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Good Practice Study in Shanghai on Employment Services for the Informal Economy

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Employment Sector
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Foreword

This report is the first of a series of papers that were commissioned under the auspices of the ILO Inter-Sectoral Task Force on the Informal Economy in preparation for the general discussion on the informal economy at the 90th International Labour Conference (ILC) in Geneva in June 2002. The papers in this series include studies of regional trends, selected country level studies and thematic investigations at the global level. Most of them seek to identify new trends and patterns that have emerged over the last several years and to go into more depth regarding the factors underlying the continuing growth of the informal economy, not only in developing countries, but also in advanced countries and countries undergoing transition. Particular attention has been paid to the impact of globalization, liberalization, privatisation, migration, industrial reorganization and macro-economic policies prompting these trends.

The present paper, “Good Practice Study in Shanghai on Employment Services for the Informal Economy”, has been prepared by Jude Howell, Institute of Development Studies, University of Sussex, UK. The paper presents the historical context of changes in labour market policies since 1947 and the current crisis of growing numbers of unemployed workers. These include retrenched workers due to privatisation and restructuring of industry as well as increasing numbers of rural migrants from the countryside. The Shanghai case is perhaps unique in that the municipal government and Department of Labour and Social Security is playing a pro-active role in supporting the creation of jobs with some minimal social protection in the urban informal economy. Policies and programmes are described in some detail. The statistics provided are complemented by case studies of workers and enterprises in the informal economy.

The reader will observe that nearly all of the papers in this series attempt to tackle the problem of conceptualising and defining the “informal sector”. This was also a special concern of those responsible for drafting the ILC 2002 report. However, the development of a conceptual framework and definition of terms for the ILC report was carried out coterminously with the production and finalization of the papers included in this series. Furthermore, the reference sources utilised by the authors of these papers employed a wide variety of definitions. Therefore it was not possible to agree in advance upon a single concept and definition for use by the authors of these papers. Elaboration of a proposed conceptual framework can be found in the ILC 2002 report on *Decent Work and the Informal Economy* as well as in the statistical booklet entitled *Women and Men in the Informal Economy: A Statistical Picture*.

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Executive Summary

In many so-called developing countries the informal economy is an important source of employment. Its precise contribution to national economies is difficult to estimate as most countries do not collect statistics on the informal economy. In the absence of any comprehensive social security system, it provides an essential means for generating some income, albeit at a low level. Nevertheless, the informal economy is also criticised for its poor employment conditions. As the informal economy is not covered by employment laws and regulations, working practices often fall short of legal requirements, resulting in long hours, insecure employment, and often unhealthy, unsafe and unprotected working environments.

Although the activities of the informal economy have continued to exist in China since 1949, the concept of the informal economy (*fei zhenggui jingji*) is new. Until 1978 the ideological emphasis upon state and collective ownership sharply limited the scope for the private and informal economy. In the wake of reforms in 1978, the role of the private economy expanded rapidly, particularly in the 1990s. With the intensification of state enterprise reform from the mid-1990s onwards, and subsequent mass redundancies, the Chinese Government has taken increasing interest in the informal economy as a means to address the issue of unemployment. Shanghai Municipal Government has proceeded furthest in creating a favourable policy and regulatory environment for promoting the informal economy, and is considered to be a pioneering model for the development of the informal economy in China.

This paper provides a case study of the Shanghai model of the informal economy. It starts by providing an historical background to the development of the informal economy in the People's Republic of China. It then focuses on the case of Shanghai, which has promoted the development of the informal economy as a way of dealing with rising unemployment. The Shanghai Municipal Government coined the term "informal labour organisation" to describe those individual ventures and small enterprises established through its special policies and measures to encourage the informal economy and to distinguish such ventures from both the registered self-employed and private companies. By September 2001, over 14,364 informal labour organisations had been established in Shanghai. The report then outlines the specific set of facilitating policies and measures adopted by the Shanghai Municipal Government to promote the informal sector. These policies and measures include the extension of basic social insurance to employers and employees in informal labour organisations; training opportunities for employers and employees in the informal economy in subjects such as business start-up, business theory, and technical skills such as hair-dressing, TV repair and domestic household work; preferential tax policies exempting informal labour organisations from local taxes and non-statutory social insurance contribution payments for three years; entitlement to contribute to risk insurance; assistance with obtaining credit; the establishment of public works programmes; creation of a voluntary network of experts to assist informal labour organisations; and the "4050" project, targeted at laid-off workers over 40 and 50 years old. The paper provides detailed case studies of informal enterprises in Shanghai, drawing upon interviews with employers and employees. It also considers some of the key challenges facing the informal economy in China. These include issues of management capacity, support systems, training infrastructure, policy environment, access to credit and employee representation.

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1. Introduction

Since the early 1970s development economists and international development agencies have paid increasing attention to the informal economy as an arena of economic activity, a source of employment, and a means to poverty alleviation. In many so-called developing countries the informal economy is an important source of employment. Its precise contribution to national economies or to the global economy is difficult to estimate as most countries do not collect statistics on the informal economy. In the absence of any comprehensive social security system, it provides an essential means for generating some income, albeit at a low level. Nevertheless, the informal economy is also criticised for its poor employment conditions. As the informal economy is not covered by employment laws and regulations, working practices often fall short of legal requirements, resulting in long hours, insecure employment, and often unhealthy, unsafe and unprotected working environments.

Although the informal economy has continued to exist in China since 1949, the concept of the informal economy (*fei zhenggui jingji*) is new. Until 1978 the ideological emphasis upon state and collective ownership sharply limited the scope for the private and informal economies. In the wake of reforms in 1978 the role of the private economic sector expanded rapidly, particular in the 1990s. With the intensification of state enterprise reform from the mid-1990s onwards, and subsequent mass redundancies, the Chinese Government has taken increasing interest in the informal economy as a means to address the issue of unemployment. In order to promote the re-employment of laid-off and unemployed workers, Shanghai, Taiyuan and Jilin province have appropriated the ILO concept of the informal economy into their policies. Shanghai Municipal Government has proceeded furthest in creating a favourable policy and regulatory environment for promoting the informal economy and is considered to be a pioneering model for the development of the informal economy in China.

This report examines closely the Shanghai model of the informal economy. It highlights not only the specific set of facilitating policies and measures but also the particular experiences of informal employers and employees. The report starts out by providing some background to the development of the informal economy in China. In particular this section underlines the strong influence of policy towards the private economy upon the informal economy. The second section focuses on the specific policies and measures that the Shanghai Municipal Government has adopted to promote the informal economy. The third section presents examples of informal enterprises that have emerged as a result of the changing policy environment. The final section considers some of the key challenges facing the informal economy in China.

Before exploring the background to the informal economy in China, it is essential to first clarify the use of the term “informal economy” in this report. The term “informal economy” refers to “the conceptual whole of informality covering both production relationships and employment relationships”. The term has emerged in the 1990s in response to growing dissatisfaction with the concept “informal sector”¹.

In the 1970s, the “informal sector” was defined as “those activities of the working poor, who were working very hard but who were not recognised, recorded, protected or

¹ A draft report on the informal economy (ILO, 2002) argues persuasively for moving beyond the term “informal sector” and for using instead the term “informal economy”.

regulated by the public authorities” (ILO, 1973). Since then, there has been increasing recognition of the complexity of this sphere of economic activity and the trade-offs it implies with regard to employment and exploitation, and economic survival and impoverishment. In 1991, the ILO (ILO, 1991, p.4) refined further its definition of the informal sector to refer to:

“very small-scale units producing and distributing goods and services, and consisting largely of independent, self-employed producers in urban areas of developing countries, some of whom also employ family labour and/or a few hired workers or apprentices, which operate with very little capital, or none at all; which utilise a low level of technology and skills; which therefore operate at a low level of productivity; and which generally provide very low and irregular incomes and highly unstable employment to those who work in it”.

