

**China's Unemployment Situation:
Implications for Policy Shift**

Tiemei Wei

(3071874)

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Supervisor: Professor Gamal Atallah

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1. Introduction

Many statistics reveal a slowdown in employment growth since the beginning of the new millennium. With few exceptions, most countries are haunted by a soaring unemployment rate and low growth in employment. Such doldrums in the labor market are one of the consequences of the global economic slowdown and a symptom of an economic downturn.

China has enjoyed phenomenal economic development at an average annual real gross domestic product growth rate of 9.7% for over two decades since it initiated a series of economic and social reforms in 1978. This prolonged growth spurt has brought massive gains in every aspect of material welfare, including rapid expansion of job opportunities and maintenance of high levels of employment. The number of employed workers increased from 401.5 million in 1978 to 699.6 million in 1998.¹ China's reforms, characterized by gradualism and experimentation, are also greatly weakening the role of state control, transforming China's economy from a centrally planned economy to a socialist market economy.

As a result and also thanks to its huge domestic market, China has neither gone through a transition crisis — which proved to be so detrimental for many Central and Eastern European countries, nor has it been as severely affected by the Asian financial crisis as several other economies in east and southeast Asia. However, China is also facing many challenges during its transition — like other economies in transition, and the negative influence of the global economic slowdown has started to surface as well at the moment when

1. China's Statistical Yearbook 1999

the unemployment pressure accumulated from the past two decades of reform started to deteriorate. The massive layoffs following the country's WTO accession have made the unemployment problem a major contributor to potential social instability. The registered unemployment rate rose from 3.1 percent at the end of 2000 to 4.2 percent by June 2003.² It is already an astonishing figure in terms of China's large population, not even considering the fact that there is some evidence showing that it may be an underestimated statistic. Due to the rising unemployment rate both in and outside China, and to general concerns about China's post-WTO-entry employment situation, unemployment has become such a hot issue in the country that it is considered to be a threat to social stability and government accountability.

Unemployment was not on the list of key issues in "The Ninth Five-Year Plan and the 2010 Long-range Plan with Long-term Objectives for Development of the National Economy and Society" in the mid 1990s.³ Nor was it one of the priorities of the tenth five-year plan at the end of 1990s.⁴ Now the unemployment problem has become so critical in both economic and social terms that the Chinese government claimed, for the first time since 1978, that it would accord unemployment the same level of priority as economic growth, in "The Decision of the CPC Central Committee on Issues Regarding the Improvement of the Socialist Market Economic System",⁵ during the Third Plenary Session of the Sixteenth Central Committee of the Communist Party of China (CPC) held in November, 2003.

2. China Ministry of Labor and Social Security: Press Conference, July 30, 2003, Beijing, China News

3. People's Daily, March 5, 1996, <http://www.people.com.cn/GB/channel1/10/20000921/243291.html>

4. People's Daily, March 19, 2001, <http://www.npcnews.com.cn/gb/paper131/1/class013100002/hwz103670.htm>

5. People's Daily, October 21, 2003, Beijing

China's comparatively stable and rapid economic growth during the past two decades has not brought the labor market into balance. Apparently the unemployment problem can't be solved by sustaining high economic growth. Adjustments in macro economic policy to promote employment seem necessary and urgent, combined with other measures to build an efficient labor market.

This paper will look into China's current employment situation in the context of its economic reform and adjustment policies since 1978. I treat the main factors that led to today's unemployment "crisis", and I justify that China's unemployment problem is mainly coming from structural adjustment with its economic and social transformation. Further, I will also try to derive the direction for possible policy shifts for China in the coming future.

The remaining of this paper is organized as follows. Section 2 provides an overall description of the development of China's labor market since the start of its reforms, and investigates causes and characteristics of urban layoffs and unemployment. Section 3 discusses policy strategies regarding layoffs and the unemployment problem in urban China. Section 4 summarizes and concludes.

