

Employment policies for transition to a market economy in China

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Preface

This is the first of what is intended to be a series of analyses of labour market developments in China, and is a stocktaking assessment based on work carried out during 1994. It is the outcome of a substantial set of activities, and it is pleasant for us to acknowledge the considerable contribution of others, either directly connected with this assessment or with closely related activities being developed by the ILO's Labour Market Policies Branch.

In particular, we would like to acknowledge the financial contribution to the ongoing work made by the United Nations Development Programme. The work here led to a set of proposals for future work to be handled by the UNDP -- on training, employment policies, industrial relations and mass redundancy procedures. We would also like to thank the Swedish Government, which through its Labour Market Board (AMS), has been working with the Branch on related work in China during the 1994-95 period. Finally, we thank Jean-Victor Gruat, the director the ILO's Beijing office, and the ILO's multidisciplinary Team in Bangkok, for their back-up support and assistance.

Comments on this paper and on the ILO's actual and possible work on labour market issues in China would be welcomed.

Guy Standing

1. Introduction¹

Since the late 1970s, China has pursued a policy of gradual reform, opening its economy to the outside world, accelerating domestic and export production, and absorbing foreign investment and advanced technology so as to modernize and develop its economy more effectively. As a result, China's economy has grown rapidly. Social development has also improved greatly since the start of the reform process. There is now a dynamic economy and an awakening society, which have transformed China and will continue to do so in the years to come.

Since the early 1980s, GNP has increased by an average annual rate of about nine percent. However, the reform has had some negative side effects which have required government actions. The regional unevenness of economic growth is a source of concern and the danger of excessively high growth rates, causing overheating of the economy and inflationary pressures, is also recognized. Nevertheless, living standards are improving and individual prosperity is increasing, spurred by the agricultural sector which is becoming more efficient and industrial production which is increasing. The potential exists for China to become one of the world's leading economic powers within the next decade.

In the current transition process, the country faces immense employment problems because of continuous and severe labour market supply pressure, large-scale rural underemployment, rising urban unemployment, and growing income and social inequalities between different segments of the population. The functioning of the labour market will need to be improved in order to achieve a more efficient allocation of labour and to respond to the needs of industrial and employment restructuring.

The purpose of the paper is to examine recent employment trends and assess existing policy measures with a view towards exploring how policies should be improved to facilitate economic transition. The first section presents trends in labour supply, employment by sector and ownership, and in unemployment. In the second section, employment reforms and constraints are considered in terms of the labour contract system, inter-enterprise labour mobility, labour surplus and redeployment, and rural-urban labour mobility. The third section analyses the impact of reforms on specific groups: women, the disabled, ethnic minorities, older workers and the rural population. The last section focuses on employment policies, examining labour market administration and employment services, job creation measures, policies designed for vulnerable groups, training schemes, unemployment insurance, and the financing of labour market policies.

The analysis is based on a wealth of information collected during a five-week mission to China in April and May 1994. This involved meetings with senior officials from various Government institutions, trade unions and employers' organizations, and field visits to labour bureaux, employment offices, training centres and enterprises in Beijing, Tienjin, Shanghai, Wenzhou, Longgang and Changchun. All enterprises visited were asked to complete a questionnaire covering a range of issues: employment trends, labour contracts, recruitment, labour turnover, wages, non-wage benefits, training and labour surplus. Although the survey of 19 enterprises is not representative, the results presented in the paper illustrate some recent developments and key problems which enterprises encounter in the reform process.

¹ An earlier version of this paper was prepared as a contribution to the ILO report, *Employment and training policies for transition to a market economy: People's Republic of China*, in September 1994. The report was requested by the Chinese Government and financed by the UNDP. The views expressed in the present paper are the authors' and they do not necessarily reflect those of the ILO. Anthony Twigger wrote sections 4 and 5.5, and Gyorgy Sziraczki prepared all the other sections. Special thanks to Jean-Victor Gruat, Gek-Boo Ng, Richard Anker and Guy Standing for their helpful comments.

2. Employment Trends

The following subsections outline some of the major labour market developments taking place in China. Trends in labour supply and employment, changes in employment by sector and ownership, and movement in the level and composition of unemployment are examined in order to throw light on the labour market context of employment reforms and policies discussed later in the report.

2.1 Population, labour supply and labour force

China's population doubled between 1950 and the early 1990s, and it is now approaching 1.2 billion (Table 1). Recognizing the difficulties in providing such a large and fast-growing population with employment and social services, the Government has implemented several family planning programmes since 1978. The aim of these programmes is to persuade families to have only one child. As a result, the birth rate has fallen² and by the end of the 1980s the growth rate of the population was half the rate of the mid-1960s. In the early 1990s, the population growth had slowed down further. In addition to family planning programmes, industrialization and urbanization have also contributed to this long-term trend. For example, the share of the urban population increased from 13.3 per cent in 1953 to 27.6 per cent in 1992³, although the vast majority of people still live in rural areas and work in agriculture.

The country's labour force almost trebled during the past four decades (Table 2). This was mainly due to rapid growth of the working-age population rather than to an increase in the labour force participation rate. The proportion of working-age people in the total population jumped from 45.4 per cent in 1962 to 55.8 per cent in 1982. In the 1980s, the working-age population continued to grow rapidly under the influence of the "baby boom" in the 1960s, and its share in the total population climbed to 61.5 per cent by 1989. Since then, the growth rate of the working-age population has fallen slightly. Nevertheless, labour supply remains higher than labour demand - a major problem for China.

² The total birth rate has fallen from 2.72 in 1978 to 2.25 in 1990. At the same time, the differences in the birth rate between economically developed and backward areas narrowed. See "*Birth control: Key to China's economic success*", China Daily, 28 January 1993, p.4.

³ It should be noted that the reclassification of some rural areas to urban areas has also contributed to this trend. In many cases, the distinction between rural and urban areas is based on administrative practice rather than on a concept which takes into consideration the geographical location of a settlement and its level of urbanization.

Table 1: Trends in population

Year	Total Population		Rural Population		Urban Population	
	Total (year end) (millions)	Natural growth rate (year end) (%)	Total (millions)	As per cent of total population (%)	Total (millions)	As per cent of total population (%)
1953	587.9	2.3	509.6	86.7	78.3	13.3
1964	705.0	2.8	575.5	81.6	129.5	18.4
1982	1,016.5	1.6	801.7	78.9	214.8	21.1
1986	1,075.1	1.4	811.4	75.5	263.7	24.5
1987	1,093.0	1.4	816.3	74.7	276.7	25.3
1988	1,110.3	1.4	823.7	74.2	286.6	25.8
1989	1,127.0	1.4	831.6	73.8	295.4	26.2
1990	1,143.3	1.4	841.4	73.6	301.9	26.4
1991	1,158.2	1.3	852.8	73.6	305.4	26.4
1992	1,171.7	1.2	848.0	72.4	323.7	27.6
1993	1,185.2	1.2	n.a.	n.a.	n.a.	n.a.

Note: n.a. = not available.

Source: China Statistical Yearbook, 1992; State Statistical Bureau.

Table 2 Total population, working-age population, labour force and participation rate

Year	Total population (millions)	Working-age population (millions)	Labour force ^(a) (millions)	Working age population as % of total population	Labour force as % of working-age population
1952	574.8	267.1	211.1	46.5	79.0
1962	673.0	305.3	243.6	45.4	n.a.
1982	1,016.5	566.8	456.7	55.8	80.6
1983	1,030.1	583.4	467.1	56.8	80.1
1984	1,043.6	601.6	484.3	57.9	80.5
1985	1,058.5	621.1	501.1	59.1	80.7
1986	1,075.1	640.7	515.5	60.1	80.5
1987	1,093.0	656.1	530.6	60.7	80.9
1988	1,110.3	669.6	546.3	61.1	81.6
1989	1,127.0	683.6	557.1	61.5	81.5
1990	1,143.3	697.3	571.2	61.0	81.9
1991	1,158.2	709.8	587.2	61.3	82.7
1992	1,171.7	721.2	597.9	61.5	82.9
1993	1,185.2	n.a.	605.9	n.a.	n.a.

^(a) Data include the social labour force plus the urban unemployed.

Note: n.a. = not available.

Source: China Statistical Yearbook, 1992; and China Labour Yearbook, 1993.

At the end of 1993, China's labour force was 605.9 million, out of a working-age population of about 730 million, resulting in a labour force participation rate of 83 per cent. The positive effect of the family planning programmes on employment is expected to appear more and more in the mid-1990s when it will be reflected in a slow-down in the growth rate of the working-age population. This might ease labour supply pressure, which is so acute in China. Yet the country faces an enormous challenge in providing jobs to millions of school leavers in the coming years. The Government estimates that the working-age population will grow by approximately 73 million during the 1992-2000 period. Of this increase, 21 million will be in urban areas and the remaining 52 million in rural regions.

2.2 Distribution of employment by sector

The share of the primary sector (mainly agriculture) in the labour force declined substantially between 1978 and 1992 (Statistical Annex, Table 1). In spite of considerable industrial growth, most of China's population continues to depend on agriculture for its livelihood. In 1992, agriculture provided job opportunities for over 340 million people (58.5 per cent of the labour force).

Labour absorption by the secondary sector (industry, mining, energy, construction) and particularly by the tertiary sector increased rapidly over the last decade. Between 1986 and 1993, employment in the secondary sector expanded by 21.9 million, whilst the tertiary sector created as many jobs (36.3 million) as the primary sector (34.9 million). Since 1989, it is the tertiary sector that has created the most jobs in the economy - a reflection of the success of reforms. The share of industrial employment in the total labour force stagnated between 1986 (22.1 per cent) and 1993 (21.7 per cent), while the services' sector share rose from 16.8 per cent to 20.2 per cent over the same period.

The rising share of service sector employment is the consequence of some inter-related developments. First, with growing emphasis on a market economy, the Government has relaxed some restrictions on the development of service industries in trade, finance, transportation, and personal services. Second, recognizing the limitation of state firms in effectively operating service industries, the Government has increasingly tolerated, even encouraged, the establishment of various forms of non-state enterprises, including individually- and privately-owned businesses, which can operate with less capital and more labour than state-owned enterprises (SOEs). Finally, the growth of the service sector also reflects the efforts of both the authorities and the enterprises to create jobs for surplus labour, which has focused mainly on the service sector in urban areas.

In the secondary sector, a major source of employment growth has been the small-scale rural collectively-owned enterprises (COEs), which consist mainly of township and village enterprises (TVEs). The TVEs have played an important role in absorbing part of the agricultural surplus labour, and by the end of 1992 the TVEs employed more than 106 million workers.

However, the achievement of such a rapid expansion of the TVEs entailed many major problems. Setting up manufacturing units staffed by workers whose previous experiences have been solely in agricultural activities meant that the skill base of the workers was extremely low. This had implications on product quality and efficiency of operation.⁴ Very few formalized training programmes were available and, although a great deal of on-the-job training has taken place, the acquisition of skills has been poor. This factor, coupled with the lack of qualified managerial and technical staff, has resulted in low technological levels, poor quality and high prices. A study undertaken by the ILO⁵ in ten towns revealed that unsold products, leading to accumulating operational losses related to price-quality factors, had been the principal cause of failure of many enterprises.

Other problems were enterprises being set up without proper feasibility studies or market surveys, resulting in non-availability of raw materials or lack of demand for products. The

⁴ In some cases, TVEs have modern production facilities, high technology, well-trained workforces, and they export a large share of their output. This is especially the case when these enterprises are located in areas close to urban industrial centres, particularly in booming coastal regions.

⁵ *Reabsorption of surplus agricultural labour into the non-agricultural sector: A study of township enterprises in China*, ARTEP, ILO, December 1992.

ILO study also showed health and safety risks for workers and nearby residents, because enterprises did not train their workers to operate safely and did not attempt to treat dangerous effluent (despite requirements laid down by government legislation). Another problem is the under-capitalization of the TVEs, which has led many to request financial loans (reimbursed with interest) from new and existing workers in order to keep the enterprise running.

However, despite the problems, the TVEs do constitute a success story of great proportions in redeploying agricultural surplus labour. TVEs now contribute more than half of the rural GDP and it would seem appropriate, therefore, to try and improve their efficiency and find ways of financing the training of their staff, especially since the numbers of agricultural surplus labour will continue to increase and add to the school-leaver new entrants each year.

Significant changes took place in employment by ownership type⁶ during the 1980s and early 1990s (Statistical Annex, Table 2). Most of these changes have occurred as a result of a steady decline in agricultural employment. Although urban state enterprises have maintained their employment share, the employment proportion of COEs has declined since the mid-1980s, from 6.7 per cent in 1984 to 5.9 per cent in 1992 (Table 3). Employment in joint ownership enterprises, non-existent prior to 1984, reached 3.43 million by 1993. Employment in this sector doubled in the early 1990s, and further expansion is expected. The urban individual labourers constitute another fast growing segment of the labour market, with more than 11 million workers in 1993.

Table 3: Employment by enterprise ownership (per cent of total employment)

Year	SOEs ^(a)	COEs ^(b)	Joint owner-ship	Individual labourers in cities and towns	Non-agricultural labourers in rural areas ^(c)	Other ^(d)
1978	18.6	5.1	-	0.04	5.4	70.9
1980	18.9	5.7	-	0.19	8.3	66.9
1984	17.9	6.7	0.08	0.70	12.2	62.4
1987	18.3	6.6	0.14	1.07	15.4	58.5
1988	18.4	6.5	0.18	1.21	15.8	57.9
1989	18.3	6.3	0.24	1.17	15.4	58.6
1990	18.2	6.3	0.30	1.18	15.9	58.7
1991	18.3	6.2	0.37	1.31	15.3	58.6
1992	18.3	6.1	0.47	1.41	16.4	57.3
1993	18.3	5.9	0.57	1.91		73.3

^(a) State-owned enterprises.

^(b) Collectively-owned enterprises.

^(c) Including township and village enterprises and individual labourers.

^(d) Mostly agricultural workforce.

Source: Statistical Annex, Table 2, and State Statistical Bureau.

⁶There are three main forms of enterprise ownership in China: state-owned, collectively-owned, and privately-owned. State-owned enterprises are owned by either the central, provincial or county government. Collectively-owned enterprises are owned by the workers but, in practice, controlled by local authorities. Nevertheless, there are large differences between the SOEs and the COEs. The latter operate under a much stricter "budget constraint" than the former, although they often enjoy a greater degree of autonomy. In reality, many COEs are semi-private or private firms, but they prefer the COE status as it gives more defence against the authorities' interference than other forms of ownership. Within the category of privately-owned enterprises, small firms owned by one individual, or employing up to eight workers and employees, are classified as individually-owned enterprises. For a detailed legal analysis of the types of enterprise ownership, see Natalie G. Lichtenstein: "Enterprise reform in China: The evolving legal framework", World Bank, 1993.

2.3 Trends in unemployment

China experienced a relatively high level of urban unemployment in the late 1970s when, following the era of the cultural revolution, large numbers of young people returned to the cities (Table 4). The decline in open unemployment rates during the 1978-85 period corresponded to the expansion in employment opportunities as a result of reform induced by economic growth. Furthermore, because of concern for social stability, every effort was made to allocate new urban labour force entrants to state enterprises, sometimes with little regard for productivity and efficiency criteria or need for labour. Potential unemployment was thus transformed into actual underemployment. At the same time, underemployment in state enterprises was managed by a long-standing policy of actively discouraging rural-urban migration. This reduced the supply of new workers to the urban labour market, while the Government encouraged the development of township and village enterprises to absorb rural surplus labour.

Table 4 Unemployment in urban areas

Year	Total (thousand)	Youths (thousand)	Youths/ Total (%)	Unemployment rate (%)
1978	5,300	2,491	47.0	5.3
1979	5,676	2,882	45.5	5.4
1980	5,415	3,825	70.6	4.9
1981	4,395	3,430	78.0	3.8
1982	3,794	2,938	77.4	3.2
1983	2,714	2,220	81.8	2.3
1984	2,357	1,959	83.1	1.9
1985	2,385	1,969	82.6	1.8
1986	2,644	2,093	79.2	2.0
1987	2,766	2,351	85.0	2.0
1988	2,962	2,453	82.8	2.0
1989	3,779	3,090	81.8	2.6
1990	3,832	3,127	81.6	2.5
1991	3,522	2,884	81.9	2.3
1992	3,603	2,998	83.2	2.3
1993	4,201	3,319	79.0	2.6

Source: China Labour Yearbook, 1993; and State Statistical Bureau.

Between 1984 and 1988, the unemployment rate stagnated, and then it increased again, affecting 4.2 million (or 2.6 per cent of the workforce) in 1993 - the highest figure since 1982. China is faced with an uphill battle to solve unemployment, now one of the highest in absolute figure in the world. According to official forecasts, the total number of workers without jobs in urban areas will reach 3 per cent by the end of 1994. More than 1.8 million of the 5 million unemployed are expected to depend on unemployment relief in 1994. The main reason for this expected development is that the ailing state and collective enterprises can no longer absorb the urban surplus workforce.⁷

There are significant regional differences emerging in the level of registered unemployment (Statistical Annex, Table 3). In the booming coastal towns and provinces,

⁷ Zhang Xiao Jian: "Establishing new mechanisms and opening up new domains for the national employment promotion", unpublished report presented at the National Employment Conference, Beijing, April 1994; and "Ministry to keep urban jobless rate below 3%", *China Daily*, 16 May 1994, p.1.

unemployment is below the national average, while in many parts of Central China the jobless rate is over 3 per cent. In 1992, the unemployment rate was 0.3 per cent in Beijing, 0.7 per cent in Tianjin, 1.8 in Shanghai and 1.9 per cent in Guangdong. The labour market situation was particularly difficult in seven provinces, including Ningxia (4.2 per cent), Sichuan (3.6 per cent), Gansu (3.5 per cent) and Qinghai (3.5 per cent). Although official data are not available, newspaper reports and anecdotal evidence suggest that some local labour markets in these provinces experienced very high levels of unemployment. With the acceleration of economic reform, regional differences in the level of unemployment and vacancies are expected to increase further. This will require major efforts to create jobs in depressed areas or to relocate the surplus labour from declining regions to expanding ones.

The trend towards greater regional differentials in unemployment rates has important policy implications. There is a growing need for decentralizing labour market policies to meet the needs of highly differentiated local labour markets. It is important that decentralized policies are not narrowly conceived and do not only deal with one aspect of a complex problem. It seems, therefore, that serious consideration should be given to the development of local labour market adjustment strategies, consisting of a coordinated package of labour market, social and industrial development policies devoted to the specific needs of areas particularly affected by restructuring.