Though the informal economy incorporates a range of economic activities, intertwined to various degrees with the formal economy, they have in common the feature that they are not registered or recorded by governmental authorities for purposes of regulation, legislation or data collection.

In January 1993, the Fifteenth International Conference of Labour Statisticians adopted an international statistical definition of the informal sector, which emphasised the features of production units rather than those of employees or their jobs:

*“the informal sector consists of production units that typically operate at a low level of organisation, with little or no division between labour and capital ... and on a small scale... Labour relations - where they exist - are based mostly on casual employment, kinship or personal and social relations rather than contractual arrangements with formal guarantees”.*²

This separation of the enterprise and employment aspects added to the growing dissatisfaction with the term informal sector and led to a further process of conceptual refining. As a result, the term “informal economy” has developed, which incorporates both the production and employment relationships. It suggests a continuum of formality and informality in enterprises and employment, and so departs from the sharp, dichotomous distinction implied in the notion of formal and informal sectors. In line with this, the term ‘informal enterprise’, rather than informal sector enterprise, is used to describe:

*“a private unincorporated market enterprise whose size in terms of employment is below a certain threshold to be determined according to national conditions (usually 5 or 10 workers), and/or which is not registered under specific forms of national legislation, such as factories or commercial acts, tax or social security laws, professional groups – regulatory acts, or similar acts, laws or regulations established by national legislative bodies..”*³

Furthermore, employers and employees in informal enterprises have “informal jobs” and employment in the informal economy refers to “all persons who, during a given reference

² See www.ilo.org/public/english/employment/skills/informal/who.htm

³ The 15th ICLS (1993) definition refers to informal sector enterprises and so is adapted here to refer to informal enterprises.

period, were employed in at least one informal enterprise, irrespective of their status in employment and whether it was their main or secondary job” (ILO, 2002, p.18). By emphasising the idea of a continuum of formality and informality, the term informal economy goes further than previous definitions in capturing the complexity of enterprise and employment relations.

2. Background to the private and informal economies in China

In this section we provide a background to the development of the private economy in China, which is essential for understanding the informal economy. The private economy encompasses a range of enterprises and employment practices spread along a continuum of formality/informality. The policy vicissitudes applying to the private economy in China have in turn shaped the development of the informal economy. The fate of the latter has been closely intertwined with that of the former. Thus, the first sub-section defines the private economy in terms of ownership and distinguishes its formal and informal parts. The second sub-section traces the development of policy towards the private economy, highlighting the implications of this for the informal economy.

2.1 Clarifying the informal and formal continuum in the private economy

The private economy is distinguished from the state and collective economies in terms of ownership of the means of production. Thus, the private economy comprises enterprises which are privately owned, whilst enterprises in the state and collective economies are owned by the State or collective.⁴ In the Chinese context, the private economy is divided into two sub-sectors, namely, individual households (*geti hu*) and private enterprises (*siying qiye*). The distinction is made, amongst other things, on the basis of the number of employees. An individual household can hire a maximum of seven employees,⁵ whilst a private enterprise can employ more than this.

Whilst state and collective enterprises are part of the formal economy, the situation of the private economy is more complex. The private economy in China embraces enterprises along a continuum of formality and informality. The sub-sectors of private enterprises and individual households are required to register with the Industrial and Commercial Bureau. This registration requirement means that they are classified as part of the formal rather than the informal economy. The main activities in this formal part of the private economy include street-trade in vegetables, fruit, and consumer goods, small retail shops, labour-intensive small and medium enterprises producing light industrial products, service industries such as hair-dressing, beauty salons, restaurants, catering outlets, TV and radio repairs, and so on. Private enterprises include small, medium and large enterprises, with the size of the labour force extending from eight to over a thousand employees.

⁴ In practice there are further sub-variations of these three basic types of ownership, such as joint state-private enterprises or joint collective-private enterprises, or joint ventures, involving foreign and state capital. Also, the actual pattern of ownership is not always clear. For example, some collective township and village enterprises are actually privately owned.

⁵ This was one of several limitations on individual households to prevent a return to capitalism. The other restrictions included a Y100 limit on the issuing of receipts, not being permitted to use mechanised production or transport, denial of access to bank loans, and not being able to pool capital. This latter restriction was relaxed in 1983 when individual businesses could form joint ventures with public enterprises (Wank, 1999, p. 8, fn6).

However, there is also a part of the private economy that lies further towards the informal end of the formality continuum. This informal economy comprises a residual of petty-vendors, hawkers, petty-traders and very small-scale producers. Their activities are officially deemed to be illegal, that is, not in compliance with the law because they are unregistered. However, they are nonetheless tolerated, or have escaped the attention of the authorities. This distinction between the formal and informal parts of the private economy is important because the concepts are often somewhat confused in official reports. As a result, figures relating to individual households and private enterprises are sometimes cited to indicate the size of the informal economy in China, although they actually describe the registered private economy.

Though an informal economy has continued to exist in post-liberation China, despite regulatory controls and ideological attacks upon it, the concept and category of the informal economy (*fei zhenggui jingji*) is nevertheless new in China and has been introduced in the context of engagement with the ILO. As a result there are, as yet, no national or local statistics available on the informal economy.⁶ The recent introduction of the concept has provided a way for local governments to address issues of unemployment and the provision of services. A key case in point is the Shanghai Municipal Government, which has embraced the idea of the informal economy with enthusiasm. Not only has it introduced special policies and measures to expand the informal economy, but it has also experimented with new ideas and practices. As a result Shanghai has become a model for the development of the informal economy in China. Before looking more closely at the case of Shanghai, it is important first to provide some historical background on the development of the private economy in China in order to appreciate the development of China's informal economy.

2.2 The development of the private economy

The development of the informal economy in China has been strongly shaped by the vicissitudes of Chinese politics and economic policy. Subsumed under the category of the private economy, the informal economy has waxed and waned as policy towards the private economy has changed. In the early 1950s, the Government encouraged private business to continue to operate so as to revive the economy. With the onset of the Korean War in June 1950, and China's participation in that from October 1950, the state sector and private business were spurred to produce war-related goods such as medicine and canned products.

The wind turned against the private economy in 1952 when the "five-anti" movement⁷ was launched. During this campaign 450,000 private industrial and commercial enterprises were investigated and three quarters of these were found to have deployed unacceptable means to make excessive profits (Riskin, 1996, p.46). Subsequent fines and collection of back taxes depleted the resources of the private economy. Production in the private economy was increasingly directed towards the needs of the state plan. Whereas in 1949 private enterprises accounted for 55.8% of gross industrial output value, by 1952 this had fallen to 17.1% (Riskin, 1996, p.47). The number of private industrial enterprises nevertheless increased from 133,000 in 1950 to 150,000 in 1953, with employment growing from 1.8 million to 2.2 million.

⁶ The ILO has signed a Memorandum of Understanding, which includes assistance to the Government in the collection of statistics on the informal economy.

⁷ The five antis referred to bribery of government workers, tax evasion, theft of state property, cheating on government contracts and stealing economic information from the State.

In 1954, private capitalist firms were pushed towards merging with the state sector to form joint enterprises. In 1952, such enterprises accounted for 5% of gross industrial output value. By 1956, this had risen to 32.5%. Moreover, whilst in 1952 private enterprises executing state orders accounted for 21.9% of gross industrial output value, by 1956 this had fallen to zero (Riskin, 1996, p.96). As the assets of large private enterprises were socialised, the former owners became managers carrying out state orders. In lieu of profits they received fixed interest payments up till the end of 1962, which was later extended to 1966.

