

# Employment challenge and Policies response in China

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## I. Employment challenge

The task of achieving full employment for China's labour force is indeed a daunting one. Employment growth has slowed drastically as some of the main engines of employment creation such as township and village enterprises (TVEs) have lost their dynamism and public sector enterprises have shed much of their concealed surplus labour. Almost one-third of the rural population is believed to be underemployed, and many of the workers who have moved to the cities from rural areas have become a floating migrants, taking up unregistered informal sector or temporary employment.

Increased labour market pressures in the 1990s have led to open unemployment in urban areas while abundant labour in rural areas has remained concealed in underemployment. At the end of September 2002 the registered urban unemployment rate rose to 3.9 per cent or 7.72 million persons. This figure, however, includes neither laid-off workers cared for in the re-employment centers of enterprises (which are being phased out) nor migrant workers who usually do not have the right to register at labour bureaus (although these workers are unlikely to be completely unemployed, they will often be looking for better jobs). Many new labour market entrants and workers laid off from private enterprises or unwilling to continue in self-employment are also excluded. The difference is substantial. In 1999 the rate of registered urban unemployment was 2.6 per cent while the unemployment rate calculated as the economically active population minus employment divided by the economically active population (i.e. still not including redundant workers in the re-employment centers) was more than double at 5.5 per cent. Since that time this difference has probably further increased and a recent report released by China's Development Research Centre of the State Council puts an estimate of the urban unemployment rate at some 10 per cent. While rural unemployment is formally considered zero, an assessment by China's National Bureau of Statistics puts underemployment in rural areas at 35 per cent of the total rural workforce, i.e. 170 million persons. Data on underemployment in the rural labour force are, however, more than usually disputable. Employment in agriculture equaled 330 million in 2001 but probably many work seasonally or part time.

Women are disproportionately hit by unemployment. While in 2001 they contributed 39.2 per cent to the workforce of urban enterprises (not including the small scale private sector), their share in registered unemployment was 40.0 per cent and their unemployment rate was 6.4 per cent

compared with 4.8 per cent for men. Apart from SOEs women tend to face layoffs more often than men and once made redundant they can find a new job only with difficulty if at all, as employers clearly discriminate against them both in hiring as well as in firing. In 2001 women accounted for only 45.6 per cent of job seekers placed in jobs. Many female jobseekers are then discouraged and leave the labour market altogether or migrate to other regions with higher labour demand (e.g. female migrant labour is used on a large-scale basis in the Pearl River Delta region of Guangdong).

The unemployment rate of young workers aged 16-24 was more than double (12.9 per cent) and those aged 16-29 over 50 per cent higher (8.9 per cent) than the national rate (5.5 per cent) in 1999. While in the youngest age group the female rate was slightly lower than the male rate (respectively, 12.7 and 13.1 per cent), the relationship reversed when the upper age limit reached 30 (9.4 per cent rate for women and 8.5 per cent of men). School leavers without work experience contribute almost one-third to urban registered unemployment. Like many countries China faces a seeming paradox: on the one hand it clearly lacks more skilled workers for improving its production competitiveness while on the other hand higher educated workers are over represented in registered unemployment.

Since 1978 China has moved significantly towards becoming an urban society. But with almost 800 million people (62 per cent of the total population) living in the countryside, China remains a rural society - and will do so for some time to come. The rural labour force currently accounts for about two-thirds of the total. Indeed, in 2001, although it contributed only 15 per cent of GDP, agriculture alone still provided 45 per cent of all jobs in China. No assessment of China's employment situation that fails to take into account the employment challenge facing the rural sector is therefore complete.

After 1978 successful rural reforms impacted on the employment situation in several ways. First, improved incentives in the agricultural sector reduced labour requirements for farming. Second, encouragement of agricultural diversification caused a shift in farm employment towards jobs that were less labour-intensive than crop farming (for example, forestry, animal husbandry and fish farming). Third, the dismantlement of the former collective institutional framework had the effect of making what had previously been a problem of concealed farm under-employment a much more visible phenomenon. Chinese government promoted a new and radical rural development strategy that gave non-farm activities in the countryside a more prominent and flexible role. Through deregulation, combined with tax concessions, subsidies and investment, rural industrialization helped both to raise rural income and to address farm underemployment. Between 1978 and 2001, for example, employment in TVEs alone increased from 28.3 million to 131 million, i.e. from 9.5 to 27 per cent of the rural labour force. When those working in other non-agricultural, rural activities, such as construction, transport, trade and catering, are included, the off-farm, rural labour force now numbers in excess of 170 million people. In the development literature, migration from countryside to city is normally perceived as a movement from a traditional farming milieu to a modern, large-scale metropolitan center. In recent years in China, such population movements have taken place on a large and increasing scale. But like industrialization, urbanization in China is paradoxically also a quasi-rural process, involving the

deliberate transfer of people from countryside to nearby small towns that have been set up expressly in order to absorb surplus farm labour without adding to the considerable social, economic and environmental pressures that already exist in large cities.