Further insights into the sources and nature of the rise of urban unemployment can be obtained by analysing the composition of the jobless by age, sex and skills. An examination of these characteristics is also useful in determining appropriate labour market policies for target groups. The Chinese employment service registered 4.2 million unemployed at the end of 1993. The vast majority of the unemployed (79 per cent) are young people between the age of 16 and 25. In some regions, they make up more than 90 per cent of the jobless.

The high rate of youth unemployment reflects three circumstances. First, due to mismatches in skills and experience, an imbalance exists between supply and demand in the entry labour market. The second problem concerns voluntary unemployment due to the hierarchy of preferences for employment by type of enterprise ownership. Young job-seekers often reject an undesirable placement in the hope of obtaining a better job later. Employment in the state sector provides higher wages and benefits that surpass those available in COEs. Work in the private sector is rewarding in terms of wages but risky. In addition, private firms usually do not provide subsidized company housing, which is so typical in state-owned enterprises. The potential benefits of a favourable initial assignment give urban families a strong incentive to finance lengthy waiting periods for their children. Urban youth unemployment thus seems due, in large part, to the job-search behaviour of school leavers and their families. Third, enterprises also contribute to this expectation and the lengthy period of voluntary unemployment of young job-seekers, because they often set up workplace or subsidiary companies for their workers' children. Therefore, young job-seekers prefer to wait for such employment opportunity rather than to take up jobs elsewhere.

Women account for about 60 per cent of total unemployment - a much higher share than their proportion in the total labour force. In addition, while the employment share of women has risen only slightly over the past few years (from 37.0 per cent in 1988 to 37.8 per cent in 1992) the proportion of women in total unemployment has increased considerably (from 53.1 per cent in 1988 to 60 per cent in 1993). It is unclear whether women are at greater risk of unemployment and income insecurity because of discriminatory lay-offs or recruitment practices, or because of their concentration in certain industries and occupations which are much more affected by structural change than others. Further analytical work is needed to answer these questions and to design appropriate policies to promote the employment of women. A special area of concern is the low participation of women in the emerging private

sector. As the experience of European transition economies shows, there is a danger that women may be excluded from this dynamic segment of the economy and suffer disproportionately during the period of market-oriented reforms.⁸

More and more unskilled people are registering as unemployed in China. Although nationwide statistical data are not available, interviews with officials of municipal and local employment services confirmed this trend. The majority of those who have lost their jobs are unskilled or semi-skilled workers, with a low level of education. Taking into account the composition of the labour force, it would appear that young people, women and less-skilled workers face the highest risk of unemployment in the current stage of reform in China.

The level of official unemployment, as measured by those registered with the employment agencies, does not reflect the real unemployment situation. First, only the urban jobless (those who have a permanent resident permit in a city) are registered as unemployed. Second, a number of firms are experiencing financial difficulties due to obsolete technology and products and to inefficient operation. A large section of the workforce is on forced (paid or unpaid) leave or has lost its job but not registered with the employment service. In Shanghai, for example, the unemployment rate was 2.6 per cent (129,700 registered jobless) at the end of 1993. In addition, according to the estimation of the Municipal Labour Bureau, there were about 100,000 persons "waiting-for-job within enterprise", in practice on forced leave, and another 100,000 unregistered unemployed. These data indicate that the real unemployment level might well be between 7 and 8 per cent, much higher than the official figure.

Another reason for the gap between real and registered unemployment might be that unemployment has a negative connotation and many unemployed perceive their status as a personal failure. This tends to discourage many jobless people from registering with the employment service. There are further disincentives such as the underdevelopment of employment services, the practice of registration (including a registration fee), and the low level of benefits. It is important to emphasize here that one should be wary about relying heavily on the current data of the unemployment register. That does not mean that they should not be used, since they have value and will have increasing value in the future. However, the deficiencies in the statistics warn that they should not be treated as an accurate reflection of reality.

⁸ See Gyorgy Sziraczki and James Windell: "Impact of employment restructuring on disadvantaged groups in Hungary and Bulgaria", *International Labour Review*, Vol. 131, 1992, Nos. 4-5.

3. Employment system - reforms and constraints

The purpose of the employment system reforms, introduced step by step since 1986, has been to improve labour mobility, productivity and industrial efficiency by slightly easing restrictions on rural-urban labour mobility, gradually eliminating permanent employment and the state allocation of labour, and by linking wages more closely to individual and enterprise performance. Several key reforms in labour and wage policies have been introduced, enabling individual enterprises and the labour market to pursue some degree of efficiency and flexibility. Despite progress in several fields, many constraints have remained, limiting the efficient operation of the labour market.

This subsection focuses on some key aspects of labour allocation. The first part presents the results and problems of the labour contract system in state-owned enterprises, followed by a review of major constraints that limit inter-enterprise labour mobility in urban areas. The third part examines the current policies designed to cope with labour surplus in state and collective enterprises. The last part of the subsection looks at the controversial policy of restricting rural-urban labour mobility.

3.1 Labour contract system

To break the "iron rice bowl" and to increase the autonomy of state enterprises to manage their workforces, the Government introduced a labour contract system in 1986. The introduction of labour contracting was accompanied by a somewhat greater scope for employee discharge, usually for disciplinary reasons, and by the introduction of the "waiting-for-employment" or unemployment insurance. These measures constituted a package representing a significant step away from the provision of lifetime employment security.

Under the labour contract system, new workers hired by state enterprises signed a contract for a specific period of time, and at the end of the contract there was no guarantee for re-employment. The length of the contract varied between one to ten years, depending on the degree of training and skill levels. The contract included a probation period of up to six months, during which it could be terminated by the employer. There were further provisions for termination under the contract system, such as an employee violating disciplinary standards or the enterprise undergoing reorganization or running into bankruptcy.

The contract system applied only to new recruits, while existing permanent workers were not covered. The Government's intention, however, always was to extend the system to permanent workers and to create a universal labour contract system in the state sector. The system has been extended to all workers as an experiment in some enterprises. For example, in Shanghai and Tianjin some selected enterprises, choosing to pursue reforms more aggressively, have put their entire workforce under fixed-term contract.⁹

Since the early 1990s, the labour contract system has been extended to peasant workers employed in urban areas. The State Council adopted the "Regulation on the recruitment of

⁹ Some of the enterprises visited during the mission extended the contracts to every worker. For example, the Tianjin General Cable Works, employing 3,550 workers, is one of the firms involved in the pilot employment project of the city's labour bureau. In Changchun, the Transformer Factory, with a staff of 949, and in Wenzhou, the Mechanical Electronic Equipment General Company, employing 147 workers, both operate under the full coverage of the contract system.

peasant workers under the contract system" in July 1991. According to the regulation, peasant workers recruited for a period of more than one year should be covered by the contract system. So the system now covers both traditional contract workers from rural areas and new urban contract workers. However, many, if not most, of the peasant workers recruited in urban areas remain employed for a period of less than one year. Sometimes, they are obliged to take a break between two employment relationships to avoid continuity in employment and hence eligibility for the grant of a contract. Also, administrative formalities are so cumbersome that employers do their best to avoid them.

With the adoption of the Labour Law in July 1994, the contract system has been modified and extended to all enterprises. The law provides guidelines for the contents of contracts, allows the termination of contracts and regulates the period of notice. The new provisions include the possibility for permanent contracts after ten years of service with an enterprise and negotiations between employers and unions on collective agreements.

The number of contract workers has grown rapidly in China. At the end of 1992 there were 20.6 million such workers in state-owned enterprises (Statistical Annex, Table 4). They constituted 18.9 per cent of the total workforce in these enterprises. The spread of the labour contract system has been more rapid in coastal areas than in the rest of the country. For example, in Shanghai one-third of the labour force in state enterprises was covered by fixed-term contract in 1992. The number of contract workers increased further in 1993. By the end of the year, 23.6 million workers were employed under labour contracts in state-owned enterprises - almost 30 per cent of total employment in that sector.¹⁰ In the 19 enterprises surveyed by the mission, about 64.5 per cent of the workers were permanent, 35.0 per cent contract and 0.5 per cent temporary (Table 5).

The spread of the contract system helps transform the labour market into a more competitive structure. The contract system is gradually replacing the existing structure of dual urban labour markets between permanent workers on the one side and temporary and casual workers on the other. To that extent, the reform is reducing the segmentation of the labour market and making it more competitive. Nevertheless, a certain degree of duality remains and different groups of workers have unequal rights and access to employment and protection, partly due to rural-urban mobility restrictions.

¹⁰"Labour law guarantees benefits for workers", *China Daily*, 3 March 1994, p.3.

Table 5 Permanent, contract and temporary workers in enterprises surveyed by mission (1994)

Enterprise ref. no.	Form of ownership	Total employees	Distribution of employees (%)		
			Permanent	Contract	Temporary
1	SOE	147	0.0	100.0	0.0
2	SH	1,005	0.0	100.0	0.0
3	SOE	21,468	0.0	100.0	0.0
4	SOE	2,591	66.4	33.6	0.0
5	COE ^(a)	410	51.2	29.3	19.5
6	SOE	1,249	49.9	48.0	2.1
7	SOE	3,554	0.0	100.0	0.0
8	COE	180	0.0	100.0	0.0
9	COE	168	33.3	23.8	42.9
10	SOE	920	64.7	35.3	0.0
11	SOE	949	0.0	100.0	0.0
12	COE	701	81.5	0.0	18.5
13	SOE	1,143	3.2	25.2	1.6
14	COE	702	0.0	100.0	0.0
15	COE ^(a)	250	6.0	8.0	86.0
16	SH ^(a)	38	42.1	0.0	57.9
17	COE	85	40.0	18.8	41.2
18	SOE	1,299	91.7	8.3	0.0
19	SOE	100,862	79.2	20.7	0.1
Total ^(b)			64.5	35.0	0.5

^(a) Labour service enterprises.

^(b) Weighted average.

Source: Pilot survey of enterprises.

The contract system has been expected to improve labour allocation, reduce underemployment, and increase labour productivity. Yet, many enterprise managers indicate that the system has not fundamentally altered labour management relations, despite the large change, at least on paper, in job security. To keep skilled workers, managers often offer very long-term, even lifetime, contracts. On the other hand, the freedom of managers in laying off workers who are either unsatisfactory or redundant is restricted by the authorities. Therefore, the vast majority of contract workers are offered re-employment at the end of their contract, though the precise extent of this practice is not known. In addition, rigid job definitions and work rules and traditional employment practices are essentially untouched by the contract system.

While the greater use of fixed-term contracts has the potential to increase labour mobility, it may be insufficient in itself to enhance labour market flexibility in urban areas. The contract labour system will need to be supplemented with other policies, especially with greater managerial freedom in hiring and firing decisions. Both too much job security as well as too little can be detrimental to the productivity of workers. Therefore, the challenge is to find a delicate balance between the need for job security conducive for productivity and the need for labour market flexibility required to successful industrial restructuring.

3.2 Inter-enterprise labour mobility

As the Chinese economy is moving into a phase of market-oriented reform, the process of recruitment and labour mobility has become more crucial to the efficiency and equity of the labour market. The freedom of employers to select and recruit workers according to production needs is essential for the efficient operation of state and collective enterprises. For workers, free labour mobility helps them to acquire new skills in demand, accumulate experience and find productive employment suitable for their professional and personal aspiration - all needed for higher productivity. However, there are still many obstacles to inter-enterprise labour mobility at both ends of the process: in recruitment and the "exit" from an employment relationship.

Under central planning, once assigned to an organization, Chinese workers used to remain at that workplace for decades unless transferred by administrative decision to another job. To change the rigid labour allocation system, the Government has given enterprises and job-seekers more freedom in recruitment and job search.¹¹ However, many managers interviewed during the mission complained about government interference in the process of recruitment. They often have to take surplus labour from other enterprises (see Section 3.3) and accept workers assigned by local authorities. In the sample of enterprises surveyed by the mission, on average, 27.0 per cent of newly recruited workers were hired from the market, whereas 61.3 per cent were redeployed and 11.7 per cent assigned to the enterprises (Statistical Annex, Table 5). These data indicate that the freedom of enterprises, in the questions of where to recruit from and whom, is still constrained.

Under central planning, workers were tied to their workplace, resulting in a very low level of labour mobility throughout enterprises. Although time series data on labour mobility are not available, some recent figures suggest that employment stability is still very strong. The Ministry of Labour estimates that only 2.7 per cent of the labour force changed jobs in 1993 - a very low turnover rate by international standards. The findings of the pilot survey of enterprises also show that labour turnover rates (the percentage of an employer's workers who left their job voluntarily or involuntarily) are very low (Statistical Annex, Table 5). Moreover, the most important reason for leaving an enterprise has been retirement, followed by dismissal for disciplinary reasons and the termination of contract. Those who leave voluntarily to move to another firm represent a small portion of total separation.

Among the major obstacles to labour mobility is the system of enterprise-based housing. Workers' access to housing is linked to their employment in a specific enterprise, and the quality of the housing depends on performance and seniority. Thus, subsidized housing made available by employers in the state, collective and government sectors to employees is a critical element of workers' compensation. Although large capital investment by enterprises into housing has, no doubt, resulted in considerable improvement in the housing conditions of urban families, this practice severely inhibits labour mobility in two respects. First, workers are reluctant to leave their jobs because alternative housing is difficult to obtain, and, second, workers are even more reluctant to take jobs in the non-state sector, because company housing is unavailable in private firms. In addition, the building and maintenance

¹¹For an overview of the reform of labour allocation and the current recruitment practices and job search methods, see Ma Yong-tang: "China: Current labour policy in the context of economic reform". ILS, ILO, Geneva, April 1993 (unpublished research report).

of apartments are substantial financial burdens on state and collective enterprises, limiting their development and competitiveness with private sector firms.¹²

Enterprise-based social security (pension, health care, etc.) is another practice inherited from the era of a command economy. Despite some progress in social security reforms, many enterprises still continue to pool pension funds at enterprise level and to finance directly medical and other benefits of their current workers and ex-employees. In addition, many state and collective enterprises run a range of social facilities unavailable in most joint ventures and private firms.

Data from the pilot survey of enterprises clearly show the extent of these provisions. Managers were asked what social facilities were operated by the enterprise. The overwhelming majority of the firms provide housing, medical care and cafeteria facilities for their workers (Table 6). About half of the surveyed enterprises offer transport for their workers and run their own training centres, and a few have holiday facilities. Some even operate their own schools for their workers' children.

It appears that an important precondition of improved labour mobility and better enterprise performance is to relieve state and collective firms from the burden of providing a wide range of social benefits. Therefore, the report recommends delinking access to housing facilities, medical insurance and old-age pension from the workplace,¹³ so that workers will not be inhibited from moving to another enterprise for fear of losing houses and welfare benefits. The development of employment services and an effective information network about job vacancies can also facilitate inter-enterprise movement of labour.

3.3 Labour surplus and redeployment policies

A widely recognized characteristic of Chinese state-owned enterprises is the presence of surplus labour. There are various estimates based on different concepts of labour surplus and on different methods of estimation. According to the Ministry of Labour, there were about 10.75 million surplus workers (or 9.9 per cent of the total labour force) in state enterprises in October 1993.¹⁴ This estimate is based on a survey of several thousand enterprises in 30 provinces, though the procedures and criteria for identifying redundant workers are not standardized yet. Some researchers say that 15 to 20 per cent of urban state enterprise workers are redundant. Discussions with government officials often revealed even higher estimates of labour surplus, usually between 20 and 25 per cent of the total workforce.

¹² It is worth noting that as part of the housing reform, some enterprises and government institutions have recently started selling their apartments, to their staff who occupy them. Another new development is that some joint ventures in Shanghai indirectly provide housing to their employees through the pooling system of the municipal government, to which they contribute as employers.

¹³ As far as other enterprise-run social services, especially child care centres, are concerned, further studies are needed to find proper solutions in order to avoid the negative experience of some Eastern European transition economies in these fields. In these countries, many enterprise-funded child care centres have been closed down because of economic restructuring, while state-run facilities are hit by the tremendous pressures on the public budget. As a result, the reduced availability or lack of child care facilities tends to create a new barrier to the reintegration of women with small children into employment. See Gyorgy Sziraczki and James Windell: "The impact of employment restructuring on disadvantaged groups in Bulgaria and Hungary", *International Labour Review*, 1992, nos. 4-5.

¹⁴ This figure was somewhat lower than the year before when the Ministry estimated 12 million surplus workers (or 12 per cent of the total labour force) in state enterprises.

Table 6 Social services in enterprises surveyed by mission

Enterprise ref. no.	Child care centre	School	Medical care	Cafeteria & restaurant	Holiday facilities	Housing	Workers' transport	Training centre
1				X		X		
2			X	X		X	X	X
3	X		X	X	X	X		X
4	X		X	X	X	X		X
5			X	X		X		
6	X		X	X		X	X	
7	X	X	X	X		X	X	X
8			X	X		X		
9	X		X	X		X		
10	X		X	X				
11	X	X	X	X		X	X	
12						X		
13	X		X	X		X	X	
14				X		X		
15			X			X	X	X
16			X	X				
17	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
18	X		X	X		X	X	
19	X	X	X	X	X	X	X	X
Total	10	3	15	16	3	16	8	6

Note : n.a. = not available.

Source: Mission survey of enterprises.

The mission survey of enterprises included some questions on the level of labour surplus and the ways enterprises cope with the problem. Managers were asked whether the present level of output could be achieved with fewer workers and, if so, by what percentage. 14 firms reported having a labour surplus. The estimated levels varied between 5 and 40 per cent, though the average figure (13 per cent) was of the same magnitude as those cited by the Ministry of Labour. The majority of enterprises expected the level of surplus to decline by the end of 1994, but it was not clear by how much.

