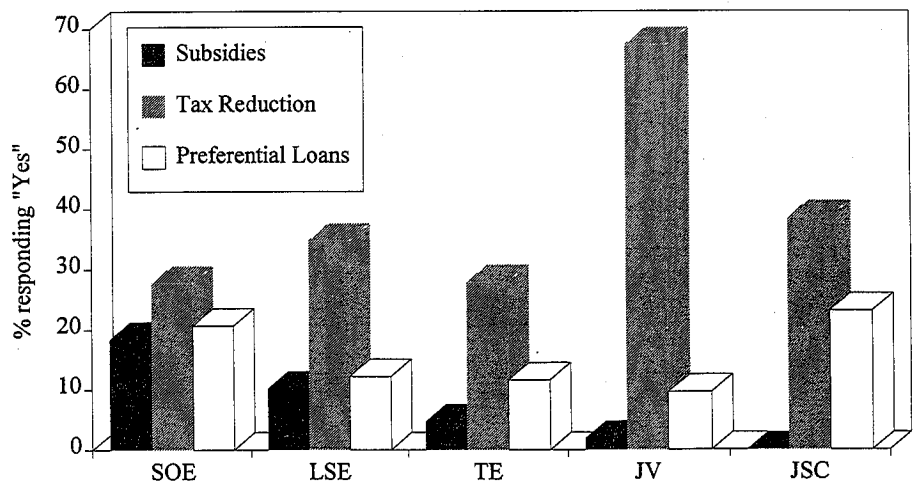
n = 292
Source: CLFS2

Figure 13: Change in Debt, 1994 compared to 1993, by Property Form



n = 294
Source: CLFS2

Figure 14: Percentage of Enterprises receiving Financial Assistance, by Property Form, 1994



n = 298
Source: CLFS2

The uneven access of establishments to credit and financial support is also pronounced, if not even more so, by property form. It is striking, for example, that although the state sector was performing poorly, it was still able to rely heavily on credit and state preferential policies. More than 90 per cent of the SOEs reported that they were in debt to banks and that they did not have internal resources to draw upon; and more than three-quarters of the SOEs reported that they had higher debts¹⁹ in 1994 than in 1993²⁰ (Figure 13). In addition to relying on credit from banks, the SOEs also depended on subsidies and preferential loans from the State (Figure 14). The cost of subsidizing these enterprises has been a major reason for the State's financial burdens.

Only about a third of the LSEs reported debts to banks; instead their debts were to their parent companies. Although the debts of the LSEs were least likely to have increased in 1994, as compared to other property forms, this was probably because it was difficult to obtain financing from their parent companies, which were themselves in dire straits. The LSEs generally had less access to direct financial support from the State, hence their more serious financial constraints as compared to the SOEs. The parent companies have also been shifting the financial burden of tighter budgetary controls imposed by the State on them. The LSEs reported that they now have to repay capital received from their parent companies and that they have limited access to preferential loans. Although they were more likely than the SOEs to be granted tax deductions or exemptions, the benefits would normally be less important than actual financial resources and would apply only to those LSEs earning incomes or profits.

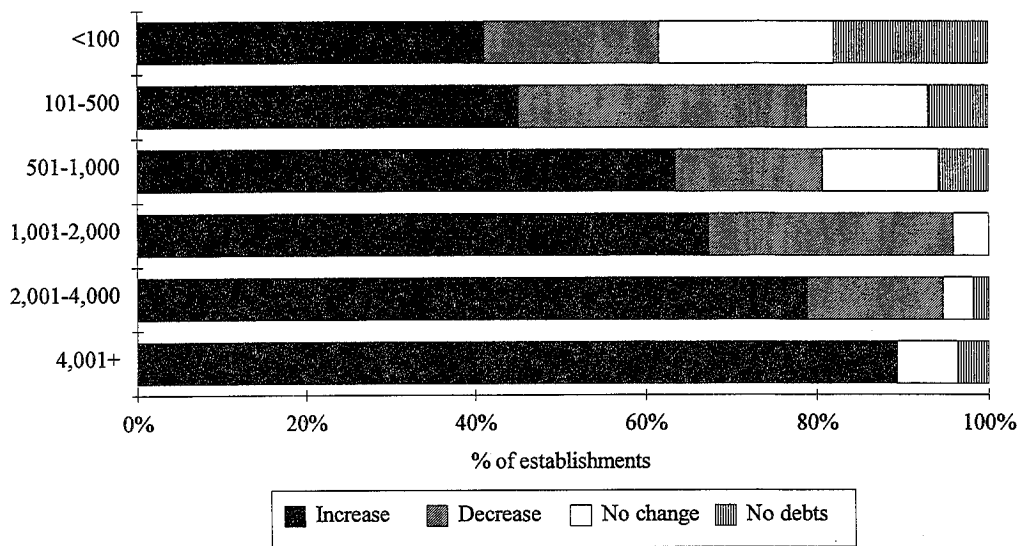
Of the establishments in the non-state sector, the JVs and the JSCs also relied very heavily on bank credits. More than 90 per cent reported being in debt to banks. The JSCs (77 per cent) in particular had higher debts in 1994 than in 1993 (Figure 13). On the other hand, the JSCs were also most likely to receive preferential loans. Figure 14 also shows that the State has very liberally used tax policies to encourage the setting up of JVs. Only the TEs did not receive any special financial support. Although the question was not asked in the survey, there are reports that in some areas, banks, under political pressure from the local authorities, annually grant amnesties to the TEs in terms of writing off their bank loans.

The debt burden of establishments was heavier the larger the employment size of the establishment. For example, only about a third of the smallest establishments were in debt to banks but more than 90 per cent of establishments with more than 500 workers had relied on bank loans for financing. Debts were also likely to have increased between 1993 and 1994, the larger the employment size of the establishment (Figure 15). On the other hand, the larger the firm size, the better the access to financial assistance from the State (Figure 16). This very likely reflected in part the motivation of the State to prevent large firms from going bankrupt and causing hardship and likely social instability involving greater numbers. But, of course, it also reflects the heavier financial burden of the State.

¹⁹ The debt-asset ratio of SOEs was recorded at 75 per cent in 1994, as compared to ratios of between 50 and 60 per cent in western countries. Deng Shi Ji, 1995, op. cit., p. 5.

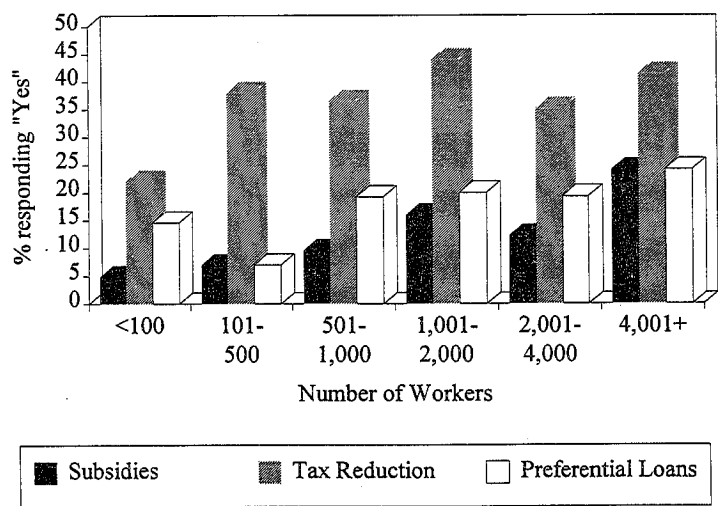
²⁰ In a report published in December 1994 by the State Statistical Bureau based on a survey of managers of SOEs, 74.5 per cent of the SOEs claimed to be short of working capital, and 80.4 per cent said their debts were mounting. As reported in The Economist Intelligence Unit, *Country Report: China Mongolia 1st Quarter 1995*, (London, 1995), p. 21.

Figure 15: Change in Debt, 1994 compared to 1993, by Employment Size



n = 296
Source: CLFS2

Figure 16: Percentage of Enterprises receiving Financial Assistance, by Employment Size, 1994



n = 300
Source: CLFS2

In sum, we have seen that the economic performance of the surveyed industrial establishments varies considerably by property form and by employment size. What is more, uneven access to external financial resources and the differences in "budget constraints" by property form and employment size prompt different enterprise strategies, which result in different levels of economic efficiency. For example, large SOEs, relying on bank credit and

financial support from the State, tend to pursue an expansionist policy at the expense of efficiency; while many small- and medium-sized TEs and JVs, operating under harder budget constraints, base their development strategy on improvements in productivity and efficiency and on product market flexibility. In the case of the LSEs, obsolete technology and poor quality of labour, combined with tight budget constraints and the lack of external resources for modernization, leave little or no option for development; they stagnate or cut their production. But even efficient enterprises may experience economic difficulties if they have no access to the financial resources they need for development. Therefore, the government faces the challenge of putting enterprises with different property forms on an equal competitive basis in terms of providing them equal access to credit and subjecting them to the same budgetary constraints, based on criteria related to the enterprise's efficiency and long-term viability.

5. The Social Burden of Enterprises

The survey collected information on not only wages but also non-wage benefits provided by enterprises to workers for three major reasons. First, the efficiency of enterprises is affected not only by the indicators discussed in Section 4 but also by wage and non-wage costs. A serious problem in China is that non-wage costs, in terms of social benefits and social security provisions, represent a major burden to employers.²¹ An important feature of the Chinese system has been the high degree of enterprise-based social support. Many SOEs provide their workers with various kinds of living facilities and social services, including housing, hospitals, nurseries and schools, as well as community services such as police protection, savings banks, tax collection offices. Such facilities and services syphon off large amounts of capital into non-production related purposes, hampering the efforts of the enterprises to improve efficiency. They are also saddled with heavy pension and medical expenses.²² Second, the "social burden" to enterprises is not only in terms of the cost of providing these social facilities but also the responsibility for workers employed in operating these facilities.

One goal of the reform process is to separate social benefits from the workplace; with the State or community taking over the provision of social welfare and security. Reforms are being introduced to encourage the enterprises to divest themselves of these facilities, and to separate the auxiliary units responsible for the social service functions from the enterprises. But they are still left with the burden of coping with the redeployment of those workers who were previously employed to operate the facilities. The third reason is that while enterprise-based social benefits are a burden to employers, they serve, on the one hand, as incentives to workers to perform better and improve productivity and, on the other hand, as disincentives to leave a job. A major factor underlying labour market inflexibility in China is that a worker who leaves a job loses housing, pension, medical and other social security benefits. This

²¹ According to some estimates, the value of welfare benefits ranged from 20 to 30 per cent of total wages in the 1980s. See Ying Zhu, "Major changes under way in China's industrial relations", *International Labour Review*, Vol. 134, No.1, January 1995.

²² The SOEs run some 18,000 primary and secondary schools with 6.1 million pupils and manned by 600,000 staff. Retired workers in large and medium-size SOEs represent about 37 per cent of their total work force. Reported by Deng Shi Ji, 1995, op. cit., p. 5.

curbs mobility on the part of workers and also makes it more difficult for employers to dismiss workers.

More than three-quarters of all enterprises surveyed provided medical care and food facilities, at least two-thirds provided housing and training facilities, and at least half provided childcare centres and transport for their workers (Table A5). Other social benefits, although less common, included schools for workers' children and holiday facilities.

There were no significant differences between the state-owned and the non-state sector in terms of the "social burden". The JVs and JSCs appear to have conformed to the practice in China of offering workers a wide range of social benefits. In fact, the JVs and JSCs showed the highest level of provision of certain facilities, such as housing, medical care and training. Of course, it could be that JVs had little choice but to offer these social benefits due to local regulations or pressure from their Chinese partners.²³ For the JSCs, the change in property form from SOEs to share-holding companies was not accompanied by a restructuring of the social responsibilities. The JSCs continued to provide the social benefits that the SOEs previously provided to their workers. The data that the JVs and JSCs were providing housing for their workers are particularly interesting because one of the reasons previously given for why workers hesitate to take jobs in the non-state sector is that private firms do not offer housing facilities.

The SOEs had a heavier social burden than LSEs, but this might have been because many LSEs rely on their parent companies for the provision of social facilities for their workers or continue to share facilities with their parent companies. The TEs generally had the lowest social burden in so far as they provided the lowest level of social benefits. There was a clear relationship between employment size of the enterprise and the range of benefits provided. Larger enterprises offered a much wider range of non-wage benefits than the medium sized and small firms.

The social burden in terms of the number of workers hired in these social facilities was, however, not large. The number was 26,436, or only 5.6 per cent of the total labour force. Out of this number working in social facilities, 57 per cent were female whereas the female share of the total labour force was only 42 per cent. This has implications for the gender composition of workers likely to become redundant as enterprises change their policies concerning the provision of social facilities.

Figure 17 shows that not only in terms of social facilities provided but also in terms of number of workers hired, it was the non-state sector that had a heavier burden. The larger proportion of the workforce employed in such facilities in the JVs and the JSCs could partly reflect a higher quality of social services or it could be related to the larger total employment size of these enterprises. The TEs generally had the fewest workers employed in the social facilities, followed by the LSEs. The larger employment size, the larger the percentage of workers employed in the social facilities operated by the establishment.

Although the aim of the reforms is to reduce the social burden of enterprises, the majority reported that they had no plans to change the provision of social benefits. In fact, those that said they had plans for change were more likely to be thinking of increasing, rather

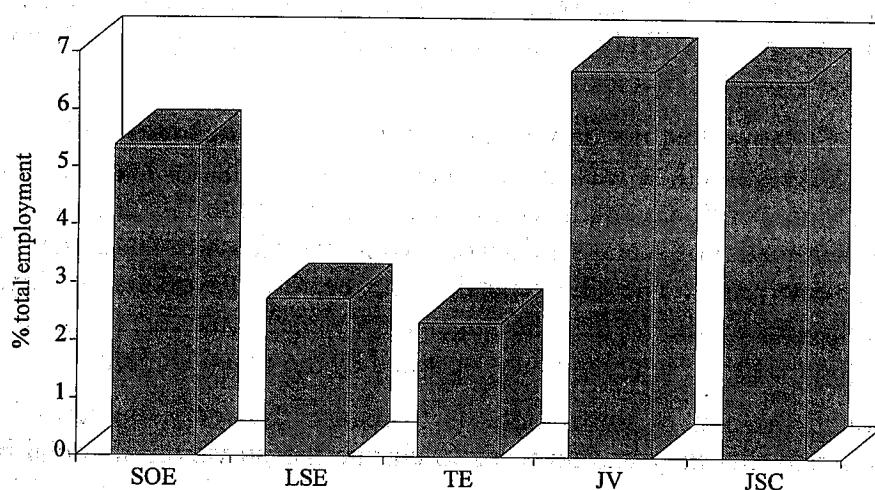
²³ Other studies suggest that wholly foreign-owned firms were less likely to offer such a wide range of non-wage benefits.

than reducing, the benefits (Figure 18). Almost 30 per cent of the establishments reported that they were planning to increase housing facilities for their workers over the next twelve months, as compared to less than 4 per cent planning a decrease. Housing has always been a critical element of workers' compensation in China. Although capital investment by enterprises in housing has, no doubt, helped to improve housing conditions of urban families, this practice tends to limit labour mobility. Workers are reluctant to leave their jobs because alternative housing is difficult to obtain. In addition, the building and maintenance of apartments represent substantial financial burdens on companies.

In addition to the social benefits shown in Table A5, enterprises are also responsible for social security for their workers, a practice inherited from the era of command economy. They pay pensions to a considerable number of retirees and allocate a significant level of funding for health care for their workers and as unemployment insurance. In addition to contributing to the general unemployment insurance scheme, many enterprises operate a kind of "company-based unemployment insurance system" for those workers who are forced to take leave because of lack of work. These workers usually receive reduced pay for the period of leave.

Table A6 confirms that, with the exception of TEs, the bulk of establishments subscribed to the general (State-operated) pension scheme and unemployment insurance for their workers. But over the long term, most of the enterprises have little or no accumulation of such insurance funds, hence the heavy load. The TEs operated their own autonomous or supplementary pension schemes, but their total pension cost as a percentage of gross industrial output (0.77 per cent) was still considerably lower than that for the other property forms (Figure 19). However, the TEs were not part of the national unemployment insurance scheme. This is because the scheme has not been extended beyond the main city centres. Health insurance is a relatively new phenomenon in the country, but is likely to gain significance as enterprises are encouraged to shift from running their own medical centres or hospitals to covering workers through health insurance.