Small handicraft businesses encountered a similar fate to their industrial counterparts. In 1954, around 20 million people were engaged in individual handicraft production, most of whom were peasants conducting this on a part-time basis. They accounted for one fifth of gross industrial output. As part of the social transformation process in the mid-1950s, these individual ventures were socialised in the form of supply and marketing groups and production cooperatives. This intensified in 1956, resulting in a sharp increase in the formation of cooperatives. Whereas in 1952, 228,000 were employed in handicrafts cooperatives and 7.13 million were individually employed, respectively 3.1% and 96.9%, by 1956 this had reversed sharply, with 6.03 million employed in cooperatives and 544,000 individually employed, 91.7% and 8.3% respectively (Riskin, 1996, p.99). Skilled workers in the handicrafts sector were also being transferred to work in state and collective enterprises, thus draining handicrafts cooperatives of their mainstay. Between 1955 and 1956, employment in handicrafts fell by 20%. Thus this process of socialisation led to the formalisation of the informal economy as small handicraft businesses were absorbed into the formal state and collective economies.

Similar moves were made to curtail the private retail trade, though progress was slower than in industry and handicrafts. There were millions of itinerant traders, street vendors, small shopkeepers, and peddlers in rural and urban China. Socialisation tended to be nominal, particularly for trade classified as “state capitalist and other cooperative” (Riskin, 1996:98). There were few advantages in concentrating resources in a sector that gained its advantage from flexibility and mobility. Nevertheless, figures pointed to a sharp decline in private trade. Whereas in 1950, private trade accounted for 85% of total retail trade, by 1957 this had fallen to 2.7%. So, as with the small handicraft businesses, small-scale private retail trade was socialised, and informal enterprises in this trade became subject to regulation.

Whilst in 1950, private business accounted for three quarters of wholesale trade, and 71% of industrial output, five years later, these figures had fallen to 4.4% and 18.3%, respectively (Kuan 1960, p.66-67 cited in Wank, 1999, p.8). Employment in private commerce fell from 7.4 million in 1951 to almost zero in 1956. This decline in the formal private economy is likely to have had a negative impact on the informal economy because of linkages between the economies such as contracting-out production and trading arrangements, though a lack of data renders it impossible to assess the full effect.

As a result of the devastating economic effects of the Great Leap Forward as well as the abrupt ending of Soviet aid to China, the Government initiated a readjustment of its policies between 1962 and 1964 so as to increase food supply and reinvigorate the economy. In this vein private stalls and shops re-opened and private farm and agricultural side-line activities resumed. In some areas, land was contracted out to individual households, anticipating the agricultural reforms of the early 1980s. Peasants’ rights to till private plots were re-instated and land reclaimed by farmers could be privately farmed. Around 500,000 people were engaged in private handicrafts production. This more favourable policy climate

for the private economy had a positive impact on the informal economy, visible in the re-emergence of itinerant traders, hawkers, street vendors and petty trade in rural and urban areas. However, the onset of the Cultural Revolution in 1966 quickly reversed this development. Lasting for a decade, the Cultural Revolution was a period of political turmoil, where politics and ideology set the stage for the organisation of economic production. Private enterprise, be it at the informal or formal end of the continuum, was castigated as “bourgeois”. Petty traders, manufacturers and service providers were forced to halt business and seek employment in the state and collective sectors, often in street committee-run cooperatives and collectives. Despite the stringent ideological pressures, some activities in the informal economy were tolerated, though informal employees were always at risk of being labelled “the tails of capitalism” and becoming the objects of attack when political campaigns intensified.

The effects of the policies towards the private economy on employment between 1949 and 1978 are well illustrated in the table below.

Table 1: Individual workers, 1949-1978 (thousands)

Total in cities and towns		Urban and rural	
		Trade, peddling	Handicrafts
1949	7,240	n.a.	n.a.
1952	8,830	n.a.	n.a.
1955	6,400	3,300	6,044
1956	160	490	544
1957	1,040	700	640
1961	1,650	130	300
1962	2,160	130+	1,000
1964	2,270	568	n.a.
1965	1,710	n.a.	n.a.
1976	190	n.a.	n.a.
1978	150	n.a.	n.a.

Source: Riskin, 1996, p.275.

The number of individual workers, that is, owners of small private businesses in commerce, handicrafts and services and their employees, fell to a bare handful by the late 1970s. Though the number of individual workers in cities and towns declined from almost 9 million in 1952 to 1.65 million in 1961, the numbers picked up again during the years of readjustment between 1962 and 1964, reaching 2.27 million. However, the steepest decline occurred during the Cultural Revolution period, when the number of individual workers in cities and towns fell from 1.71 million in 1965 to 190,000 in 1976. The virtual erasure of the private individual economy had a devastating impact on the provision of vital consumer goods and services such as tailoring, hair-dressing, restaurants, repairs of household goods and purchase of non-staple foods. This in turn was reflected in the number of shops and service facilities. For example, in 1978, Liaoning province had only one tenth of the restaurants it had in 1957 (Riskin, 1996, p.274). Whereas in rural China there were 40,000 co-operative shops and restaurants in 1957, by 1979 this had fallen to a mere 580 (ibid).

Following the downfall of the Gang of Four in 1976 and the subsequent consolidation of Deng Xiaoping’s power at the Third Plenum of the Eleventh Central Committee in December 1978, China’s new leaders began to steer a new economic path away from the logic of the plan towards the principles of the market. Over the next two decades, the Chinese

Party-state introduced incremental market reforms, liberalising prices, de-collectivising agricultural production, opening up the economy to foreign trade and foreign direct investment, and promoting the domestic private economy. Throughout this period, China's economy grew at a staggering average annual rate of 9%, in some years reaching even 18%. By 2001, China had become a key global economic player. It ranks tenth in terms of trade volume (Morrison, 2001), is a major producer and exporter of light industrial goods such as toys and household appliances, and is the largest recipient of foreign direct investment in the developing world.

In the reform period, the domestic private economy has expanded rapidly, particularly in the 1990s. In the 1980s, the Chinese Government adopted a more relaxed approach than previously towards the domestic private economy, but still cautious. From the Government's point of view, developing the private economy would not only help solve unemployment but also provide much needed consumer goods and services that had been grossly neglected in the Cultural Revolution period. Between 1978 and 1983, government policies encouraged small private businesses that fell into the category of the individual household economy. Still, past traders and producers did not yet have full confidence in the stability of economic policy and were fearful that they might again become the object of political campaigns, as had happened in the Cultural Revolution. In 1978, there were only 80,000 licensed private businesses across China, mainly engaged in petty trade of farm produce and second-hand goods. Their contribution to the national economy was insignificant. By 1988, there were at least 30 million private businesses, constituting the fastest-growing sector of the economy (Wank, 1999, p.7).

As a next step to encourage private entrepreneurship, the Government permitted private managers to run collective and state sector firms and assets through leasing and contractual arrangements. In 1988, the Private Enterprise Interim Regulation made it possible to set up limited liability private companies (*siying qiye*). These not only could issue large receipts but also faced no restrictions on the number of people they could employ. By 1991, the private economy accounted for 36.5% of the gross value of industrial output, compared to 0.2% in 1980 (Wank, 1999, p.9). Following Deng's trip to the South of China in 1992, which heralded a new period of rapid reform, the number of private enterprises grew significantly. Its share of the retail trade rose from 2.1% in 1978 to 33.1% in 1993. By 1994, there were 374,700 private companies nationally (Wank, 1999, p.9). In 1994, shares for private companies could be issued on stock markets. In 1999, individual and private enterprises paid RMB 83 billion (approximately US\$13 billion) in industrial and commercial taxes, accounting for 8.8% of the total (Sun, 2001, p.2).

Both individual households and private enterprises have contributed to employment. Between 1978 and 1985, the number of employees in the individual economy rose from 150,000 to 4.5 million (China Statistical Yearbook, 1997, p.97). By 1996, this had more than trebled to 17.09 million. By the end of 1999, there were 62.4 million employees in 31.6 million individual businesses, with a registered capital of Y312 billion. In the private enterprise economy the number of employees rose from 570,000 in 1990 to 6.2 million in 1996, a more than tenfold increase within six years (China Statistical Yearbook, 1997, p.97). By 1999, there were 1.5 million private enterprises, employing 20.21 million, with a registered capital of Y1,028.7 billion (Sun, 2001, p.1). The percentage of employees in individual and private businesses amounted to 0.2% of total employment in 1980 and 11% in 1988. However, it should be noted that these figures relate to the formal part of the private economy, as individual households and private enterprises are registered with the Industrial

and Commercial Bureau. Employment statistics relating to the informal economy are not yet available.