There is considerable variation by region and industry. In Wenzhou, the Labour Bureau puts the share of redundant workers between 20 and 30 per cent. The estimate of the Shanghai Labour Bureau is between 10 and 15 per cent, with textiles having a much higher level than other industries. Labour surplus also varies by occupation, age, skill, and by gender. The highest level is reported among office employees, followed by maintenance, service and auxiliary workers. In contrast, production workers appear to have a relatively moderate level of labour surplus. Redundant workers tend to be older, less educated and skilled, with women being over-represented among them.¹⁵

Regardless of the differences in definition and the difficulty in obtaining accurate figures, the estimates from different sources indicate that the number of surplus workers is substantial and that their existence is an impediment to more efficient operation of the enterprises. The

¹⁵ A recent survey, carried out in Hubei province, provides an insight into the composition of redundant workers: 46 per cent of the surplus labour was older than 45, with many of them having health problems. 87.6 per cent of redundant workers had a low level of education, and most lacked skills. Women accounted for a larger proportion of redundant workers (44 per cent) than their employment share in the surveyed enterprises (35 per cent). Labour surplus was estimated to be as high as 30 per cent among office employees, 20 per cent among maintenance, service and auxiliary workers, while it was 7 per cent among production workers. For more details, see Wani Aiwen: "Surplus workers in state-owned enterprises", Labour Research Institute, Beijing, 1993 (manuscript).

presence of under-occupied workers in factories limits the range of tasks assigned on the production line and undermines the motivation and efforts of the whole workforce. Therefore, reducing the level of labour surplus in state enterprises is a major policy objective in China.

The government approach and enterprise practices to allocate redundant workers is based on concern for social stability. Laying off redundant workers is restricted by the authorities, whilst the responsibility of coping with surplus labour, without lay-offs, rests almost entirely with enterprises. The recent government guidelines (the "Provisions of Settlement Surplus Labour", issued by the State Council in 1993) have further strengthened this responsibility. The guidelines recommend the employers to try to: (a) find suitable vacancies or create new, preferably service, jobs for surplus labour within the enterprise; (b) redeploy redundant workers in newly set-up enterprises by the "mother" company; (c) train and retrain surplus workers; (d) encourage women to take maternity and child care leave up to a period of two years; (e) offer early retirement for those who are within five years of the normal retirement age; (f) encourage the resignation of workers; (g) terminate employment relationships before the expiration of contract; and (h) keep remaining workers as "waiting-for-job" unemployed with reduced wages (in practice on paid leave) until they find a job in their current enterprise or elsewhere.

In addition to the above methods, there are various other measures used by the employers. For example, some enterprises contract out redundant workers to other firms, some offer unpaid leave for those who want to take up temporary employment elsewhere, and others provide incentives for their redundant permanent staff to leave and set up their own businesses. On the other hand, to facilitate the redeployment of surplus labour, local governments often strengthen the control of recruitment from outside the city and agitate (sometimes even instruct) the enterprises to hire local redundant workers. Furthermore, employment concerns often lead to arbitrary government interference in mergers. For example, to avoid the closure of one loss-making enterprise and the associated redundancies, local governments often order another thriving firm to merge with it - a practice that can ruin a successful firm.¹⁶

A study based on a nationwide survey of the placement of surplus labour reported last year that the most popular options were "waiting-for-job" within the enterprise (16.8 per cent), early retirement (12.8 per cent) and redeployment to newly created enterprises (9.5 per cent).¹⁷ The mission survey provides further insight into the current practices of some enterprises. Managers were asked what had been the two main methods of dealing with surplus labour. Out of the 14 enterprises that experienced labour surplus, 13 reported redeployment to newly set-up enterprises, and 7 noted redeployment (after training) within the original enterprise. "Waiting-for-job" unemployment, early retirement, unpaid leave and other measures were mentioned less frequently.

As the survey results show, the redeployment of labour to newly-created enterprises is a very popular policy. In a typical case, an enterprise first sets up a labour service company (LSC) which then creates new firms and redeploys redundant workers. Firms established by labour service companies have the status of collectively-owned enterprises, and they are called labour service enterprises (LSEs). In addition to taking over surplus workers, LSEs receive from their sponsoring agencies start-up capital, operating funds, and technical and managerial staff. LSEs sometimes receive start-up capital from their initial workers, who are gradually

¹⁶ On such practices, see Huang Zhiling: "Mergers revive loss-making firms", *China Daily*, 4 April 1994, p.4.

¹⁷ See Aiwen: (1993), op. cit.

reimbursed as the enterprise earns profits. A LSE may also receive bank loans, guaranteed by its sponsoring agency, and support from the labour market budget and from the local government. More importantly, a newly set-up LSE enjoys preferential tax treatment.¹⁸ The sponsoring agency (the mother enterprise or its LSC) usually nominates the director and keeps running its newly set-up enterprise.

For example, the profitable Tianjin General Cable Works, with 4,700 employees, has about 700 redundant workers. There are four main reasons for the presence of surplus labour in the company. At the request of the local government, the Cable Works took over a bankrupt firm with a staff of 300 workers, and it also absorbed another 150 surplus administrative staff from elsewhere. At the same time, the modernization of production made some existing workers redundant. In addition, the company had to provide jobs for the children of its workers, which is a traditional practice in many Chinese enterprises. To redeploy surplus labour, the company established 54 small firms, mainly in services. Each of the 42 divisions of the Cable Works is now responsible for operating and supervising one or two such small firms. Another, perhaps extreme, example is the China First Automobile Group Corporation, located in Changchun, which established 128 LSEs employing almost 38,000 workers (Box 1).

Box 1

Job creation through Labour Service Enterprises (LSEs)

The China First Automobile Group Corporation, which is based in Changchun in Northeast China, employs 100,000 people in 39 enterprise locations. It produces 120,000 middle size trucks, 70,000 light vans and 40,000 cars per year. Thirty thousand of the cars are produced under joint venture arrangements with Audi of Germany, and plans have been made to start production of another 150,000 cars per year under a joint venture arrangement with Volkswagen. The corporation is one of the top 500 companies in the world in terms of size and ranks sixth in China in terms of sales volume. Seventy-five per cent of the employees are blue collar workers and 25 per cent white collar workers. The Corporation organizes extensive training programmes for employees at all levels with an emphasis on improvements in management and production methods for white collar workers and skill upgrading for blue collar workers. Eighty per cent of the employees have company housing and, by the end of 1994, all staff will have labour contracts. The Corporation spends approximately Yuan 3 million per year on training (excluding a Skilled Worker School and a Workers' University).

The Corporation has a surplus labour problem. Over the past 15 years, a total of 28,924 workers have been redeployed in one way or another and the labour force will be reduced by an estimated 10 per cent, i.e. 10,000 people, in 1994. Of this total, 47 per cent are expected to take early retirement with suitable pension incentives. 38 per cent are expected to join Labour Service Enterprises (LSEs) set up by the Corporation, and 15 per cent are expected to be given trial periods pending redeployment in the mother company. Through a subsidiary Labour Service Company (LSC), the Corporation has already set up 128 LSEs which currently employ 35,702 workers. The LSEs range from a large truck production enterprise (250 employees), using an old assembly line which was replaced in one of the corporations factories by a modern line using up-to-date technology, to small tertiary sector enterprises in the service industry. Retraining of workers redeployed in this manner is provided by the Corporation's skilled workers and vocational high schools. The former has 260 faculty staff, offers 26 training programmes and has a capacity of 1,500 students; the latter has 100 faculty staff and a capacity of 800 students.

Many of the Chinese labour service enterprises are, no doubt, successful and may, therefore, justify their establishment objectives, but the system is inherently apt to suffer from inefficiency for several reasons. First, a less than thorough approach is used for selecting

¹⁸ According to the "Regulations on Administration of Employment Service Enterprises" (issued by the State Council in November 1990), if 60 per cent of the employees of a LSE are redeployed surplus workers from its sponsoring agency or unemployed job-seekers, the enterprise is exempt from paying income tax for a period of two to three years. Furthermore, if at the end of the two to three year-long tax-holiday period a LSE continues to recruit a certain number of urban unemployed job-seekers, it enjoys 50 per cent reduction in income tax.

projects. Second, it sometimes happens that enterprises use state subsidies and the tax relief for projects that would have been launched without any external support. Third, many companies benefiting from tax relief have established low-skilled jobs with obsolete technology, which tend to create a dual economy. The mother enterprises keep their modern production lines and skilled workers, while they transfer out-dated technology and less productive (surplus) workers to their LSEs. Fourth, the widespread practice that the sponsoring agencies keep running the newly-created enterprises could be a further source of inefficiency.

It seems necessary to improve redeployment programmes by scrutinizing job-creation projects of enterprises on stricter efficiency criteria and to limit or stop the enterprise running the function of sponsoring agencies. The Ministry of Labour has recognized the problems, and now it suggests that the newly-set-up firms should be independent from their mother company. One of the recommended models to follow is the example of the Wuhan Iron and Steel Company that turned eight of its former establishments into separate enterprises in 1993. They took along 70,000 service and auxiliary staff, about 60 per cent of the company's 122,000 workers. The new enterprises are independent from their funding company, and they have to survive on the market, based on the services they can provide to the iron and steel works and to other enterprises. The other recommended model is the Beijing First Light Industry General Company that is relocating its factories from the city centre to the suburbs and using the revenues generated from real estate development in the sites of the old factories to finance programmes for redundant workers (see Box 2).

Delinking newly-set-up enterprises from their funding company is an important step in the right direction. However, the main issue, how to share the responsibility between enterprises and labour market authorities in dealing with the problem of surplus labour and the costs involved, has not been addressed so far. The current practice, whereby the enterprises have to bear the brunt and burden of the task, is not rational. The redeployment of labour is costly; the higher the level of labour surplus is, the larger the financial burden the enterprise has to bear. The high costs of redeployment might absorb the resources needed for restructuring and modernization, limiting the development of enterprises and their capability of creating efficient and productive employment in the future.

Therefore, the Government should consider measures to reduce the burden on the enterprises by increasing the role of labour market authorities in the redeployment of redundant workers. This would require the strengthening of employment services and active labour market policies, progress in social security reforms, abolishing the "unemployment within-the-firm" practice, and the introduction of a new type of "employment company" that could take over part of the released workers for temporary employment, retraining and efficient redeployment. These issues will be discussed in detail in Section 5.

Job creation through setting up LSEs should be subject to rigorous project evaluation and monitoring, and once a company has been established it should be, if possible, independent from its funding agency. While such a practice will ensure more cost-efficient and viable jobs-creation, the number of newly set-up firms is likely to decline. Then the parent firm's surplus assets and the savings in government support could instead be made available to the best use. At the same time, enterprises should be encouraged to train and redeploy redundant workers efficiently within the firm or to make them available as temporary work teams outside the enterprise. The remaining redundant workers may take early retirement (if close to retirement age), or they should join the unemployment insurance scheme or an employment company.

Box 2

**Factory relocation and employment redeployment in the
Beijing First Light Industry General Company**

The Beijing First Light Industry General Company is a state-owned holding company, controlling 122 factories with a total workforce of 80,000. The company has 50,000 pensioners (the pension fund is still pooled and operated at enterprise level), and it spends about 60 million yuan a year for health care. Surplus labour, estimated by the management, is about 20,000, a quarter of the total employment.

Last year, the company was selected for a pilot project, supported by the State Commission for Restructuring Economic Systems, to carry out a comprehensive reform, involving changes in property usage, a shift from industrial to service activities, and a large-scale redeployment of labour. A key objective of the reform is to better utilize the company's valuable business premises located in the city centre by the relocation of some factories to the suburbs, where both land and labour are cheaper, and by the development of highly profitable real estate projects on the sites of the old factories.

In 1993, the General Company set up two small firms, the Beijing Hongyun Real Estate Ltd Company and the Labour Development Company. The former is responsible for managing the real estate developments (building apartment houses, shopping centres and office blocks). The projects are financed from bank loans and by other enterprise, that in return gain a share in the Beijing Hongyun Real Estate Ltd. Company. The main tasks of the Labour Development Company are to create jobs for redundant workers, organize their retraining and redeployment, and provide information and job-search assistance for those who wish to leave. The 1 million yuan start-up capital of the Labour Development Company and the costs of its operation are financed by the holding firm.

The first establishment that had to move from its prime real estate in the city centre is the Beijing Match Factory. Before its closure in 1993, the 90-year-old factory was losing 2.5 million yuan (\$287,000) a year, and it employed about 868 workers. The match makers moved to the suburbs taking along 60 of their previous employees. At the same time, a 47,000 square metre residential development project was launched at the factory's former city centre location, which is expected to generate 33 times more profits than industrial production could do on the same premises.

To avoid the dismissal of more than 800 redundant staff, the Labour Development Company introduced a set of measures. Younger workers (women under 35 and men under 40) may choose from 14 training programmes, including courses in computers, accounting, gardening and cooking. In May 1994, 451 workers participated in these courses (see table below), and some of them may get new jobs within the company. The completion of the real estate development project will create about 500 service jobs. The measures for older people include relocation within and outside the company, job search assistance, and early retirement. The company has an internal unemployment insurance system, which currently provides benefits for 72 workers "waiting-for-job". To encourage the mobility of labour the management offers financial incentives. Those who ask for redeployment to other companies receive 2,000 yuan as a compensation, whilst those who leave voluntarily without having a new job receive 10,000 yuan.

Redeployment of match makers:

Employment in the old Match Factory	868
- Of which:	
- moved to the new factory	60
- retirement	153
- left voluntarily	7
- transferred to other company	15
- transferred to newly created firms	110
- participated in training courses	451
- "waiting-for-job"	72

Following the example of the Match Factory, the holding company is now moving all its 31 factories that are located in the city centre. Some of them will start operating at new production sites as joint ventures, with the participation of foreign capital. Last year, the Beijing First Light Industry General Company topped China's industrial output league for enterprises. Production was up by 6.8 per cent and profits increased by 61.8 per cent. The relocation of production will free 1 million square metres of city centre land, giving the company an opportunity to shift production from industrial to service activities and to improve its profitability further. However, for those enterprises that are not fortunate enough to have industrial sites in those areas where land prices are sky-rocketing, and the majority belong to this category, the positive example of the Beijing First Light Industry General Company is hardly an option.

3.4 Rural-urban labour mobility

Regional labour mobility is a very sensitive issue in China, where the authorities have tried to prevent rural surplus labour from moving into urban areas. Given the extraordinary size of the rural labour surplus (an estimated 120 million), the government policy of restricting rural-to-urban migration has understandable economic and social objectives. It aims at avoiding a heavy pressure on public services and excessive open unemployment in cities, which might provoke social unrest. Keeping rural surplus labour out of cities displaces the problem to rural areas where it becomes more the problem of underemployment than of open unemployment. Furthermore, the policy of restricting rural-urban labour mobility leaves the main issue of utilizing available labour resources more efficiently essentially unaddressed.

The main method of controlling internal migration is the system of residence and work permits. This separates urban and rural labour markets and preserves existing inequalities between city dwellers and peasant workers in employment, incomes and benefits. For example, a permanent residence permit in urban areas entitles the holder to a number of benefits (subsidized housing, low-cost medical care, schooling for the children, etc.), while migrant workers may get only a temporary resident permit, with no access to certain job opportunities and benefits. Other obstacles to internal migration are the restriction on free recruitment by enterprises and the underdevelopment of an efficient labour market information system.

To ease labour shortages in some fast-growing cities, the authorities have relaxed the control of urban-to-rural migration, especially for qualified labour. The authorities have also permitted university graduates to take jobs in township and village enterprises without the risk of losing their urban resident permit. In addition, the purchase of a residence permit¹⁹ together with the acquisition of real estate property has recently become a relatively widespread practice. Despite the selective easing of mobility control, the system of resident and work permits has been maintained. But it cannot prevent massive migrations from the countryside any more because of reforms in other areas and the rapid economic developments.

Successful agricultural reforms, resulting in a rapid increase in farm production and productivity, have pushed millions of people out of the farm sector. This "push" has been accompanied by several "pull" factors. These include the rapid growth of secondary and tertiary sectors, generating a large demand for labour, and the growing attraction of cities as the difference in living standards between urban and rural areas widens. Furthermore, the employment of rural workers provides cost advantages and greater flexibility for employers. Rural workers offer their services at lower costs to both enterprises and the state than their urban counterparts do. They earn less, they are not entitled to pension and unemployment benefits or subsidized company housing, and they demand fewer social services, since their families stay in the countryside. Also, it is much easier to lay off peasant workers on temporary contract than local people, who are mainly permanent workers.

There are three major channels for rural surplus labour to flow to urban areas. First, although workers in TVEs are still considered as rural, the rapid growth of TVEs has absorbed more than 100 million rural workers in small cities and towns. Second, rural labour can be recruited with the authorities' permission to work temporarily in urban areas where

¹⁹ For example, if employers plan to hire a worker from outside Beijing, they must pay the equivalent of 100,000 Yuan, or \$11,268, for each worker to obtain a permanent residence permit, or they can ask the employees themselves to pay. When an individual pays, the charge is 50,000 Yuan. An average factory's worker monthly wages are about 250 Yuan, or \$29. This regulation is to take effect 1 November 1994. See "Beijing sets an \$11,000 fee on new residents", *International Herald Tribune*, 13 September 1994.

there are labour shortages in unskilled jobs. This has become the main source of labour supply to urban areas for some low-paid unskilled jobs that urban dwellers find unappealing. The third channel for rural surplus labour is spontaneous movement to cities. A large part of rural surplus labour "floating" in urban areas falls in this category.

Last year, Beijing received 1.5 million peasant workers, nearly a third of them from neighbouring Hebei province. The rest came from further afield - Sichuan, Zhejiang, Anhui, Henan and Jiangsu are all well represented. In Shanghai, despite a decline in the number of registered births, the city's population has also continued to swell due to the increasing flow of migrants into the city. A recent survey of the local statistical bureau has revealed that at the end of 1993 the number of permanent residents topped 12.9 million, whilst the city had a floating population of 2.8 million.²⁰ About 60 per cent (or 1.7 million) of the migrants have jobs; 75 per cent of the total floating population in Shanghai are unskilled; they fill low-paid jobs, involving heavy manual work under poor working conditions. The construction sector absorbs about 760,000 migrants. (In peak season, construction employs up to 1.5 million rural temporary workers.) About 600,000 migrants work in industrial enterprises and 300,000 in the service sector.

It is likely that many more than the officially registered number have moved to the cities over the past few years. A large portion of rural workers are in personal service or work as individuals, usually without a formal contract with the employers and without a work permit from the city's authorities. Therefore, they are often concealed from the authorities. Nobody knows exactly how many peasants have chosen to trade the known hardships of rural living for the uncertain promise of a better future in the city. Official estimates say that 50 to 60 million peasants have left the countryside in search of jobs in cities. Some unofficial estimates claim that the nationwide figure for China's floating population could be as high as 80 to 100 million.²¹ By all accounts, the trend continues to grow.