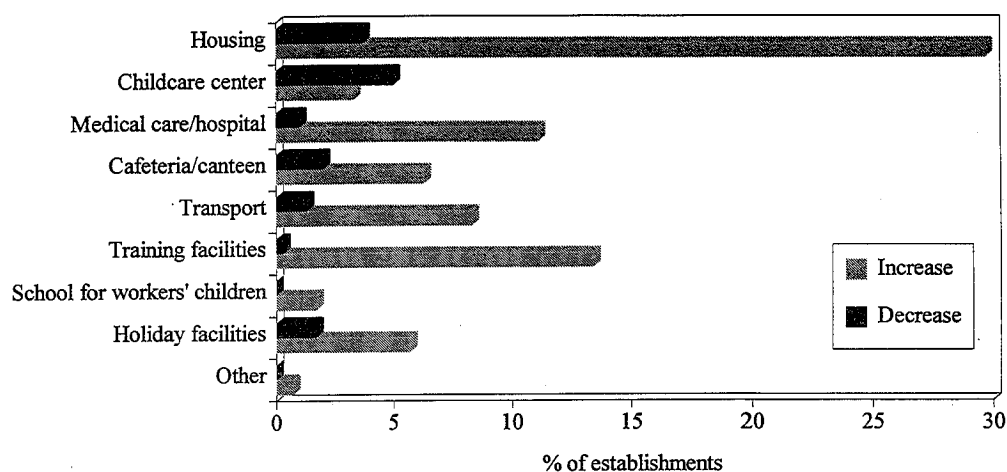
Figure 17: Workers employed in Social Facilities, by Property Form, 1995



n = 295

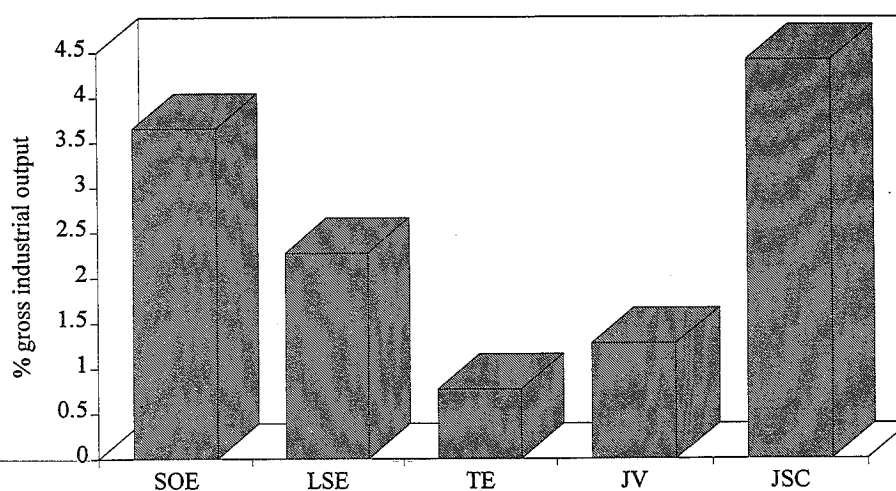
Source: CLFS2

Figure 18: Planned Changes in Social Facilities, over the Next Year



n = 300
Source: CLFS2

Figure 19: Pension Cost, by Property Form, 1994



n = 295
Source: CLFS2

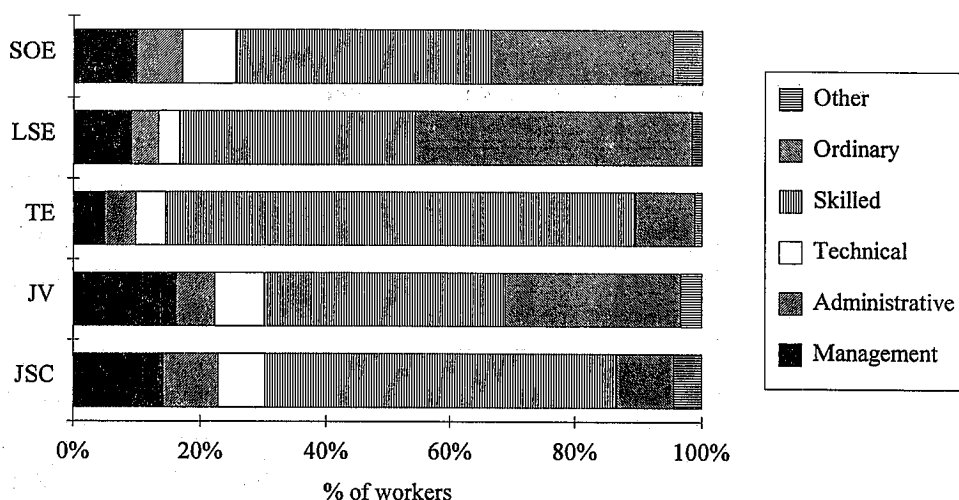
6. Employment Dynamics in the Process of Reform

Some of the underlying factors for labour surplus in China relate to the State allocation of labour, the traditional practice of guaranteed lifetime employment and the restrictions placed on enterprises in selecting and recruiting the workers they need and releasing redundant workers. Where inter-enterprise labour mobility at both ends of the process, in recruitment and exit from an employment relationship is limited, either because management

is restricted in hiring and firing practices or workers do not want or cannot move, the problem of redundancy can be expected to be more serious. Another important reason for labour surplus could be the poor quality of the labour force in some enterprises.

The skill structure of the workforce covered in the survey was, however, relatively high. About 45 per cent were skilled production workers and another 8 per cent were technicians. The ordinary or non-skilled production workers made up only about 28 per cent of the total work force. Management staff tended to outnumber those in administration. There were striking differences in employment structure by property form (Figure 20). These differences, especially in skill composition of the work force, may have contributed both to the productivity differentials highlighted in Figure 8 and to differences in the levels of redundancy discussed in the next Section. More than three-quarters of the work force in the TEs were skilled production workers, as compared to around 40 per cent in the SOEs, LSEs and JVs, and 56 per cent in the JSCs. The LSEs had the highest proportion of non-skilled workers, since they tended to receive the less skilled or productive workers transferred from their parent companies.

Figure 20: Employment, by Occupation and Property Form, 1994



n = 295

Source: CLFS2

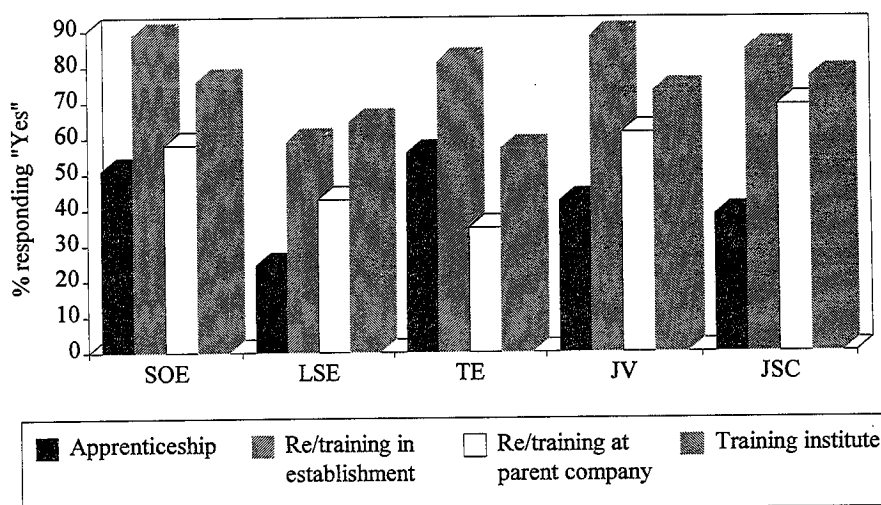
The quality of the labour force is linked to the human resource development efforts of the enterprises. For example, the TEs, which had the highest proportion of skilled workers, also reported the largest percentage (almost half) of the work force either in apprenticeship programmes or receiving enterprise-based training in 1994.²⁴ The most common form of training was enterprise-based, followed by the use of training institutions run by the central or local government (Figure 21). With the exception of LSEs, more than four-fifths of all property forms provided enterprise-based training for their workers. The LSEs appeared to give least attention to training their workers; while they might have had problems of in-house training capacity, they did not appear to make much use of the training facilities of their

²⁴ However, unlike in the Township Enterprises, skill levels in the Village Enterprises are generally low, since rural workers have much fewer opportunities for training whether in training institutions run by the society or through programmes offered by the enterprise.

parent companies. The larger the employment size, the more likely the establishment was to provide training, especially enterprise-based training.

Looking at employment change, Table A7 shows that there has been a steady, though not large, decline since 1993, with the fall sharper in 1995 than in 1994 (although there could have been some seasonal factors, related particularly to the Spring Festival in the first quarter of 1995). The survey contrasts with the trend in the country as a whole, where total employment has been growing and the open unemployment rate has been kept under 3 per cent over the past ten years.²⁵ The contrast is due to the fact that the survey oversampled SOEs. Consistent with the reform measures to shift workers out of the state-owned sector, the fall in employment noted in the survey was wholly in the SOEs where the total number employed dropped by about 3 per cent between 1993 and early 1995. All other property forms registered an increase; the largest increase being in the TEs, followed by the LSEs.

Figure 21: Types of Training, by Property Form, 1995



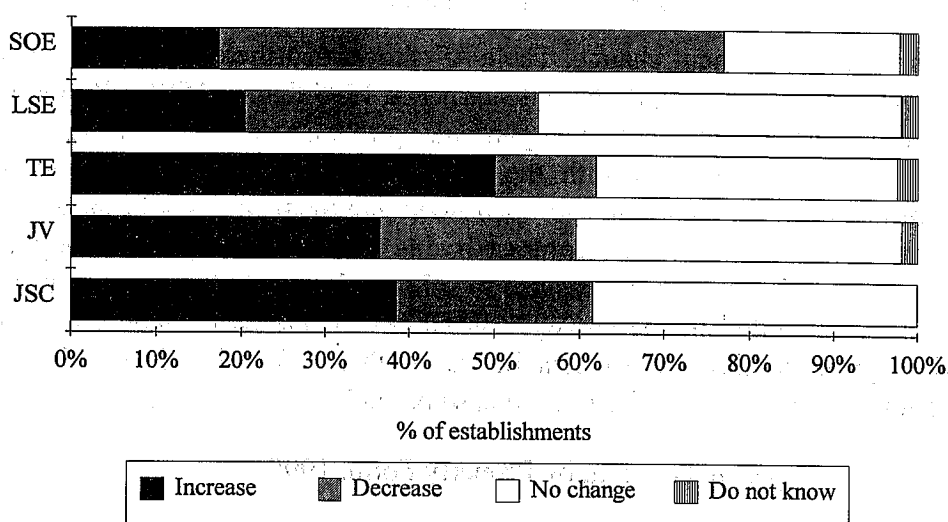
n = 298

Source: CLFS2

Managers of SOEs were also much more likely than their counterparts in other types of establishments to expect further declines in employment by the end of 1995 (Figure 22). It was particularly striking that among the LSEs, more managers expected a decrease than an increase in employment. On the other hand, the TEs were more likely to expect an increase in employment than any other enterprise category. The JVs and JSCs were also more likely to expect an increase or stagnation, rather than a fall, in their workforces. By employment size, establishments with between 100 to 1,000 workers were most likely to expect their workforce to grow. But large companies generally expected employment to fall over the coming year.

²⁵ The open unemployment rate is expected to increase to 8 per cent by the year 2000, although the target set by the Government is 5 per cent. By 1996, open unemployment is projected at 3.8 per cent, higher than the target rate of 3.5 per cent. Figures supplied by the Department of Employment, Ministry of Labour.

Figure 22: Expected Employment Change by End 1995, by Property Form



n = 295

Source: CLFS2

To reduce the level of employment, there has been strict control of recruitment. New recruitment among the 300 establishments amounted to 24,770 workers in 1994. Overall, just over 5 per cent of the total workforce had been recruited during the year. Figure 23 shows that the SOEs had the lowest recruitment rate and that the main sources of new employment were the TEs and the LSEs. Establishments with between 100 and 500 workers had the highest recruitment rate; larger establishments showed a declining rate of recruitment.

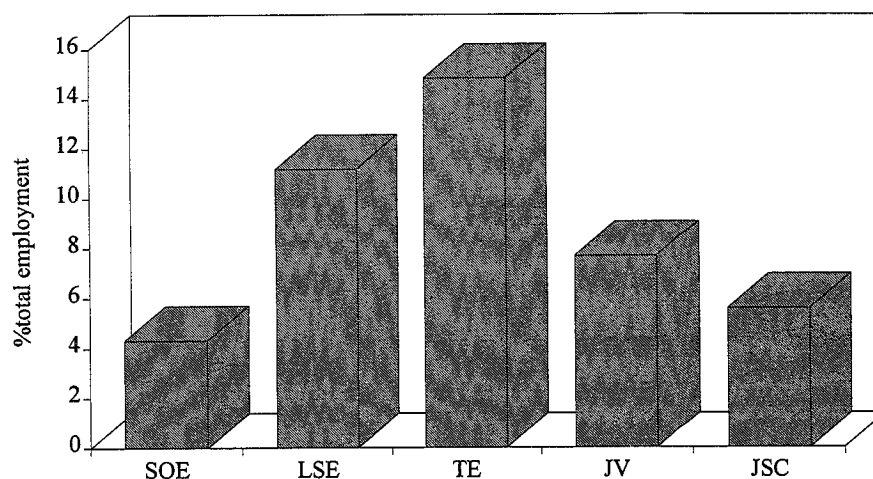
Only 40 per cent of new recruits were women. Since the female share of the total labour force was about 42 per cent, this meant that new recruitment was not going to improve the sex composition of the work force. The majority (over 60 per cent) of new recruits were skilled workers or technicians, suggesting that most companies restricted recruitment to filling those positions indispensable to the production process. Another revealing piece of information was that less than 1 per cent of new recruits were unemployment benefit recipients, implying that labour market policies to increase their reabsorption have so far not been effective.

That enterprises are attempting to cut down on the level of employment by restricting recruitment can also be seen from the very low vacancy rates for 1995 (Table A8). Again, job vacancies were mainly only for skilled workers and technicians. New job openings were particularly limited in the SOEs, while the TEs reported the highest number of vacancies. It was also the smaller firms, especially those with less than 100 workers, that reported the highest vacancy rates.

A major reason for labour market inflexibility and economic inefficiency has been identified as the limited freedom of establishment managers to select and recruit the types and numbers of workers according to their production needs. Among the establishments interviewed, Figure 24 reveals that the labour allocation system remains rigid, especially for the SOEs and regardless of their economic performance. Of the new recruits, more than 40 per cent were assigned to the SOEs by local authorities, another 23 per cent were transferred from other enterprises. The assigned workers are normally demobilized soldiers and

graduates from technical colleges and universities who have not been able to find their own jobs.²⁶ As to be expected, the LSEs received their new workers mainly through internal labour markets from their parent companies; 54 per cent of the new recruits in LSEs were surplus workers who had been transferred from other establishments. Only the TEs were able to select workers from among those who directly applied to them for jobs. More than 70 per cent of the newly employed in the TEs were therefore first-time job seekers, as compared to only 17 per cent among the recruits in the LSEs.