In the short and medium term entry into the WTO will force structural changes which can put further pressure on the labour market, even though the long-term benefits from this entry, if properly tapped, could be significantly positive. In addition there are wide regional differences in economic performance and in consequence employment pressures vary greatly in different parts of the country. To add to these challenges China's labour force is expected to increase by more than 70 million over the next decade, albeit at an annual rate of below one per cent.

The employment challenge is not merely a matter of generating income. People's work means more to them than adequate income. At work, whether in wage employment or self-employment, people experience fairness or unfairness, and their voice may be heard or ignored. The fair treatment and dignity to which people aspire in employment must be assured if there is to be decent work. The only way to respond effectively to this challenge is to make employment central to all economic and social policies.

The key employment challenges and appropriate policy responses were discussed in Beijing in mid-September 2002 at the high-level National Re-employment Conference jointly convened by the Central Committee of the Communist Party of China and the State Council. The National Re-employment Conference concentrated primarily on how to best help workers laid off from state-owned enterprises and some other groups of unemployed persons in urban areas. However, the discussion also tackled impediments to, and measures promoting, the employment of new urban labour market entrants and the mobility of surplus rural labour. Five main areas were identified for appropriate policy response: (1) economic growth and employment promotion – the need to increase the employment intensity of economic growth and absorb more jobless persons seeking re-employment or new labour market entrants; (2) economic restructuring and employment promotion – stimulation of both labour-intensive and high-tech industries and the promotion of small and medium-sized enterprises whatever their form of ownership, in order to strengthen their job creation capacity; (3) intensification of economic reforms and employment promotion – all levels of government should work closely with enterprises to create conditions for retrenched workers to find new productive jobs. At the same time society needs to support laid-off workers in overcoming hardship and in actively searching for the available jobs; (4) the coordinated simultaneous development of urban and rural areas and employment – preventing massive and unregulated migration of rural workers to the cities. This requires formulating a mobility policy based on development and efficiency criteria, promoting job creation in rural areas and encouraging equal treatment, proper supervision and good employment services for rural workers moving in search of urban jobs; and (5) social security and employment – adequate measures need to be taken to improve the coverage of workers and the quality of the social security system.

The Conference formulated a new active employment policy, which should address the current and foreseen employment challenges. The active employment policy includes five aspects: (1)

Macroeconomic policies promoting job creation and employment through structural change primarily benefiting the service sector, formal and informal small enterprise development, the stimulation of labour-intensive industries and also, the overseas labour migration of Chinese workers. (2) Re-employment promotion policies targeted at vulnerable groups and encouraging their self-employment and employment in service sector enterprises through micro-credits, tax cuts and social insurance subsidies as well as their participation in public welfare programme, and also encouraging large and medium-sized enterprises to redeploy redundant workers internally. (3) Labour market policies implemented through the public employment service to provide job placement services and vocational training free of charge to all unemployed persons (and not only to certain groups of jobseekers), to introduce “one-stop” comprehensive employment services, improve the access to and the quality of vocational training and business start-up programme, and to link community provided social security and employment services. (4) Employment protection regulations applying to enterprise closures, bankruptcies and staff cuts, and to formulation of plans for the re-employment of laid-off and unemployed workers as well as job placement of new urban labour market entrants and surplus rural workers. (5) Social policies guaranteeing provision of basic living allowances and improving the social insurance system.

## **II. Creating equal employment opportunities for all**

This is an important concept, which needs to be properly reflected in the economic and social policy. There is evidence that women and ethnic minority groups, as well as some other groups, including disabled persons and older workers, have disproportionately borne the costs of economic transition as employers discriminate against them in hiring, firing, job promotion and remuneration. Also discrimination against rural migrant workers in urban areas is severe. Such discrimination may either be deliberate or arise simply from a lack of understanding and awareness. In addition, these groups experience particular difficulties in access to education and training, choice of occupation or finding finance. While early retirement may sometimes be appropriate for older workers any such exclusion of qualified workers contributes to lower utilization of human resource potential, higher income inequality and slower economic growth. National policies should provide for steps to ensure truly equal access to quality education for boys and girls, able-bodied and disabled, all ethnic groups and regions in the country, and to alleviate unwarranted occupational segregation based on gender, age, social and ethnic origin or state of health. There is also a need for mutually consistent labour market and social policies enabling and encouraging the increased labour market participation of disadvantaged social groups, which are oriented both to members of these groups and to employers. Such policies should be designed and implemented to promote equality of opportunity and treatment between women and men, and to ensure that members of the vulnerable groups have an equal chance of employment, that they are equally treated in terms of remuneration and that they benefit equally from economic and social development.