It was with the acceleration of state enterprise reform from 1993 onwards that the Government began to pay increasing attention to the development of the informal economy. Between 1995 and 1999, over 15 million jobs were cut in state-owned enterprises. During the same period 12 million jobs were created in the urban individual and private economy (Ministry of Labour and Social Security, 2001b, p.23). The full re-absorption of laid-off workers into the formal economy proved difficult to achieve, either nationally or locally. From the Party-state's perspective, the prospect of rising numbers of unemployed workers was a cause for concern, not only because of the threat to social stability, but also because of the potential costs of providing a social safety-net. The private economy, including its formal and informal components, offered an alternative route to employment in the formal state and collective sectors, enabling the Government to reduce unemployment figures as well as expenditure on social security. From the point of view of laid-off workers, the private sector promised employment opportunities, the dignity of work, and the prospect of a higher income than the basic remuneration paid to a laid-off worker or the social relief paid to a formally unemployed person.

The gradual acceptance of the importance of the private economy and its contribution to economic growth is reflected in the changing approach of the Party to private entrepreneurs. In particular, in his speech in July 2000, Jiang Zemin stated that private entrepreneurs could be recruited to join the Chinese Communist Party, marking a historic break with past practice and ideology. The positive approach of leading figures within the Party to the formal part of the private economy created an environment within which the idea of the informal economy could be absorbed and adopted. Having outlined the development of the domestic private economy in China, and its sub-component, the informal economy, the next section examines more closely the case of the informal economy in Shanghai.

3. The case of Shanghai: background and policies

Shanghai's economy has developed rapidly in the 1990s, with GDP growth rate averaging at 11% between 1996 and 2000 (Yin, 2001, p.5). Its rapid take-off in the last decade is in part a result of changes in central government policy towards the municipality. In particular the central government granted Shanghai Municipal Government preferential policies to encourage foreign trade and investment as well as greater autonomy to raise its own revenue and determine local expenditure. A strong, dynamic local leadership has also been an important factor in Shanghai's economic success over the past decade. As well as rapidly expanding its global economic links, the Shanghai Government has also pushed ahead with the reform of state enterprises. This has involved not only modernising the technology and equipment base of these enterprises, but also closing down loss-making firms. Old industries such as textiles, iron and steel have undergone considerable adjustment.

The closure of state enterprise firms between 1996 and 2000 has rendered one million workers redundant (Yin, 2001, p.6). The Shanghai Labour Bureau has used a number of measures to alleviate the economic impact of redundancy and to steer redundant workers into employment. In line with central government policy, it has set up re-employment service centres (*zai jiuye fuwu zhongxin*), where redundant workers registered to receive basic living expenses for a period of up to three years, or until they obtained other employment. At this point redundant workers are described as "stepping down from their post" (*xiagang*) and are

not included in official unemployment statistics. If, after three years, they are still without work, then they are classified as unemployed (*shiye*) and entitled to unemployment benefit for a period of two years. The re-employment service centres not only are the conduit for receiving basic living expenses, but also run training courses for re-skilling workers. The Labour Bureau, Shanghai Trade Union and Shanghai Women's Federation also run training courses for laid-off workers. The municipal government has encouraged laid-off workers to set up small businesses, work in the service sector, and seek employment through the street and neighbourhood committees, that is, the community.⁸ In the light of past emphasis upon production rather than services, and heavy industry rather than light industry, there is an unsatisfied demand for a range of services such as domestic cleaning, street cleaning, newspaper delivery, community security, house repairs, and so on. The municipal government is encouraging laid-off and unemployed workers to enter this sector by, amongst other things, providing relevant, free training, and exempting laid-off workers setting up their own businesses from paying industrial and commercial tax.

According to the Shanghai Labour Bureau, most laid-off workers have been re-employed. In the year 1999, 250,000 laid-off workers entered re-employment service centres in Shanghai, making the total in the centres 413,000. Of this total, 266,000 left the centres, accounting for 64.4% of all workers registered at the centres (Ministry of Labour and Social Security, 2000, pp. 318-321). By the end of 1999, a total of 883,000 laid-off workers had entered the centres and 686,000 had left, a rate of 78%. As of 1999, there were 175,000 unemployed people in Shanghai, compared with 160,000 in the previous year. The unemployment rate rose from 2.8% in 1998 to 3.4% in 1999⁹ (Ministry of Labour and Social Security, 2000, p. 505).

As of October 2001, approximately 16,200 laid-off workers are still out of work.¹⁰ These workers face obstacles in finding alternative work in the formal sector, facing supply and demand constraints. The strategy of the Shanghai Municipal Government is to move away from manufacturing towards high-tech industry, information and knowledge industries and finance. Hence the employment opportunities for less skilled workers in the manufacturing sector are shrinking. Male workers over 50 years and female workers over 40 years encounter particular difficulties in finding work because of societal attitudes towards age and gender. Most of the residual laid-off workers are mono-skilled and supposedly cannot easily adjust to the market environment with its emphasis on individual competitiveness and self-reliance. Lack of credit facilities make it particularly difficult for poorer households to establish their own small businesses or take risks. As the number of laid-off workers has sharply fallen from a total of 985,000 between 1996 and 2000 to 16,200 in September 2001, the municipal government will close the re-employment service centres at the end of 2001 and

⁸ In urban areas local government hierarchy includes the levels of town (*shi*), district (*qu*), street committee (*jiedao bangong shi*), and neighbourhood committee (*jumin weiyuanhui*). Although street committee and neighbourhood committee staff are not government officials, they act as the lowest level of government. Shanghai has experimented with reform of the local government and has replaced the street committee with "the community" (*shequ*). In everyday speech local people use the two terms interchangeably, though they are supposed to imply a different quality of relationship between local government and citizens.

⁹ This was a higher rate of increase than for other provinces: for example, Liaoning registered an increase of 0.1% from 3.4 to 3.5% between 1998 and 1999; Zhejiang registered an increase of 0.3% from 3.2% in 1998 to 3.5% in 1999; Guizhou registered an increase of 0.2% from 3.8% in 1998 to 4.0% in 1999 (Ministry of Labour and Social Security, 2000, p. 505).

¹⁰ Interview, Mr Sheng, Shanghai Labour Bureau, October 2001.

abolish the category of laid-off workers (*xiagang*).¹¹ Thereafter, all workers laid off from enterprises and without employment will be classified as unemployed (*shiye*).

4. Shanghai: Specific policies and measures taken to develop the informal economy

In order to assist the remaining laid-off and unemployed workers back into employment, in September 1996 Shanghai Municipal Government initiated a scheme encouraging the development of the informal economy (*fei zhenggui jingji*). This scheme was officially sanctioned through the issuing of regulations entitled “Several opinions on Encouraging Laid-off Unemployed Workers to Seek Employment in Individual Labour Organisations”. The individual ventures or small firms set up under this policy are referred to as “informal labour organisations” (*fei zhenggui laodong zuzhi*).¹² They, therefore, differ from the categories of individual households (*geti hu*) and private enterprises (*siying qiye*), which register under the Industrial and Commercial Bureau and therefore constitute part of the formal economy. As informal labour organisations do not register with the Industrial and Commercial Bureau, they do not have a legal status as an economic entity and, therefore, do not belong to the formal economy. Moreover, most informal labour organisations are too small in scale and have too little capital to meet the requirements for registration as an individual household venture or small business. The Shanghai Labour Bureau encourages the informal labour organisations to develop to a point where they can register with the Industrial and Commercial and thereby transfer to the formal economy.