Figure 23: Recruitment Rate by Property Form, 1994



n = 295

Source: CLFS2

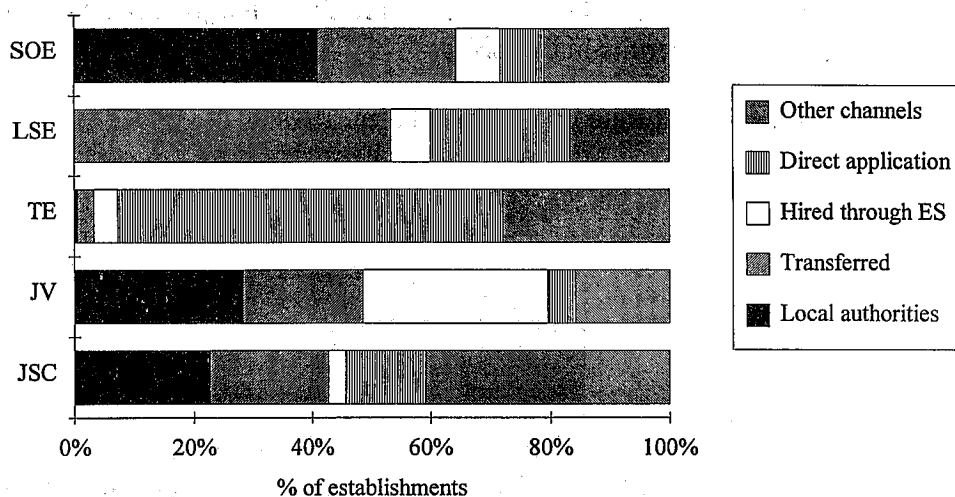
With the reform of the employment system, the function of the labour bureaus has changed from assigning employees to enterprises to introducing (or recommending) workers to enterprises. Different types of labour service agencies (domestic service agencies, project subcontract companies, personnel information exchanges) and employment agencies have been set up, first in the urban areas, then slowly in the rural areas.²⁷ The survey found, however, that only the JV companies made important use of employment services to recruit new workers. The JVs (and also the totally foreign-owned companies) normally had less information about the labour market and therefore tended to use many different channels, including employment services, to recruit workers. Insofar as they were determined to hire high quality workers and to avoid just using workers found by their Chinese partners, they relied on other sources, including employment services. They were also bound by particular regulations, especially in Beijing, to make use of the services of a special employment agency set up for the purpose.

²⁶ Information from the Ministry of Labour indicated that normally about 20 per cent of demobilized soldiers and graduates going into the labour market are not able to find jobs and require assistance of the State to be assigned to particular enterprises.

²⁷ Ying Zhu, 1995, *op.cit.*

The finding that only the JVs currently make use of employment services is significant. The survey indicated that the employment services' market share of recruitment was very low, less than 11 per cent. This highlights the need to improve employment services.

Figure 24: Composition of Recruitment, by Property Form, 1994



n = 290

Source: CLFS2

To enhance the labour flexibility of enterprises and to move away from the provision of lifetime employment security for workers, the Government introduced a labour contract system in 1986 for the state-owned sector. With the adoption of the Labour Law on 1 January 1995, the contract system was extended to all enterprises; a change that has been described as "the end of the iron rice bowl". Under the labour contract system, new workers are hired as contract workers (although those previously engaged as permanent workers still enjoy lifelong employment). Contracts last for at least one year and specify production tasks, probation, working conditions, remuneration, labour discipline and penalties. Temporary workers under the old system²⁸ are now required to sign contracts; but under the new system, their contracts do not entitle them to the same status or benefits as those accorded to contract system workers.²⁹

Of those employed in the 300 establishments, only 37 per cent (Figure 25) were fixed-term contract workers. In the state-owned sector, almost two-thirds of all workers are permanent. The use of temporary workers is not common, although it has been reported that in some SOEs, temporary workers from the rural areas are hired to do the "hard and dirty" jobs while permanent or contract workers stay idle.³⁰ It was only TEs that have used the contract system extensively; and only TEs and LSEs reported that about 14 per cent of their workers were hired on a temporary basis. The greater flexibility of TEs in employment

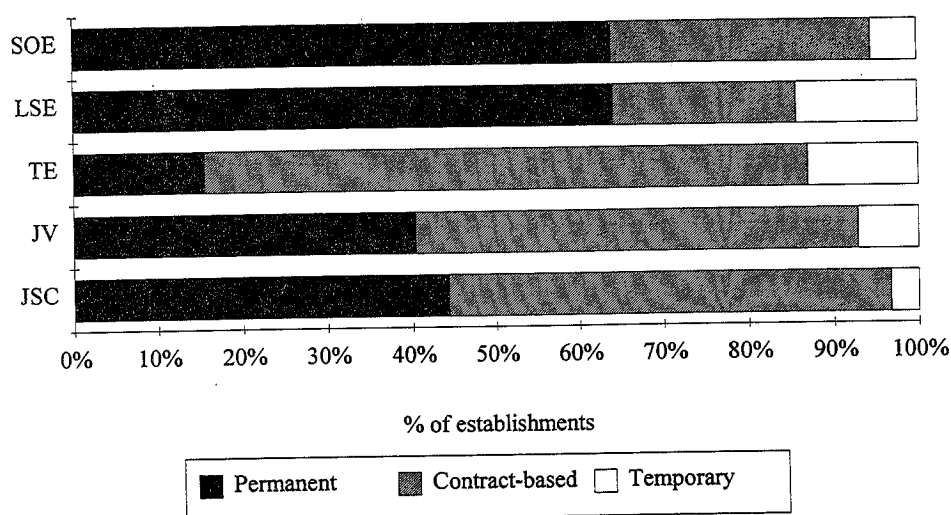
²⁸ Temporary workers are mainly rural residents working under a labour agreement of restricted duration in urban state and collective firms. They include seasonal and peasant workers who work temporarily in industrial sectors.

²⁹ Yiang Zhu, 1995, *op.cit.*

³⁰ Deng Shi Ji, 1995, *op.cit.*, p.15.

contracts (and in recruitment) may help explain their lower level of labour surplus compared to other property forms.

Figure 25: Distribution of Workers, by Property Form and Type of Contract, 1994



n = 295

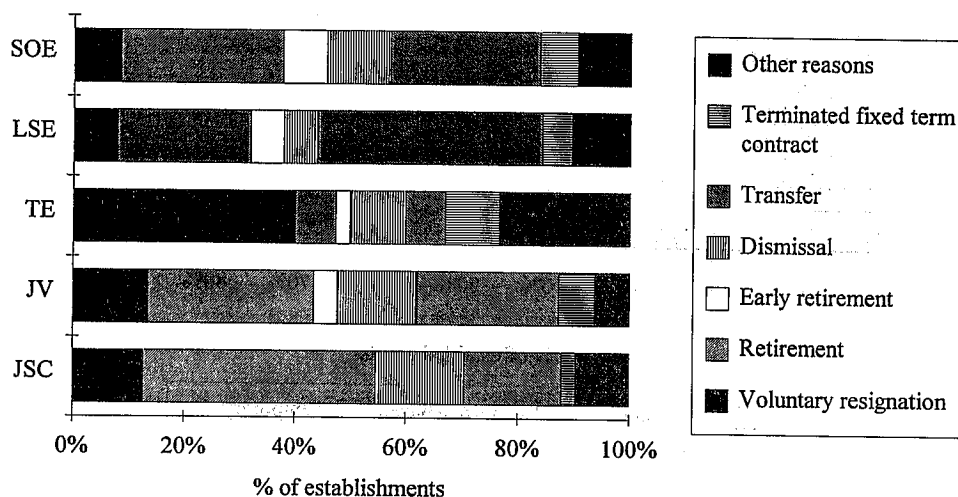
Source: CLFS2

To reduce the level of employment, enterprise managers not only recruited fewer workers but also sought to increase the number of "exits". The 300 establishments reported a total of 36,958 departures in 1994. The overall turnover rate was 7.7 per cent. Exits exceeded entries by 12,188 workers, leading to a net loss in employment. By property form, labour turnover was highest in the JVs (9.2 per cent), followed by the SOEs (7.8 per cent), the TEs (6.9 per cent), the LSEs (4.8 per cent) and the JSCs (4.7 per cent). The turnover rate was much higher in the companies with less than 500 workers than in the larger firms. Since, as discussed above, the larger establishments provide a much wider range of non-wage benefits, their workers may have been more reluctant to leave for fear of losing their social benefits and welfare. But because companies with less than 500 workers also had the highest recruitment rates, there was a smaller comparative net loss of employment in this sector.

The composition of job leavers by reason for leaving (Figure 26) is significant because it illustrates the employment flexibility that establishments have, and the mobility that workers enjoy. Voluntary resignations were low, except for those working in TEs. Rather than voluntarily leaving, workers were more likely to be dismissed for disciplinary reasons. Since implementation of the Regulations on Discharging Employees, enterprises have the power to dismiss workers. According to this regulation, there are five justified bases for dismissing an employee: breach of labour discipline, bankruptcy of the firm, unsuitability of the worker for the job after a trial period, inability of the worker to resume duties even after medical treatment following a non work-related illness or accident, and imprisonment or

conviction for a crime.³¹ Other "natural reductions" of the workforce include retirement, which was the major form of exits, and termination of fixed term contracts. Establishments also reported that they resorted to measures, such as pensioning off workers through early retirements and transferring workers to other establishments, to reduce their workforce. The SOEs and LSEs were most likely to transfer workers.

Figure 26: Composition of Exits by Property Form, 1994



n = 293

Source: CLFS2

7. Measurement, Level and Composition of Labour Surplus

A widely recognized feature of Chinese state-owned enterprises is the presence of surplus labour. However, it is not easy to give a clear-cut definition, and it is even more difficult to measure it. Furthermore, information on labour surplus in various non-state owned enterprises in the urban industrial sector is scattered. Therefore, this section attempts to estimate and compare the levels of redundancy in different types of enterprise and to examine the composition of redundant workers.

Labour surplus may be best defined in relation to enterprise efficiency. In general terms, labour surplus is the difference between actual and desired levels of employment to achieve economic efficiency. Economic efficiency could be in terms of maximum production, maximum labour productivity with given capacity, or maximum profits. Since profit maximization is itself not an easily measurable concept, it is much more common to link surplus labour to output maximization with given production capacity, or to productivity maximization with given level of output. A profit maximization criterion is likely to give the largest estimate of surplus labour, while the production maximization criterion would tend to give the smallest estimate.³² An estimate of labour surplus based on the productivity

³¹ M. Korzec, *Labour and the Failure of Reform in China*, (New York, St. Martin's Press, 1992).

³² See J. Knight and L. Song, "Towards a Labour Market In China", draft prepared as a background paper for the *World Development Report 1995 Workers in An Integrating World*, (Oxford, Institute of Economics and Statistics, 1995), p.10.

maximization criterion at current level of output, which may or may not correspond to maximum profits or maximum production capacity, would tend to lie between the first two estimates. Our approach to the measurement of labour surplus is based on this last criterion.

There is also a time dimension implicit in the concept of redundancy, which complicates measurement. Uncertainty about the future level of output and the future changes in technology have an effect on the current level of employment. For example, if an enterprise expects to expand production and to increase the level of capacity utilization, it may make sense, compared to the costs of employment adjustment, to keep redundant workers, particularly the skilled ones, until production picks up. Therefore, only a longitudinal data set on trends in output, capacity utilization, sales, productivity and employment could provide a sound basis for measuring the level (and changes in the level) of labour surplus. Since the Chinese enterprise survey does not provide such data, labour surplus was measured at a particular point of time, in March 1995.

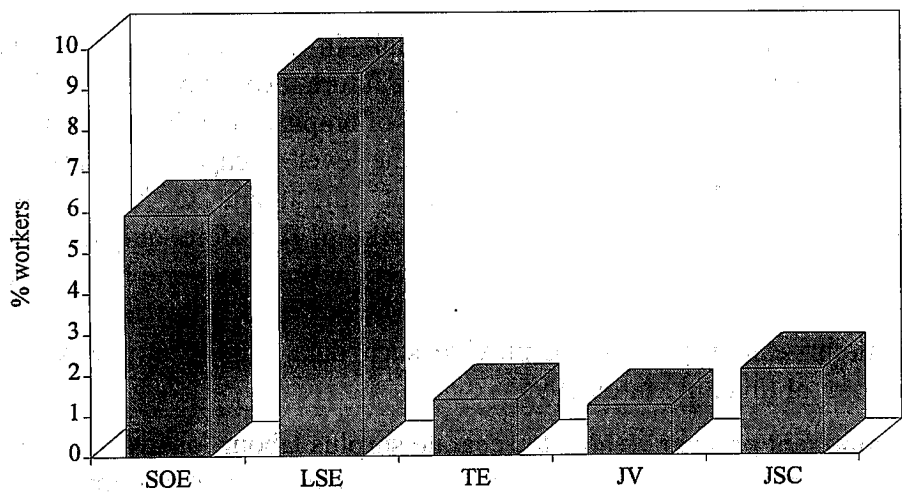
An important problem is how to separate surplus labour (or over-manning) from labour reserve. Even profit-oriented enterprises in developed market economies tend to keep a certain level of labour reserve³³ to avoid disruption in production in case of workers' illness or absenteeism, or in case of workers' anticipated absence from work. Furthermore, there is labour reserve even in the active workforce: some workers wait for repair of unexpectedly broken-down machinery, others wait for parts, production materials or for instalment of new equipment, or work part-time, or may be in the process of moving from one job to another. In other words, even the active workforce cannot be used to full capacity all the time; a certain labour reserve is necessary. Labour reserve should therefore be separated from labour surplus and measured independently, especially in the case of non-working staff.

As a first step, we measure the extent of labour surplus among non-working staff. At any given time, it is a normal phenomenon in any enterprise to have a certain number of people on vacation, sick leave, maternity leave, training programmes, or absent for unexpected reasons. Managers take into account such (anticipated and unanticipated) absenteeism and maintain a degree of labour reserve to avoid possible disruption in production. In contrast to such normal labour reserve, those staff and workers who, because of lack of work in the enterprise, are placed on leave with reduced payment or are forced to take unpaid leave to search for temporary job opportunities elsewhere can be classified as "on-leave" surplus labour.

In the 300 firms, 188 reported having such surplus labour. The level of this "on-leave" labour surplus was modest, 22,862 workers or 6.3 per cent of the total workforce in the 188 enterprises. If the number of workers on unpaid leave and leave with reduced pay is related to the overall workforce in the 300 firms, on-leave labour surplus was about 4.8 per cent, with LSEs and SOEs having the highest level of surplus (Figure 27). Medium-sized firms, and to some extent small enterprises, had placed more workers on unpaid leave and leave with reduced pay than large companies (Figure 28). There were considerable regional differences; while on-leave labour surplus was below 4 per cent in four localities it was as high as 12 per cent in Tianjin (Figure 29).

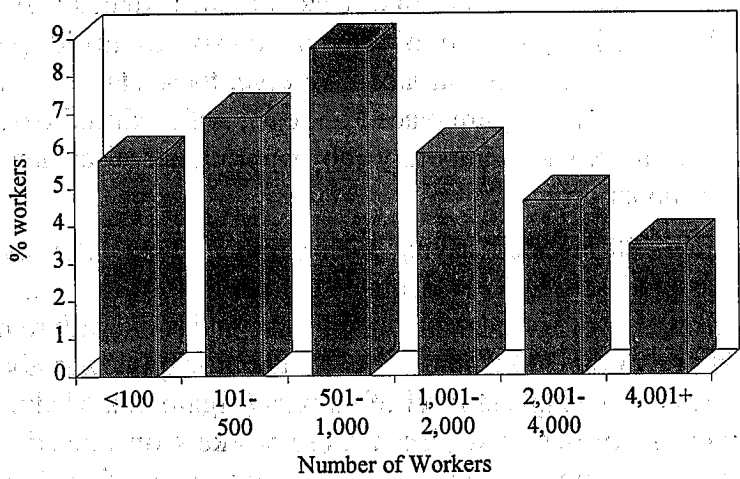
³³ See J. Bowers, D. Deaton and J. Turk, *Labour Hoarding in British Industry*, (Oxford, Basil Blackwell, 1982.)