2. Unemployment: the other side of the Chinese economic miracle

2.1. Overview of China's labor market

Basic data China has the largest population in the world, amounting to about 1.3 billion with 870 million living in rural areas, and this population will increase by more than 10 million each year over the next ten years, reaching a peak of 1.6 billion by the middle of the 21st century.⁶ By the end of 2001, China's total employment reached 730 million — 94

million more than its 2000 level — of which 33 percent is in rural areas and 67 percent lies in urban areas. Of all the workers, 50 percent were engaged in primary industry (excluding mining), 22.3 percent in secondary industry (including mining), and the share of tertiary industry in total employment was 27.7 percent. Among the 111.66 million employees in urban areas – 4.47 million fewer than last year’s figure, 76.40 million worked in the state-owned sector, 12.91 million in the collective-owned sector, and the remaining 22.35 million in other sectors.⁷ The registered unemployment rate was 3.1% in 2000, which increased to 3.6% in 2001, and to 4% in 2002. Table 1 shows the basic data of China’s labor market over the past two decades.

Employment restructuring The most salient characteristic of China’s labor market is its employment structure change during the past two decades. The Chinese economy has been transformed from an economy dominated by the primary sector to one in which the secondary and tertiary sectors now comprise half of employment since 1978. The employment share of primary industries dropped dramatically, from almost 71 percent in 1978 to 50 percent in 2001. Over the same period, the employment share of secondary industries climbed from just over 17 percent to almost 23 percent, and that of tertiary industries from slightly more than 12 percent to almost 28 percent (Table 1).

The increases of the employment share of secondary and tertiary industries are attributable to industrialization, as well as the ongoing changeover from a state-dominated

6. White Paper on Population in China, 2000, p2, Beijing

7. China Labor Statistical Yearbook 2002

Table 1. Basic data on population and employment, 1998-2001 (million)

	1980	1990	2001	Annual growth rate (1980-2001)
1. Population	987	1143.3	1276.3	1.33
2. Increase %	1.19	1.44	1.07	
3. Labor force	423.6	639.1	730.25	2.96
4. Urban formal employees	104.4	140.6	111.66	2.02
5. Labor force composition				
5A. Primary	291.2	384.3	365.13	1.04
5B. Secondary	77.1	136.5	162.84	4.58
5C. Tertiary	55.3	118.3	202.28	7.32

Sources: China Labor Statistical Yearbook 2002, Ministry of Labor and Social Security of China, Part I, Comprehensiveness.

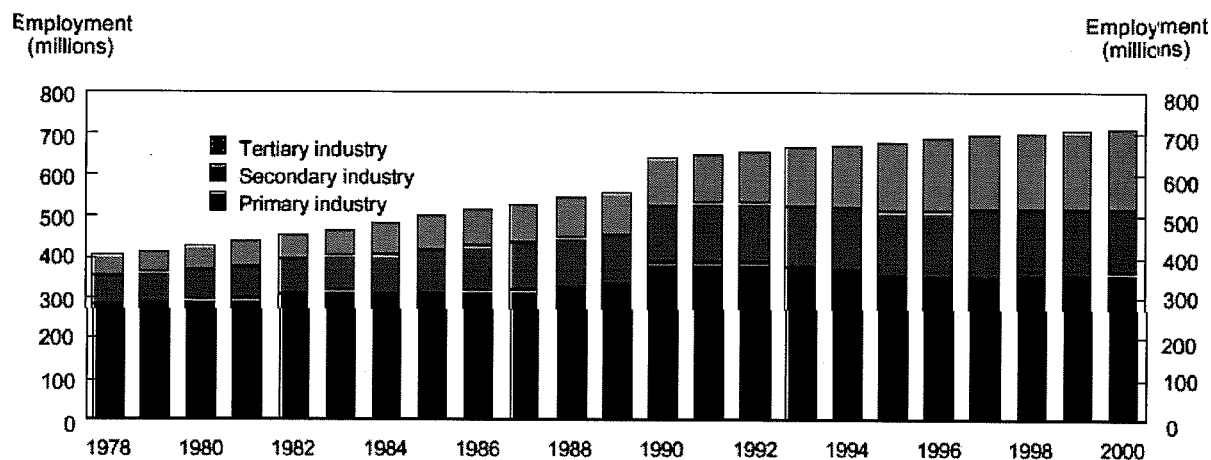
Notes: 1. Population statistics in the table are for the mainland.