The informal labour organisation is, in fact, a sub-category of the informal economy. As special policies and regulations have been formulated to facilitate their growth, they are more formal than the informal enterprises of, for example, itinerant peddlers, petty-traders, and street hawkers. In this respect, they are an intermediary category, or bridge, between the informal and formal economies. Referring back to the ILO definition given on page two, which distinguishes informal enterprises by the fact that they are not “registered or recorded by government authorities...”, it is clear that concept of the informal labour organisation muddies this definition. On the one hand, policies and measures are introduced to promote, but also record and regulate, informal labour organisations, placing these more towards the formal end of the formality/informality continuum in terms of both enterprise and employment. On the other hand, the government authorities classify these organisations as part of the informal economy because they do not fall within the regulatory framework of the Industrial and Commercial Bureau. Thus, though they are recorded and regulated by the Labour and Social Security Bureau, they are not recorded and regulated by the government department which has the authority to grant them formal status.

Between September 1996 and 1999, Shanghai Municipal Government approved 7,048 informal labour organisations, employing approximately 70,000 people (Ministry of Labour and Social Protection, 2000, pp.318-321). In 1999 alone, it recognised 2,906 informal labour organisations, which employed 38,853 people. By September 2001, 14,364 individual labour organisations had been established. Of these 3,731 proved unviable and closed down. As of September 2001, the total number of informal labour organisations therefore amounted to 10,633. These employ 154,839 persons, of whom 149,711 (97%) were former laid-off and

¹¹ This is in line with national policy, though this national policy still has to be formally confirmed (Communication, Ministry of Labour and Social Security, November 2001).

¹² Originally they were called “informal employment labour organisations” (*fei zhenggui jiuye laodong zuzhi*). The word “employment” was dropped.

unemployed workers.¹³ The municipal government has identified fifteen types of activities in which informal labour organisations can engage, namely:

- repair and maintenance of household equipment;
- repair and maintenance of household goods;
- repair and refurbishment of houses;
- sewing, washing clothes and hair-dressing;
- domestic help and care assistance;
- express delivery;
- fast-food and ready-made food;
- cleaning and maintenance;
- providing work-units with labour;
- loading and unloading of goods;
- equipment and tools rental;
- recycling of waste and old goods;
- handicrafts workshop;
- community culture and entertainment; and
- public works labour.

Given that these activities are relatively unskilled, require little capital investment, and the demand for them is great, they provide considerable employment opportunities for laid-off and unemployed workers.

There are two types of informal labour organisations, namely, self-employment labour organisations (*zizhu xing laodong zuzhi*) and public works labour organisations (*gongyi xing laodong zuzhi*). In the first type, laid-off and unemployed workers initiate the venture voluntarily, raise the capital themselves, manage the venture themselves and take responsibility for profits and losses. In the second type, the local government provides assistance. The four main kinds of activity in the public works labour organisations are street cleaning, security, greening of environment, and cleaning and maintenance of public facilities. These are referred to as the 'four protections' (*si bao*). These public works labour organisations are supported by local (*diqu*) government subsidies. As of 1999, there were 167 public works schemes in Shanghai, providing employment for 10,836 very poor people and 36,000 people in difficulty (Ministry of Labour and Social Security, 2000, pp.318-321).

In order to promote informal labour organisations, Shanghai Municipal Government has established special administrative organs,¹⁴ known as employment service organs (*jiuye fuwu jigou*),¹⁵ at the levels of city, district and county, street committee and town, to support and guide informal labour organisations. The street committee employment service organ (*shequ jiuye fuwu jigou*) provides assistance to the informal labour organisations in managing various administrative procedures. For example, the street committee employment service organ provides the seal to approve the formation of the venture, registers employees, assists with setting up a bank account,¹⁶ issues receipts and organises collection of data for reporting to higher authorities. They act as intermediary service organisations for the public works

¹³ The remaining 5,128 persons include retirees and part-time staff assisting with management.

¹⁴ These are not government organs but substitute for the Government (*wei zhengfu weituo*).

¹⁵ These employment service organs have a total staff of 800.

¹⁶ The informal labour organisation cannot have its own bank account. Hence the street committee employment service centre sets up a bank account on behalf of the informal labour organisation.

labour organisations and provide technical assistance to the self-employed type of informal labour organisation. They pay the subsidy to the public works labour organisations, which comes from the municipal government's Employment Fund. They provide advice on relevant government policies, and assistance with developing a business plan. They mediate on behalf of the informal labour organisations with the industrial and commercial bureau, tax bureau and other relevant bureaux. They can act as guarantor for an informal labour organisation seeking a bank loan¹⁷ and organise training. The employment service organ provides a space for the self-employed to negotiate with clients and provides access to photocopying facilities and telephone. It also assists employees in informal labour organisations to register for basic social security and make contributions. Furthermore, it takes care of the special subsidies provided to people in difficulty (*kunnan rennyuan*) and people in great difficulty (*ekun rennyuan*) for living expenses, medical care and to supplement wages.

In addition to establishing employment service organs, the Shanghai Municipal Government has also issued special protective measures and policies to promote the development of informal labour organisations and guarantee decent employment. These are as follows:

Social Insurance

All employers and employees in informal labour organisations receive preferential policies for participating in the city's basic social insurance. This marked a major breakthrough as previously this scheme was restricted to those in the formal economy. The scheme includes not only those employed in informal labour organisations but also those in informal enterprises not falling under the category of informal labour organisations, such as street-vendors, hawkers and so on. Persons in the informal economy pay lower base and lower contributions. Their individual contributions to the scheme are set at 14.5% lower than that for the formal economy¹⁸ and use a contribution base below that of the annual average minimum wage in Shanghai. In the formal economy, the contribution rates for pensions is 30%, of which the unit contributes 22% and the individual 8%; for unemployment insurance 3%, of which the unit contributes 2% and the individual 1%; and for medical insurance 14%, of which the unit contributes 6% and the individual 8%. In the informal economy, the contribution rates for the pension scheme are 16% and for medical insurance 14%. In addition, the commercial insurance company invested in by the municipal government is now able to provide accident and risk insurance for the informal economy. Under this scheme informal employers contribute RMB 30 per year and can claim up to RMB 30,000.

Training

The municipal government has created training opportunities for employers and employees in the informal economy. Training courses cover business start-up, basic business skills, business theory, business ethics, and technical skills such as hair-dressing, TV repair, and domestic household skills. Informal employers and employees can attend one training course for free each year. All employers and employees in informal labour organisations have the right to free training. Since 1998, 2,900 employees and self-employed persons in informal labour organisations participated in 20 entrepreneurship-training programmes and 1,510 of

¹⁷ Informal labour organisations cannot get credit from a bank, hence, the importance of the employment service organ acting as guarantor.

¹⁸ In particular, the contribution for pensions is 12.5% lower, for unemployment insurance 2% lower.

these completed the courses.¹⁹ Of these, 864 started up businesses successfully. The success rate of these businesses was 57%²⁰ over a period of three years from 1998 to 2001. About 3,482 employers in informal labour organisations have since 1999 participated in 36 training programmes.

Preferential tax policies

Informal labour organisations are exempted from local taxes for a period of three years. These local taxes include business tax, income tax and other local taxes paid to the tax bureau. They are also exempt for three years from any non-statutory social insurance contributions payments related to pensions, medical care and unemployment. Moreover, these preferential policies still apply to those informal labour organisations, which have converted during the three-year period into individual households or small enterprises registered with the Industrial and Commercial Bureau and thereby have become part of the formal economy. According to the Shanghai Bureau of Labour and Social Security by October 2001, 25% of informal labour organisations out of a sample survey of 500 informal labour organisations had converted into individual households or small enterprises.²¹ One quarter had closed down whilst another quarter were in a position to transfer to the formal sector but were reluctant to because of the strict requirements set by the Industrial and Commercial Bureau. The remaining quarter is unable to pay taxes, and so would not be able to register as formal enterprises. However, the local authorities tolerate their continued existence because otherwise they would have to close down and the employees would then become unemployed.

Risk insurance

The City Employment Promotion Fund and the individual each contribute 50% to risk insurance. This is a voluntary policy. At first, the insurance premium was set at RMB 100 per person per year. However, the municipal government found that few people had taken up the scheme so the rate was lowered to RMB 30 per year, of which the Government pays RMB 15 and the individual RMB 15.