Figure 27: Percent of Workers on Unpaid Leave and Leave with Reduced Pay, by Property Form, 1995



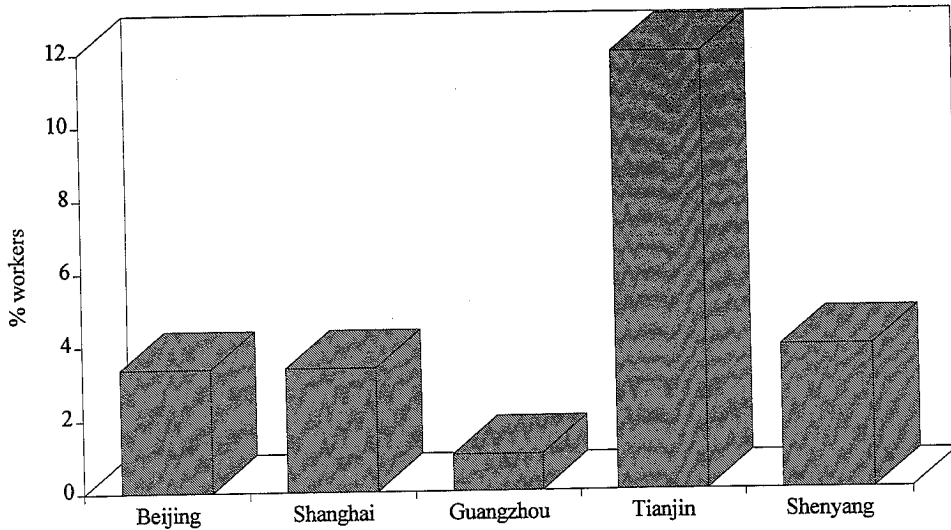
n = 295
Source: CLFS2

Figure 28: Percent of Workers on Unpaid Leave and Leave with Reduced Pay, by Employment Size, 1995



n = 300
Source: CLFS2

Figure 29: Percent of Workers on Unpaid Leave and Leave with Reduced Pay, by Region, 1995



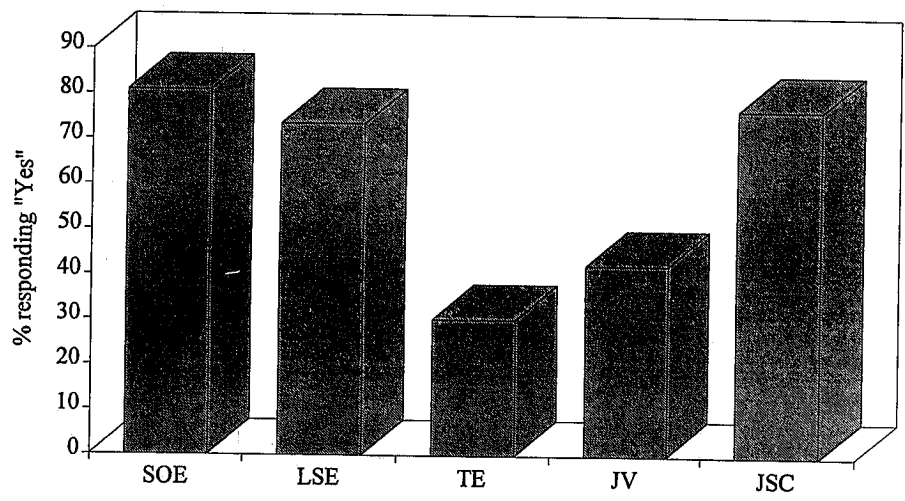
n = 300

Source: CLFS2

In addition to "on-leave" surplus labour, many firms had surplus workers in their active workforce as well. To estimate "in-job" labour surplus, establishment managers were asked whether the present level of output could be achieved with fewer active workers and, if so, by what percentage. 197 firms (or 66 per cent of the surveyed) reported having labour surplus in the active workforce. The SOEs, LSEs, JSCs and larger-scale enterprises were far more likely to believe they could cut their workforces without affecting output (Figures 30 and 31). Thus, 81 per cent of the state-owned firms and 83 per cent of the enterprises with more than 4,000 workers reported that they could produce the same output with fewer workers.

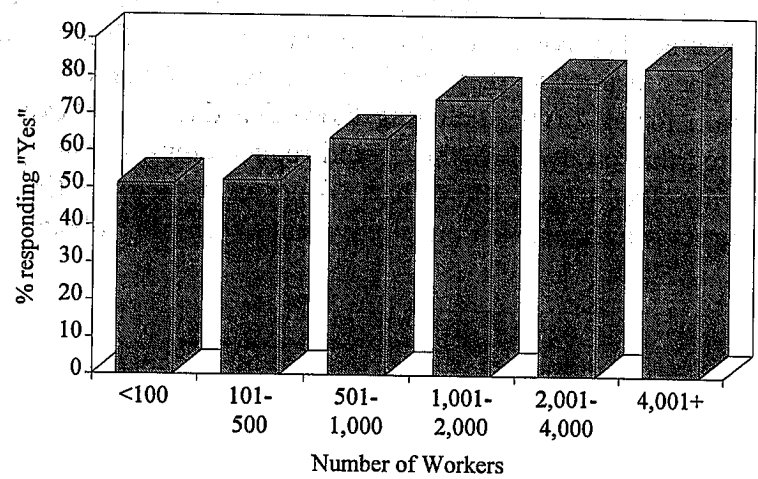
The share of surplus workers in the active workforce varied between 2 and 70 per cent. For those that reported they could produce the same output with fewer workers, the average employment cut they estimated they could make was 17 per cent of their current total workforce. Overall, for all firms, including those that did not believe they could cut jobs, managers estimated that on average, they could reduce employment by 14 per cent without affecting output. In other words, more than 14 per cent of the entire industrial workforce covered in the survey was concealed unemployment or "in-job" labour surplus, based on this definition.

Figure 30: Percent of Establishments that Could Produce the Same Output with Fewer Workers, by Property Form, 1995



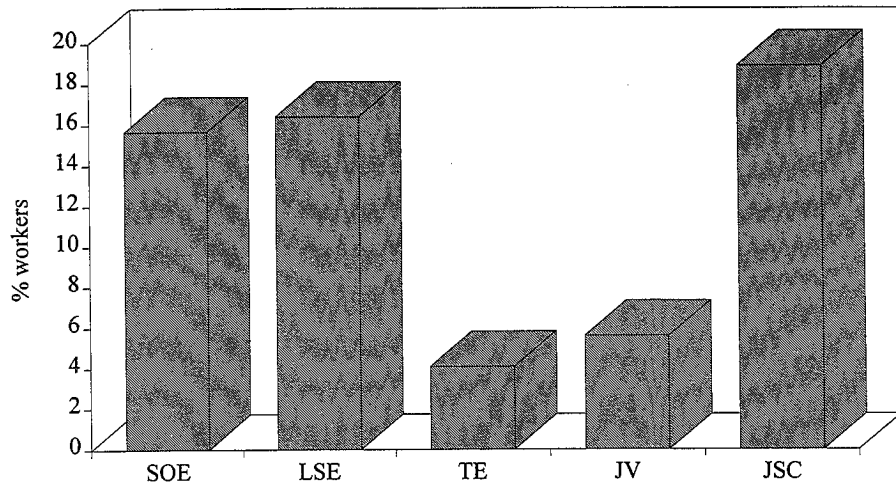
n = 298
Source: CLFS2

Figure 31: Percent of Establishments that Could Produce the Same Output with Fewer Workers, by Employment Size, 1995



n = 300
Source: CLFS2

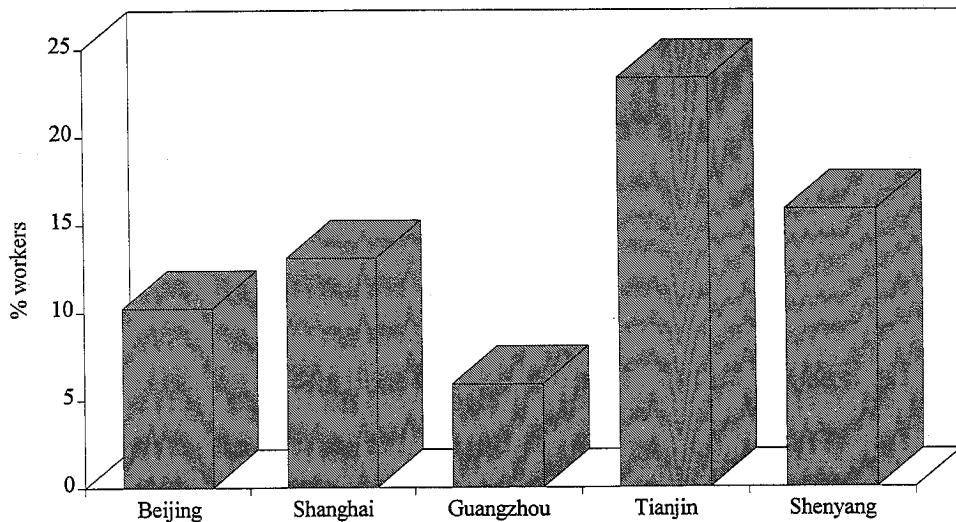
Figure 32: Percent Fewer Workers to Produce the Same Output, by Property Form, 1995



n = 295

Source: CLFS2

Figure 33: Percent Fewer Workers to Produce the Same Output, by Region, 1995



n = 300

Source: CLFS2

The highest level of such "in-job" labour surplus (Figure 32) was registered in the JSCs (18.9 per cent), followed by the LSEs (16.4 per cent), SOEs (15.6 per cent), and enterprises with 2,000 or more workers (15 per cent). There were substantial regional differences. For example, the level of "in-job" labour surplus was almost four times as high in Tianjin as in Guangzhou (Figure 33).

It is worth noting that the question on "in-job" labour surplus used in the survey was based on current output, which, as pointed out above, may or may not have represented maximum production capacity of the enterprise. A World Bank survey that adopted the concept of maximum production capacity produced estimates of labour surplus ranging from 3 to 30 per cent and averaging 11 per cent.³⁴ Our survey (Figure 34) shows that even in those firms operating at 100 per cent capacity utilization, some 8 per cent of the labour force was redundant (both "on-leave" and "in-job surplus workers").

When comparing the levels of "in-job" and "on-leave" labour surplus in the whole sample, there are two interesting findings. First, large enterprises had the highest "in-job" labour surplus and the lowest "on-leave" surplus, while small and medium-sized firms tended to have the highest "on-leave" and the lowest "in-job" labour surplus. This is mainly due to the fact that large firms are in a better position, because of their diverse job structures and their financial strength, to maintain "in-job" surplus workers or to redeploy them. Second, labour surplus in the active workforce was much higher than "on-leave" surplus. Why? In theory, the firm with labour resources in excess of demand is faced with three alternatives: it may keep some workers idle, it may utilize all workers to build up stocks, or it may utilize all workers but operate at a lower level of productivity than could have been achieved with the first two options. In the 300 establishments, the low share of unsold products in total output, combined with the way surplus labour is retained, indicates that there may be a close relationship between labour surplus and efficiency.

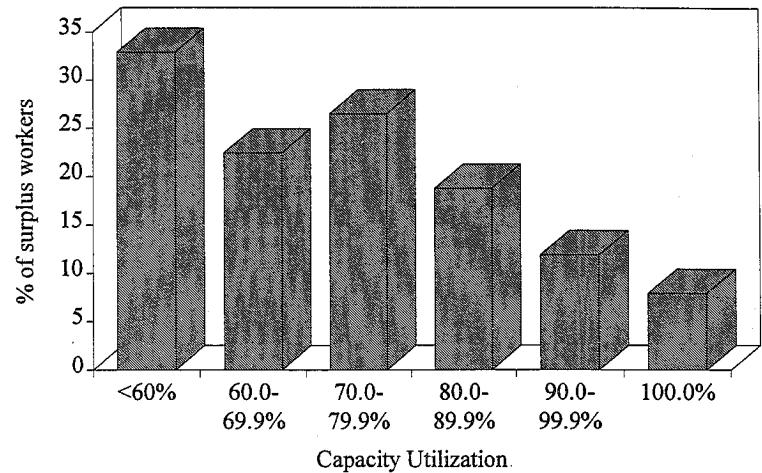
The links between labour surplus and economic efficiency can be judged from Figures 34, 35 and 36 which relate the percentage of surplus workers (both "on-leave" and "in-job") in the total workforce of the enterprise with the levels of capacity utilization, productivity and profits. The negative relationships are clear in all three figures; the higher the level of efficiency the lower the proportion of redundant workers. The break-even or loss-making establishments reported that more than one-third of their workforce were redundant. And what is particularly striking from Figure 34 is that even those firms operating at 100 per cent capacity utilization experienced the problem of redundancies.

If "on-leave" and "in-job" surplus labour are combined and related to all enterprises surveyed, 18.4 per cent of the total workforce (active and non-working) can be regarded as redundant. This figure can be compared to various other estimates of surplus labour from Chinese government sources: a conservative estimate of 15-20 per cent and a higher estimate of one-third of the currently employed workforce (State Economic and Trade Commission, which is responsible for the enterprise reform programme); 10-12 per cent of urban SOE employees (Ministry of Labour, based on a survey of several thousand enterprises in 30 provinces, although the procedures and criteria for identifying redundant workers were not standardized); 20-25 per cent of urban SOE employees (estimates of other research institutions); 20 per cent of SOE employees (State Statistical Bureau survey conducted among SOE managers in December 1994).³⁵

³⁴ As reported in J. Knight and L. Song, 1995, op.cit.

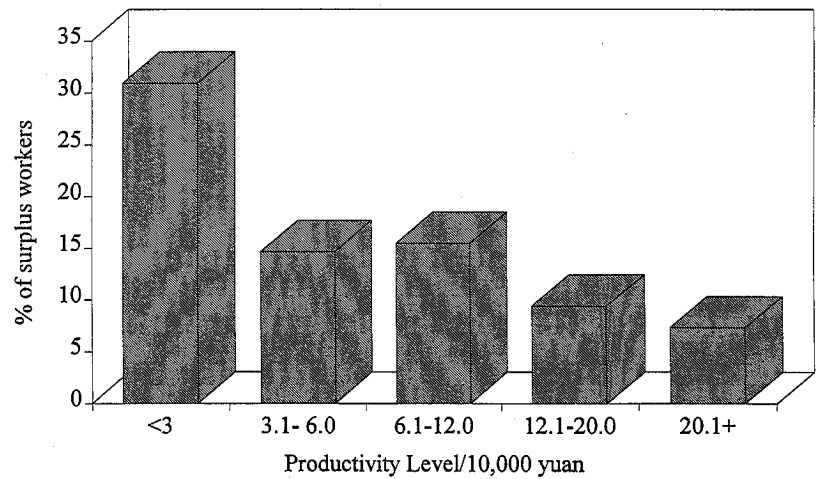
³⁵ World Bank, *China: New Skills for Economic Development. The Employment and Training Implications of Enterprise Reform*, (Washington D.C., World Bank, 1993); ILO/EASMAT, *China: Employment and Training Policies for Transition to a Market Economy, Volume 2: Analysis and Policy Options*, (Bangkok, ILO Regional Office for Asia and the Pacific), 1995; The Economist Intelligence Unit, *Country Report: China Mongolia 1st Quarter 1995*, (London, 1995; and Deng Shi Ji, 1995), op. cit.