2. Primary sector: agriculture, forestry, animal husbandry, and fisheries. Secondary sector: mining and quarrying, manufacturing, utilities, and construction. Tertiary sector: transport, communication, commerce, services, culture, entertainment, social services and all other activities excluded from the primary and secondary sectors (China Labor Statistic Yearbook 2002, Beijing, Ministry of Labor and Social Security of China, Appendix II Explanatory Notes).

economy to one in which private industry plays an ever-increasing role. The tertiary industries averaged about 7 percent growth in employment each year, while the primary and secondary industries posted 1 percent and 5 percent growth, respectively (Chart 1).

Employment by industry Employment by industry, as Table 2 shows, identifies the major job creators during the period of industrial development and restructuring in China. The employment share of the agricultural sector was 70.5% in 1978, and declined to 49.8% in 1998. The service sector not only created a large number of jobs from 1978 to 1998, but also is most able to absorb labor force growth, due to its higher employment elasticity of GDP. The manufacturing sector began to lose jobs in the late 1990s. Layoffs from state-owned enterprises (SOEs) and collectively owned enterprises are mostly in the manufacturing sector.

Chart 1. Changes in employment structure, 1978–2000



Note: Data from 1990 onward are not comparable to data before 1990, because only since 1990 are working 15-year-olds included among employed persons.

Source: China Statistical Yearbook 2000; Summary of China Statistics, 2001.

Table 2. Employment by Type of Industry

Year	Agricultural Industry		Manufacturing Industry		Service Industry	
	million	% of employment	million	% of employment	million	% of employment
1978	283.18	70.53	69.45	17.3	48.9	12.18
1980	291.22	68.75	77.07	18.19	55.32	13.06
1985	311.3	62.42	103.84	20.82	83.59	16.76
1986	312.54	60.95	112.16	21.87	88.11	17.18
1987	316.63	59.99	117.26	22.22	93.95	17.8
1988	322.49	59.55	121.52	22.36	99.36	18.29
1989	322.25	60.05	119.76	21.64	101.29	18.31
1990	384.28	60.13	136.54	21.36	118.28	18.51
1991	386.85	59.7	138.67	21.4	122.47	18.9
1992	383.49	58.5	142.26	21.7	129.79	19.8
1993	374.34	56.4	148.68	22.4	140.71	21.2
1994	364.89	54.3	152.54	22.7	154.56	23
1995	354.68	52.2	156.28	23	168.51	24.8
1996	347.69	50.5	161.8	23.5	179.01	26
1997	347.3	49.9	164.95	23.7	183.75	26.4
1998	348.38	49.8	164.4	23.5	186.79	26.7

Sources: China Statistical Yearbook 1999.

Note: Data on employment include both long-term and short-term contract workers.

2.2. Formal and informal employment

While formal employment refers to employment of SOEs and collective enterprises, informal employment has wider coverage and plays a very important role in China's labor market.

Main forms One of the main characteristics of China's labor market is that China has a large-scale informal sector (*fei zhenggui jingji*), which is called "the sponge for absorbing employment", taken as a buffer given the problems of the formal sector when the formal sector generates unemployment in the process of economic transition. The main forms of informal employment in China can be categorized as follows:⁸

(1) The informal employment adopted by large and medium-sized enterprises, including: temporary workers, seasonal workers, contracted laborers, dispatched workers, part-time workers paid by hour and so on.