As the authorities are unable to prevent migration from rural to urban areas, they try to drive it into organized channels by regulating the recruitment of rural workers. In Shanghai, recent legislation passed by the Municipal Government was the Provisional Regulations on the Recruitment of Workers from Outside Shanghai, which aims to guide the operation of the labour market and improve the recruitment of workers coming from outside (See Box 3).

Furthermore, in an effort to cope with the tide of migrant labour flowing into the cities, the Ministry of Labour encourages closer cooperation between the employment services of "labour export" and "labour import" regions. Such cooperation, as an experiment, has been developed between Shanghai and its neighbouring provinces, and in South China between Guangdong, Jiangxi and seven other provinces and regions. Yet, the cooperation needs to be strengthened and further developed. Emphasis should be put on the development of an effective labour market information system network in order to facilitate the search for urban jobs by rural workers without having to leave their villages. Technical assistance in helping to create a supportive policy and an institutional framework for facilitating rural-urban labour mobility would be most welcome.

The report recommends the gradual removal of restrictions on the mobility of labour based on residence permits, because it is largely inefficient and inequitable. Beyond the basic human rights issue of freedom of movement, there are several reasons why China would need free and improved labour mobility. First, with movement towards a market-oriented economy, regional differences in the labour market situation are increasing. There are signs that the

²⁰ "Population now 15.4 million", *Shanghai Star*, 26 April 1994, p. 4.

²¹ Ted Plafker: "Peasants in search of urban prosperity", *International Herald Tribune*, 30 May 1994, p. 19.

Box 3

*Provisional Regulation on the Recruitment of Workers from
Outside Shanghai*

To control the flow of migrant workers into Shanghai, the Municipal Government adopted the Provisional Regulations on the Recruitment of Workers from Outside Shanghai in December 1993, and then set up a local government body (Management Agency of the Labour Force from Outside Shanghai) to implement the new regulations. The Management Agency is responsible for setting quotas for the employment of rural workers in the city and for giving employers permission to recruit such workers. The regulations cover all enterprises and institutions located in the city, except construction and services. (The employment of rural workers in construction is regulated by the Construction Bureau, and in services by the Industrial and Commercial Bureau.) The agency is headed by the deputy director of the Labour Bureau, and the two agencies work together very closely.

- *According to the regulations, employers have to obtain permission for the recruitment of rural workers. They are required to justify such recruitment by proving that they are unable to fill their vacancies with local residents and to provide adequate accommodation for migrant workers. In fact, the Municipal Government has compiled a list of occupations which are difficult to fill from the urban workforce.*
- *The recruitment of rural workers should take place from specific regions. Currently there are 30 local areas in 10 provinces from where the Management Agency prefers recruitment. These areas are relatively close to the city, and they have large labour reserves.*
- *Employers should recruit rural workers through the employment services. (To facilitate the recruitment, the Shanghai Labour Bureau encourages those rural regions with which it has a collaboration agreement to set up their own employment service station or representative office in the city.) The employment service and the employer sign a contract for the employment of rural workers, and the employer pays an administration fee of 22 Yuan per worker a month to the Shanghai Management Agency and a small administration fee to the relevant employment service.*
- *An employer should obtain for a hired rural worker a temporary residence permit from the Public Security Department and a work permit from the Labour Bureau or the relevant industrial bureau. Large enterprises that recruit thousands of rural labourers receive the work permits for their newly recruited workers from their industrial bureaus, whilst those enterprises that employ less than 1,000 workers receive permits directly from the Labour Bureau.*
- *Breaking the regulations involves a fine for the employer. For example, employment of a rural worker without a work permit involves a fine of 100 Yuan, and employment of a worker without the permission of the Management Agency involves a fine of between 500 and 5,000 Yuan. If recruitment takes place without the participation of the employment service, the penalty is 500 Yuan per worker.*
- *Rural workers may complain to the Labour Bureau of any violation of their employment contract, and the agency has the right to examine their employment conditions in the enterprises.*

expansion of TVEs, the main source of job creation in rural areas since the early 1980s, is now slowing down, while technological progress and rising productivity in agriculture continue to push a large population out of the farm sector, feeding the pool of rural surplus workers. In addition, some regions dominated by obsolete and unviable industries are facing growing employment problems. On the other hand, special economic zones and some cities are experiencing double-digit economic growth and high demand for labour, due to China's successful "open door" policy and other reforms. Given the growing differences in regional development levels, free mobility of labour from declining or stagnating regions to expanding ones would improve the allocative efficiency of the labour market, needed for a better utilization of available human resources.

Second, removing restrictions on labour mobility is also necessary for achieving a more efficient pattern of regional economic development and job creation. The policy of creating enterprises in all the villages and small and medium-sized towns that suffer from labour surplus is not efficient. An optimally-sized enterprise is likely to be much more economical than several small plants scattered through a wide region.

Furthermore, the distribution of industry is geographically quite uneven in China, as elsewhere, for very good reasons. Industrial centres and agglomeration economies benefit from the closeness of producers that are linked to each other through input-output relationships, the development of infrastructure and services, the knowledge of local markets, and the availability of extensive subcontracting involving highly-specialized companies.²² Therefore, a recent World Bank report argues, China must pursue the advantages of industrial centres and agglomerations, allowing market forces to generate the geographical migration of manufacturing and service activities along lines of comparative advantage.²³

At the same time, in the less-developed regions the Government should help the development of emerging industrial centres that, as they mature, are able to attract investment and labour. However, efforts need to be concentrated on a limited number of carefully selected areas. Such a strategy would be not only more cost-effective but it also would create more viable jobs than the practice of dissipating scarce resources by supporting enterprise and job creation in too many localities. China would benefit from a geographically more concentrated industrial development (and job creation efforts) combined with a more integrated and mobile labour force.

Third, the current restrictions represent a strong deterrent to the mobility of skilled workers. Compared with unskilled labour, better educated people are less likely to move because they have much more to lose due to mobility restrictions and the associated discrimination. As a recent ILO study points out, impediments to labour mobility tend to restrict economic growth, in the sense that it prevents many enterprises from recruiting the qualified workers who may be available and interested. These restrictions concern not only state-owned enterprises and joint ventures, but also a number of village and township enterprises and private individual firms. Such obstacles may become a factor that negatively affects potential economic growth, while being of little use when trying to control the massive exodus of unskilled workers from the countryside.²⁴

For the above reasons, China would benefit, both socially and economically, from dismantling restriction to the mobility of rural labour. However, this should be a gradual process, accompanied by other reforms, since the potential danger of massive, uncontrolled flows of workers from rural to urban areas is real. One way of doing this, as proposed by a joint ILO/World Bank mission to the Ministry of Labour in February 1993, would be to delink employment from the system of resident permits and to adjust the inflow of rural labour to housing availability in urban areas by requiring the job applicant to show that he has already arranged his accommodation. The gradual introduction of such a practice might start with allowing free movement of all rural labour within each province, first to small cities and later to larger ones, then extending this freedom to inter-provincial mobility of rural labour, again first to small cities and later to larger ones. This gradual process should be supported by other reforms, for example the development of an efficient labour market information system, housing reform, and the extension of the social security system to all urban workers. In addition, the Government should make every possible effort to support efficient industrial development and job creation in rural areas.

²² As is the case in cities such as New York and London. See Graham Crampton and Alan Evans, *The economy of an agglomeration: the case of London*, *Urban Studies*, Vol. 29, No. 2, 1992.

²³ "China - Industrial restructuring: A tale of three cities", World Bank, Washington, December 1992.

²⁴ "Framework for ILO Action in China", ILO Beijing Office, April 1994 (unpublished report).

It appears that China is moving in the right direction, and the Government's agenda involves the removal of most, if not all, of the restrictions to labour mobility within the foreseeable future. Some steps have already been taken and others are under consideration. This, however, is a very complicated task, for which international expertise will be most helpful.

4. The labour market impact of economic transition on special groups

Market-oriented reform and sweeping economic changes have been transforming the landscape of the labour market throughout China. Industrial restructuring, increasing social differentiation and rising unemployment come with the likelihood that certain groups will suffer disproportionately during the transition process. Women, older workers, ethnic minorities, the disabled, and those living in rural areas are among those whose status in the labour market is especially threatened.

4.1 Women

There have been considerable improvements in the absolute position of women in China in terms of their levels of literacy, education and training, labour force participation and employment but there are still many gender-based inequalities. There exist various difficulties and resistance which have prevented the full realization of equal rights to women with respect to their participation in political and government affairs, employment, access to education, as well as marriage and family.²⁵ The Chinese government is making every effort to develop the economy, strengthen the legal system, eradicate all discrimination against women and promote equal rights for men and women in all spheres of social life as stipulated in Chinese law.

Table 6 in the Statistical Annex gives some statistical information on the absolute position of women in China. Table 6 also shows comparisons of China's performance in the above areas against that of other countries in the Asia and the Pacific region. From these latter comparisons, it is apparent that China compares favourably in terms of the percentage of women in the total labour force, with only four countries having higher percentages in 1990, but compares unfavourably in secondary and tertiary education enrolments during the period 1988-90.

Economic restructuring as part of the transition process is having a significant effect on the employment situation of women. Although the employment rate of female workers in urban areas has not dropped over the past six years, the number of unemployed women has increased from 1,574,000 in 1988 to 2,520,000 in 1993. The number of unemployed female workers receiving unemployment benefits was approximately 400,000 in 1993, with redundant workers from enterprises accounting for about 15 per cent of this total. The Textile Bureau in Shanghai presented some figures to the mission which illustrate the situation: 500,000 workers now employed in the enterprises will be reduced to 350,000 during the first stages of reform; reduced female workers will account for 70 per cent of the total of 150,000, i.e. about 105,000 workers.

The employment of female workers varies according to industry, form of enterprise ownership and region. Their percentage in primary, secondary and tertiary industries is shown in Table 7.

²⁵ Source: : *The Situation of Chinese Women*, Information Office of the State Council of the People's Republic of China, June 1994, Beijing.

Table 7. Percentage of female workers in industrial sectors

<i>Industrial Sector</i>	<i>Percentage of female workers</i>	
	<i>1988</i>	<i>1992</i>
Primary	36	35
Secondary	38	38
Tertiary	37	39

Only 11 per cent of administrative and managerial positions in China were occupied by women in the years 1980-1989 (see Table 6 in Annex). Economic reforms have, on the one hand, created unprecedented urban wage employment opportunities for women, especially in the economic zones and the tourist industry, but, on the other hand, have widened income inequalities, created a "new poor", and strengthened patriarchal structures in rural areas.²⁶ Redundant workers are mostly in State-Owned Enterprises (SOEs) and redundant females can remain unemployed for long periods. For example, in a survey of 500 redundant workers carried out in Shanghai, 200 had been idle at home for one year, 180 for two years, and 60 for three years.

The employment problem of female workers during the transition to the socialist market economy is one aspect of the social employment problems arising from the reforms. Unemployment rates for women seem likely to rise further over the next few years. Possible solutions include the further improvement of labour markets, the development of effective labour relations, an expansion of employment channels, including forms of self-employment, and higher qualifications of female workers. There are clear roles for the Government and the social partners in pursuing these possibilities.

The nature of the challenges ahead for women will also be influenced by globalization and regionalization trends. Opportunities for female wage employment in manufacturing have occurred as a result of foreign investors moving into China in large numbers in search of more readily available and cheaper labour (and often less stringent enforcement of labour laws and regulations). However, technological developments, such as in the use of microelectronics, robotics and other information processing technologies, are reducing the significance of labour cost differentiation between the industrialized and developing countries; but much of the women's employment advantage has been based on the very cheapness of their labour. To help women cope with the impact of new technologies, measures will be needed for formulating a coherent set of effective technology policies in relation to both economic and social objectives, providing appropriate skills training and retraining programmes, strengthening labour relations so that workers and employers together can establish procedural rules for the introduction of technology changes and for solving related problems, improving the labour market information system, and social protection for those suffering from "technological unemployment".²⁷

²⁶ *International Institute for Labour Studies. Women at work in Asia and the Pacific - Recent trends and future challenges.* Paper presented by Lin Lean Lim at an International Forum on Equality for Women in the World of Work: Challenges for the Future, Geneva, 1-3 June 1994.

²⁷ Lin Lean Lim, 1994.

There are many ways in which the situation of women could be improved and their skills potential maximized as a labour market resource. Their participation and position in the labour market are not determined only by economic factors but are also affected by cultural attitudes; the promotion of cultural and social change to ensure a favourable environment for such participation would be highly beneficial.²⁸

4.2 The disabled

There are 51.64 million disabled persons in China, or 4.9 per cent of the total population. Among them, 74 per cent, or 38.47 million, are in rural areas and 26 per cent, or 13.17 million, in urban areas. The principle used in China is to combine both decentralized and centralized placement of the disabled so as to create employment opportunities through different channels and different methods. The principal organizations concerned are the Ministry of Labour and the China Federation of Disabled Persons (CFDP).

The total number of disabled persons of working age in employment is 12.9 million. Of these, 10.3 million engage in farming, forestry, animal husbandry, side-line production and fisheries in the rural area, where the employment rate of the disabled is 60 per cent. In the urban area, the employment rate of disabled of working age is 50 per cent. At the end of 1992, there were 50,000 welfare enterprises throughout the country, which had absorbed 0.8 million disabled. Labour service enterprises have created 0.92 million employment opportunities for the disabled as another channel for their placement.

Some problems and issues which warrant the inclusion of the disabled in the vulnerable category are the following. First, job creation for them is restricted by the fact that the total supply of the labour force exceeds the total demand. Second, they are disadvantaged relative to their labour market competition. Third, there is some prejudice against them.

The disabled should make greater efforts themselves to enhance their quality and improve their skills, but in order to maintain social justice, necessary support should be given to them in areas such as legal protection, policy support, job creation and employment services. Some of the intended measures which will expand on rules and regulations already in existence are:

- (a) the right to work to be further defined in the Labour Law and the Employment Promotion Act and an employment regulation for the disabled to be drawn up;
- (b) the disabled to be encouraged to improve their working capacities through special services for them;

²⁸ In a recent Joint Opinion, issued by the Social Partners of the European Communities, the Social Partners suggested a number of approaches, many of which would be equally appropriate for China, including: (a) the skills potential of women should be maximized as a labour market resource; (b) measures should be introduced at all appropriate levels which would allow women to participate under the same conditions as men in vocational education and training investment aimed at upskilling the labour force; (c) the Social Partners agreed to work towards encouraging full participation and integration of women into all occupational areas and levels; (d) the Social Partners believed that innovative measures should be taken, in the workplace and in schools, to diversify vocational choice amongst women and girls. Participation on an equal footing of women and men should be encouraged in education and training programmes; and (e) the Social Partners agreed that these lines of approach should be underpinned by a wide range of positive support initiatives to include care of dependents and, where necessary, further publicity campaigns to increase general awareness. See *Commission of the European Communities, Social Dialogue Joint Opinion: Women and Training*, Brussels, 3 December 1993.

- (c) policy support to be provided to those enterprises mainly engaged in placement of the disabled and for those disabled who find jobs in self-employment;
- (d) more job opportunities to be created and developed which are suited to the disabled by exploring varied and flexible ways and means of employment;
- (e) proportionate placement to be undertaken for the disabled;
- (f) an employment fund to be set up for the disabled.

4.3 Minority groups

China is a multinational country. In addition to Han nationality, there are 55 national minorities with a total population of 91.2 million, which make up 8 per cent of China's total population. The autonomous regions of national minorities covers 64 per cent of the country's area. There are five autonomous regions, 30 autonomous prefectures and 589 autonomous counties. The geographical distribution of minorities can be described roughly as follows: 40 million (34.6 per cent) in the southwest; 21.92 million (27 per cent) in the three provinces located in the central south of China; 18.89 million (20.7 per cent) in the five provinces of northwestern China; 10.67 million (11.7 per cent) in the three provinces of the northeast; the remaining 6 per cent in other areas.

Most minority groups live in the highlands of western China. Since the founding of the People's Republic of China, the Government has been giving them preferential treatment, allocating funds to them and helping them to develop their own economies, culture and education. Even so, their economies have developed slowly. Their educational levels are quite low and they are mostly unskilled.

Vocational education in national minority areas is weak but it has developed since 1985. Statistics of 1993 show that there were 1,804 Specialized Secondary Schools (SSSs) and Vocational High Schools (VHSs), with a total enrolment of 690,000 students, of which 351,000 were minority students, 7.5 per cent of the total enrolment of these two kinds of schools in the country. The main problems were shortage of funds and teachers.

4.4 Older workers

The visits made by the mission to Labour Bureaus and enterprises in various parts of China indicated that older workers constituted a vulnerable group in circumstances where surplus workers are being identified. Virtually all the State-Owned Enterprises have significant numbers of surplus labour, ranging from 10 per cent up to 30 per cent in the enterprises visited. Older workers generally form the majority of the persons selected for redundancy. Common selection criteria used by enterprises include age, health and performance levels of workers. Means of dealing with the surplus labour usually involve early retirement, redeployment within the enterprise, and employment in tertiary sector enterprises set up by the main enterprise. Typical percentages were 45 per cent taking early retirement, 35 per cent joining tertiary enterprises and 20 per cent being redeployed.

The age limit for early retirement varied from one region to another. In Changchun, for example, the First Automotive Works has a minimum age of 55 years for men and 45 for women; in Shanghai, it is 50 for men and 40 for women. The fact remains, however,

that workers selected for redundancy on this age basis can find themselves in financial difficulties and with little real chance of finding another job. Research has shown that older workers respond well to retraining and can make effective contributions when redeployed.²⁹ The present approach of encouraging early retirement may be having the effect of losing valuable human resources to industry and placing older workers in the vulnerable category.

4.5 Rural workers

The raising of land and labour productivity in the agricultural economy began with the implementation of the government policy of "Four modernizations". As agriculture was modernized and productivity levels increased, it was inevitable that it would shed some of the surplus labour that had hitherto been contained because of factors such as:

- scarcity of land, which meant that there was not enough land to support the agriculture-dependent population;
- shrinking cultivable area, which meant that there was less land as infrastructure, factories and housing projects were implemented; and
- mechanization, which meant that the labour requirements per unit of land declined, rendering large numbers of peasants as surplus.

Thus, the rural peasants have become vulnerable groups, subject to redundancy, unemployment or severe underemployment. The government strategy to deal with this situation has been based on the development of Township and Village Enterprises (TVEs); these are described in section 2.2 of this paper.