Figure 34: Percentage of Surplus Workers, by Capacity Utilization, 1995



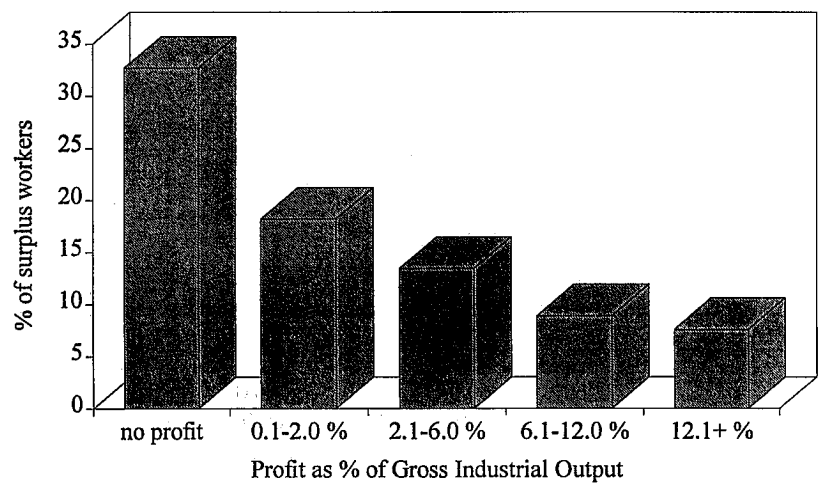
n = 290
Source: CLFS2

Figure 35: Percentage of Surplus Workers, by Productivity Level, 1995



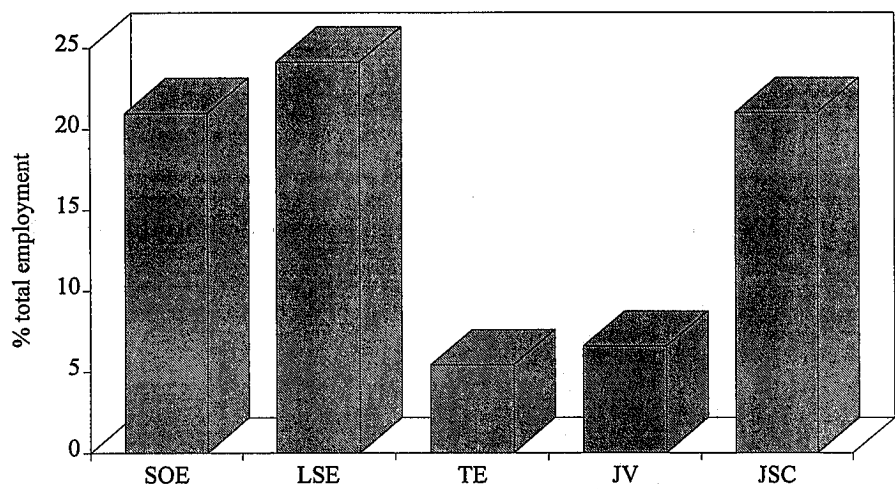
n = 297
Source: CLFS2

Figure 36: Percentage of Surplus Workers, by Profit Level, 1995



n = 298
Source: CLFS2

Figure 37: Labour Surplus as Percentage of Total Employment, by Property Form, 1995



n = 295
Source: CLFS2

There were differences in the level of labour surplus by property form, enterprise size and region. While concealed unemployment remained moderate in TEs (5.4 per cent) and in JVs (6.6 per cent), it was 21 per cent in both SOEs and JSCs, and it reached 24.1 per cent in LSEs (Figure 37). The level of labour surplus tended to increase slightly with the size of the firm. There were also marked regional differences (Figure 38), with Tianjin having a phenomenal 34 per cent labour surplus rate. In contrast, redundant workers accounted for only 6.6 per cent of the total workforce in the surveyed enterprises located in Guangzhou. In Beijing, Shanghai and Shenyang the estimated total labour surplus varied between 13 and 19.5 per cent. This might reflect a set of factors: differences in the composition of the sample in the five cities, differences in local economic development and labour market situations,

and differences in local regulations and the methods by which the authorities and enterprises have addressed the problem of labour surplus. In Tianjin, for instance, the leaders have opted, so far, to concentrate on maintaining social stability, so there have been very few enterprise bankruptcies or mergers and most of the redundant workers are still within the enterprises waiting to be redeployed.³⁶

Another indication of redundancy is that 12 per cent of the surveyed firms reported that they had part-time workers for economic reasons. While only 1.2 per cent of the JVs reported the use of part-timers, 27 per cent of the LSEs introduced part-time work or reduced work schedules for economic reasons. However, it was not clear whether managers included these part-timers in their estimation of "in-job" labour surplus.

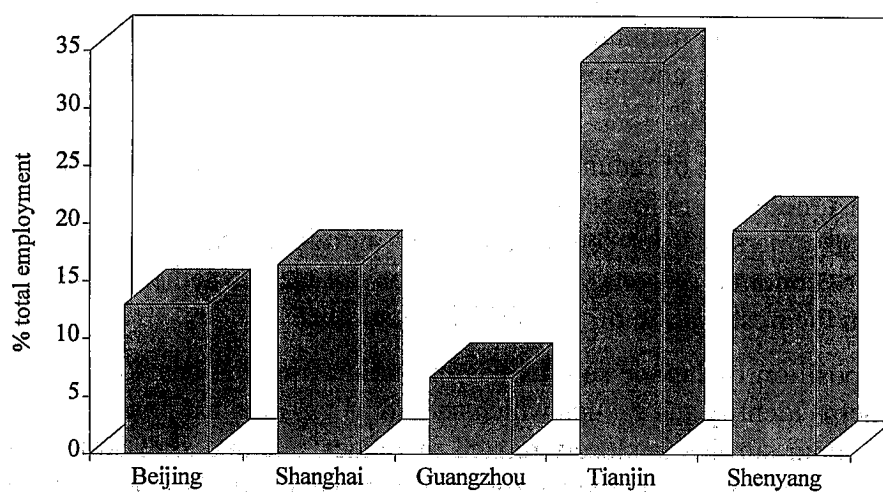
The composition of labour surplus has important implications for employers and policy makers; it helps identify the groups which should be targeted for retraining and redeployment measures. Labour surplus is closely related to gender, age and skill structures. About 70 per cent of managers reported that their surplus workers were mainly women. Females were over-represented in the group of surplus labour in each property form and size category. Redundant workers tended to be concentrated in the age-groups of 31-40 years (42 per cent) and 41-50 years (another 40 per cent) (Figure 39). In terms of occupational category, ordinary (or unskilled) workers accounted for the bulk (in 58 per cent of the establishments) of surplus labour, followed by skilled workers (23 per cent), administrative employees (14 per cent) and managerial and supervisory staff (5 per cent) (Figure 40). Taking into account all these factors – ie. age, level of skills and sex – middle-aged unskilled women were most likely to be redundant. Training programmes, redeployment schemes and other policies and services for surplus workers should be tailored to the special characteristics and needs of this group.

In addition to the current situation, the survey collected information on anticipated changes in labour surplus. Managers were asked whether they expected labour surplus to rise, fall or remain unchanged by the end of 1995. More than half foresaw an increase in labour surplus, 18 per cent expected a fall, and 30 per cent expected no change. These managerial expectations warn that, despite rapid economic growth in the country and the government's efforts to reform the enterprise system and to promote the development of a more flexible labour market, overall labour surplus behind the factory gates remains pervasive and may even increase in the coming year.

The JSCs, SOEs (Figure 41) and firms employing over 1,000 workers were more likely to anticipate a deterioration in the labour surplus than other property forms and size categories. Perhaps surprisingly, enterprises in Tianjin, where labour surplus was the highest among the five cities covered by the survey, appeared the most optimistic that there would be an improvement in the situation, while firms in the low labour surplus Guangzhou tended to be more pessimistic (Figure 42). If these managerial expectations materialize, differences in labour surplus by property form could increase, while the existing regional differences in labour surplus may narrow.

³⁶ Information supplied by the Ministry of Labour.

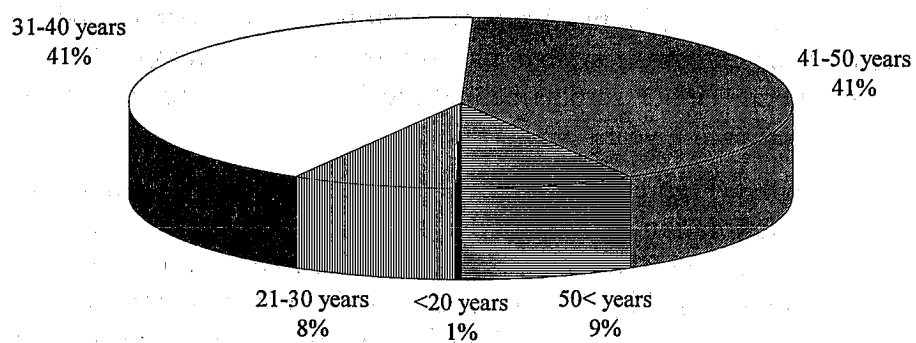
Figure 38: Labour Surplus as Percentage of Total Employment by Region, 1995



n = 300

Source: CLFS2

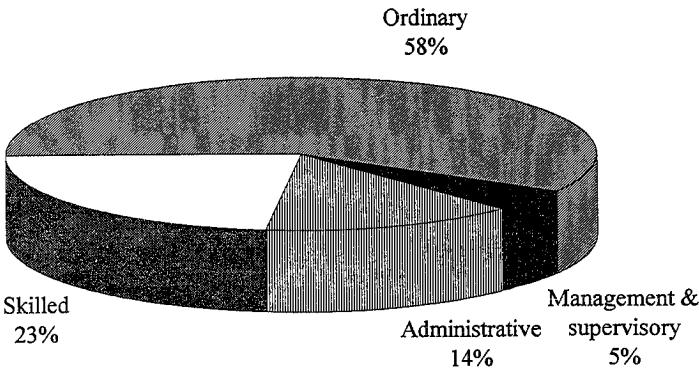
Figure 39: Main Age-Group of Surplus Workers, by Percent of Establishments, 1995



n = 188

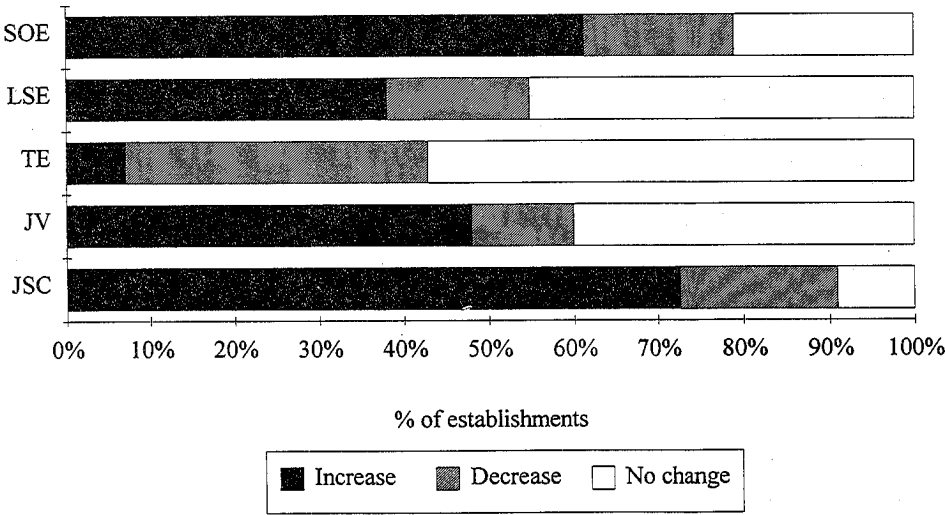
Source: CLFS2

Figure 40: Main Occupational Group of Surplus Workers by Percent of Establishments, 1995



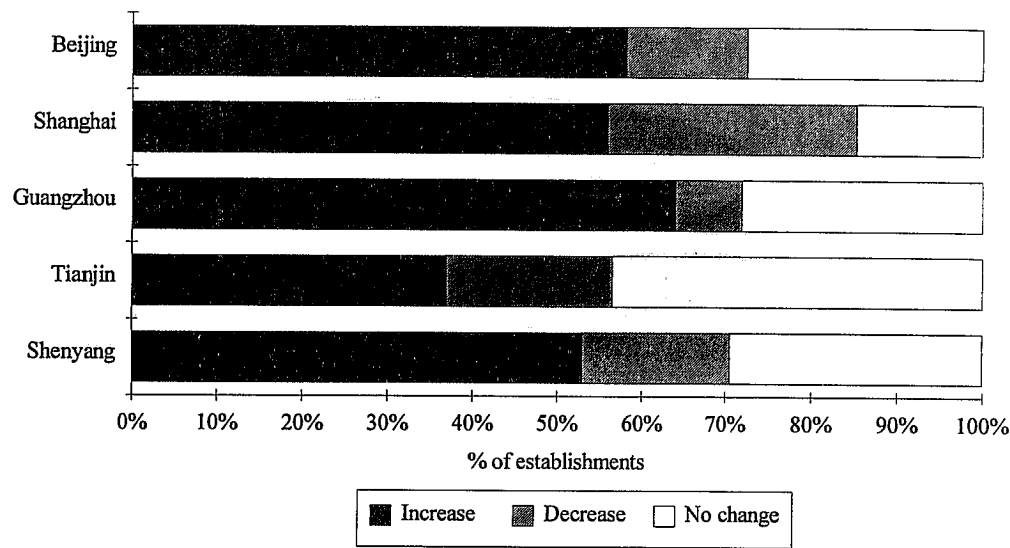
n = 188
Source: CLFS2

Figure 41: Expected Change in Labour Surplus, by Property Form, 1995



n = 216
Source: CLFS2

Figure 42: Expected Change in Labour Surplus, by Region, 1995



n = 218
Source: CLFS2

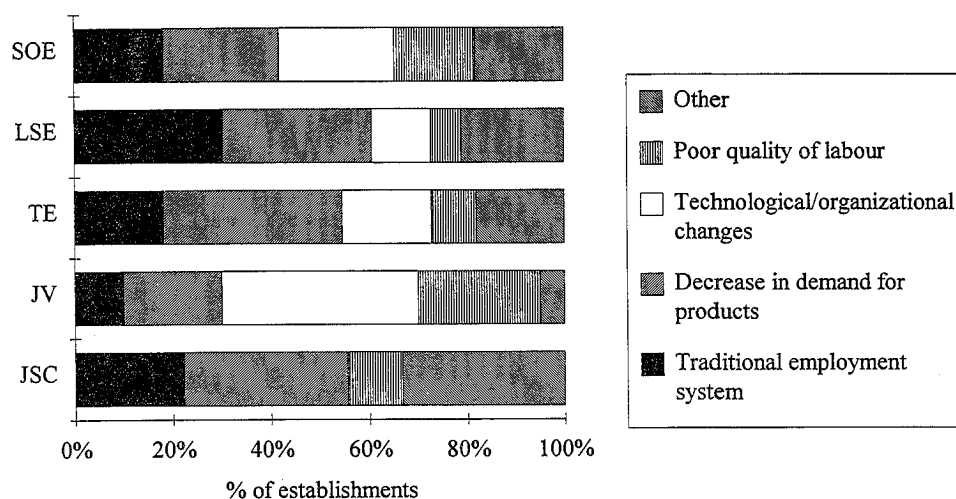
8. Reasons for Labour Surplus and Enterprise Responses

Many factors explain labour surplus in Chinese enterprises. Some are external to the enterprise in that they originate from changes in the product market (seasonal or permanent decline in demand for products of the enterprise) or from the traditional employment system under which the enterprise has to absorb surplus workers from other enterprises, accept workers assigned by the authorities, or provide jobs for the children of its workers. Other reasons are associated with internal changes in production, technology and work organization, and with the quality of the enterprise workforce.

Asked about the main reasons for labour surplus, 26 per cent of the respondents cited developments in the product market, followed by technological and organizational changes (22 per cent), the obligation of enterprises to absorb workers from the labour market (20 per cent), and the poor quality of labour (15 per cent).

There were differences by property form and employment size. Managers in JVs were more likely to mention technological and organisational changes and poor quality of the workforce (Figure 43) – indicating accelerated enterprise restructuring in this sector. Large-scale investment, fuelled by foreign capital inflows, has also contributed to the restructuring in the joint venture sector. If technological modernization and the introduction of flexible work organization extended to other sectors, this could become a major source of redundancies. The TEs, which – because of their limited access to financial and physical capital and qualified labour – could not easily adjust their production to the changing pattern of demand, were more likely to mention product market changes. On the other hand, LSEs, which often had to absorb redundant labour from their sponsoring agency and take workers assigned by the authorities, referred more frequently to the traditional employment system as the main reason for labour surplus.

Figure 43: Main Reason for Labour Surplus, by Property Form, 1995
(Percent of Establishments Responding "Yes")



n = 188

Source: CLFS2

A high level of labour surplus is an impediment to the efficient operation of enterprises. The presence of under-occupied workers in factories also limits the range of tasks assigned on the production line and undermines the motivation and effort of the whole workforce. Therefore, reducing the level of labour surplus in industrial enterprises is a major policy objective in China. However, the government approach and enterprise practice in dealing with redundant workers has been based on the concern for social stability. Laying off redundant workers was restricted, whilst the responsibility of coping with surplus labour, without lay-offs, rested until very recently almost entirely with enterprises.³⁷

The responsibility of enterprises for dealing with surplus labour was spelt out in the Government guidelines (the "Provisions of Settlement of Surplus Labour", issued by the State Council in 1993). The guidelines recommended a menu of measures to employers, from which they could choose according to local circumstances. The recommended measures included: (a) finding suitable vacancies or creating new, preferably service-oriented or tertiary sector, jobs for surplus labour within the enterprise; (b) redeploying redundant workers in enterprises newly set-up by the parent company; (c) training surplus workers; (d) encouraging women to take maternity leave up to a period of two years; (e) offering early retirement for those who are within five years of normal retirement age; (f) encouraging the resignation of workers; (g) terminating employment relationships before the expiration of contract; and (h) keeping remaining workers as "waiting-for-job unemployed" with reduced pay until they find a job in their current enterprise or elsewhere.

³⁷ In a report on a survey conducted among managers of SOEs in December 1994, the State Statistical Bureau (SSB) reported that some managers said they would be far more efficient were they to lay off 20% of their staff, but the SSB noted that "out of overriding concern for social stability, the authorities are opposed to hefty layoffs. If 20% of the staff and workers were trimmed from the SOEs, some nine million people would be on the line waiting for re-employment". See The Economist Intelligence Unit, *Country Report: China Mongolia 1st. Quarter 1995*, (London, 1995), p. 21.