(2) Employment through various "labor units". The Labor Unit is an important channel for the arrangement of the laid-off in many cities, which takes several operation forms:

i) Labor units set up by the laid-off workers themselves. In such circumstances, a labor unit is in effect a partnership ownership business unit in which the laid-off workers themselves collect the needed funds, operate the businesses on their own will and are

8. The Research Group of the Department of Training and Employment Ministry of Labor and Social Security, Skills Training of the Informal Sector in China, ILO Office InFocus Program on Skills, Knowledge and Employability, 2001; Mead, D. C., The Informal Sector Elephant, 1996; Guo, Yue, Informal employment in China, 2002

responsible for their management. Local governments offer various preferential policies to support such kind of labor units.

ii) The dispatching labor unit. These labor units dispatch the laid-off workers and the unemployed to other enterprises — usually large and medium-sized enterprises and foreign investment enterprises — to get temporary employment.

iii) Labor units that seek various temporary and sporadic jobs for the laid-off workers and the unemployed. Most of these labor units are set up by city communities and are operated in the way in which when some temporary jobs are available, the laid-off workers are summoned for the employment arrangement.

(3) Employment paid for or subsidized by government. In order to make arrangements for the laid-off workers, many municipal governments offer the public posts such as street cleaning, greenery maintenance, safeguarding to the laid-off workers and pay for them. In fact, the public posts are not limited to the above interests. Many laid-off workers have been re-employed as staff of the Community Resident Committee, community safeguards, and market caretakers in their communities and are paid by the local communities.

(4) Self-employment. Self-employment covers a large variety of businesses in cities and involves many formerly laid-off workers. Based on the survey conducted by China Research Center in 2000, about 50% of the laid-off workers are engaged in self-employment. (Hu, 2001)

(5) Employment in small and micro enterprises. Some laid-off workers are employed in small and micro enterprises, most of which are privately owned. Laid-off workers employed

in such enterprises have high mobility owing to low wages, bad labor conditions and lack of social security⁹ in these enterprises. They regard such employment as a makeshift measure and leave whenever other better employment opportunities are available. As a result, the majority of the employees working in these enterprises nowadays are rural migrants.

(6) Odd-jobbers. They are street peddlers, house servants, temporary nurses, rickshaw men, and other odd-jobbers engaged in daily life services.

Features In general, incomes earned in China's informal sector are very unstable, and operational activities are often on the margin of laws and regulations. Workers engaged in informal employment have not yet established stable employment relations. Informal employment therefore mainly consists of insecure and unstable jobs. Most of the workers in the informal sector are not covered by social security.

Composition The labor force in the informal sector is composed mainly of the rural migrants, urban laid-off workers, and the unemployed, school dropouts, some surplus workers in partially suspended or under-operating enterprises, the retired, and those who work individually or with partners on non-agricultural production in rural areas.

In recent years, with the advent of new information and communication technology as well as the increasing value-added attached to knowledge, a new group of workers who are in

9. In China, employees in SOEs are not only offered permanent employment, but also guaranteed a variety of social welfare: housing, medical care, retirement pensions as well as a wide range of subsidies for a lot of things, such as transportation, childcare, etc. However, this kind of social security is based on employment in SOEs. In this paper, phrases such as "social security", "social protection", etc, all refer to this kind of welfare and subsidies.

possession of high professional skills and strong independent working ability, has emerged. They are capable of using the latest information and telecommunication technologies to their advantage. Generally, they engage in software design, consultancy and development. In return they get handsome fees – but not necessarily social protection. This category is also referred to as high value-added freelancers. However, it should be made clear that these freelancers are only a small minority who are not at all representative of those working in the informal sector in China.¹⁰

Measurement There are debates over the statistics for China's informal sector because the official data are incomplete, and the estimation difference between researchers is considerable. According to the Center for China Studies of the Chinese Academy of Science and Tsinghua University, from 1996 to 1999 the figure for formal sector employment declined by 21.0 percent. At the same time, informal sector employment increased by 63.3 percent. The proportion of those employed in the formal sector dropped from 78.1 percent in 1995 to 56 percent in 1999 (Hu, 2001). Table 3 shows the official statistics of structural change of the employment in the formal and informal sectors respectively.