## **III. The promotion of entrepreneurship and job creation in SMEs**

Employment performance can improve only when the economy, and in the first place the private sector, generates more demand for labour. The state can effectively stimulate such demand by creating an enabling environment for entrepreneurship, supporting the restructuring of many large state-owned enterprises, promoting the establishment and expansion of small enterprises, and enhancing the inflow of foreign direct investment. The paper identifies many policy gaps in this respect, whose gradual removal is also required by the World Trade Organization (WTO) accession agreements. Particular attention needs to be paid to promoting small and medium-sized enterprises (SMEs), which are currently contributing over three-quarters of industrial output. SMEs, including township and village enterprises (TVEs), have played a major role in the adjustment process. They have responded to changing patterns of demand in fields that stayed unexplored in the planned economy. Nevertheless regulations concerning enterprise start up and operation, in particular the taxation of small enterprises, should be simplified and made less costly, to create conditions for continuous enterprise expansion and development. Government, especially at the local level, should help small entrepreneurs and the self-employed find finance (and particularly improve access to micro-credits for the poor) and complement such finance with support services such as the subsidized provision of management and skills training, assistance in finding and using resources, new technologies and markets.

The key issues in this element including:

- National policies are moving towards the active promotion of the small enterprise sector, including self-employment. There is great need to support the implementation of these policies at the local level and to develop local-based financial and training services that can help displaced workers and under-employed agricultural workers to take advantage of this opening and start new economic activities.
- For new small enterprises to thrive, barriers to regional, national and even international markets for products that require small-scale start-up capital must be identified and removed, particularly for women-entrepreneurs. Reduced levels of government intervention in small and medium enterprises must match improved business and entrepreneurship training, in order to support employment growth in the emerging private sector. Cost-effective ways are needed to foster technological upgrading and knowledge transfer, both domestically and internationally, in order to strengthen international competitiveness of Chinese SMEs.
- Effective ways must be found to help small enterprises meet basic labour standards, maintain safe and healthy workplaces and ensure access to basic social security services for their own families and for their employees. Modest investments in job quality can help enterprises improve their productivity and increase their social standing in their communities, while at the same time they offer decent work and livelihoods to more women and men.

- Returning rural migrants could play a bigger role in establishing rural SMEs and in otherwise encouraging rural economic growth and diversification.

Deepening reforms of SOEs increases expectations on small and medium enterprises to absorb vast numbers of laid-off workers, expand domestic demand and carry forward technological innovation. Small enterprise development, in particular in manufacturing and services, is also looked to as the foundation for employment creation in rural communities and smaller cities, where agricultural activities cannot absorb the available labour force. In the effort to modernize the manufacturing and export sectors, SMEs provide important services to larger enterprises by providing repair and maintenance services, supplying parts and components, processing semi-finished products and selling manufactured products to consumers.

China's period of economic reform has resulted in the rapid development of the non-state sector, with many ownership forms now sharing the country's business landscape. TVEs, foreign invested companies and businesses entirely owned privately already account for half of China's productive output. In 2000, there were 35.7 million smaller enterprises registered in China, 72 per cent micro enterprises (urban and rural individual industrial and commercial households) with seven or fewer employees. While small enterprises' share of all enterprises has stayed constant at about 98 per cent since 1980, their share of gross national industrial output increased from 60 per cent to 77 per cent in 2000.

#### **IV. Active and passive labour market policies for an integrated labour market**

Persistent legal and institutional impediments to internal labour migration are among the main reasons - together with an underdeveloped transport system, high living costs in economically developed regions, cultural factors and even language barriers - for large regional imbalances in demand for and supply of labour. Therefore, they need to be reviewed and systematically removed in order to facilitate the re-allocation of labour. The allocation of labour in line with market demand will contribute significantly towards moderating regional economic disparities and to higher overall productivity, employment and economic growth. Labour bureaus and labour market information also have an important role to play in facilitating labour migration and helping migrant workers find jobs. As a majority of migrant workers from rural areas have low skills, a package of other labour market policies should be put in place to improve their employability in receiving regions and to ensure equal treatment at work for all. Efforts are underway to assist laid-off workers although many do not have the skills appropriate to a modern economy.