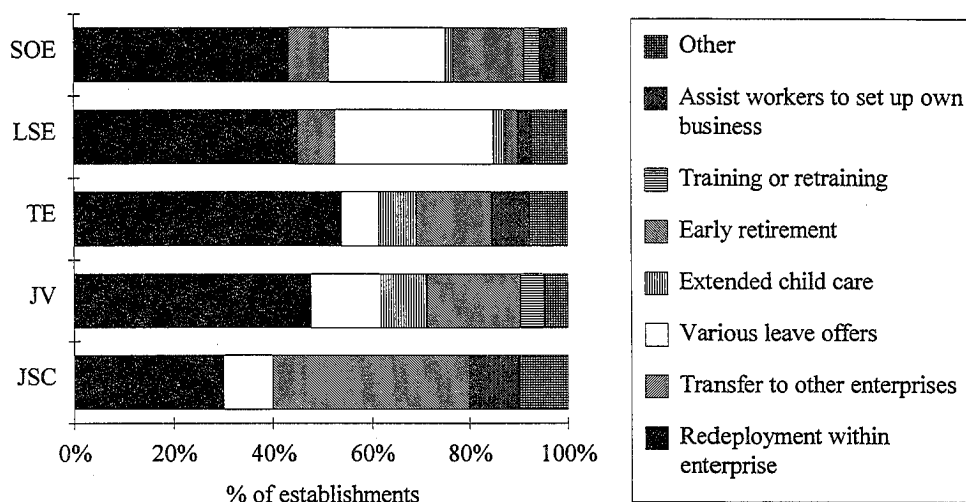
Since April 1995, however, the responsibility of enterprises for redeployment of surplus workers has been drastically reduced. The State Council issued a new circular concerning the implementation of the Re-employment Programme, which emphasizes "mobilizing the initiative of the government, enterprises and individuals" and which states that "the method of relying on enterprises to rearrange redundant employees will gradually be replaced by the regulatory mechanisms of the labour market in order to achieve employment through competition, with the state providing guidance and assistance".³⁸ The State Economic and Trade Commission, which is the agency responsible for enterprise reforms, has further spelt out that "the SOEs will no longer bear unlimited responsibility for life time employment of their workforce under the circumstances of a market economy. It must be made clear to workers that employment is the result of their own efforts, help from the government and enterprises come as complementary only. Otherwise, it is hard to introduce a competitive employment mechanism. Meanwhile, enterprises should be allowed to lay off some of the redundant labour force into the labour market".³⁹

All the measures suggested in the Government Guidelines on the "Provisions of Settlement of Surplus Workers", together with some other options, were listed in the questionnaire, and enterprise managers were asked to indicate the main method they had used to deal with labour surplus. Most enterprises reported relying on a set of measures, but by far the most popular measure was redeployment within the enterprise (Figure 44). Various leave offers (especially in LSEs) and early retirement (especially in JSCs and in firms with 4,000 or more workers) were also important; while transfer to other enterprises, promotion of self-employment, and training were less frequently resorted to. No establishment reported attempting to overcome surplus labour mainly by part-time work, reduced work weeks or longer vacations for workers.

³⁸ Wu Naitao, 1995, *op.cit.*, p.12.

³⁹ Deng Shi Ji, 1995, *op.cit.*, p.15.

Figure 44: Main Measures Taken to Cope with Labour Surplus,
by Property Form, 1995
(Percent of Establishments Responding "Yes")



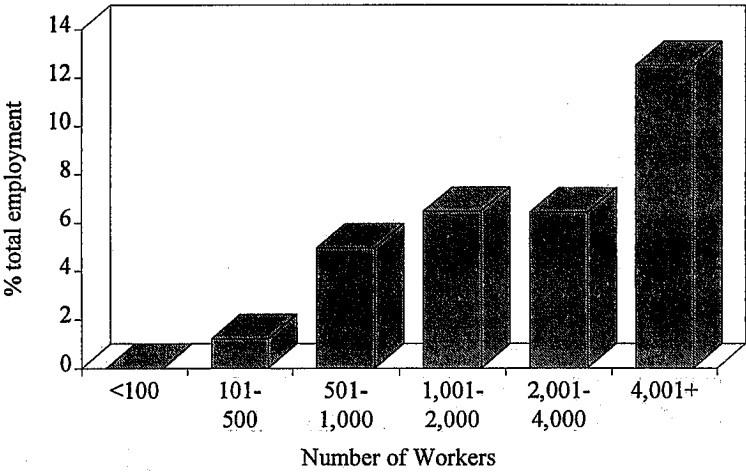
n = 209

Source: CLFS2

The redeployment of labour from the parent company to its existing or newly created labour service enterprises has been a very popular policy. The overwhelming majority of the LSEs were established by SOEs, and almost 9 per cent of their total labour were employed in LSEs. There was a clear relationship between employment size and the share of LSE employment in the total workforce (Figure 45). Although larger firms tended to experience higher levels of labour surplus, they also had the financial resources to set up their own LSEs and to redeploy the redundant workers to them. Most LSEs are, no doubt, successful and may, therefore, justify their establishment objectives. But, as pointed out in Section 3, the system is inherently apt to suffer from inefficiency. The Government has recognized the problems, and has recently stipulated that the newly-set up firms should be independent from their parent company and should be commercialized. Delinking newly set-up enterprises from their funding agency and changing their property form are important steps in the right direction.

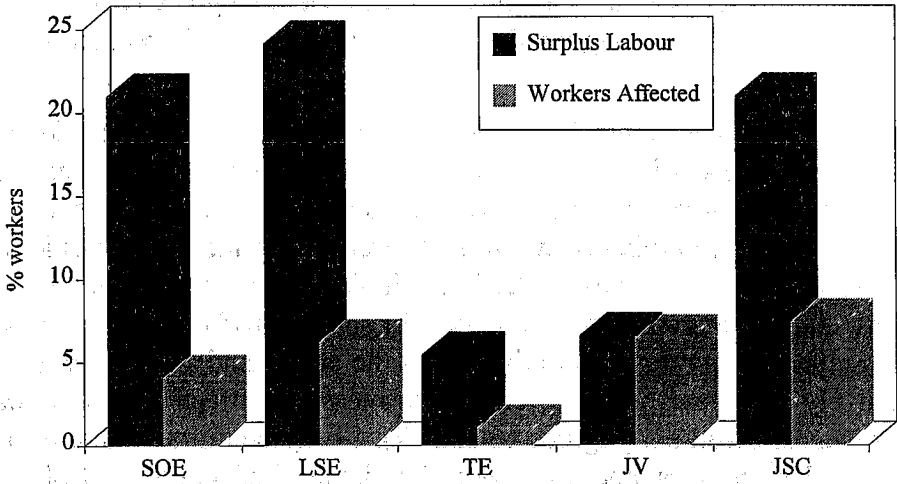
As far as the other enterprise measures are concerned, the data do not allow us to evaluate their effectiveness in reducing labour surplus and improving labour efficiency. What is clear is that the various enterprise measures fell short of affecting the vast majority of redundant workers. The number of workers affected by the measures was less than a quarter of the total surplus labour. For example, in the high labour surplus Tianjin area and in state-owned firms, enterprise programmes designed for surplus workers reached only 20 and 12 per cent of the redundant workers, respectively. On the other hand, in JVs, where labour surplus was a relatively moderate problem, enterprise measures affected, in one way or another, almost all redundant workers (Figures 46 and 47). Given the limited State resources available for labour market policies and the need for tighter budgetary controls on enterprises, especially in the state sector, managers should shift their efforts towards more cost effective measures, so that they can reach as many surplus workers as possible.

Figure 45: LSE Employment as Percentage of Total Employment in State-Owned Enterprises, by Employment Size



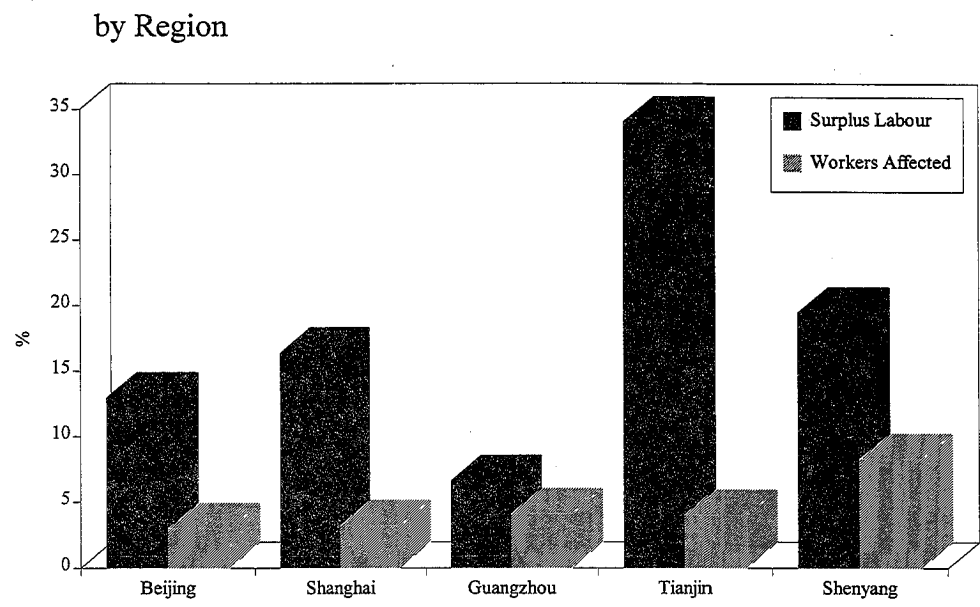
n = 212
Source: CLFS2

Figure 46: Surplus Labour and Workers Affected by Enterprise Measures, by Property Form



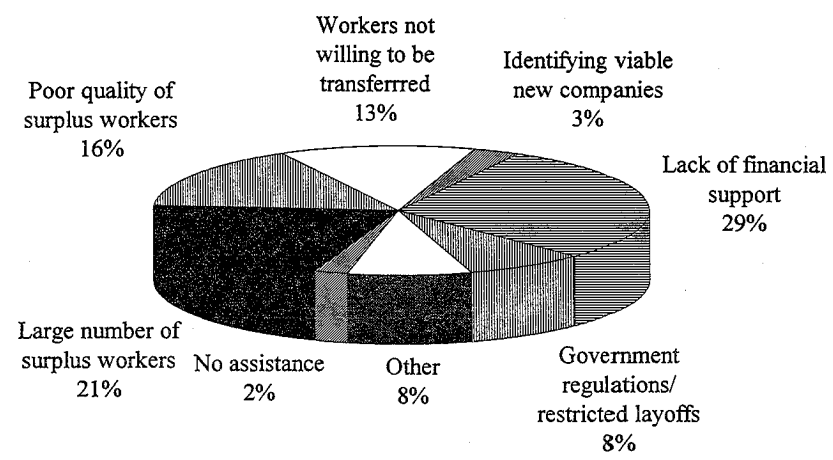
n = 295
Source: CLFS2

Figure 47: Surplus Labour and Workers Affected by Enterprise Measures,



n = 300
Source: CLFS2

Figure 48: Main Problem in Coping with Labour Surplus, 1995
(Percent of Establishments Responding "Yes")



n = 196
Source: CLFS2

When asked about the main problem in coping with surplus workers, enterprise managers most often mentioned the lack of financial assistance from the authorities, followed by the large number of surplus workers, their poor quality, the workers' unwillingness to move, and the restrictions imposed by government regulations relating especially to lay-offs (Figure 48). The LSEs, which rely mainly on their parent company for support but which now have to assume their own financial responsibility, were more likely to refer to the lack of financial support. On the other hand, independent and more market-oriented enterprises,

especially the JVs, were more likely to mention the poor quality of their workforce or government regulations as the main problem in addressing the problem of labour surplus.

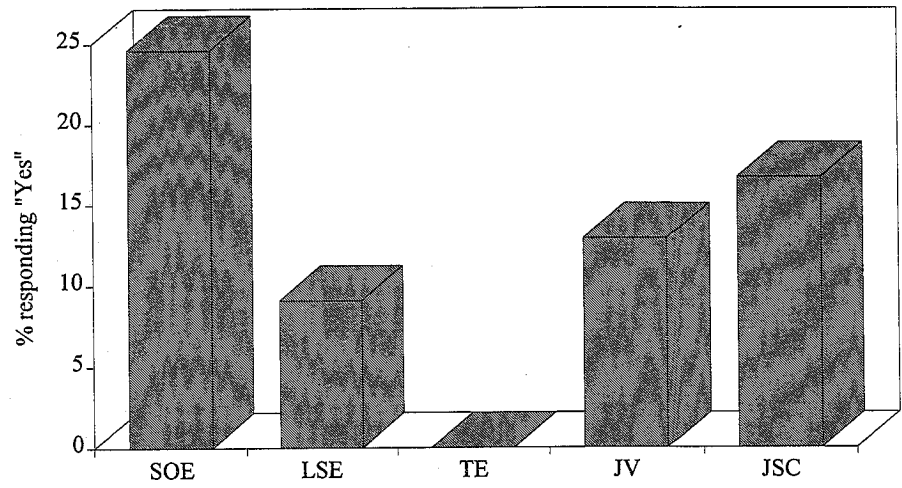
One of the characteristics of the modern enterprise system is that government should refrain from directly interfering in the production and management of enterprises and that managers should have greater freedom in hiring and firing decisions, thus easing their "employment responsibility". Given this context, the enterprise managers were asked whether they expected to release surplus workers, and, if so, how many they would release. The answers revealed a striking difference between the intention of the policy makers and the expectation of the firms. Only 117 enterprises anticipated employment release, involving altogether 1,585 workers or 1.8 percent of the total labour surplus. The new official ruling introduced in April 1995 (after the survey) that the responsibility for re-employment of surplus workers should be shared by the society, enterprises and individuals might change these responses.

9. Management Perceptions of Labour Market Regulations and Administration

Managers were asked whether they received any assistance from the authorities to cope with the problem of labour surplus. Over the past few years, the Government has introduced a number of measures to provide financial assistance and special labour market programmes and services to assist enterprises. It is striking that only 18 per cent of the respondents reported that they had received some assistance. Managers of TEs reported not receiving any assistance, while almost a quarter of SOEs received some support (Figure 49). Medium-sized and large firms were also more likely to receive some assistance than small firms (Figure 50). This might indicate that, although the level of labour surplus was low in the TEs, the labour market administration was biased towards state firms and large companies, while it neglected the TEs. Of those that received some help, 25 per cent mentioned placement of surplus workers by employment services, and 22 per cent benefitted from preferential policies. Retraining programmes for surplus workers organised by labour bureaus and employment services, financial assistance to enterprises to pay the workers' wages or to set up new companies were rarely mentioned (Figure 51).

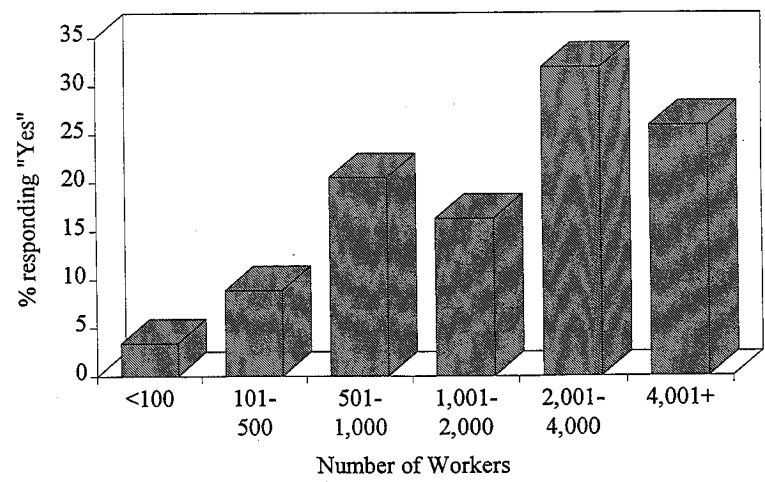
It is striking from Figures 52 and 53 that even for enterprises with serious labour surplus, assistance from the labour bureau had been limited. Among enterprises with more than 30 per cent labour surplus, only slightly more than half had participated in any labour bureau programme, and less than a quarter had been able to take advantage of the redeployment programme organized by the labour bureau. The other way of looking at the data is that the coverage of the labour bureau programmes has been limited, not being able to reach the majority of enterprises. The fact that of those enterprises that had no labour surplus, almost three quarters reported having participated in labour bureau programmes could indicate that these programmes were not designed to deal directly with labour surplus; instead they covered job fairs and training.