Major Problems The informal sector has proved to be an important source of employment in China's labor market since the start of the reform. However, there still exist

10. Guo, yue, Informal Employment in China, 2002; The Research Group of the Department of Training and Employment Ministry of Labor and Social Security, Skills Training of the Informal Sector in China, ILO Office In-Focus Program on Skills, Knowledge and Employability, 2001

Table 3. Changes in the urban employment structure, 1990 – 1999 (millions)

Year	Total Employed	Traditional formal sectors		Emerging formal sector		Informal sectors	
		Sub-total	% in total employment	Sub-total	% in total employment	Sub-total	% in total employment
1990	166.16	138.95	83.6	1.64	1.0	6.71	4.0
1991	169.77	142.92	84.2	2.16	1.3	7.60	4.5
1992	172.41	145.10	84.2	2.82	1.6	8.38	4.9
1993	175.89	143.13	81.4	5.36	3.0	11.16	6.3
1994	184.13	141.01	76.6	7.74	4.1	15.57	8.5
1995	190.93	140.31	73.5	8.77	4.6	20.45	10.7
1996	198.16	139.03	70.2	9.42	4.8	23.29	11.8
1997	202.07	135.83	67.2	10.86	5.4	26.69	13.2
1998	206.78	107.09	51.8	16.28	7.9	32.32	15.6
1999	210.14	99.88	47.5	17.85	8.5	34.67	16.5

Source: China Statistical Yearbook 2000

Note: Total number of employment refers to the number of people who obtain their labor payment or operational income by engaging in certain kind of work. It includes: staff and workers, re-employed retirees, owners of private enterprises, the self-employed, workers in township and village enterprises, rural employment and other forms of employment such as personnel on active service.

some barriers hindering its development.¹¹

(1) Lack of long-term policy planning. There are no specific regulatory provisions with regard to employment in the informal sector, and there is still no commonly agreed, clear definition of informal sector employment. There is no long-term planning relating to employment in the informal sector. Also, the current provisions in pension, health and unemployment insurance coverage exclude the informal sector. This exclusion of informal sector workers from social security exposes them to high employment related risks.

11. The Research Group of the Department of Training and Employment Ministry of Labor and Social Security, Skills Training of the Informal Sector in China, ILO Office In-Focus Program on Skills Knowledge and Employability, 2001

(2) Lack of integrated measures. Due to the urban residential registration barrier¹², an integrated labor market has not developed. There are still many restrictions on rural migrant workers working in urban areas. The consequences are inequality in employment opportunities and obstacles to the free movement of the rural surplus labor force to non-agricultural industries and urban cities. The fact that their legitimate employment rights cannot be ensured has prevented the informal sector from further development. Nonetheless, workers in the informal sector often face difficulties in financing business start-ups. There are restrictions attached to micro-credit and lending applications as well as complicated application and approval procedures.

(3) Poor skills and competencies, low employment quality, lack of sustainable development potential. As the informal sector comprises a wide range of sub-sectors, it poses different skill requirements to workers. Normally, the informal sector can employ a high number of low-skilled workers. It is also this low requirement that results in products and service quality below expectations, which makes the informal sector lack competitiveness in the market and have inadequate development of business potential. Because most workers in the informal sector are very unskilled manual workers, they face high probabilities of being replaced. This causes job insecurity and relatively low income. According to a survey by the

12. In China, there is an internal passport system (hukou), which limits population migration, especially rural-to-urban migration. The system requires that all residents should register with public security authorities with respective status. Individuals without urban residence permits can hardly find permanent jobs in SOEs and collectively owned enterprises in urban areas, and are excluded from all of the welfare and subsidies offered by SOEs.