Local government support for credit

The City Employment Promotion Fund can act as guarantor for informal labour organisations seeking a bank loan upon the recommendation of business-start up advisors, district and county enterprise guidance centres, venture training organs, and designated banks.²² To this end, the Shanghai Municipal Government has made considerable efforts to develop institutional arrangements for easier access to credit. It has already established cooperative relationships with 5 banks²³ and set up 57 points in the city for applying for business start-up loans. Applicants have to demonstrate that their business will provide employment for laid-off and unemployed workers. If they borrow RMB 30,000, then they have to create at least one employment position. Loans can be used for starting up a business,

¹⁹ It should be noted that the information provided by local officials does not make clear whether this is employees and self-employed and/or employers. However, as the later figures refer to 36 courses for employers, it can be deduced that these figures refer to employees and self-employed persons in the informal economy.

²⁰ Thus 864 out of the 1,510 people who finished the courses set up successful businesses, a rate of 57%.

²¹ Interview, Shanghai Bureau of Labour and Social Security, October 2001.

²² Previously the City Employment Promotion Fund was only responsible for the subsidies for workers so taking on this role of guarantor marks an important change in its functions.

²³ These are the Shanghai Bank, Pudong Development Bank, Communications Bank, China Credit and Commerce Bank and People's Bank.

for short-term purposes such as buying stock, for purchasing equipment and for purchasing a work-site. The guarantor will act as guarantor for one year for loans up to RMB 300,000, and for two years for loans between RMB 300,000 and RMB 500,000. As this period may be too short for the needs of informal labour organisations, the city government is re-considering this period with a view to extending it to three years. Currently informal labour organisations pay interest at the bank rate. However, the city government is considering whether to subsidise interest payments of informal labour organisations. For loans under Y50,000, informal labour organisations are not required to provide any collateral.

Public works programme

The Shanghai Municipal Government has initiated a scheme for purchasing public works jobs for persons with employment difficulties. Street communities can set up a Community Public Works Service Agency (*shequ gongyi fuwu she*), a special type of informal labour organisation, so as to provide basic employment for persons with employment difficulties. The Government pays a subsidy to the agency for each person employed. The funds for this come from the City Unemployment Insurance Fund. The subsidy amounts to an average of RMB 200 per month per person. For workers in great employment difficulty, that is those persons who wish to work but who are sick, disabled, or carers of sick, disabled household members, and poor, then the subsidy amounts to between RMB 400-480 per person per month. This RMB 480 subsidy breaks down into four parts, namely, RMB 200 for the employment position subsidy; RMB 130 subsidy for persons in great difficulty; RMB 70 subsidy for medical care; and RMB 80 subsidy for social insurance contributions.²⁴

Voluntary support of experts

To promote the development of informal labour organisations, the local government has formed a volunteer force of experts to provide advice and assistance. By October 2001, the municipal government had recruited 207 volunteers and set up 24 teams of volunteers. By May 2001, these had provided assistance and advice to 5,003 informal labour organisations. They had helped 2,650 persons with start-up preparations, of whom 1,059 had successfully started up business.

The “4050 Project”: Support to Laid-Off Workers over 40 and 50 years

The municipal government has encouraged the development of the “4050 project” which was set up in January 2001.²⁵ The “4050 project” refers to an employment project targeted at women over 40 years old and men over 50 years old, who because of societal attitudes towards age encounter difficulties in re-employment. An example of a “4050 project” is the Wheatstraw Handicrafts Factory, which was initiated by two former laid-off persons. Of their staff of 120 workers, one half were recruited under the “4050 project”. This case is discussed in greater detail in the next section. This project has established the new mechanism of “five persons operational system” (*wuren yunzuo tixi*), whereby five people get together to develop a business proposal. These five people comprise the project designer, the bidder, the sponsor, the implementing agency, and the project evaluator. The role of the

²⁴ Last year the social insurance contribution came to RMB 160, of which the Government paid half and the individual half.

²⁵ For further information on the “4050 project”, see Shanghai Enterprise Start-Up Service Centre Collection (2001a and b).

Government is to invite tenders for the 4050-employment scheme, for which people bid on a competitive basis. Since the start of the scheme, 650 projects have been developed and by the end of October 2001, 485 “4050 projects” had started operation.²⁶ These 485 projects provide employment for 16,780 people, an average of 35 people per project. Of the 461 projects that had started up by September 2001, 385 were informal labour organisations, the remainder belonging to the formal economy.

All these special policies and measures reflect the Shanghai Government’s commitment to supporting the informal economy. The efforts to make access to credit easier are concrete steps to overcome some of the key obstacles to the survival and development of the informal economy. Furthermore, the initiatives on training and social insurance reflect the Shanghai Municipal Government’s concern to improve employment conditions in the informal economy and to secure as far as possible standards of decent work.

5. Case studies

The case studies below illustrate the role of local street committees in assisting the establishment of informal labour organisations, both individual enterprises and public works programmes. Specific examples of informal labour organisations that were visited during the study are described so as to illuminate the nature of successful ventures. Furthermore, interviews with laid-off workers employed in informal labour organisations allow some insight into employment opportunities created by the innovative policies of Shanghai Government.²⁷

5.1 Youyi Lu Street Committee Community Service Centre, Baoshan District

This street committee covers 47 neighbourhood committees, with a total residential community of 100,000. It is one of sixteen street committees in Baoshan district, an area famous for its port, and iron and steel industry. In 1998, around 5,000 of its residents were laid-off or unemployed. Many of these had been employed in the iron and steel industry, and the port. Youyi Lu Street Committee was one of two street committees in Baoshan District to suffer the highest rates of lay-offs. In 2000 and 2001, 1,500 people were re-employed in the informal economy and a further 500-600 were employed on a seasonal basis. As a result, around 2,000-3,000 remain unemployed, all of whom are women.

In order to address lay-offs and unemployment, the street committee has encouraged the development of the informal economy. As of October 2001, the street committee had 67 informal labour organisations, employing 600 people, and one public works programme, employing 800 public works people. Examples of informal labour organisations include a water container factory and a pottery factory. The water container factory was set up by a former manager who was laid off from a state-owned enterprise. He started off with a beancurd factory, employing laid-off workers from the factory he worked in. He then expanded to producing water-containers, employing 24 people. In the summer season, the factory also produces lemonade and takes on workers on a temporary seasonal basis. The

²⁶ I am grateful to the Shanghai Bureau of Labour and Social Security for clarifying some of the details of this project after the field visit.

²⁷ It should be noted that the interviews with workers took place at the Changying District, Xin Jing Zhen Employment Guidance Centre. Workers presented their own accounts of re-gaining employment. Though the time for in-depth discussion was very limited, the occasion nevertheless provided an opportunity to hear more personal experiences of the informal sector policies.

owner of the pottery factory was a former administrator in a state-owned enterprise. His factory employs up to ten people. Of the 67 informal labour organisations, eight have transferred to the formal economy, registering as small businesses.

So as to promote the employment of laid-off women workers who encounter both age and gender discrimination in the workplace, the street committee has set up a special training programme for women to become security guards. According to local officials, the plan is to place women in charge of the management of bike parks. Under its public works programme, it has found employment for 120 domestic helps and 250-300 street cleaners, the majority of whom are women. Other activities under the public works programme include greening of the community, security, and maintaining traffic order. The average wage in the public works programmes comes to RMB 700 per month. In 1999, the average annual wage in Shanghai amounted to RMB 16,641, or a monthly average of RMB 1,386 (Ministry of Labour and Social Security, 2000, p. 551).

The Youyi Lu Street Committee Community Service Centre has designated a full-time trade union official to represent the interests of the employees in informal enterprises and public works programmes. Although they intend to let the employees select their own trade union chair at a later point, local officials underlined that the process of establishing a trade union was currently at a preparatory stage and, therefore, it was too early to allow workers to select themselves. In fact, Youyi Lu Street Committee Community Service Centre is the first in Baoshan District to consider establishing a trade union for informal employees.