Figure 49: Assistance from Authorities to Cope with Labour Surplus,
by Property Form, 1995
(Percent of Establishments Responding "Yes")



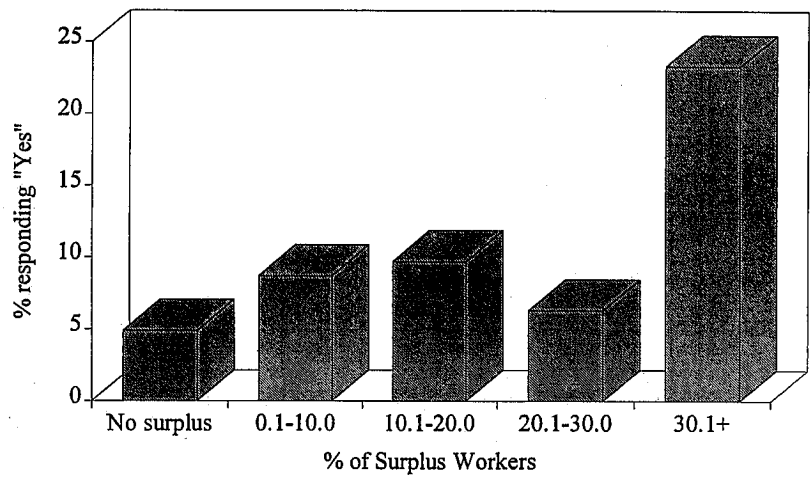
n = 228
Source: CLFS2

Figure 50: Assistance from Authorities to Cope with Labour Surplus,
by Employment Size, 1995
(Percent of Establishments Responding "Yes")



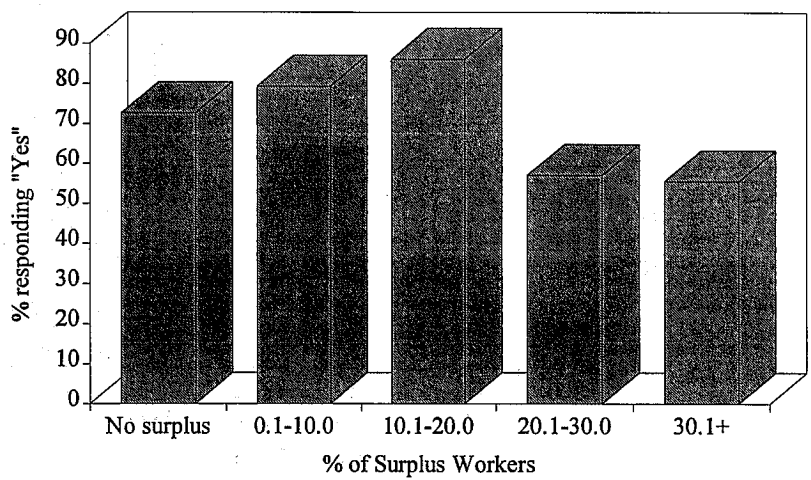
n = 230
Source: CLFS2

Figure 51: Percent of Establishments that Participated in the Redeployment Programme, by Level of Labour Surplus, 1994
(Percent of Establishments Responding "Yes")



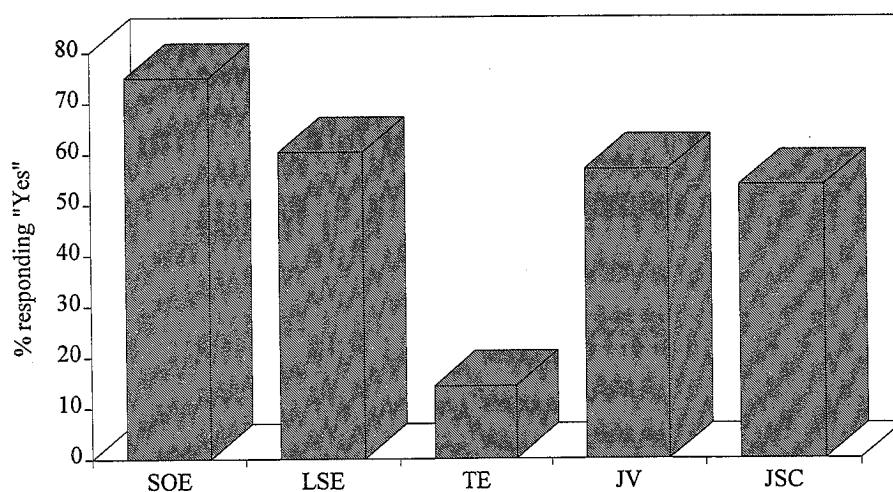
n = 162
Source: CLFS2

Figure 52: Percent of Establishments that Participated in Any Labour Bureau Programme, by Level of Labour Surplus, 1994
(Percent of Establishments Responding "Yes")



n = 233
Source: CLFS2

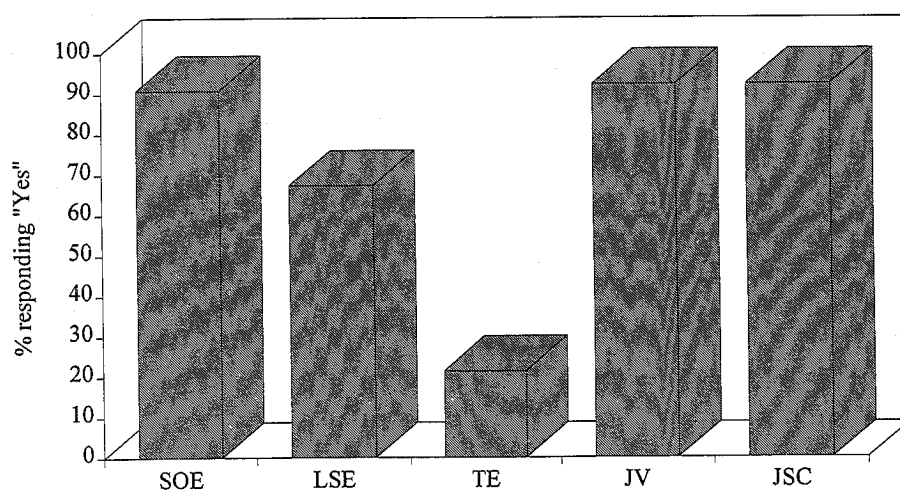
Figure 53: Percent of Establishments Aware of State Provision of Financial Assistance, by Property Form, 1995
(Percent of Establishments Responding "Yes")



n = 294

Source: CLFS2

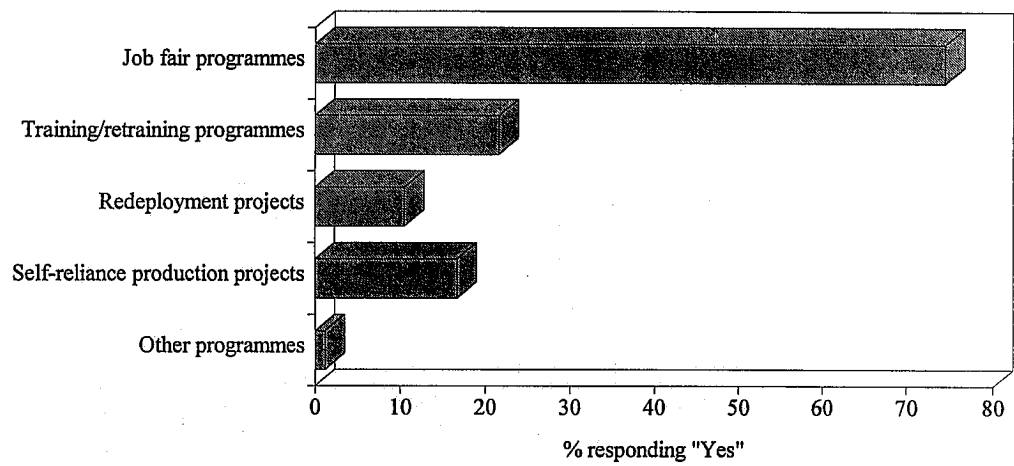
Figure 54: Percent of Establishments Aware of Labour Bureau Programmes, by Property Form, 1995
(Percent of Establishments Responding "Yes")



n = 297

Source: CLFS2

Figure 55: Percent of Establishments that Participated in Different Labour Bureau Programmes, 1995 (Percent of Establishments Responding "Yes")

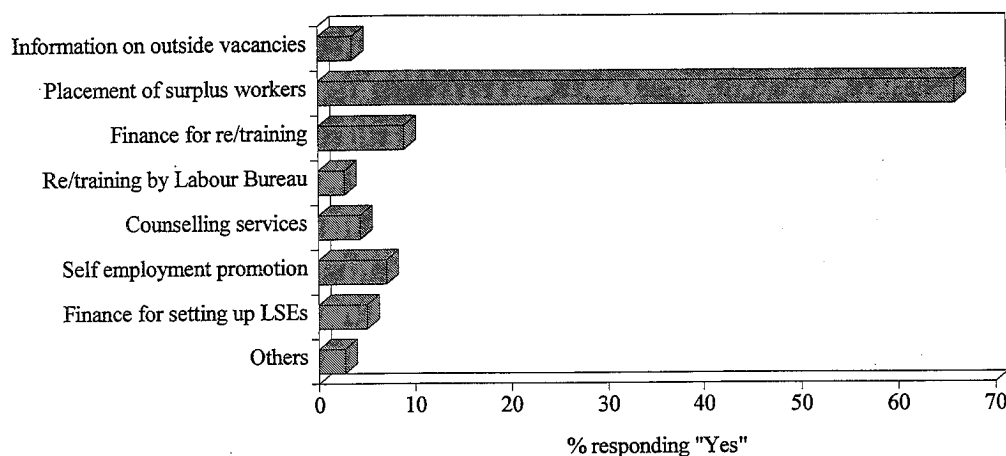


n = 162
Source: CLFS2

Limited use of government assistance might be an indication that enterprise managers were not aware of available financial support and labour market programmes offered by the authorities. The survey results showed that this was not the case. The majority of interviewed managers, except those in TEs, appeared to be well informed on both the state regulations on financial support in dealing with labour surplus and on social programmes offered by the labour bureaus (Figures 54 and 55). In addition to their low level of labour surplus, the possible explanations why TE managers were not aware of labour market schemes might be the under-development of labour market administration and the lack of support measures in smaller towns and rural areas. The results suggest that measures need to be taken to strengthen the labour market administration in these locations, to extend financial support schemes and labour bureau programmes to the TEs, and also to arrange for better dissemination of information. This is especially important for the creation of a unified labour system in China, which has long been the objective of the Government.

Almost 70 per cent of the enterprises that were aware of the social measures offered by the labour bureaus participated in the programmes that included general employment service activities as well as targeted schemes for the unemployed and the surplus workers. JSCs and firms with 2,000 or more workers were more likely to participate in the programmes than other enterprises. The most popular was the job fair programme, whereas participation in training schemes, redeployment programmes or self-reliance projects was much less frequent (Figure 56).

Figure 56: Most Important Assistance Sought by Establishments from Labour Bureau and Employment Service, 1995
(Percent of Establishments Responding "Yes")



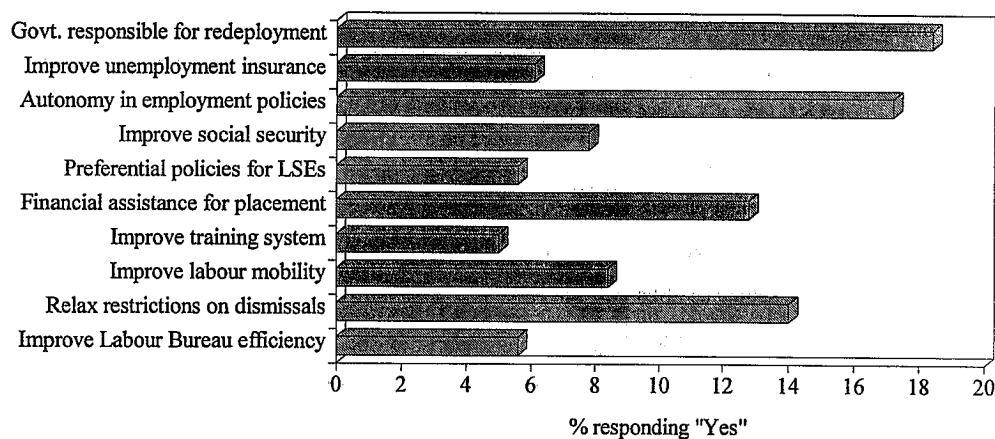
n = 300

Source: CLFS2

To operate efficiently, the labour market authorities should know what services and support their clients need. Therefore enterprise managers were asked what kinds of additional services the labour bureau and employment service should provide to assist them. The far most important form of assistance sought by enterprise managers was placement of surplus workers by the employment service (Figure 57). More than 70 per cent of the respondents identified this. Other services, including information on job vacancies, financial support for enterprise-based training, self-employment promotion, support for LSEs, counselling services, etc., were less frequently mentioned.

Finally, managers were asked whether there were any employment related regulations they would like to see changed. 179 respondents or 60 per cent of the sampled enterprises proposed some changes in regulations. The four most frequently cited measures were: (a) the Government should be responsible for the redeployment of surplus workers; (b) there should be greater managerial autonomy at the enterprise level for employment policy; (c) there should be less restrictions on lay offs; and, (d) where enterprises are themselves responsible for placement, they should receive greater financial assistance for the placement of surplus workers (Figure 57). These answers clearly indicate the need of enterprises for greater autonomy and improved labour market flexibility. Whether the recently introduced re-employment programme and labour market policy reform will meet the expectations of enterprise managers remains to be seen.

Figure 57: Labour Regulations that Establishment Managers Would Like to See Changed, 1995 (Percent of Establishments Responding "Yes")



n = 179

Source: CLFS2

10. Some Policy Issues and Implications

The survey data confirm that SOEs have been performing poorly, especially compared to the modern property forms. Among the different property forms, the SOEs are most likely to be loss-making and to have declining profits and growing debts. Their labour productivity is also lower than that of JVs, JSCs and TEs. Not only are they less competitive than the other modern enterprises, they tend to have no accumulated funds or internal resources, either for operations or investments. They rely heavily on credit, often on preferential terms, and on subsidies from the State. The state owned sector is the only one experiencing a decline in employment, and the SOEs expect employment to fall further in the coming year. They have the lowest recruitment rate and the smallest number of job openings. They also have the least flexibility in the labour allocation system.

On average, about 21 per cent of the workers and employees in the SOEs are redundant, and the level of redundancy is on the increase. To date, the enterprises have been almost wholly responsible for redeploying the surplus workers. They have resorted mainly to measures not likely to cause social instability, ie. by redeployment within the enterprise or to newly created LSEs. But they very clearly would like to rely on the State, through the employment services, to place the surplus workers.

The policy implications of these findings are essentially that the SOEs have to be exposed to equal competitive conditions with other modern enterprises if they are to continue playing their critical role in the rapidly changing Chinese economy. For instance, the 1994 tax reforms, which introduced a unified 33 per cent profits tax applying to all enterprises has certainly been a step in the right direction, as previously SOEs paid 55 per cent. To further enhance the competitive position of the SOEs, particular attention should also be given to restructuring the production and management system, so as to improve their economic

performance and efficiency. The state-owned sector cannot be efficient so long as loss-making enterprises are allowed to continue receiving loans and subsidies and accumulating debts. Stricter conformity to clearly defined property rights relationships and enforcement of bankruptcy rules and regulations would in the longer term help revitalize the state-owned sector by ensuring that only the efficient enterprises survive and, very importantly, reduce the government's growing budget deficit. Transformation of the enterprise operations should be combined with greater autonomy for the SOEs in hiring and firing decisions. By unleashing its controls on employment practices within the SOEs, the Government could facilitate labour flexibility and encourage mobility within and between enterprises.

The survey findings on LSEs can be taken as broadly representative of the features and trends in such enterprises across the country. What is striking is that although the LSEs have been set up to absorb redundant workers and have been a major source of recruitment (second only to the TEs), they themselves face a serious labour surplus problem. Their problems stem from the fact that while they have had to absorb workers transferred from other establishments, they have poor quality workers, labour-intensive methods of production based on outdated machinery transferred from the parent companies, the lowest level of investments among all the property forms, and increasingly tight budgetary constraints.