All China Federation of Trade Unions in ten cities and one county, only 8.5 percent of surveyed informal-sector workers have a college degree. A primary school diploma or a high school diploma are the prevalent educational qualifications. Only 3.7 per cent of informal sector workers are highly skilled. Over 60 per cent of the surveyed workers are self-employed or hired employees working as sole traders or doing small-scale retail business. About 24 per cent of surveyed workers use their residence as their business premises, providing services or engaging in handicraft business.¹³ As employment in the informal sector usually requires low skills, it often involves simple reproductive tasks, and hence there is a high turnover rate.

2.3. Unemployment, layoffs and labor surplus

The term “unemployment” did not appear in China’s official report until 1994. Unemployment in China comes from three major sources: urban registered unemployment (i.e., official unemployment rate), urban layoffs, and rural labor surplus.¹⁴ While these three sources contribute to the unemployment problem, the published unemployment statistics in China do not include urban layoffs and rural labor surplus.

2.3.1. Basic facts

Urban registered unemployment refers to individuals who have a local non-agricultural residence permit (hukou), are within the working age (16-50 for males, 16-45 for females), are able to work, are unemployed but desirous to be employed, and have

13. Worker’s Daily, October 18, 2002, Beijing

14. Unemployment takes two forms: open unemployment in the sense of the appearance of jobless persons in the labor market, and hidden unemployment (or disguised unemployment) in the sense of unemployment on the job.

registered at local employment service agencies to apply for jobs.¹⁵ The number in this group increased from 4.2 million in 1993 to 5.7 million in 1998 and soared to 14 million in 2002. Respectively, the registered unemployment rate in urban areas increased from 2.6% in 1993 to 3.1% in 1998 and 4% in 2002.¹⁶

Laid-off workers in China, unlike the definition used in Western countries, are employees who lost their jobs due to downsizing or closing of SOEs or collective-owned enterprises, settled at a reemployment center, are receiving a living subsidy jointly provided by the enterprise, government and an insurance fund. They are in reality jobless people although they still maintain nominal labor relations with their former work units. China's laid-off workers do not register themselves as unemployed.¹⁷ Most enterprises pay their laid-off employees monthly stipends. Some also provide training and re-employment programs.

The problem of layoffs in urban China emerged in 1993. The number of laid-off workers climbed dramatically from 3 million in 1993 to 12.3 million in 1999, totaling 23.17 million between 1998 and 2000.¹⁸ At the beginning of 1998, there were 6.918 million

15. Urban Unemployment Registering System, Documentation Collection 1998 - 2000, China Ministry of Labor and Social Security

16. Statement by China Ministry of Labor and Social Security, China News Weekly, November 28, 2003, Beijing www.chinanewsweek.com.cn

17. Massive layoffs in urban China result from the enormous hidden unemployment in the state-owned sector, which had existed for a long time until the reform of SOEs accelerated in the mid-1990s, but they cannot be categorized as "open unemployment". They fall in between, and this is a kind of transitional phenomenon accompanying the transition of SOEs. Hence, some researchers call layoffs "transitional unemployment"

18. People's Daily, March 8, 2000

layoffs, and the year saw an addition of 5.622 million new layoffs. In 1999, there were 6.186 million newly laid-off workers, and the previous year's balance was 6.1 million. In 2000, 4.446 million workers were laid-off, and 6.52 million from 1999 remaining unemployed. The annual number of laid-off workers during the period of 1998 to 2000 was decreasing in aggregate amount (Yang and Huang, 2003). The annual rate of re-employment of the laid-off has kept dramatically decreasing in recent years, from 50% in 1998 to 19% in 2001 and 9.1% in 2002.¹⁹