The key issues in this element including:

- Continued efforts are needed to facilitate labour mobility and unify labour markets. Barriers should be removed and reforms should be introduced so that migration policies focus on efficiency and equity rather than on control and regulation.

- Steps should be taken to reduce imbalances among regions and across provinces by pooling financial resources and enhancing staff capacity. Policies and services should be strengthened to assist laid-off and jobless female and male workers and vulnerable groups and broadened to cover rural areas, the informal economy, the private sector and flexible labour. There is also a need to protect rights of workers in flexible forms of employment.
- Policies and programme should be strengthened through strategic planning based on best practices from international models and Chinese experience as well as from the compilation, analysis and dissemination of labour market information.
- The capacity of employment services and policy makers should be strengthened in order to improve job placement and enhance worker employability. Monitoring of labour market programme performance should be possible with improvements in information.

The role of active and passive labour market policies is to facilitate efficient labour allocation and to assist women and men in moving to new jobs or between employment and non-employment and provide them with replacement income during this move. This efficiency function is accompanied by an equity function: active labour market policies in combination with appropriate social protection policies should assist in particular those among job seekers and redundant workers who have major difficulties in finding employment and enhance their employability. Labour market policies thus improve acceptance of change and try to manage – together with other policies - the change from a planned economy into a market economy as well as changes stemming from demographic, technological and trade developments.

Under the command economy there was no system based on efficiency criteria to direct redundant workers from unproductive jobs to productive employment across enterprises and between rural areas and urban areas. Instead, low wages combined with social protection measures tied employees in state enterprises to work units that served as the “iron rice bowl.” Many SOEs provided wages and benefits to surplus workers but increasingly there was a conflict between economic efficiency and social welfare. Estimates of redundant labour as a percentage of SOE workers range from 20 to 40 per cent. In addition, while agricultural reforms freed rural labour to work in off-farm activities including township and village enterprises (TVEs), large numbers of rural workers remain unemployed or underemployed. Others have moved to the cities and become unemployed or part of the “floating population” working in precarious jobs. There are currently over 7 million unemployed workers and about 5 million laid-off workers. Estimates of the “floating population” are about 100 million people. In addition, more than 8 million new entrants join the labour force each year.

Women as a percentage of the labour force are nearly 40 per cent in urban areas and 47 per cent in rural areas. A survey of 20,000 households in 2001 conducted by the All China Women’s Federation (ACWF) and the National Statistics Office (NSO) indicates that the situation of women in employment deteriorated during the 1990s. Among those who are probably worst affected by current changes are disabled persons accounting for 5 per cent of the total population (60 million).

China's ageing population that results from declining fertility and increasing longevity, poses also a challenge to policy makers. The one-child policy has had a dramatic effect on demographic structure. The population aged over 60 years increased from 76.6 million in 1982 to 130 million in 2001. However, because of the age structure of China's population, the problem of ageing will not become a serious challenge until during the 2020s or even 2030s: the old-age dependency ratio is expected to grow from 10.0 per cent in 2000 to 11.3 per cent in 2010, 23.4 per cent in 2030 and 36.9 per cent in 2050. This gives China a breathing space to learn from other countries' experience and to formulate appropriate policies and allocate appropriate resources to reverse potentially dramatic consequences of population's ageing for the labour market and pension systems. Despite currently low fertility rates, there will be in the near future a high inflow of new labour market entrants (around 8 million per year). Inactivity, unemployment and underemployment of youth could trigger off a vicious cycle of poverty and exclusion. Youth joblessness in other countries is clearly linked to social problems such as crime, vandalism and drugs, problems that China up to now was able to contain.

Furthermore there are also imbalances in the distribution of unemployment and employment problems across China, with, for example, the coastal regions and big cities attracting many rural unemployed. In addition laid-off workers are not evenly distributed across industries and regions. Four-fifths of them were in manufacturing industries (e.g. there were huge lay-offs from textile industries) and more than one-half were production workers. Current regulatory mechanisms seem not to be sufficient – or even counterproductive - to establish productive mobility patterns and achieve a more unified labour market.

While market reforms have led to economic growth and rising incomes for many workers, this progress has been accompanied by risks of unemployment and inequality. New forms of economic insecurity have arisen since the lifetime guarantees of the former system have been abolished and the ending of present re-employment centers will, in a first phase, place a serious strain on the capacity of the public employment services, adding to problems of redundant workers. Together all the above employment problems will pose an enormous challenge to policy makers. Active and passive labour market policies, together with their delivery institutions, will have to shoulder large parts of these problems.