To enhance the role of the LSEs in increasing employment and absorbing surplus workers, several measures can be suggested. First, given their special role in redeploying redundant workers, they should enjoy preferential policies and financial support. Second, given their characteristic features, the LSEs should be guided to develop their potentials in small-scale, labour-intensive and tertiary industries. To widen their scope and operations, LSEs should be encouraged to make use of flexible forms of property rights and relationships and more flexible employment structures, so that their development can be linked with the informal sector through various forms of integration. For example, workers could be hired in part-time jobs or on flexible working time arrangements. The aim is eventually to make LSEs into the most flexible form of employment organization. Third, to transform the current dependence of the LSEs on the SOEs as their parent companies, the joint stock company property form could be considered. The LSEs could offer stock or share options to their workers. Such a measure could serve both to provide the much needed financial resources and to promote solidarity among the workers who would feel that they all have a direct stake in improving the economic efficiency of the enterprise. Fourth, in view of the generally low quality of the work force in LSEs, much greater importance should be attached to training and retraining programmes and to the recruitment of managerial and technical staff who could enhance the competence of these enterprises.

The TEs covered in the sample display the features characteristic of enterprises located in the suburbs of the large cities, but not of village collectives, especially not those in the more remote rural areas. Such TEs perform well – among the different property forms, they have high capacity utilization, export the largest proportion of their production, are least likely to be loss-making, and have the lowest social burden. Their labour productivity is higher than in SOEs and LSEs. They have the highest recruitment and vacancy rates and are most likely to expect employment growth. They also have the greatest flexibility in both recruitment and employment contracts for workers. But they have been relatively neglected

by the State, in terms of access to financial support, labour market programmes and general social security schemes.

In view of their significance both in industrial production and employment generation, especially for workers from rural areas, the TEs should clearly be given greater policy attention. The prerequisite is to insert the concerns of the TEs (and village enterprises) in the agenda for national economic development and restructuring, so that they receive the appropriate attention. Some specific policy measures to assist the township and village enterprises would include, first, strengthening the labour market administration and speeding up the establishment of employment service networks in smaller towns and rural areas. Second, the re-employment programme should be extended to rural areas and small towns, so that the township and village enterprises that assist in absorbing surplus workers can receive preferential treatment from the State. Third, labour mobility between rural and urban areas should be facilitated through the establishment of integrated labour markets combined with the reform of the household registration system in China and the provision of the necessary support services.

The JSCs, while having economic potential according to some indicators, such as high productivity and capacity utilization and increasing profits, still displayed certain organizational and labour market rigidities that might be linked to their previous property form (mainly as SOEs) and their generally large employment size. They have large labour surplus and heavy social burdens. While offering stock options is a step in the right direction for raising resources, instead of relying on the State, attention should now be given to internal restructuring of the JSCs, along the same lines as have been identified for the SOEs.

The JVs enjoy greater freedom in employment policy, including making substantial use of contract workers, their investment levels have been the highest among the various property forms, they have been expanding rapidly and undergoing internal restructuring. Where they report labour surplus, it is generally low and related to improvements in technology. One lesson to be learnt from the JVs is that industrial restructuring based on technological changes might be a major source of labour surplus in other sectors in the coming years. So far, trends in labour surplus have been estimated on the basis of prevailing technology without taking into account technological changes, which are now taking place more rapidly. It might also be noted that the JVs have so relied heavily on preferential tax policies for their establishment and development. Changes in tax policies to promote more equal competition among the various property forms may discourage some foreign investments, but may be necessary in the longer term.

The size distribution of enterprises in the sample confirm that employment is still heavily concentrated in large enterprises. But the economic performance of such firms tend to be worse than that of small and medium size enterprises, especially in terms of labour productivity and capacity utilization; and they suffer somewhat higher levels of labour surplus and have heavy social burdens. The large firms tend to have better access to preferential policies and labour market measures. The reform measures to date have focused on the large and medium sized firms because of their importance in terms of contribution to industrial output and taxes and the number of workers they support. But the potential of small firms, both in terms of economic efficiency and employment creation, should not be ignored. Therefore, economic and employment policies should give greater attention to self employment, development of entrepreneurship among individuals and integrated support

measures to nurture small and medium size enterprises – a much more complicated task than the current policy practice of focusing on only a few large scale enterprises. "Greater attention should be given to the development of small enterprises and bring their role to generate jobs into full play. It should be the priority of the government's economic and employment policies to nurture small enterprises. Preferential policies should also be given to them in terms of registration resources, loans, production location and taxation, etc. and more tailor-made services such as consultation, training, product development and market exploration, etc. should be rendered in line with the fact that many of them are short of qualified talents and weak in economic strength."⁴⁰

The emerging picture indicates that labour surplus is an immense problem in the urban industrial sector, especially in SOEs, LSEs and the recently commercialized companies (JSCs), and less so in TEs and JVs. Another feature is the marked regional differences in the level of labour surplus. The survey also highlighted the negative relationship between economic performance and the number of surplus workers. It is obvious that to deal with the problem of redundancies, attention should focus on improving economic efficiency and labour productivity of the enterprises. Since the major causes of labour surplus differed by property form – for the SOEs, it was the traditional employment system; for the JVs and TEs, it was technological changes; and for the LSEs, it was the excessive transfer of workers from their parent companies – there should be more specifically targeted measures.

Dealing with surplus labour was until very recently almost entirely the responsibility of enterprises. The main methods have been redeployment within the enterprise or to newly set up LSEs, various leave offers and early retirement. To expect enterprises to bear the brunt and burden of the task was not rational. The redeployment of labour is costly. The higher the level of labour surplus, the larger the financial burden the enterprise has to bear. The high cost of redeployment absorbs the resources needed for restructuring and modernization, thus limiting the development of enterprises and their ability to create efficient and productive employment in the future. The most desired policy change indicated by enterprise managers was therefore that the labour market authorities should play a more active role in this area.

As a method of dealing with surplus labour, the heavy use of early retirement involves two main problems. First, it tends to have a negative impact on productivity in that many of those taking retirement in their 40s are capable of performing well because of their extensive on-the-job training and intimate knowledge of the local production process. Second, early retirement tends to be a very expensive policy tool. Furthermore, given the relatively long life expectancy and the growing share of older people in the population, the current practice of early retirement will be more and more difficult to finance. However, there seems to be three areas where early retirement may be desirable – in cases of worker disability, in cases of large-scale redundancies or enterprise closures, and in cases where the long-term unemployed are close to retirement age.

In addition to targeting older workers, there are several other policy options. For example, the Government can discourage enterprises from overtime, initiate reduction in weekly regular working hours or encourage part-time work – an employment status not

⁴⁰ Employment Department, Ministry of Labour, "Policies and Measures to Redeploy Enterprise Redundant Workers", paper presented at the National Seminar on Enterprise Survey Data Analysis in China, Beijing, 23-25 August, 1995, p. 4.

widely used in China. Easing the labour supply pressure through shorter and flexible working time could be economically and socially more advantageous than pushing people into early retirement in their most productive years of life.

Another measure that should be given greater attention is the separation of social facilities and services from enterprises. This can contribute to solving the labour surplus problem in two ways. On the one hand, because workers currently rely on enterprises for these benefits, labour mobility is hindered because they are reluctant to leave and lose the benefits. On the other hand, the social burden adversely affects the economic efficiency of enterprises by reducing the resources available for productivity enhancement.

The April 1995 announcement by the Government that the responsibility for redeployment should be shared by the society, enterprises and individuals through more effective functioning of the labour market is certainly a welcome and appropriate move. In the first place, efforts should focus on actively developing productive employment opportunities for those who can be absorbed within the enterprise (as opposed to passive measures, such as granting various leave arrangements or offering early retirement to workers). Where the enterprises themselves take the initiative to set up new entities to absorb the surplus workers or to provide them training and retraining to equip them for new jobs, the State should come in to provide them the necessary support and assistance. For mergers of enterprises to improve economic efficiency or for the transfer of production to more viable new products, the State could also provide financial support. For those workers who cannot be absorbed by the enterprise and who are "released into society", the State will provide unemployment insurance, while assisting them to find other forms of work, including going into self-employment. The State could encourage unemployed workers to participate in the Re-employment Programme.

With the Bankruptcy Law now being more strictly enforced, merging of enterprises is expected to become an increasingly important policy measure. This is because merging with an economically viable or prospering enterprise could be an alternative solution for a loss-making enterprise that would otherwise have to go into bankruptcy. Such mergers should, however, be properly assessed and the merging companies carefully matched; for instance, on the basis of being part of a natural production chain or producing complementary goods, or so that the pooled physical or human resources could be better or more fully utilized. Otherwise, there is a serious danger that a successful enterprise could be unnecessarily burdened or even ruined by a merger with a loss-making one.

Finally, the survey findings underscore the importance of co-ordinated reforms. It is clearly not enough to concentrate only on enterprise reforms. "Enterprise reform over the past 15 years proves the inadequacy of simply relying on the reform of enterprises themselves to change operational mechanisms and genuinely transform them into the main body of market competition".⁴¹ The survey emphasized, for example, the need to step up efforts to establish well-functioning social service and social security systems so as to enable enterprises to effectively reduce their social burden. There should be reform or reorganization of government agencies at the national and local levels, so that, for instance, the Department of Education, Health, etc. could take over the schools, hospitals, and clinics currently operated by the enterprises. Although the Government has announced its intention to separate public

⁴¹ Wu Naitao, 1995, op.cit., p.14.

welfare and social services from enterprises, the survey found that many enterprise managers expect to increase rather than decrease social benefits, in particular housing, for their workers. Enterprise managers may feel they have to provide such facilities and services because there are no available alternatives, and they simply cannot abdicate their social responsibilities, especially if they wish to hire or to retain high quality workers. Improvement and extension of the scope and coverage of unemployment insurance and old age and health care insurance systems will also go a long way towards strengthening the modern enterprise system. The sharing of responsibility for surplus workers by "the society, enterprises and individuals" cannot be a reality without a nation-wide and effective unemployment insurance system and pension scheme. The village and township enterprises are currently not covered by the general pension and unemployment schemes.

Another crucial component of a co-ordinated reform programme is labour market reform. The survey showed, for example, that the employment service currently has a very low market share of recruitments. It is necessary to strengthen the role of employment services in the labour market, especially if individuals are expected to take greater responsibility for finding their own jobs and if there is to be enhanced labour mobility between enterprises and regions. The survey also revealed that current labour market programmes have had a limited impact on assisting enterprises to cope with the problem of labour surplus. Much greater efforts need to be made to publicize labour market programmes, especially in smaller towns and rural areas, to extend the scope and coverage of the programmes so that more enterprises participate in and benefit from them, and also to have better targeting of policies so as to meet the needs of disadvantaged workers in the labour market (the survey found that unemployment insurance recipients are poorly represented among new recruits hired by enterprises).

There would also need to be reforms in human resource development, to give greater emphasis to training programmes for entrepreneurship development and training in self-employment to help develop the potentials of the small and medium-scale sectors of the economy. There should also be greater coherence between enterprise reforms and economic reforms, eg. in the taxation, financial, foreign trade systems, to ensure that enterprises can be truly competitive and enter world markets.

Statistical Annex

Table A1. Actual Enterprise Situation, by Location and Property Form, 1995

	Beijing	Shanghai	Guangzhou	Tianjin	Shenyang	Total
State-owned Enterprises	21.6%	20.5%	19.4%	31.1%	2.7%	13.2%
Labour Service Enterprises	12.2%	9.4%	52.1%	9.2%	4.7%	9.7%
Joint Ventures	24.0%	2.9%	28.4%	26.6%	2.4%	10.0%
Village and Township Enterprises	45.2%	67.2%	0.1%	33.1%	90.2%	67.1%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Number	42,024	39,051	12,344	30,175	120,005	243,599

Table A2. Actual Employment Situation, by Location and Property Form, 1995

	Beijing	Shanghai	Guangzhou	Tianjin	Shenyang	Total
State-Owned Enterprises	62.1%	57.9%	82.9%	67.2%	57.7%	62.8%
Labour Service Enterprises	3.9%	4.0%	2.7%	3.1%	10.6%	4.7%
Joint Ventures	7.4%	4.4%	14.2%	7.4%	3.5%	5.8%
Village and Township Enterprises	26.6%	33.7%	0.2%	22.3%	28.2%	26.7%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Number	3,832,000	4,662,300	843,905	3,530,100	2,254,233	15,051,536

Table A3. Actual Unemployment, Recruitment and Surplus Workers, by Location, 1994

	Beijing	Shanghai	Guangzhou	Tianjin	Shenyang	Total
Unemployment Rate	0.41	2.8	2.24	2.5	2.8	
New Recruits	608,000	85,000	34,000	300,000	11,416	1,038,416
Surplus Workers	476,000	521,000	120,000	270,000	230,000	1,617,000

Table A4. Property Form Distribution of Survey Establishments, by Location, 1995

	Beijing	Shanghai	Guangzhou	Tianjin	Shenyang	Total	Number
State-owned Enterprises	48.3	42.6	53.7	50.0	42.6	47.3	(141)
Labour Service Enterprises	18.0	14.9	17.1	16.7	14.8	16.4	(49)
Village & Township Enterprises	16.9	17.0	—	16.7	16.4	14.4	(43)
Joint Ventures	16.9	19.1	19.5	15.0	18.0	17.4	(52)
Joint Stock Companies	—	6.4	9.8	1.7	8.2	4.4	(13)
Total	100.0	100.0	100.0	100.0	100.0	100.0	
Number	(89)	(47)	(41)	(60)	(61)	(298)	

Source: CLFS2

Table A5. Percentage of Establishments providing Social Benefits/Facilities, 1995

Benefit/Facility	SOEs	LSEs	VTEs	JVs	JSCs	Total
Housing	83.0	52.1	14.3	73.1	91.7	66.8
Childcare Centre	58.9	52.1	14.6	51.9	61.5	50.5
Medical Centre/ Hospital	92.9	62.5	34.1	94.2	84.6	79.7
Canteen/cafeteria	86.5	62.5	59.5	84.6	84.6	78.4
Transport	65.2	41.7	16.7	75.0	61.5	56.1
Training facilities	72.3	64.6	46.3	61.5	76.9	65.8
School for workers' children	14.9	21.3	7.3	5.8	7.7	12.9
Holiday facilities	35.5	41.7	14.6	34.6	23.1	32.9
Other	12.0	2.1	7.3	6.4	9.1	8.6

Source: CLFS2

Table A6. Percentage of Establishments Providing Social Security, by Type of Provision and Property Form, 1995

Social Security	SOEs	LSEs	VTEs	JVs	JSCs	Total
General Pension system	99.3	93.9	9.5	100.0	100.0	85.7
Autonomous Pension system	2.1	2.0	45.2	3.8	—	8.4
Supplementary Pension system	10.6	6.1	20.9	7.7	—	10.4
Unemployment Insurance	99.3	69.4	2.4	100.0	92.3	80.3
Health Insurance	17.1	24.5	21.4	25.5	23.1	20.7
Occupational Injury	41.1	40.8	34.9	51.0	84.6	43.8

Source: CLFS2

Table A7. Employment Change, by Property Form, December 1993 – March 1995

	Total No. of Workers, Dec. 1993	Total No. of Workers, Dec. 1994	Total No. of Workers, March 1995	Employment Change Dec. 1993 – March 1995*
State-Owned Enterprises	346,291	339,174	336,341	97.1
Labour Service Enterprises	9,847	10,158	10,086	102.4
Village & Township Enterprises	15,669	17,137	16,989	108.4
Joint Ventures	73,379	75,013	74,592	101.7
Joint Stock Companies	29,442	29,642	29,589	100.5
Total	474,628	471,124	467,597	98.5
Source: CLFS2				
Note: Dec. 1993 = 100				

Table A8. Vacancy Rate, by Property Form and Employment Size, 1995

Property Form	Vacancy Rate %
State-Owned Enterprises	1.20
Labour Service Enterprises	2.00
Village & Township Enterprises	5.47
Joint Ventures	3.72
Joint Stock Companies	1.37

Employment Size	Vacancy Rate %
< 100	4.48
101 – 500	3.31
501 – 1,000	1.90
1,001 – 2,000	2.24
2,001 – 4,000	0.78
4,000 <	1.40
Total	2.40
Source: CLFS2	