Labor surplus Unemployment and underemployment in rural China is even more serious, and it creates a burgeoning migrant labor population. The “household responsibility system” in rural China implemented in 1979 greatly raised average peasant productivity in agriculture, but lowered the marginal productivity of labor and made it clear that China has as many as 200 million surplus farmers whose redundancy was concealed before the reform.²⁰ With the industrialization and urbanization as well as the increasingly sharp income gap between rural and urban areas in China, floods of poorly trained workers seeking jobs pour into the cities, where labor markets are already growing tight, and layoffs are accumulating everyday, making rural-urban migration inevitable. China's 2000 population census shows 76

19. China Statistical Yearbook, 1998, 1999, 2003

20. The “household responsible system” is the system of household farming in China, in which households farm on their own account (are residual claimants to the fruits of their labor), on small plots of land that they lease from the state. It is the decollectivization of the previous collective farming system — commune system, on which China relied before 1978, as did most socialist countries. China's commune system was not very efficient. For more details, see “Comparative Economic Systems”, Chapter 2, pp.41-51 by Carson, Richard L., 1997

million rural-urban migrants, among whom 52% are intra-province migrants. But there are still at least 100 million redundant workers in rural China, according to the report of China Xinhua Agency.²¹ The China State Development and Reform Committee estimates that there are 8 to 10 million rural migrants annually flooding into urban areas for jobs (Wang, 2002). This number is expected to grow with China's WTO accession bringing about extra pressure on its agricultural sector, where the productivity is comparatively low, lowering the demand for rural workers, forcing more peasants to seek off-farm jobs.

2.3.2. Features of unemployment and layoff

Layoffs and unemployment in China exhibit the following characteristics:

Regional distribution Unemployment and layoffs are mainly concentrated in areas with old and large industrial bases in Northeast and Central-west China and those less developed areas. Calculating the ratio of the stock of laid-off workers to the total number of workers for each region in 1998, we found that Liaoning Province had the highest rate with 14.2%, followed by Heilongjiang Province with 13.8%, Hunan 11.2% and Shanghai 11.1%. Expressing the number of laid-off workers for each region as a percentage of total national laid-off workers, the result shows that Liaoning had the most laid-off workers, 1,180,000, accounting for 13.2% of the national total. This was followed by Heilongjiang with 935,000

21. China Xinhua Agency, October 18, 2003, Beijing

workers forming 10.5%. The total number of laid-off workers in the three Northeast provinces — Heilongjiang, Jinlin and Liaoning — was 2,530,000, accounting for 28.4% of the total (Hu, 1998).

In 1998, the number of laid-off workers for the eastern, central, and western regions was 3.03, 4.16, and 1.49 million, respectively. The ratio of the laid-off workers in these regions to the total urban employment was 0.042, 0.073, and 0.052, respectively, revealing the fact that the incidence of urban layoff is lowest for the east coastal region and considerably higher for inland regions.²²

Sectoral distribution Unemployment and layoffs mostly occur in the manufacturing industry, such as textile, electronic, mining, metallurgy, forestry, and machinery, as well as the arms industry.²³ Reckless investments, redundant constructions, excess supplies, overstocked goods, and idle facilities characterize these industries. In 1997 laid-off workers in the manufacturing industry accounted for 47.8% of the total number of laid-off. Specifically, the textile industry accounted for 15.5%, and the machinery manufacturing industry 8.3% (China Economic Times, March 4, 1998; Hu, 1998). At the end of 1998, 4,055,984 workers were on lay off from these industries, accounting for 46.3% of the total urban layoff, but the employment share of the manufacturing industry was only 23.5% in 1998 (Table 2).²⁴

Largely concentrated in SOEs Most laid-off workers are former SOE employees,

22. China's Statistical Yearbook 1999

23. China Information Network on Labor Market, Overview on Layoff and Unemployment, 2001 Report

24. China Statistical Yearbook 1999

particularly those small and medium-sized ones. According to the China Labor Statistical Yearbook, among total laid-off workers (the current year's new layoffs plus the balance from the year before) in urban China, those from SOEs numbered 5,737,000 in 1996 and 7,870,000 in 1997, or 64.3% and 68.4% respectively, accounting for over two-thirds of the SOE labor force (Hu, 1998). At the end of 1998, 5,947,907 out of 8,769,314 laid-off workers were from SOEs, accounting for 67.8% of total layoffs.²⁵ Among laid-off SOE workers in 1997, 6,070,000, or 77% of the SOE labor force, were from state-owned small and medium-sized enterprises.