But people from rural areas are less well educated than the people from urban areas. Educational facilities are fewer. Rural areas have only 42.12 per cent of the total number of vocational schools (4,153 compared with 9,860), despite having 73.63 per cent of the total population. Graduates from Senior Vocational High Schools in rural areas in 1993 were 234,832 compared with 826,228 for the country as a whole, i.e. 28.42 per cent. Graduates from junior vocational high schools in 1993 were 110,972 compared with 141,001 for the whole country. However, this favourable statistic is explained by the fact that education in such schools in the rural areas is terminal, i.e. students cannot link up to other schools after graduation from junior high schools; this is not the case in urban areas. The educational levels in rural areas reflect the educational resource distribution - six years of education is the norm in rural areas, whereas nine years is more usual in urban areas.

²⁹ See Peter C. Plett: "How to train older workers - Discussion papers 76-80", Training Policies Branch, ILO, Geneva, 1992.

5. Labour Market Policies

China faces major employment and social problems: continuous and severe labour supply pressure, large-scale rural underemployment, rising urban unemployment, and growing income and social inequalities between different segments of the population. These problems should be addressed to prevent rigid social differentiation and to secure a successful transition to a market oriented-system, with an integrated labour force making the fullest possible use of human resources. The functioning of the labour market will also need to be improved in order to achieve a more efficient allocation of labour and to respond to the need of employment restructuring. At the same time, the people must have the means to adapt to the changes. Labour market policy, if appropriately designed and implemented can help mitigate the social costs of reforms, while facilitating efficient employment adjustment through job-search assistance, retraining, employment creation, and redeployment of people into more productive activities.

Against this background, the purpose of this subsection is to review recent developments in labour market institutions and to assess the existing proactive and compensatory policies. The subsection starts with a brief description of the Chinese labour administration, followed by an analysis of employment services. Then labour market policies are examined in detail (including job creation schemes, training programmes, measures for vulnerable groups and the efforts to reduce labour supply), with the aim of identifying problems and proposing policy modifications and alternative solutions. The last two parts of the subsection look at the unemployment insurance system and the present practice of financing labour market policies; exploring how adequate funding could be secured to give labour market policies a greater role to play.

5.1 Labour market administration

The Ministry of Labour (MOL) is responsible for formulating principles, broad regulations and policy guidelines for deploying the labour force. Its Department of Labour Force and Employment Administration is responsible for strategic planning for employment services and policies, for coordination with the relevant ministries and departments, and for the instruction and supervision of the implementation of national employment programmes. The department has five divisions.³⁰ Each has a staff of only four to six professionals, largely inadequate for the tasks that have to be accomplished.

At the provincial level, the Labour Bureau (LB), which is part of the provincial government, is responsible for drafting local employment policies and specific programmes (Figure 1). The regulations and policy guidelines issued by the Ministry of Labour give the provincial Labour Bureaus a reasonable degree of freedom to design and implement employment policies according to the local needs. Under the Labour Bureau, the Employment

³⁰ The first division is responsible for personnel policy and coordination, the second for employment service and labour market training, the third for active labour market programmes and employment statistics, the fourth for the unemployment insurance and the employment funds, and the fifth for job creation measures.

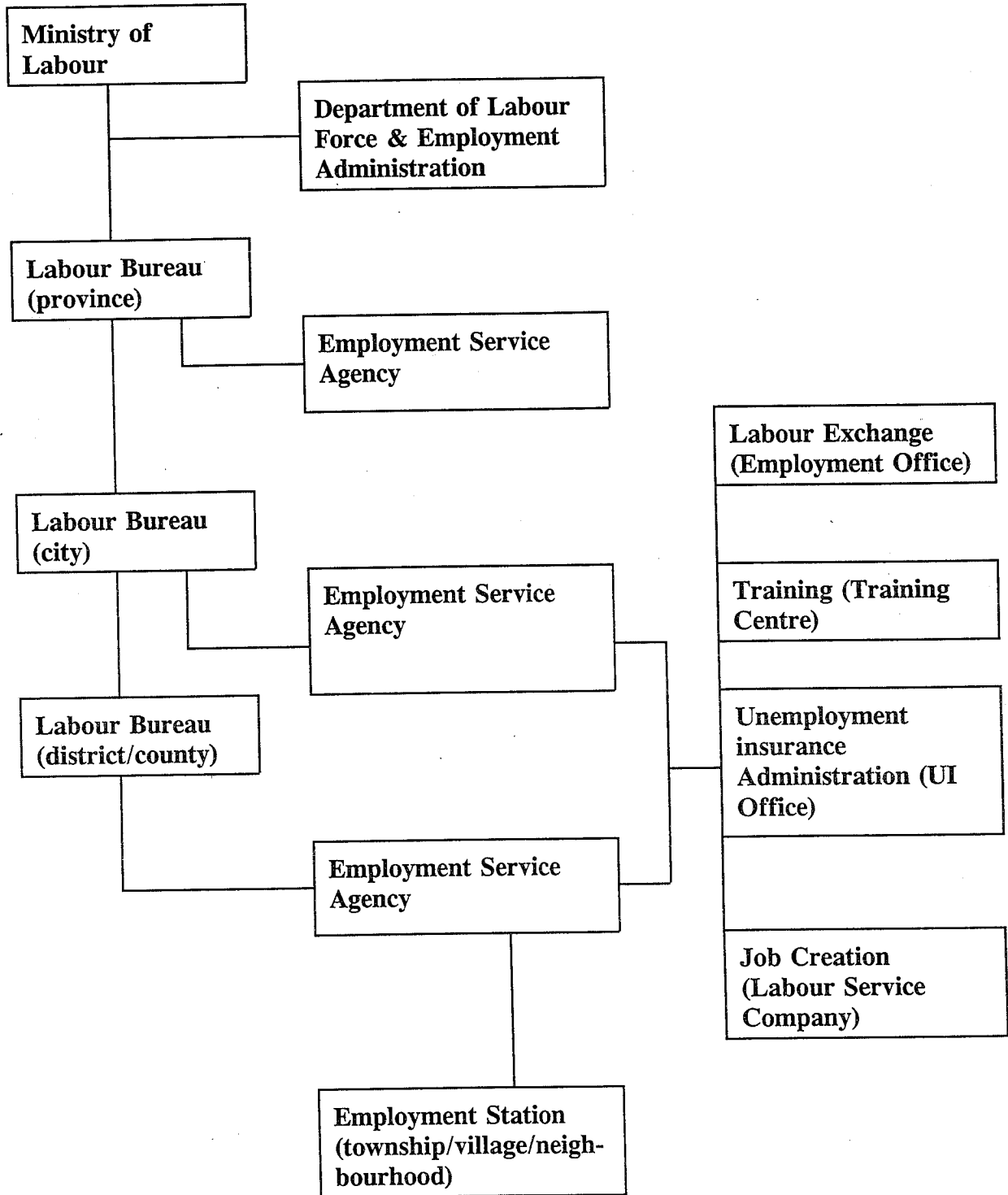
Service Agency formulates policies and development plans for labour market administration and organizes their implementation. At the municipal and district/county levels, the Labour Bureau is responsible for implementing employment policies and programmes. The role of township/village/neighbourhood employment offices is limited to the collection of certain statistical information.

The Employment Service Agency under the Labour Bureau is in charge of employment information and labour exchange, labour market training, administration of the unemployment fund and benefits, and job creation. Employment services are provided by the Employment Office, whose tasks often include the administration of unemployment benefits. However, some provinces and cities have separate agencies (unemployment insurance offices) for unemployment compensation. Labour market training takes place predominantly in employment training centres, while job creation is mainly the responsibility of labour service companies.

Labour service companies (LSCs) were first established in 1979 with the objective of placing the large number of urban job-seeker youths who had returned from rural areas, either by finding employment for them or setting up and running enterprises to provide temporary or permanent job opportunities to the youth. Since then, LSCs have become a main labour market institution in China. In addition to job creation, labour service companies under the Labour Bureaus have assumed part of the functions of labour administration and planning. Other LSCs, which have been set up and sponsored by industrial bureaus and other government departments and by state and urban collective enterprises, are responsible mainly for organizing and running enterprises.³¹

³¹ For more details on labour service companies, see: *China: Reforming the urban employment system*, World Bank, June 1992.

Organization of Labour Administration (Figure 1)



Note: Figure 1 is based on the current system arrangements in Shanghai. However, both the organization of labour and the names of the different institutions may vary slightly from province to province and from city to city.

5.2 Employment services

The provisional regulations on labour exchanges, issued by the MOL in January 1990, encourage the Labour Bureaus in various localities to set up employment offices to facilitate the matching of job-seekers with vacancies. Over the past three years, the central and local governments have made considerable efforts to develop a network of employment offices: by the end of 1993, there were about 17,000 such agencies (Table 8). Of these, 15,000 were run by Labour Bureaus, and the rest by industrial committees, enterprises and trade unions.

The LB-based employment service is a public agency delivering a wide range of services, including information, counselling, administration of unemployment compensation and placement, though a few of the employment agencies function like a private placement service (see Box 4). There seems to be a need to improve certain services (for example, employment counselling) and to standardize the procedures and operation of the employment offices. Placement services provided by industrial committees, enterprises and trade unions concentrate on the needs of specific industries, enterprises and groups of workers. They unquestionably play a useful role in facilitating the process of job-matching in the field they cover, but the apparent lack of cooperation between these placement offices and those operated by the Labour Bureaus is a source of fragmentation and competition. In addition, placement services for government bodies and other organizations (health, education, etc.) are provided under the auspices of the Personnel Bureau. (The employment offices cover only the enterprise sector.) Thus, the employment service operation appears to be rather fragmented, with little coordination between the different service providers. To save scarce resources and to improve the efficiency of employment services, the Government might consider measures to merge the Labour Bureau-based and the personnel bureau-based employment services into one system and to encourage the exchange of information on vacancies and job-seekers between this unified system and other placement service providers.

Box 4

Wenzhou Employment Centre

Wenzhou, situated in the southern part of Zhejiang province, is one of the booming coastal cities of China. The city and its surroundings, with three districts and two towns, has a total population of 6.9 million. In 1993, the economy grew by about 40 percent in Wenzhou, and the total employment rose to 830000, of which almost 300000 worked in the private sector at the end of the year. In contrast, the surrounding rural area has a surplus labour of 1.5 million, representing 43 percent of the total rural labour force in the region.

The Wenzhou Employment Centre (WEC), the largest one among the 179 employment offices in the region, was established in April 1993. The WEC rents its premises from a state enterprise. According to the arrangement, the WEC not only pays rent for the premises but it also has to take over the redundant workers of the state enterprise and employ them as its initial staff. The building complex provides office space for 40 private placement agencies, class rooms for the Vocational Skill Development Centre, and shelters for dozens of rural job-seekers who have not yet arranged their accommodation in the city. Currently, the WEC has a staff of 98, whilst the private agencies employ about 150 placement officers.

The WEC does not receive any support from the UI fund nor from the local government, and it has to cover all the costs of its operation, including the salaries of its employees and the rent to state enterprise. Therefore, it charges each rural job-seeker 3 Yuan for processing his work permit and each private placement agency 1000 Yuan for the office space. The private placement agencies compete with each other in identifying vacancies and placing job-seekers in employment. They do not share information on vacancies; they treat them as their own business secret. The more people an agency can place into jobs, the higher its income. Although job-seekers are free to choose among the agencies, they have to pay in advance a placement fee of between 10 to 20 Yuan. If a placement is unsuccessful, the job-seeker is reimbursed the fee, except 5 Yuan for administration costs. The other part of the agencies income comes from the employers, who pay 5 Yuan after each successful placement. Since April 1993, the Wenzhou Employment Centre has issued 80600 work permits and registered about 110000 job-seekers, whilst the private placement agencies have found jobs for 52000 unemployed persons.

The effectiveness of the public employment service depends to a large extent on the level and quality of the staff. At the end of 1993, the employment offices had a staff of 60,000 distributed throughout the country in a large number of regional and local offices. The ratio of about 70 registered unemployed per staff member is roughly comparable to that in Austria and Denmark. Nevertheless, such a comparison should also take into account that in China the official data considerably underestimate the real extent of unemployment. Relating the total number of the employment service staff to a country's working-age population is therefore a better indicator. In most OECD countries the typical ratio is about one officer per 1,000 persons of working age.³² In China the ratio is 0.08 officer per 1,000 working-age people. This considerable gap between OECD countries and China will be certainly narrowed if the Government continues its efforts to strengthen the employment services in small and medium-sized towns and in rural areas. This is especially important for the creation of a unified labour system in China.

³² *Labour Market Policies for the 1990s*, OECD, Paris, 1990, p 32.

Table 8: Employment offices

Year	Number of employment offices			Registered job-seekers	Placements	Placement rate ^(a)
	Total	LB-based	Others	(million)	(million)	(%)
1989	9,716	7,164	2,552	10.095	8.454	83
1990	9,304	7,163	2,141	9.749	7.530	77
1991	11,410	9,673	1,737	9.086	7.313	80
1992	15,082	13,081	2,001	11.462	8.634	75
1993	17,806	15,026	2,780	10.670	8.600	81

^(a) The proportion of registered job-seekers placed into jobs.

Source: Ministry of Labour.

In addition to under-staffing, the personnel of the employment offices often lack experience and many of the basic skills needed to deal with the unemployed and other job-seekers. Many of the offices have been set up recently, and their staff would need training. Another major problem that limits the effectiveness of employment services is the lack of systematic information on vacancies. There are no central regulations requiring employers to notify vacancies with the employment service. Some cities and provinces have made such notification obligatory for employers, while in others vacancy registration is an ad-hoc exercise. For example, some employers register vacancies with the LB-based employment office, others with the placement service operated by an industrial committees, and many enterprises do not notify any employment office at all. Rather, they recruit workers directly from schools, or factory gate applicants, or they use informal hiring channels to fill vacant positions.

Even where the notification of vacancies is obligatory (for example, in Changchun), the available information cannot be fully utilized because of the lack of computerized information networks. Over the past two years, the labour market information system has been computerized in 35 big cities, but in most of them the employment agencies are not connected to each other through a computer network. The lack of a modern information system, especially a computer network for the registration and deregistration of job-seekers and vacancies, is an important constraint facing the job placement service. It follows that major efforts have still to be made in order to accelerate the training of the staff and to introduce first district and then city-wide computerized vacancy and job-seeker registers. At a later stage, the networks could be extended to a whole province, and then province-wide networks could link neighbouring regions to each other. Efficient allocation of labour will only be possible once the artificial separation of labour markets is reduced. For this purpose, information on vacancies and job-seekers' skills will have to flow quickly between employment offices located in different cities and provinces. This might also help organize the temporary employment of rural workers in urban areas better than it has been done so far.

Insufficient information transmission between employment offices and enterprises is another bottleneck. There is a lack of information among enterprise managers about the available quality of labour supply. On the other hand, employment agencies often complain that many employers are slow to inform them on recruitment of a registered unemployed person. As a result, some people collect both unemployment compensation and wages.

The employment offices in urban areas serve not only the local job-seekers, but also millions of rural persons who come to the cities to find temporary jobs. Some of the

employment offices the mission visited in Tianjin, Shanghai, Wenzhou and in Changchun were overcrowded by rural job-seekers. Most of them are not familiar with the local job-market and the basic legal aspects of an employment relationship. Introductory job-search courses and a wider use of self-service techniques for placement, including job fairs and newspaper advertisements, might ease the burden of these employment agencies.

Another urgent challenge for the employment agencies is to introduce an early warning system that signals expected redundancies and to develop mechanisms and services to deal with mass lay-offs, particularly as job losses and plant closures become more prevalent in the wake of enterprise restructuring and bankruptcies. Such special services might include the establishment of a "quick response team" in the public employment service to develop and present enterprises with proposals for action at an early stage. To be reasonably effective, such a service should be developed in close cooperation with the enterprise affected by job losses and the trade unions and workers directly affected.

5.3 Job creation policies

Job creation is, without doubt, one of the main challenges for China because of its large and fast growing population. So far, the results are impressive: employment increased by about 125 million in the last ten years due to rapid economic growth and Government efforts to promote job creation. Steps have been taken to develop a policy and institutional environment conducive to employment generation, and several employment schemes have been introduced. Some of them promote the creation of permanent jobs, while others are "bridging policies" to create temporary job opportunities or prevent lay-offs through wage subsidies.

The question of employment generation, however, cannot be addressed in the same way throughout this vast country. The problems and conditions in cities, rural areas and the depressed regions are different, and the central and local governments have tried to tackle them in different ways. In urban areas, the most popular form of direct employment creation has been the establishment of labour service enterprises (LSEs) by state or collective firms in order to redeploy surplus workers.³³ Labour Bureaus or their labour service companies (LSCs) have also established many such enterprises to provide job opportunities, primarily for the unemployed.³⁴

The total number of labour service enterprises has grown rapidly (Table 9). At the end of 1993, there were about 200,000 LSEs, employing 9.15 million workers, more than 3.4 per cent of all non-agricultural employment (the figures refer to LSEs located in urban areas and in small and medium-sized towns). According to the Ministry of Labour estimates, about 10 per cent of all labour service enterprises have been set up by labour market authorities.

LB-based LSEs often suffer from the same problems as those created by enterprises: their foundation is not based on rigorous project evaluation and their operation is hampered by arbitrary interference from Labour Bureaus. As a result, many labour service enterprises have

³³As described in Section 2.3.3, LSEs receive from their sponsoring agencies start-up capital, operating funds, and technical and managerial staff, and they enjoy preferential tax treatment.

³⁴In Shanghai, for example, there are about 590 Labour Bureau-based LSEs, employing about 30,000 workers. These have been set up at the initiative of the Labour Bureau and its LSCs, financed from state support and from bank loans with favourable interest conditions. The labour bureau guarantees repayment of bank loans. The general managers of the LSEs are usually appointed by the Labour Bureau, and the LSEs pay an administration fee to the bureau for its services. Since 1979, about 100,000 people have been allocated to the LSEs in the city.

performed poorly, and their survival depends on continuous state support. A key policy issue is, therefore, how to ensure that scarce resources are spent in a cost-effective way, which results in viable enterprises and jobs.

It appears necessary to sever links between Labour Bureaus and their enterprises and to introduce strict selection criteria for future enterprise creation. Project proposals should be carefully assessed by a group of experts, involving financial institutions and independent consultants with special experience in business development. Furthermore, once an enterprise has been created, it should not maintain an organic link with its funding agency. In general, enterprise creation by labour market authorities should be limited or stopped altogether in the future.