5.2 Handicrafts Enterprise, Nan Matou Street Street Committee, Pudong District

The Wheatstraw Handicrafts Factory produces pictures made out of wheat straw. One of the factory owners was a former administrator in a people's collective company and was made redundant in 1998. The other owner was a former manager in a collective enterprise, which closed down in 2000. The two owners responded to a bid tendered by the Shanghai Municipal Government under the 4050-scheme. One provided the idea and the other the capital. In fact, both owners invested RMB 100,000 each and borrowed a further RMB 300,000 from the bank. The municipal Employment Promotion Fund acted as guarantor for the loan. In addition, Pudong District agreed to pay the interest on the loan for a period of one year in accordance with its own local policies to promote re-employment. The factory employs a total of 120 workers, of whom about sixty were recruited under the 4050 scheme. Most of the employees are women. The street committee employment service centre rents the factory a room, though most of the production is carried out in the home. Workers are paid on a piece-rate basis, with the monthly income averaging at around RMB 500. The owners intend to expand the business and to register it as a share-holding company after three years.

5.3 Catering Enterprise, Hudong Street Committee, Pudong District

The owner of this enterprise worked previously in a department of public security in Xinjiang province. As he was laid off from his unit in 1997, he returned to Shanghai. His two sons were also unemployed or literally "waiting for employment" (*daiye qingnian*). The local Employment Service Centre²⁸ assisted the owner to establish the enterprise, providing training, advice and preferential policies. The enterprise prepares ready-made meals for two

²⁸ In Hudong Street Committee this centre was referred to as the "Joint Help Venture Agency" (*lianbang chuangye she*).

American schools and foreign companies based in Pudong District. The enterprise employs 400 workers, of whom more than 200 are laid-off workers recruited under the 4050 scheme. Around 80% of employees are women aged 40 years or more. The average wage of workers comes to RMB 600 per month. The street committee covers the social insurance of workers for medical care, pensions and unemployment. In 1999, within a year of start-up, the enterprise transferred to the formal economy as a registered private enterprise.

In June 2001, the enterprise set up a trade union and appointed one full-time trade union chair, who is the only trade union representative. The enterprise pays the salary of the trade union chair.

5.4 Hujiang Shiye Company, Luwan Street Committee, Luwan District

This enterprise produces miniatures of famous buildings out of artificial crystal and metal. The owner originally established his business in Luwan Street Committee, but then moved it to Pudong District, where rents are lower. The owner had a vast range of employment experience. As a young person in the Cultural Revolution, he was sent to work in the countryside. He worked as a farmer, a teacher, a boiler-repairer, an operator, a manager, and a low-level cadre. In 1979, he returned to Shanghai, where he worked in various labour service enterprises set up initially by the Labour Bureau for young people returning from the countryside and later for the unemployed. These enterprises included small shops, small restaurants, small real-estate businesses, and small-scale clothes factories. He then voluntarily left his position as deputy manager, or as expressed colloquially, “jumped into the sea” (*xia hai*). Using his savings, he set up his own business making miniatures.²⁹ Initially he employed five people, but by October 2001, he had expanded to 60 employees. About 60% of the workers are women. The average age of employees is 35 years. The average wage of workers and management amounts to RMB 1,000–1,200. In the first month, workers earn RMB 500 per month. This increases to RMB 600 in the second month and RMB 700 in the third month. The enterprise has now transferred to the formal economy and is registered as a private enterprise with the local Industrial and Commercial Bureau.

5.5 Enterprise Start-Up Guidance Centre, Luwan District

Luwan District is one of the smallest districts in Shanghai, with a residential population of 380,000 distributed across four street committees. The Enterprise Start-Up Guidance Centre assists laid-off and unemployed workers to find jobs or to start up their own businesses. In addition it also authorises the public works labour service agency (*gongyi xing laodong fuwu she*) to set up public works programmes for unskilled laid-off workers and older workers, who encounter difficulties in the labour market. This agency recruits 4050 teams of workers to provide the “four protections”, namely, street cleaning (*bao jie*), greening of the environment (*bao lu*), community security (*bao an*), and maintenance of public facilities (*bao yang*). Whereas in the past, cleaning in the community was carried out by non-residents, usually rural migrants, the policy of the district is now to ensure that local laid-off and unemployed residents take up these positions. So, when a new building is constructed, the agency tries to secure the cleaning contract on behalf of its local laid-off and unemployed

²⁹ It was not clear whether the miniature factory already existed. According to an article in the Shanghai Arts and Crafts magazine, 2001, number 3, the factory had already been operating for eight years, longer than the period of the policy for informal labour organisations.

residents under the 4050 scheme. This implies that it may become more difficult for rural migrants to find work in this part of the informal economy.

There are 340 informal labour organisations in the district, employing 2,700 people and a public works programme, employing also 2,700 people. The municipal government provides the district with RMB 200 per person employed on public works programmes. Public works employees receive a monthly salary of RMB 500 and the district covers their basic medical insurance, unemployment and pension contributions from the RMB 200 allocated to them by the municipal government. The centre provides training to women to work as maternity assistants in hospitals and the families of the patients pay the women for these services. Within the district, there have been 32 bids for establishing informal labour organisations under the 4050 scheme, of which 27 have passed the feasibility stage. These employ 700 people, of whom 500 are laid-off workers under the 4050 scheme.

5.6 Employment Guidance Centre, Xinjing Zhen, Changying District

This district has approved 90 informal labour organisations, of which two have transferred to the formal economy as small businesses registered with the Industrial and Commercial Bureau. However, as of October 2001, only 68 informal labour organisations remained, as residential construction work had required residents to move, who were then unable to find a work-place in their new location. These informal labour organisations provide services such as hair-dressing, TV repairs, tailoring, maintenance of air-conditioners and fast-food. Altogether they employ 300 workers, of whom 107 were unemployed and 193 were laid-off workers.

The public works programme employs 732 people. The main services provided are community security work, community cleaning, greening of the environment and traffic order. The programme is targeted at those people who encounter particular problems in finding employment such as the disabled, low skilled and older workers. Employees receive a basic wage of RMB 500 and the district covers their pensions, basic medical expenses and unemployment insurance.

5.7 Workers in informal labour organisations: some personal accounts

i) Worker One: She used to work in a TV parts factory run by the street committee. When the main factory closed down, this small collective enterprise was also affected and in 1995 it closed down. The times were very difficult. The street committee informed her about the new informal economy policies. She applied to set up an informal labour organisation. Now she runs a small printing shop, making name-cards, printing paper and providing photocopy services. Through the street committee she was able to borrow RMB 100,000 from the bank. The printing shop has already transferred to the formal economy. Altogether the enterprise employs five people, including herself and her husband.

ii) Worker Two: She used to work in Shanghai Plastics Products Factory, a state-owned enterprise. All 1,000 workers were laid off in January 1997. She was the trade union chair of the workshop for fifteen years. For the first six months she remained at home and avoided going outside. She then re-trained as a domestic help, the district government providing free training. She then got a position as a nanny in a foreigner's family and eventually went to work in the UK on a three-year contract. She has just returned and is again seeking employment.

iii) Worker Three: She worked for sixteen years as a machine sewer in a leather factory and was laid off in 1995. She then did different jobs such as working in a restaurant and at a check-out till. After the new policies in 1998 for the informal economy, she started up a small fast-food restaurant, employing some laid-off workers. She took part in a training course run by the Labour Bureau for starting up a business. She ran this small restaurant for a year and then used the money she had saved as well as a loan of RMB 200,000 to set up a larger restaurant and a hot-pot restaurant. The street committee acts as guarantor for the loan and the district trade union pays the interest on the loan. She then invested RMB 10,000 in a floristry, renting a room for this from the street committee. This was subsequently knocked down to make way for a new road. The street committee covers all her social insurance. Her fast-food shop has earned the title of “civilised unit” (*wenming danwei*), an honour bestowed by the district government. Altogether she employs 22 workers, some of whom were former laid-off workers and unemployed. The average monthly salary for employees is RMB 700. In her former work unit she earned around RMB 800 per month, though as it was piece-work, it also varied each month. After setting up her own business, her salary increased significantly, amounting to several thousand RMB per month. Both the hot-pot restaurant and the small restaurant are informal labour organisations. The larger restaurant has now been transferred to the formal economy as a small business and she can still enjoy the tax exemption up till three years.