## **V. Socially responsible enterprise restructuring**

Enterprise restructuring in China has focused on SOEs and indeed some 70 per cent of laid-off workers are from that source. However, urban collectives and TVEs also face restructuring problems. Joining the WTO will accelerate the pace of structural change in many industrial sub-sectors. Critical features in restructuring with regard to employment are how to make existing jobs more productive and, where lay-offs are inevitable, how to smoothly re-employ redundant workers. Turning around inefficient and unprofitable enterprises can be highly time-consuming and impose financing burdens on the local administration, which is anxious to preserve jobs.

The key issues in this element including:

- Allow managements to significantly increase autonomy in their handling of human



resources;

- The transparency, accountability and efficiency of management should be priority objectives to corporate restructuring;
- Encourage enterprises to seek new markets and upgrade products and support necessary retraining;
- Use social dialogue to ensure and maximize the interests of all stakeholders and minimize social costs of restructuring; encourage trade unions to contribute to enterprise survival;
- Establish transparent rules for restructuring, applicable nationwide to all enterprises, whatever sector they are active in and counting on the support of the authorities;
- Foster industry structures that allow economies of scale and are able to withstand competition;
- Coordinate and streamline the sharing of responsibilities between central, provincial, and local state authorities;

In general, the importance of SOEs continues to decrease. By 2001, they accounted for only 23.5 per cent of the country's industrial output (compared to 76 per cent in 1980), while other (non-state but sometimes ostensibly collectively owned) enterprises produced the remaining 76.5 per cent. However, large SOEs continue to receive preferential treatment from the government and banks, including trading rights and protected monopolistic structures.

China's accession to the WTO will further enhance the speed and scope of change. The removal of tariff and non-tariff barriers and quotas, and changes in licensing, tendering agreements and state trading will put increased pressure on the economy. These changes in regulations are joined by structural adjustments, increasing internationalization, and ongoing alliances with the private sector. No doubt, they will lead to greater business opportunities. In the medium and long run, Chinese companies will certainly experience increasing pressure on their profit margins. Only those with a sound strategy, sufficient resources, ample customer base and an efficient production process will be able to avoid layoffs and expand their business. The pressure could be particularly challenging for SMEs with little capital, obsolete production, and frequent bureaucratic interference, as well as for many SOEs and for all export-oriented enterprises.

Nevertheless, for many SOEs WTO accession only opens the gate to large-scale restructuring that would have been necessary under any scenario. Even more so, the accession creates a momentum towards increased competition, well-functioning market systems, and an improved regulatory framework. All of these developments are indeed conducive to high competitiveness on the long run. The overall impact and the extent to which the industrial sector realizes its potential benefits

will, however, depend highly on the ability of China's industry to reallocate resources and restructure operations. China's large domestic market, its natural resources and a huge supply of low-wage labour provide much space for industrial development.

The challenge is clear. Even though restructuring of SOEs has been tackled since the mid-1980s, a lot still remains to be done. Also for cooperatives and TVEs, major transformations lie ahead. Competitive levels of efficiency and productivity can only be achieved if China succeeds in creating a business environment conducive to change, and if the country keeps following the path of restructuring its economy in a socially responsible manner. The most critical issues remain how to secure existing jobs and make them more productive, how to possibly create new jobs and in the case of necessary layoffs how to smoothly re-employ redundant workers. The hardest is the situation for older and low-skilled persons, as employers perceive them as non-flexible, low productive and costly workers, often unwilling or unable to acquire new skills and take up new assignments. Many enterprises still struggle with obsolete production capacity, backward technology, and lower product quality. In addition, a sub-optimal size of enterprises very often does not allow for economies of scale, and competitiveness indeed leaves much room for improvement.

Movements of labour from agriculture to higher productivity occupations have been limited because of strong mobility restrictions. If the present limited degrees of urbanization and of service-sector development continue, this will not facilitate the necessary structural adjustment. Limited job mobility among regions, due to a high degree of regulation and to regional restrictions, hinders a more favorable development. International experience, however, shows that the tertiary sector could absorb much of the surplus labour force. Plus, it provides many functions needed for further industrial expansion, such as financing, distribution, maintenance, recycling, health, education and training, and so on. The government has already announced that by the year 2005, US\$ 500 billion will have been invested into the IT sector, creating hope that this industry will be able to absorb substantial amounts of laid-off workers, even though this will not help many low-qualified candidates.