Table 9: Labour Service Enterprises (LSEs)

Year	Number of LSEs (thousand)	Employment (million)	Production value (Y 100 million)	Tax relief (Y 100 million)
1986	235	6.94	455.4	n.a.
1987	235	7.30	457.8	n.a.
1988	240	7.78	750.0	n.a.
1989	223	8.00	840.0	n.a.
1990	198	8.20	907.0	10.4
1991	299	8.60	1,086.0	20.9
1992	200	9.04	1,220.0	15.7
1993	200	9.15	1,600.0	17.0

Source: Ministry of Labour.

Instead, it is proposed that part of the state funds currently available for enterprise creation (supplemented by the surplus assets of state firms) should be used to set up, with the participation of LSCs, employment promotion companies. The main task of these companies would be to take over redundant workers from state and collectively-owned enterprises to provide them with temporary employment opportunities, training programmes (in close cooperation with training centres), and help in finding a stable job elsewhere. Thus, for redundant workers, employment promotion companies may serve as a "bridge" from the old workplace to a new job. At the same time, they relieve ailing state enterprises of their surplus-employment responsibility, allowing them to concentrate on restructuring and modernization. Furthermore, employment promotion companies offer a better approach to the problem of redeployment because they have staff experienced in human resources management, with a wider policy vision. Employment promotion companies have been used in several industrialized countries, most recently in the former Eastern Germany, to cope with large-scale redundancies (see Box 5).³⁵ The experience of these countries might be helpful to develop a similar policy instrument in China.

³⁵ For detailed analyses of the German employment promotion companies, see Bianca Lichtenberger: "Active labour market policy: Enterprise management's contribution", Management Development Programme, Working Paper no. 68., ILO, Geneva, 1992; and Michael Widemayer, Wolfgang Beywl and Wolfgang Helmstadter: "Employment promotion companies in Eastern Germany: Emergency measures or a basis for structural reforms", *International Labour Review*, 1993, nos. 5-6.

Box 5

Employment companies in Eastern Germany

The concept of employment companies was developed in West Germany at the beginning of the 1980s as a means of coping with mass redundancies in steel, mining and consumer electronics industries. The idea was that all workers at risk of dismissal should be offered an opportunity to receive training in a "labour pool", whether inside or outside the firm. At the same time, proposals were to be drawn up for diversification of the firm's activities in order to create new employment opportunities for its work force. Such labour pools were established in a number of West German firms and it proved possible, not least because of the economic upturn, to avoid mass redundancies. The main aim of employment companies was to help change within enterprises.

However, after the German unification, this concept could not be transferred to Eastern Germany because the level of labour surplus was much higher, and that a massive reduction in manning levels and external change were the only possibility to revive the economy. And since the number of jobs created outside the old enterprises was inadequate, it was seen as the employment companies' task to make their own contribution to the generation of employment. At the initiative of the Privatization Agency (Treuhand) "companies for employment promotion and structural development" (known in Germany by the acronym ABS) have been set up on larger scale since 1991. State firms, waiting for privatization under the control of the Privatization Agency, have to provide material support for the ABSs (rooms, workshops, machinery, etc): details are to be laid down in a cooperation agreement. But the firms have no direct stake in the ABSs or control over them. The Privatization Agency also provides limited financial support, and it offers advice to the ABSs. As a consequence, employment companies, which are legally independent entities, have to find regional partners, and particularly shareholders. In other words, they are obliged to loosen their original industrial ties and widen their horizons.

The majority of ABSs are non-profit-making limited companies whose shareholders include municipal or district authorities, Treuhand companies, private firms, trade unions and various other organizations. Employment companies are often involved in the redevelopment of factory sites and in environmental protection. They are, for example, converting closed-down factories into business centres intended to encourage the establishment of new small and medium-sized firms.

By the beginning of 1992, there were 333 such companies, providing labour market policy measures for 130,000 people (or about 10 percent of all participants in such measures). They are involved primarily in job creation schemes (40 % of their activities) and training programmes (20 %). The ABSs are also trying to help their employees find new jobs. First, they provide support for spin-offs from their own activities. For example, some set up private subsidiaries to take over some of their construction projects. Second, they support the establishment of new firms. Such projects take place particularly in building trades or the service sector. Third, some ABSs have been converted into redevelopment companies that would, for example, tackle environmental damage in some cities. Fourth, some projects originally launched by an ABS are continued by other firms, thus creating new jobs. In their search for projects and employment opportunities, the ABSs are establishing a wide variety of local networks, which directly or indirectly contribute to the regeneration of a local economy and its potential for employment creation.

Source: Gerhard Bosh and Matthias Knuth: "The labour market in East Germany", *Cambridge Journal of Economics*, 1993, 17, p. 295-308.

The Chinese labour market authorities have gained some experience in other types of bridging policies, such as wage subsidies to prevent lay-offs and subsidized employment programmes to create temporary job opportunities for the jobless. In a few cities and provinces some insolvent firms in the process of restructuring may receive employment subsidies to cover part of their training and wage costs up to a period of two years.³⁶ This measure helps the enterprises to weather difficult times, though it should be used with caution because subsidies may create disincentives and absorb a large part of limited resources. The period of subsidy payment, for instance, seems to be rather long by international standards.

³⁶For example, in the Yang Pu district of Shanghai some factories, with a total staff of about 600 workers, received such subsidies from the Unemployment Insurance Fund in 1993. The average level of subsidies was about 144 Yuan per worker per month. The district spent about 10 per cent of its UI fund revenues for enterprise subsidies. In Shanghai as a whole, about 130 enterprises received employment subsidies last year. In the first two months of 1994, about 180 million Yuan were spent to subsidize wages of about 1.6 million workers throughout China.

Public works have also been organized in some places in response to unemployment.³⁷ Furthermore, the Government is now encouraging LSCs to implement such schemes more frequently. These programmes are useful in that they offer earnings opportunities for those unemployed who are ineligible for benefits. Also, a temporary employment opportunity may help reduce the risk that long-term unemployed become excluded from the world of work.

Public works can provide the unemployed with worthwhile jobs, whilst helping the community through sponsorship of projects that respond to local needs. The projects should respond to clearly identified community needs; they should be socially, environmentally and economically useful. Although more costly in the short-term, schemes that combine training with work experience may be more successful. Local sponsorship, management and supervision can reduce costs. If properly organized, public employment programmes can be a short-term and useful way of creating and maintaining human capital, especially in a situation of mass lay-offs and for those experiencing long-term unemployment. Furthermore, public works programmes are more cost-efficient when compared to payment of unemployment benefits. Therefore, it is proposed that labour-intensive public works should be explored further. Given the large infrastructure investments that will be made in the next few years and the poor maintenance of much of the existing infrastructure, temporary job creation organized by Labour Bureaus could be directed towards infrastructure building and maintenance.

In addition to bridging policies, this report recommends the development and strengthening of schemes aimed at creating permanent jobs. It is proposed to establish a Small Enterprise Fund at the provincial level to promote enterprise creation,³⁸ and perhaps at a later stage a bank network accommodating the special needs of entrepreneurs and small and medium-sized enterprises. Support from the labour market budget, local governments, financial institutions and from enterprises may serve as seed money for the fund. LSCs should help unemployed workers with project identification and preparation, and with established procedures, but project evaluation and financing should be the responsibility of the Small Enterprise Fund. Most importantly, project selection should be based on a competitive process. Existing small firms, including joint ventures and private enterprises, should be permitted to submit project proposals. Supporting job creation in existing small enterprises sometimes proves to be more cost-effective than setting up new firms.

So far, job creation efforts have focused on collectively-owned enterprises, with an emphasis on industrial and service activities. Since service, joint ownership and private enterprises have recently emerged as the most dynamic segments of the economy, the Government may consider measures to facilitate the movement of the unemployed into these sectors. Possible schemes may include tax reductions or wage subsidies to facilitate the recruitment of the unemployed, on the condition that other employees of the companies are not dismissed at the same time.

Programmes designed to help the unemployed to set up their own businesses and work as self-employed need to be strengthened. Currently there are a few experiments with such schemes in China. In some industrialized and transition economies, "start-up" programmes consist of unemployment benefits paid as a lump sum or during some fixed period. But more frequently they constitute separate programmes with a comparable subsidy amount. Whatever the technique of support, experience shows that the success of the programme depends largely

³⁷For example, the Labour Bureau in Changchun has introduced temporary work for the unemployed, mainly in construction, and infrastructure repair and development.

³⁸The establishment of a Small Enterprise Fund was previously recommended to the Chinese Government by a joint ILO/World Bank mission in February 1993.

on the selection of candidates, an appropriate training component and on close cooperation between labour market authorities, financial institutions and the local business community. In China, the LSCs should offer special services for unemployed persons who contemplate starting a business, while the decision on financing the projects should be the responsibility of the Small Enterprise Fund. To be successful, those who received financial support should also receive management training. Here again the LSCs could play an important role by subcontracting special training activities for market-oriented training institutions.³⁹

Employment generation in rural areas, accounting for over 70 per cent of the total population, has been a much larger task than job creation in big, often booming, cities. The estimated number of underemployed or unemployed rural workers is about 120 million - a phenomenal figure. To help absorb agricultural surplus labour, the central and local governments have supported the development of small farmers' towns, township and village enterprises, encouraged the relocation of industries from cities to small towns, and helped farmers to start small private businesses. As a result, township and village enterprises have become a major source of employment and income in the countryside. At the end of 1993, TVEs accounted for about a quarter of total rural employment (110 million people) - up from 9.2 per cent (28.3 million) in 1978. Concerning the relocation of industry to rural areas and the growth of non-agricultural self-employment, the available information does not allow us to judge the progress in these fields.

As noted earlier, the working-age population is expected to increase in the remainder of the decade by over 70 million, of which more than 50 million will be in the countryside. This, combined with the huge labour surplus existing in the agricultural sector, suggests that rural employment programmes should move higher in the policy agenda. It seems necessary to put more emphasis on rural job creation and to secure adequate financial resources.

Steps need to be taken to help newly set-up firms gain access to capital and skilled labour. These are two common bottlenecks, limiting the development of TVEs in their early stage. The Small Enterprise Fund, complemented with other loan facilities, and the development of regional training centres in rural areas may help ease the problems. Moreover, policy-makers should explore other employment generating measures: assistance for the development of homework and the revival of traditional handicraft activities, self-employment schemes, subsidies to small private enterprises (particularly in services), and the use of labour intensive public works. The latter may serve different purposes. Labour intensive public works, combined with training, could serve as a transitional bridge for farmers from agriculture to industry or services. Second, labour intensive public works might help relieve urban areas of the tide of migrants by offering temporary employment opportunities in the countryside in off-farm season. Third, if organized in services or infrastructure development, the programmes may contribute to the improvement of the local economic environment needed for attracting investment and skilled workers from the city. In general, job creation in rural areas is closely linked with rural development and the mobility of capital and labour.

In the countryside there are some regions with particularly poor or deteriorating employment conditions. Since the late 1980s, some localities have experienced growing unemployment and poverty. These depressed regions include those dominated by mining or military industries, isolated small settlements, and remote mountainous territories. These areas suffer from high levels of unemployment, and many of the jobless have been waiting for employment opportunities for more than 10 years. To ease the problems of these regions, the Ministry of Labour and the Ministry of Agriculture have jointly launched a programme for

³⁹ "Changzou entrepreneurs centre: Project findings and recommendations", ILO, Geneva, 1993.

the "areas of employment difficulty".⁴⁰ The pilot projects, tailored to the specific needs of the regions, include support for local economic development, improvement in employment services and training, incentives for job-creation through LSCs and support for self-employment. In some cases the local authorities also organize labour export to more prosperous neighbouring districts. Clearly, the pilot projects attempt to address the problems through a coordinated package of employment, social and industrial development policies, although information on the available resources, the operation of the programmes and their outcomes are not known.

In China labour supply will continue exceeding labour demand, accompanied by growing regional differences. Job generation should be a primary policy objective to avoid the emergence of a dual society, where large parts of the population remain excluded from the benefits of reform and economic growth because they do not have access to employment. Therefore, policy-makers should refine the existing programmes and consider a wide range of new job creation measures that promote productive, efficient and equitable employment.

5.4 Programmes for vulnerable groups and policies to reduce labour supply

China faces enormous obstacles in developing an economically and socially integrated society. Rising unemployment, increasing income, social and regional differences, and persistent poverty⁴¹ in certain areas have cast a shadow over the country's recent, otherwise spectacular, development. Market-oriented reforms are the only feasible way forward but with them comes the likelihood that certain groups will suffer disproportionately. Women, older workers, ethnic minorities and the disabled are among those whose status in the labour market is especially threatened. Training and employment programmes for these groups are still in an experimental stage or non-existent. Efforts need to be taken to address the special needs of these groups to ensure that the reform process is equitable and fair. Appropriate training and employment schemes for disadvantaged groups could alleviate the social costs of economic reforms while facilitating the operation of labour market.

A special source of concern is the increasing duration of unemployment. In the past five years the placement rate of unemployment benefit recipients has sharply deteriorated, from 70 per cent in 1989 to 20 per cent in 1993. This is likely to reflect both changes in benefit entitlement, which increased the number of benefit recipients, and the spread of long-term unemployment (Table 11).⁴² In response to the growth of long-term unemployment, the Government introduced a re-employment programme. For those with an unemployment spell between 6 to 12 months, the scheme consists of counselling about alternative strategies, such as intensive job search, career opportunities, and of training to overcome employment disability. For those who are out of work for more than a year, the employment service guarantees a job interview. Furthermore, to encourage the recruitment of the long-term unemployed, the employment service offers wage subsidies to the employers for a specific

⁴⁰The term "employment difficulty" sometimes refers to a locality and sometimes to a group of disadvantaged people. The areas of employment difficulty are determined by provincial governments, depending on a set of indicators, including the level of unemployment, income etc.

⁴¹ Absolute poverty remains endemic in remote, minority populated areas where it affects some 80 to 90 million people. For details, see: "*China, strategies for reducing poverty in the 1990s*", World Bank, 1992.

⁴² Since information on the duration of unemployment is not available, the trend in the placement rate of unemployment benefits recipients should be interpreted with caution.

period of time. Other supports for the long-term unemployed include allocation of production sites, start-up loans and tax exemption to encourage them to set up their own enterprise or to start self-employment activities.

The re-employment programme was implemented in ten cities as a pilot project, and the Government is planning to extend it to the whole country in 1995. It is recommended that the current project should be carefully evaluated and refined before the Government implements it on a wider scale. Chinese policy-makers would benefit from learning more about the experience of other countries in programmes tailored for the long-term unemployed. Technical assistance in this field would prove very useful.

As a response to a rapidly growing population, China has introduced measures to reduce labour supply. So far, efforts have concentrated on family planning programmes (see Section 2.1) and early retirement. Many state and collective enterprises, visited during the mission, extensively used early retirement as a means to curtail labour surplus. Early retirement is usually offered at the age of 45 (for women) and 50 (for men), and in some cases even earlier, at the age of 40 (for women) and 45 (for men).⁴³ Most of these schemes are arranged at local or enterprise level, and are financed by the enterprises concerned.⁴⁴

The heavy use of early retirement appears to involve two main problems. First, it might have a negative impact on productivity in that many of those taking retirement in their forties 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 seem to be three areas where subsidized early retirement may be advisable: in cases of workers' 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 policy options. For example, the labour supply of young workers may be reduced by increasing the age of compulsory schooling and expanding the educational opportunities. This could have the double advantage of reducing short-term labour supply and improving its quality in the long-term. Furthermore, governments can discourage enterprises from overtime, initiate a reduction in weekly regular working hours,⁴⁵ or encourage part-time work - an employment status not widely used in China. It appears that easing the labour supply pressure through shorter and flexible working

⁴³The standard retirement age for men is 60, and for women is 55 in white-collar and 50 in blue-collar jobs. Retirement age is reduced to 50 (men) and 45 (women) in some industries and occupations with arduous and unhealthy working conditions.

⁴⁴Enterprises in Shanghai, for example, usually offer early retirement for women and men, five and ten years before their normal retirement age, respectively. Those who take early retirement because of ill health receive old-age pension, financed from the pension system. In the other cases, it is the enterprise that has to bear the costs involved. However, the Labour Bureau has recently compiled a list of firms that are in the process of large-scale restructuring, and early retirement schemes in these firms are supported from the authorities.

⁴⁵A State Council decree, effective from 1 March 1994, reduced the working week from 48 to 44 hours. Under the law, workers must be paid overtime if they work more than 44 hours per week. Extra hours may not exceed three hours per day. According to labour officials, almost ten per cent of the state and collective enterprises have failed to comply with the regulations. On the other hand, the reduction in working hours has resulted in an increase in productivity in many enterprises. (See Cao Min and Hong Xia: "Most units complying with new work hours", in *China Daily*, 11 May 1994, p. 3.). The Mission recommends that the Government should make an effort to ensure that enterprises comply with the working time regulations, and it should explore opportunities for the spread of part-time work.

time are both economically and socially more advantageous than pushing people into early retirement in their most productive age of life.

Box 6

Retraining of surplus labour in Jingan

Jingan is a district in Shanghai Municipality. It occupies 7.56 sq. km. and has a population of 410,000. There are 50,000 workers in State-Owned Enterprises (SOEs) and Collectively-Owned Enterprises (COEs) in Jingan, of which approximately 20 per cent, i.e. 10,000, are estimated to be surplus. An SOE usually redeploys its own surplus labour, but there are two other ways in which the surplus labour can be absorbed. First, under the auspices of the Labour Service Company (LSC) of the Labour Bureau, an SOE can set up Labour Service Enterprises (LSEs), provided that the new enterprises each employ more than ten people, 60 per cent of whom must have previously been unemployed. Second, the LSC of the Labour Bureau can itself set up LSEs to employ the surplus labour on a temporary basis; such enterprises trade normally but are essentially a means of providing retraining and work experience prior to redeployment in other enterprises.

The Municipal LSC is a division of the Labour Bureau. The Jingan LSC is one of the district-level LSCs which operate under the Municipal LSC. Twenty-eight LSEs operate under the Jingan LSC. All are collective-owned. The average number of employees for these enterprises is 22 and the products/services offered include small retail shop outlets, a translation agency, spare parts supply, decoration and installation, automobile repair, and transport.