iv) Worker Four: She worked as a textile worker for 22 years, though during the last three years she took on the position of a manager. In 1996, the factory closed and she lost her job at the age of 38 years. She then did a variety of jobs such as domestic help, cleaner and shop assistant. Her husband used to work in the propaganda department of the textile bureau. He also lost his job in 1998, when the bureau became a share-holding company. As they had both lost their jobs, life was very difficult. Through the local Women’s Federation she got a job recycling waste. They gave her a cart and uniform. The street committee provided them with a place to store recycled waste so that they could sell this to waste collectors. She is planning to set up a recycling shop with eighteen other people from different communities. Currently her work falls under the public works scheme. Her average monthly income is RMB 1,000-2,000, well above her former factory wage of RMB 700.

v) Worker Five: He used to be a managerial cadre in No. 21 Textile Factory. He started working there in 1968 and was laid off in August 2000. Though the factory closed in 1996, he was managing the liquidation of assets. It is difficult to be laid-off. He had worked his way up from the bottom. With the assistance of the street committee, he set up a cleaning company in September 2000. He employs eight people, three of whom are laid-off workers and four of whom are rural migrants. His former salary was RMB 1,500 and he now earns double this. His wife retired five years ago and is now a cleaner in a Japanese kindergarten. His daughter is studying abroad. He hopes to win the cleaning contract of a building currently under construction on the old factory-site. He then plans to expand his company and recruit 60% of new workers from those laid-off from the old factory.

vi) Worker Six: He used to work in Shanghai No. 1 Silk Dyeing Factory. As this factory merged with another, they laid some people off. He wanted to be laid off so he left in 1996. He was the head of a shift. In 1997, a Hong Kong company came to Shanghai to set up express delivery. He worked in this company for a year. In 1998, after hearing about the new policies for the informal economy, he decided to set up his own business. He invested all his savings of RMB 30,000 and rented a work-place in the neighbourhood committee for RMB 350 per month. Initially he employed six former laid-off workers and now employs 30 laid-

off workers as drivers, all men, and five female administrators. He purchased 25 scooters and borrowed RMB 110,000 to purchase mobile phones and maintain the scooters. He participated in the training programme for small business owners. He currently has 300 customers, mainly offices. He plans to expand his business to Beijing, Hong Kong and Taiwan. The monthly salary is RMB 1,500 and can rise to RMB 2,000. There is a big turnover of staff as the work is hard. In a period of two years he has employed 256 people.

vii) Worker Seven: He worked as an electrician in the state-owned Dafu Rubber Limited Company and was laid off in March 1999. The company moved to Pudong so he could not travel all that way to work. In June 1999, he went to the Employment Service Centre and set up a leasing business. The district government helped him to set up the business. He leases out equipment such as scaffolding and drills. In March 1999, he borrowed RMB 50,000 from the bank and the district government acted as guarantor. The turnover of the business is RMB 100,000 so he has now paid back the loan. He paid the interest on the loan as well, as his business was profitable. He intends to develop his business in screws. His main customers are construction companies, private enterprises and manufacturing outlets. In March 2001, he borrowed another RMB 300,000. The street committee acted as guarantor. Now the business has registered as a limited company so that it could expand its business scope. However, he still retains the informal labour organisation title so that he can continue leasing equipment. The new company and the informal labour organisation employ the same twelve workers, of whom five were unemployed and seven were laid off. He pays all the social insurance for the unemployed workers.

6. Main challenges for informal labour organisations

Preliminary experience suggests that some informal labour organisations are not competitive, in part because of weak management. Extending client networks seems to depend in part upon the ability to draw upon social connections, particularly within the state bureaucracy. This will be easier for those who were formerly employed in managerial positions, but much harder for unskilled, less skilled and skilled workers. This in turn affects the economic performance of the enterprises and their ability to cover the social insurance contributions of employees. According to the Shanghai Labour and Social Security Bureau, some employees in informal labour organisations still cannot afford to pay these preferential rates.³⁰ In 2000, only 30% of informal labour organisations were able to purchase social insurance. Even after the contribution rates were lowered in 2001, still only between 40 to 50% of the informal labour organisations were able to participate in the municipal social insurance scheme. Employees are therefore at greater risk of poverty in old age, as pension contributions are lacking, and at greater risk of impoverishment as a result of illness. Furthermore, should the business fail, then neither employers nor employer have any protection against unemployment and will be forced to rely upon past savings to maintain their daily living expenses.

Informal labour organisations require further support from relevant experts. Currently the number, quality and expertise of volunteer forces set up to assist informal labour organisations are insufficient. A more comprehensive system of training and business guidance needs to be set up.

³⁰ According to the officials interviewed, the rates had already been adjusted to a rate that employees in informal labour organisations could afford, but for some this was still too much (Interview, October 2001).

Local officials indicated that the external policy environment for informal labour organisations needed further development. Though Shanghai Municipal Government has introduced preferential policies and measures, there is no national law or policy endorsing these. Moreover, the policies and measures for informal labour organisations are different from, and sometimes more favourable than, those applying to self-employed households and private enterprises. Relevant government departments have expressed concern over these differential policies, noting that they can be construed as a kind of unfair competition.

The idea of the informal labour organisation has been initiated by the Government rather than by laid-off and unemployed workers as a way of addressing unemployment. Policy take-up is thus constrained to some extent by the willingness and ability of laid-off and unemployed persons to participate. One of the issues here revolves around conceptions of work. For many laid-off workers, “work” means going out to work in a work-unit, whilst self-employment is not perceived as a form of work. Furthermore, as some of the first self-employed households were rural migrants, there is an urban bias in the laid-off workers’ perception of this economic activity. Social conceptualisations of work and their complex interweaving with social divisions along the axes of class and rural/urban divisions have an influence upon the development of the informal economy. In addition, years of working in state-owned and collective enterprises have encouraged some employees to rely heavily on their work-units to resolve welfare and other issues. Thus the initiative and self-reliance which are subsumed in self-employment and private enterprise require a shift in thinking and attitudes of some older, laid-off workers.

It is not easy for informal labour organisations to obtain credit. Currently they need the street committee to act as guarantor so that they can obtain a bank loan. It is not clear what percentage of informal labour organisations have applied for loans and what the success rate has been.

A system of employee representation in informal labour organisations has not yet been systematically established. Though employees encountering problems in the workplace can seek the assistance of the street committee employment service centre, employees in informal labour organisations are not yet represented through unions.

7. Conclusion

The Shanghai Municipal Government has played a pioneering role in promoting the development of the informal economy in China. This study has outlined some of the key policies and measures introduced by the municipal government to encourage laid-off and unemployed workers to set up their own enterprises or to enter employment through public works programmes. Through detailed accounts of informal labour organisations and the experiences of particular workers, it has illustrated the nature of and challenges facing the informal economy in China.

The Shanghai Municipal Government has demonstrated considerable flexibility and willingness to address practical issues arising in the course of experimenting with promoting the informal economy. Other cities such as Taiyuan and cities in Jilin province have also adopted the idea of the informal economy to address the issue of enterprise redundancies and unemployment. Shanghai is perceived as the most advanced and successful attempt so far to promote the informal economy. Discussions with local officials suggest that Shanghai’s success can be attributed to two key factors: first, the resolve of Shanghai municipal

leadership to address the issue of re-employment through innovative means; and second, the strong performance of the local economy. Without these preconditions it is not clear whether this model could be implemented as successfully elsewhere.

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