The largest of the LSEs, the Qi Yi Transport Company, was created in 1982 under the Jingan LSC with the aim of providing training and employment for prisoners released from jail. Throughout its existence, the company has maintained profitability through the provision of services connected to the transport industry. In 1993 the profit earned was Yuan 1.07 million. This enterprise currently employs 250 workers, of whom 125 are temporary and are receiving training and work experience prior to subsequent reemployment in other enterprises. It normally takes at least six months for the temporary workers to find other employment. Ninety per cent of the workers do find other jobs, 10 per cent do not and continue to work for the Qi Yi Transport Company. The responsibility for placement of the temporary workers lies primarily with the Jingan LSC, although some find employment through relatives and friends and others go directly to joint-venture enterprises. Others use the labour market to find employment. Since its establishment in 1982, the Qi Yi Company has trained 854 workers in skills which have included automobile repair, special gas applications, and radio repair. In 1994 the company intends to recruit 100 surplus labour workers; in previous years, it has recruited between 70 and 80 surplus workers each year. The total number of workers recruited since 1982 is 1,054.

5.5 Labour market training

Vocational skill training takes a variety of different forms involving formal and informal pre-employment training and retraining as part of in-service training. Pre-employment training is provided primarily by the State Education Commission (SEdC) and involves three types of school as part of secondary vocational education. These are secondary technical schools (STSS), skilled worker schools (SWSs) and secondary vocational schools (SVSS). These schools constitute the formal component of pre-employment training. The informal components comprise Employment Training Centres (ETCs) and Apprenticeship training. Labour market training for unemployed school leavers and adults, redundant workers and those wishing to retrain for other occupations is normally carried out in SWSs and ETCs.

Skilled worker schools

SWSs were established in the 1950s and are designed to train skilled workers of grades four to six on an eight grade scale. The schools are under the general administration of the Ministry of Labour and are managed by central technical ministries, provincial and municipal

Labour Bureaus and enterprises. In 1993 there were 4,477 SWSs with 1.72 million pre-service students; 941 of the schools were run by central industrial ministries, 816 by local Labour Bureaus and the remaining 2,720 by enterprises. Students are recruited from junior secondary school, trained for two or three years and guaranteed jobs upon graduation. Since employment is guaranteed, there is a strong attraction to the scheme and admissions is regulated by the Ministry of Labour to conform to sponsored positions. The official content of the programmes provides 45-60 per cent to practical work assignments, 30-50 per cent to related technical knowledge, and 10-12 per cent to general education subjects. However, due to the shortage of skilled instructors and appropriate training equipment, the general education content is usually raised to 20 per cent at the expense of the related technical knowledge and the practical work assignment.

Informal and short-term training programmes are also operational for labour market training. In 1993, the apprenticeship programme encompassed 2 million trainees and under the pre-service training programmes, 2.46 million trainees were enrolled on training courses conducted by the Labour Service Companies (LSCs). The LSCs are under the administration of the Ministry of Labour and its local Labour Bureaus. The funding sources for both programmes come from: (a) subsidies from Labour Bureaus; (b) fees from future employers; and (c) trainee tuition fees.

Employment training centres

ETCs were established in the 1980s, mainly cosponsored by the Labour Bureaus (Labour Service Companies) and enterprises. They were designed to provide the pre-employment training for unemployed youth. At the end of 1993, there were 2,525 ETCs with a capacity to train 559,000 participants at any one time. Other details relating to the ETCs are shown in Table 10.

ETCs have certain common characteristics. First, they integrate training with production operations; second, training programmes are of short duration, generally from three months to one year; and third, the contents of the training programmes are focused on the development of practical skills and occupational ethics.

Table 10: Employment training centres, China, 1988-1993

Year	Number of training centres	Trainees (million)			Proportion of ex-trainees placed into jobs
		Total	Pre-employment training	Retraining	
1988	1,862	2.47	2.01	0.26	83
1989	2,000	2.40	2.20	0.20	87
1990	2,400	2.69	2.49	0.20	81
1991	2,228	2.93	2.78	0.15	85
1992	2,419	3.04	2.84	0.20	89
1993	2,525	3.05	2.77	0.28	89

Note: The training centres had a staff of 20,000 at the end of 1993.

Source: Ministry of Labour, China.

Apprenticeship training

One way of combining practical experience with theoretical vocational education, which is very important in China, is apprenticeship. This is a formal contract between an employer and a trainee or apprentice; under the terms of this contract, the trainee undertakes to work for the employer for a specified period and the employer undertakes to provide practical experience and instruction which will allow the apprentice to attain the status of a skilled craftsman.

Apprenticeship training, a traditional approach to train skilled workers, was characterized by the apprentice following the master craftsman in the workplace in China in the past. About 1.5 million apprentices are trained every year. They make up only about 2 per cent of the 86.3 million staff and workers in the state-owned enterprises. A junior high school qualification is normally required for entry into apprenticeship training, which ranges from one to three years.

Given its direct links to the needs of the labour market, apprenticeship has proven quite efficient at transferring skills, especially when technology is stable or changing slowly. Apprenticeship's strongest side is its practical orientation. On the other hand, the system chronically neglects theory. This neglect slows the adaptation of workers to new job requirements under conditions of rapid technical advance and limits their skills in areas where greater conceptual mastery is required.

Apprenticeship training in China is completely financed and administered by production units, but there is an absence of a unified training scheme. Trainers are supervised by experienced workers and very little time is spent on theory. Graduates are normally employed in enterprises which train them. In view of this situation, the Ministry of Labour convened a meeting in 1989 to discuss ways and means to reform the apprenticeship system. It was agreed at the meeting that, except for jobs that require traditional skills, apprenticeship training should be changed to pre-employment training, and during the period of training at least one-third of the time should be devoted to technical and theoretical knowledge.

In recent years, there have been gradual changes in the methods of apprenticeship training. Since the early 1980s, the experience and methods of apprenticeship training in Germany have been introduced. In 1989, a pilot scheme was carried out in six cities: Shenyang, Suzhou, Changzhou, Wuhu and Changsa. In 1992, 382 trainees from 12 occupations trained in the first pilot scheme system graduated, and 89 per cent of them have reached the skilled workers middle level.

5.6 Unemployment insurance

The regulations on "Wait-for-employment insurance" (in practice unemployment insurance) for state-owned enterprises was introduced in 1986 to provide income support for workers whose contracts were terminated, those dismissed for disciplinary reasons, and workers laid-off due to bankrupt and reorganized enterprises. In 1993, the unemployment insurance (UI) system was modified, extending the coverage to other categories of state sector workers. These are the workers whose enterprises have been merged with other companies or closed down temporarily or permanently.

Since the establishment of the UI system in 1986, about 476,000 enterprises employing 74.4 million workers and employees have joined the scheme. The number of unemployment benefit recipients is relatively small because the vast majority of registered jobless are school leavers, who are not entitled to benefits. The total number of benefit recipients was about

800,000, or 19 per cent of the registered unemployed, last year (Table 11). However, a progressive deterioration in the placement rate of benefit recipients since 1989 and a rapid increase in the share of benefit recipients among the unemployed in 1993 are a source of concern.

The main purpose of the unemployment insurance system has been to relieve individual enterprises of full direct responsibility for their workers' redeployment by establishing funds that pool resources and share risks among enterprises. By doing so, the system is expected to enhance labour mobility and flexibility through establishing a safety net for redundant labour.

But gaps in the coverage of the unemployment insurance scheme remain. For example, the current regulations of the UI cover only permanent and contract workers in state-owned enterprises. (Temporary and casual workers and those contract workers of rural origin are excluded from the scheme.)

Table 11: Unemployment insurance, China, 1987-1993

Year	UI offices	UI Fund ^(a)	Expenditures for unemployment benefits		Unemployment benefit recipients		Placement rate of benefit recipients ^(b)
	Number of UI offices	Y million	Total (Y million)	As % of UI fund	Total (thousand)	As % of registered unemployed	%
1987	1,900	820	1.43	0.2			70
1988	1,900	580	3.82	0.7			70
1989	2,000	680	7.77	1.1			70
1990	2,000	710	12.89	1.8			60
1991	2,000	920	25.01	2.7	340	9.6	60
1992	2,100	1,160	93.16	8.0	350	9.7	40
1993	2,100	1,620	288.00	17.8	800	19.0	20

^(a) Collected revenues in each year.

^(b) The proportion of unemployment benefit recipients placed into jobs each year.

Source: Ministry of Labour.

The extension of unemployment insurance to all property forms and all types of workers would be an important step towards developing a system of social protection in urban areas. Therefore, the Government should move towards mandatory, universal unemployment insurance. Some cities have already experimented with the extension of unemployment insurance. For example, in Shanghai and Changchun the system has been extended to collective enterprises, joint ventures and individual businesses. Furthermore, a proposal for extending the coverage of the UI system to all urban enterprises and their employees is now under consideration. The next major step would be to include rural TVEs, employing some 100 million workers, into the scheme.

According to the regulations, the qualifying condition for the benefits is a one-year employment record. The level of benefits is established as a proportion of the public assistance relief. The unemployment compensation is between 120 to 150 per cent of public assistance relief, which is determined by the local Bureau of Civil Affairs. The duration of benefits depends on previous work experience. Unemployment compensation is payable up

to one year if the employee has worked less than five years and up to two years if the employee has worked five or more years.⁴⁶

The period of benefit payment seems rather long by international standards, and especially so considering employment conditions in China. Prolonged benefit payments can serve as a disincentive to seek work, not to mention programme costs. The Government may, therefore, consider a reduction in the duration of benefits from 24 to 12 months, except for older workers who are close to retirement age. It may be also necessary to revise some other aspects of the UI system in order to improve its operation. Changes might include the introduction of a period of disqualification for those who are voluntarily unemployed, especially for workers dismissed for disciplinary reasons. The terms of suitable work need to be specified, and policy makers may seek methods of combining passive benefits with active measures more closely.

5.7 Financing labour market policies

The development of labour market institutions and programmes, and the provision of unemployment compensation, need adequate resources. A key question is therefore where resources for labour market policy come from and whether they are sufficient in relation to the needs.

In China, labour market programmes are financed from three sources: the Unemployment Insurance Fund, the Employment Promotion Fund and various fees paid by job-seekers and employers. The Unemployment Insurance Fund pays unemployment benefits and supports training and job creation programmes and job placement services. The local Labour Bureaus may also use the fund to provide loans to ailing enterprises or new firms for keeping their employees on the pay-roll, payments to enterprises as wage subsidies to encourage the recruitment of the unemployed, and lump-sum cash benefits to the unemployed as start-up capital for setting up their own businesses.

The UI fund raises its revenues via a pay-roll tax levied on enterprises. According to the national regulation, the level of the tax should be between 0.6 and 1 per cent of the wage bill, depending on the decision of provincial and local governments. This is a very low level from a comparative perspective. Resources are usually pooled at the county level or at city and district levels. Provincial pooling has begun in Hainan, Liaoning, and Shandong, and other provinces are expected to follow this practice soon.

There are several important issues regarding the structure of contributions and the ways in which UI resources are raised and spent. One of them is whether the responsibility for financing the UI system should be borne by the employers or the costs should be shared between the employers and the workers. The report recommends that consideration should be given to individual contributions from the insured persons. The introduction of a worker's contribution to the UI fund would not only augment the resources but it would also introduce an element of individual responsibility into the system.

Table 12 shows the revenues and expenditures of the UI fund for China as a whole (and for three cities). Since the level of registered unemployment is low, a considerable part of the fund's revenues has been saved (42.6 per cent in 1993). Yet, the largest single expenditure category is unemployment compensation, followed by active policy measures such as training and job creation (self-help production). The relatively high expenditures for administration

⁴⁶Other benefits for the unemployed include medical subsidies and, in case of death of the unemployed, funeral and burial subsidies for immediate families and support to dependent survivors.

include the costs of employment services. The spending profiles of Shanghai, Tianjin and Wenzhou vary significantly, reflecting differences in the levels of local unemployment and the policy approaches taken by the municipal governments.

Although the Fund has not been exhausted so far, with the expected increase of unemployment and the growing financial difficulties of state enterprises the revenue base for pay-roll tax may narrow and the current surplus may disappear. Another factor that might negatively affect the revenues of the Fund is the avoidance of unemployment contribution. In order to safeguard payment of unemployment benefits to UI claimants in the event of a rise in the level of unemployment or in the ratio of beneficiaries to claimants, a cap of 30 per cent ought to be imposed on the amount of a UI Fund being redirected to employment promotion.

Table 12: Revenues and expenditures of the Unemployment Insurance Fund, China, (1993)

	CHINA		SHANGHAI		TIANJIN		WENZHOU	
	Y billion	Per cent	Y million	Per cent	Y million	Per cent	Y million	Per cent
Revenues	1.62		74.7		50.0		3.0	
Expenditures	0.93	100.0	89.8	100.0	39.6	100.0	2.5	100.0
Unemployment benefits	0.29	30.2	47.0	52.4	26.0	65.6	0.3	12.0
Health and medical support	0.01	0.1	1.7	1.9	-	-	-	-
Self-help production	0.18	19.3	6.8	7.6	6.5	16.5	0.8	32.0
Training	0.23	24.7	5.4	6.0	4.0	10.1	1.1	44.0
Job exchange	-	-	19.7	21.9	-	-	-	-
Administrative costs	0.16	17.2	8.2	9.1	2.5	6.3	0.3	12.0
Others	0.07	7.5	1.0	1.1	0.6	1.5	0.0	0.0
Transferred to the Province	-	-	-	-	-	-	0.3	-
Balance for current year	0.69		-5.1		10.4		0.2	
Accumulated savings since 1986	4.07		n.a.		n.a.		4.7	

Note: n.a. = not available.

Source: Ministry of Labour.

According to the Ministry of Labour, the Fund's present revenue is not substantially lower, due to tax evasion, than it should be.⁴⁷ Nevertheless, steps should be taken to enforce pay-roll tax compliance for two reasons. First, growing financial problems of firms may result in delays or shortfalls in collection. Second, with the extension of the unemployment insurance to the non-state sector, tax evasion is expected to become a bigger problem than it has been so far. Anecdotal evidence suggests that private firms are resorting to a variety of tax-avoidance practices.

As developments in Central and Eastern European transition economies show, with the growth of unemployment both total expenditure and the spending on unemployment

⁴⁷For example, tax evasion is estimated to be around 5 per cent in Shanghai. This is still low but the situation is deteriorating according to the labour bureau.

compensation are rapidly increasing.⁴⁸ Although both the level and growth of unemployment are much lower in China than in Eastern Europe, the deterioration in the placement rate of benefit recipients and a rapid increase in the share of benefit recipients among the unemployed are a source of concern. If these negative trends continue, the rising expenditures for unemployment benefits may narrow the resource base for pro-active labour market policies. Therefore, policy makers should plan ahead with resources and proactive labour market strategies.

The practice for planning pro-active and compensatory programmes and the allocation of resources varies from city to city. In addition, a system for monitoring the cost effectiveness of the programmes is lacking. Designing and implementing a system for the assessment, management and planning of the programmes, which are financed from the UI fund, is a complicated task. China would need technical assistance in this field.

There are further problems with the UI fund management because of limited supervision and control over the allocation and accounting of the funds. The experience of some industrialized countries and transition economies might be helpful in this area. For example, many have established tripartite labour market committees at the national and lower levels. These committees have representatives from business, labour, and government and are responsible for budget allocation and general supervision of the administration of labour market programmes.

In addition to the UI fund, there is an Employment Promotion Fund, which is jointly financed by the central Government and the provincial authorities. The total resources available for this fund are modest (Table 13). The two main expenditure categories are support for LSEs and the pre-employment training programmes. The problems in fund management are the same as with the UI fund. Since training and job creation are important policy objectives, it seems necessary to augment the resources for employment promotion.

⁴⁸In many Eastern European countries the unemployment rate increased rapidly between 1990 and 1992: from 1 per cent to 10.7 per cent in Hungary, from 3.5 per cent to 13.6 per cent in Poland and from 1.5 per cent to 15.3 per cent in Bulgaria, for example. As a consequence, the rise in the number of unemployment benefit recipients resulted not only in an increase in total expenditure for labour market programmes, but also in dramatic changes in their composition at the expense of active policies. Total expenditure for labour market programmes increased in these three countries from about 0.5 per cent of the GDP in 1990 to between 1 and 3 per cent in 1992. Meanwhile, the share of unemployment compensation in the budget increased over the period from 1990 to 1991 from 58 to 82 per cent in Poland, while it doubled (from 34 to 70 per cent) in Hungary and Bulgaria (from 32 to 62 per cent). In 1992, the share of unemployment compensation in the total expenditure rose further, limiting the resources available for active labour market policy measures. Source: national statistics.

Table 13: Revenues and expenditures of the Employment Fund, China, 1993

	Yuan (millions)	Per cent
Revenue	<u>234</u>	
Central Government	214	
Local Governments	20	
Expenditure	<u>218</u>	<u>100.0</u>
Support to LSEs	69	31.7
Allocation fee	2	0.9
Pre-employment training	75	34.4
Administrative costs	28	12.8
Others	44	20.2
Balance for current year	16	

Source: Ministry of Labour.

A key issue is how to secure adequate funding for labour market programmes in rural areas. One possibility would be to set up a special fund for rural areas. Another option is to channel more resources for rural programmes through the Employment Promotion Fund. The latter appears a better solution because managing both urban and rural programmes through one fund could save administrative costs and provide greater flexibility for the allocation of resources.

The third, and minor, part of financial resources for labour market policy comes from various fees paid by job-seekers and employers. Unemployment registration and placement are free of charge in some cities and provinces, while in others they are not. Participants in job fairs, organized by employment agencies, are usually required to pay admission fees. In Tianjin, for example, an enterprise has to pay 200 Yuan per day, plus a recruitment fee, a small proportion of the newly-hired worker's monthly wages, after each successful recruitment. A job-seeker visiting the job fair has to pay an admission fee of 5 Yuan. In general, the total revenue from these various fees are very modest.

The overall size of China's labour market budget is presented in Table 14. As a percentage of the GDP, the Unemployment Insurance Fund and the Employment Promotion Fund together represent roughly about 0.06 per cent of the GDP. If the tax relief of LSEs -which is a kind of indirect subsidy towards job creation - is also included, the labour market budget as a per cent of GDP is somewhat higher. Yet, it is still much lower than the relative size of the overall expenditures for labour market programmes in some European transition economies, not to mention OECD countries (Table 15).

Table 14: Labour market budget in China, 1990-1993

Year	UI Fund	Employment Fund	Tax relief of LSEs	TOTAL
I. Y 100 million				
1990	7.1	n.a.	10.4	17.5
1991	9.2	n.a.	10.9	20.1
1992	11.6	n.a.	15.7	27.3
1993	16.2	2.43	17.0	35.63
II. As per cent of GDP				
1990	0.040	n.a.	0.059	0.099
1991	0.046	n.a.	0.054	0.100
1992	0.048	n.a.	0.066	0.114
1993	0.052	0.008	0.054	0.114

Source: Ministry of Labour.

Table 15: Public expenditure for labour market policy and unemployment in selected countries (1992)

Country	Public expenditures as percentage of GDP	Registered unemployment rate
China	0.11 ¹	2.6
Czech Republic	0.51	3.1
Rumania	0.96	8.2
Hungary	2.78	10.7
Poland	2.83	13.6
Australia	2.09 ²	10.7
Belgium	3.87 ³	7.8
France	2.82 ³	10.2
Germany	3.46	4.8
Netherlands	3.22 ⁴	6.8
Ireland	4.40 ³	16.1
Sweden	5.99 ⁵	4.8
Spain	3.65	18.1
Finland	5.52	13.0
Japan	0.45 ²	2.2
United States	0.84 ⁵	7.3

¹. Including tax relief of LSEs.

². 1991 - 92.

³. 1991.

⁴. 1990.

⁵. 1992 - 93.

Source : *Employment Outlook*, OECD, Paris, 1993; *Employment Observatory: Central and Eastern Europe*, No. 4, Commission of the European Communities, Brussels, 1993.

It should be kept in mind when analysing the above data that in China provisions for redundant workers and for job creation are largely the responsibility of state and collective enterprises. A policy of gradually relieving enterprises of their "employment responsibility" would require a considerable increase in the labour market budget. A key question is therefore where the additional resources for labour market policy would come from. The possible options include the extension of the unemployment insurance system to all enterprises and the introduction of a worker's contribution to the UI-fund. The rapid economic growth of the country may allow an increase in public expenditure through the Employment Promotion Fund. Savings in some areas, such as subsidies to industry, might provide some further resources.

6. Concluding remarks

Over the past fifteen years, China has achieved considerable progress in transforming its command economy to a market-oriented system, though further changes are still waiting to happen. The diffusion of rapid economic growth from coastal areas and industrial centres to less-developed regions, the strengthening of the non-state sector and the restructuring of state-owned enterprises are among the major challenges to the Government. In this context, creating a unified labour market, improving its allocative efficiency and mitigating the negative effects of the reforms on the workforce are crucial to the success of the transition process.

The paper has reviewed recent employment trends, has analyzed progress in employment reforms and has examined the impact on specific groups; the paper has recommended some changes in the employment system and in the policy measures required to improve their effectiveness. For the reforms to be successful, people must have the means to adapt to changes. Labour market institutions and policies, if appropriately designed and implemented, can help to ease the social costs of reforms, while facilitating employment adjustment through job search assistance, retraining, employment creation, compensatory measures and through the redeployment of people into more productive activities.

Given the large size of the country, its diversity and the pace of economic change, there is an urgent need to collect more information in order to monitor and analyze labour market developments and the impact of policies. China faces enormous obstacles in developing an economically and socially integrated society. But it is also presented with an opportunity to develop new, innovative approaches to these problems. The quest for a successful transition to an efficient and equitable labour market will require an array of policy measures. Some will be successful, some will not. But there must be a willingness on the part of the Government and the social partners to experiment with different methods, keeping in mind that no single approach presents a solution. Only a board-based policy package has a chance of preventing rigid social differentiation and promoting an integrated labour force with the fullest possible use of human resources.

Statistical Annex

Table 1: Employment by sector, China, 1978-1993

	1978	1980	1982	1984	1986	1987	1988	1989	1990	1991	1992	1993
	(Millions)											
TOTAL	401.52	432.61	452.95	481.97	512.82	527.83	543.34	553.29	567.40	583.65	594.32	605.90
Primary	283.73	291.81	309.17	309.27	313.11	317.20	323.08	332.84	340.49	348.78	347.69	347.92
Secondary	70.67	78.6	84.79	97.28	113.56	118.69	122.95	121.16	121.58	124.71	129.21	135.50
Tertiary	47.12	53.44	58.99	75.42	86.15	91.94	97.31	99.29	105.33	110.16	117.42	122.48
	(Percentage shares)											
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Primary	70.7	68.9	68.3	64.2	61.1	60.1	59.5	60.0	60.0	59.7	58.5	57.4
Secondary	17.6	18.5	18.7	20.2	22.1	22.5	22.6	21.7	21.4	21.4	21.7	22.4
Tertiary	11.7	12.6	13.0	15.6	16.8	17.4	17.9	18.3	18.6	18.9	19.8	20.2
	(Growth rates)											
TOTAL	-	3.3	3.6	3.8	2.8	2.9	2.9	1.8	2.6	2.9	1.8	1.9
Primary	-	1.7	3.6	-0.9	0.4	1.3	1.9	3.0	2.3	2.4	-0.3	0.1
Secondary	-	6.8	4.3	10.4	7.9	4.5	3.6	-1.5	0.3	2.6	3.6	4.9
Tertiary	-	7.1	2.5	17.6	5.6	6.7	5.8	2.0	6.1	4.6	6.6	4.3

Note: Farming is primary; industry, geological and construction is secondary; the rest is tertiary.

Source: China Statistical Yearbook, 1992; Ministry of Labour.

Table 2: Employment by ownership, China, 1978-1993

	1978	1980	1982	1984	1986	1987	1988	1989	1990	1991	1992	1993
TOTAL (millions)	401.52	423.61	452.95	481.97	512.82	527.83	543.34	553.29	567.40	583.64	594.32	605.90
Staff and workers	94.99	104.44	112.81	118.90	128.09	132.14	136.08	137.42	140.59	145.08	147.92	150.40
State-owned	74.51	80.19	86.30	86.37	93.33	96.54	99.84	101.08	103.46	106.64	108.89	110.94
Urban collective-owned	20.48	24.25	26.51	32.16	34.21	34.88	35.27	35.02	35.49	36.28	36.21	36.03
Other ownership	0.00	0.00	0.00	0.37	0.55	0.72	0.97	1.32	1.64	2.16	2.82	3.43
Urban individual labourers	0.15	0.81	1.47	3.39	4.83	5.69	6.59	6.48	6.71	7.63	8.38	11.16
Rural labourers	306.38	318.36	338.67	359.68	379.90	390.00	400.67	409.39	420.10	430.93	438.02	444.34
TOTAL (Percentage shares)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Staff and workers	23.7	24.7	24.9	24.7	25.0	25.0	25.0	24.8	24.8	24.9	24.9	24.8
State-owned	18.6	18.9	19.1	17.9	18.2	18.3	18.4	18.3	18.2	18.3	18.3	18.3
Urban collective-owned	5.1	5.7	5.9	6.7	6.7	6.6	6.5	6.3	6.3	6.2	6.1	5.9
Other ownership	0.0	0.0	0.0	0.1	0.1	0.1	0.2	0.2	0.3	0.4	0.5	0.6
Urban individual labourers	0.0	0.2	0.3	0.7	0.9	1.1	1.2	1.2	1.2	1.3	1.4	1.9
Rural labourers	76.3	75.2	74.8	74.6	74.1	73.9	73.7	74.0	74.0	73.8	73.7	73.3
TOTAL (Growth rates)	..	3.3	3.6	3.8	2.8	2.9	2.9	1.8	2.6	2.9	1.8	1.9
Staff and workers	..	4.8	3.1	3.3	3.6	3.2	3.0	1.0	2.3	3.2	2.0	1.7
State-owned	..	4.2	3.1	-1.5	3.8	3.4	3.4	1.2	2.4	3.1	2.1	1.9
Urban collective-owned	..	6.6	3.2	17.2	2.9	2.0	1.1	-0.7	1.3	2.2	-0.2	-0.5
Other ownership	..	..	..	..	25.0	30.9	34.7	36.1	24.2	31.7	30.6	21.6
Urban individual labourers	..	153.1	30.1	46.8	7.3	17.8	15.8	-1.7	3.5	13.7	9.8	38.4
Rural labourers	..	2.6	3.7	3.7	2.5	2.7	2.7	2.2	2.6	2.6	1.6	1.4

Source: Statistical Yearbook of China, 1992 and State Statistical Bureau.

Table 5: Recruitment and labour turnover in enterprises surveyed by mission (1993)

Enterpri se ref. no.	Total employed	Recruitment rate (%)	Distribution of recruitment (%)			Labour turnover rate (%)	Distribution of turnover (%)						
			Assigned	Transferred	Hired on the market		Retirement	Resignation	Dismissal	Transfer	Termination of contract	Others	
1	146	5.6	37.5	37.5	25.0	3.4	20.0	0.0	80.0	0.0	0.0	0.0	0.0
2	982	6.4	1.6	69.8	28.6	4.1	62.5	0.0	5.0	n.a.	32.5	0.0	0.0
3	21,778	0.9	0.0	0.0	100.0	2.2	n.a.	n.a.	n.a.	0.0	n.a.	n.a.	n.a.
4	2,962	11.3	0.9	1.5	97.6	15.6	15.4	8.4	43.1	0.0	33.1	0.0	0.0
5	360	22.2	62.5	0.0	37.5	1.1	25.0	75.0	0.0	0.0	0.0	0.0	0.0
6	1,262	2.0	40.0	36.0	24.0	0.9	41.7	0.0	58.3	0.0	0.0	0.0	0.0
7	3,463	4.7	71.9	28.1	0.0	2.1	95.9	0.0	4.1	n.a.	0.0	0.0	0.0
8	180	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.0	n.a.	n.a.	n.a.
9	170	0.0	0.0	0.0	0.0	1.2	0.0	100.0	0.0	0.0	0.0	0.0	0.0
10	944	3.8	0.0	0.0	100.0	8.7	31.7	0.0	2.4	41.3	14.6	51.3	0.0
11	940	4.8	33.4	44.3	22.3	4.9	43.5	8.7	0.0	0.0	0.0	0.0	6.5
12	687	4.5	0.0	32.3	67.7	2.5	29.4	0.0	70.6	0.0	0.0	0.0	0.0
13	1,047	8.8	28.3	8.7	63.0	1.2	61.5	0.0	38.5	n.a.	0.0	0.0	0.0
14	695	3.9	0.0	77.8	22.2	4.9	n.a.	n.a.	n.a.	0.0	n.a.	n.a.	n.a.
15	180	61.1	0.0	29.1	70.9	9.4	0.0	0.0	5.9	100.0	94.1	0.0	0.0
16	38	2.6	0.0	0.0	100.0	2.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
17	77	11.7	0.0	44.4	55.6	1.3	100.0	0.0	0.0	0.0	0.0	0.0	0.0
18	1,670	1.5	0.0	100.0	0.0	9.3	100.0	0.0	0.0	0.0	0.0	0.0	0.0
19	87,509	2.4	0.0	98.0	1.4	0.4	89.2	4.3	0.0	0.0	6.5	0.0	0.0
Total ^a		2.6	11.7	61.3	27.0	1.0	55.7	5.0	18.2	1.5	16.1	3.5	0.0

^a weighted average
 Note: n.a. = not available
 Source: Mission survey of enterprises

Table 6: Situation of Women in Asia and the Pacific

Country	Absolute Position					Females as Percentage of Males						
	Literacy Rate (15-24 yrs. only) 1980-89	Secondary Enrolment Ratio 1988-90	Tertiary Enrolment Ratio 1988-90	Tertiary Science and Engineering Enrolment % female 1987-88	% female of Administrative and Managerial Staff 1980-89	% of women in total labour force 1990	Literacy 1970	Mean Years of Schooling 1990	Secondary Enrolment 1988-90	Tertiary Enrolment 1988-90	Labour force 1990	
Japan		96	45	7	7	40		98	104		68	
Hong Kong		75	9		12	36	71	63	106	56	57	
Korea		86	28	13	3	34	86	61	97	53	51	
Singapore	96	71			22	39	60	66	104		64	
Brunei	93				6			83				
Malaysia	83	58	7	29	8	31	68	91	105	95	45	
Fiji	91	53	3	27	9	19		83	104			
Thailand	96	32			21	47	84	76	97		88	
Sri Lanka	90	77	4	20	7	37	81	80	107	71	59	
Philippines	92	75			25	37	96	89	104		59	
Mongolia		96	26	45		45	85	95	110		83	
China	82	41	1		11	43	73	60	77	50	76	
Indonesia	82	41		21	7	40	64	58	84		66	
Maldives	87				10	20		77			25	
Vietnam	94	40				47		59	93	28	88	
Myanmar	81	23				37	67	72	92		60	
Papua New Guinea		10		8		39	62	50	63	38	64	
Pakistan	25	13	2			11	37	25	45	41	13	
India	40	33	4	22	2	26	43	34	61	47	34	
Laos		21	1	17		45	76	59	68	50	81	
Bangladesh	27	11	1	16	2	7	33	30	50	22	7	
Cambodia				4		39	46	71			64	
Nepal	15	17				34	13	32	40		51	
Bhutan		2				32		32	29		48	
Afghanistan	11	5	1			8	15	12	45	18	9	

Source: UNDP, "Human Development Report 1993", New York, UNDP, 1994, pp. 150-153.

Table 3: Regional urban unemployment

Region	Number of unemployed (millions)			Unemployment rate (%)		
	1980	1990	1992	1980	1990	1992
CHINA (total)	541.5	383.2	360.3	4.9	2.5	2.3
Beijing	5.4	1.7	1.7	1.6	0.4	0.3
Tianjin	13.8	8.1	3.2	5.4	2.7	1.1
Hebei	15.5	7.7	18.4	3.1	1.1	2.5
Shanxi	9.1	5.5	3.3	2.9	1.2	0.7
Inner Mongolia	39.2	15.2	14.1	13.3	3.8	3.3
Liaoning	44.7	23.7	21.2	5.5	2.2	1.9
Jilin	23.2	10.5	9.1	5.8	1.9	1.6
Heilongjiang	47.9	20.4	28.2	7.0	2.2	1.9
Shanghai	20.2	7.7	9.4	4.3	1.5	1.8
Jiangsu	21.4	22.5	18.1	3.2	2.4	2.0
Zhejiang	13.7	11.2	13.0	3.6	2.2	2.4
Anhui	25.7	15.2	15.4	6.9	2.8	2.7
Fujian	17.8	9.0	7.1	7.0	2.6	1.9
Jiangxi	14.3	10.3	8.6	4.7	2.4	1.9
Shandong	12.5	26.2	18.2	2.3	3.2	2.0
Henan	24.5	25.1	20.7	4.9	3.3	2.6
Hubei	15.5	12.7	16.9	3.0	1.7	2.2
Hunan	20.5	15.9	18.8	4.8	2.	2.9
Guangdong	35.4	19.2	19.1	5.1	2.2	1.9
Guangxi	12.4	13.9	22.6	4.7	3.9	3.3
Hainan	n.a.	3.5	2.9	n.a.	3.0	2.3
Sichuan	42.2	38.0	38.8	5.5	3.7	3.6
Guizhou	13.8	10.7	9.1	7.1	4.1	3.4
Yunnan	5.5	7.8	7.5	2.3	2.5	2.3
Tibet	1.1	n.a.	n.a.	4.9	n.a.	n.a.
Shaanxi	17.6	11.2	9.1	5.8	2.8	2.2
Gansu	8.5	12.5	9.5	4.7	4.9	3.5
Qinghai	2.7	4.2	2.6	4.8	5.6	3.5
Ningxia	3.9	4.0	3.3	7.5	5.4	4.2
Xinjiang	13.5	9.6	9.8	5.2	3.0	2.8

Source: China Labour Yearbook, 1993.

Table 4 Contract workers in state-owned enterprises, by region, China, 1986-1992

REGION	CONTRACT WORKERS				PERCENTAGE OF EMPLOYMENT		
	1986	1989	1992	1986	1989	1992	
<u>CHINA (total)</u>	<u>5,133,057</u>	<u>11,893,118</u>	<u>20,584,912</u>	<u>5.6</u>	<u>11.9</u>	<u>18.9</u>	
Beijing	66,292	236,047	573,665	2.0	6.9	15.5	
Tianjin	106,419	167,075	233,598	5.1	7.7	11.0	
Hebei	358,648	692,522	1,127,992	8.1	14.2	21.4	
Shanxi	189,809	391,789	623,592	6.2	11.7	17.4	
Inner Mongolia	109,148	204,888	492,471	4.3	7.6	16.3	
Liaoning	317,629	894,103	1,717,175	5.1	13.6	24.9	
Jilin	173,007	348,985	600,157	5.4	9.9	15.8	
Heilongjiang	284,094	782,600	1,098,497	5.1	13.1	17.1	
Shanghai	205,492	306,885	1,314,954	5.2	7.8	33.2	
Jiangsu	429,584	797,868	1,410,351	8.8	15.2	25.1	
Zhejiang	198,082	436,311	632,098	7.9	15.9	21.2	
Anhui	159,249	308,906	466,078	5.3	9.4	13.1	
Fujian	86,091	173,619	254,832	4.3	8.2	11.4	
Jiangxi	170,829	315,390	436,052	6.3	10.6	13.5	
Shandong	400,087	1,042,410	1,608,746	8.7	19.5	26.6	
Henan	268,701	760,831	1,448,479	5.7	14.8	25.3	
Hubei	245,637	598,075	884,458	5.2	11.7	15.9	
Hunan	127,911	665,737	969,567	3.5	16.2	21.6	
Guangdong	434,887	656,926	1,006,620	7.8	12.8	18.0	
Guangxi	96,838	244,056	406,046	4.2	9.7	14.7	
Hainan		185,686	256,613		19.7	25.8	
Sichuan	243,450	531,214	1,063,487	3.8	7.6	14.3	
Guizhou	59,827	147,889	243,874	3.6	8.2	12.6	
Yunnan	85,358	187,728	358,135	3.7	7.7	13.7	
Tibet			15,069			9.6	
Shaanxi	71,140	355,740	547,922	6.1	11.7	16.8	
Gansu	131,694	219,004	342,821	7.4	11.5	16.8	
Qinghai	24,185	49,165	76,661	4.5	8.9	13.5	
Ningxia	27,641	54,793	92,908	5.6	10.0	15.5	
Xinjiang	61,328	136,876	292,993	2.6	5.4	10.5	

Source: China Labour Yearbook, 1993.