Gender bias Various statistics and survey data reach the same observation that female workers account for nearly 60% of the total number on lay off. Mo found that in 1998, 44.6% of the 6.1 million SOE laid-off workers were female while they only accounted for 36.5% of all SOE employees (Mo, 2000). In 1997, 59.2% of laid-offs were female, though they accounted for only 39% of the total urban employees. Female workers also have a higher registered unemployment rate. In 1997, the city registered unemployment rate was 5.5% for female workers and 4.2% for male workers. Town registered unemployment rate was 5.6% for female workers but only 4.2% for male workers.²⁶

One possible reason for this phenomenon is that the rate of female participation in the labor force has been high considering the stage of the economic development of China. The

25. China Statistical Yearbook 1999

26. China Statistical Yearbook 1998, 1999

Note: In China, cities belong to urban area, while towns belong to rural area in terms of administration.

female employment participation rate is closely related to a nation's economic development level and is higher in general in developed economies. According to United Nation's statistics, in 1993 the average female employment participation rate in developed countries was 44%, and was 39% for developing countries, with India's at only 31%. However, the rate was as high as 45% in China for the same period. With China's reforms, a large number of female workers laid-off is inevitable, leading to a declining female participation rate (Hu, 1998).

Age and education The survey conducted by the Beijing Statistical Bureau in 1996 shows that the laid-off workers belong mainly to the middle-aged group.²⁷ 52.9% of laid-off workers were in the 36-45 age group, and 35.5% belonged to the age group 26-35. Mo shows that in 1998, 44.6% of laid-off workers were between 35 and 46 years old (Mo, 2000), which is consistent with a survey conducted in 1997 showing that laid-off workers aged from 40 to 49 accounted for 44.2% of the total laid-off workers, even though they accounted for only 19.2% of the total urban working population (Song, 2003). The city-level registered unemployment rate in 1997 was 4.6% for workers aged 35-39, compared with a 3.1% overall urban unemployment rate.²⁸

The observation that laid-off workers are mainly of low educational and training levels and of relatively old age is made by many Chinese researchers. Lu found that less educated people (junior secondary school or less) accounted for 70.6% of all laid-off workers in 1996 (Lu, 1998). This group has a higher registered unemployment rate too. Government data

27. In China, the middle age people usually refer to those aged between 30 and 50.

28. China Statistical Yearbook 1998

shows that 61.4% of all urban registered unemployed workers in 1999 had education of junior secondary school or less.²⁹ However, there are opposing arguments claiming that the age and educational distributions of redundant workers are similar to the age and educational distributions of the urban population or urban labor force. But it is fair to say that at the national level, the laid-off do not have educational and age advantages in the labor market. These unfavorable factors clearly have negative effects on their reemployment prospects.

Long duration of urban unemployment The duration of unemployment for urban registered unemployed workers is relatively long. According to the data of the State Statistical Bureau in 1999, 60% of unemployed workers remained unemployed for longer than six months. The situation is worse for female workers. In 1998, 56.9% of unemployed male workers had an unemployment duration longer than six months, compared to 62.2% for female unemployed workers.³⁰

2.4. Unemployment Statistics

From the current Chinese literature, there are three kinds of urban unemployment data: the registered unemployment rate, survey-based unemployment rate (results of sampling surveys that include the restructured workforce), and the estimated rate of actual unemployment. However, there is no general consensus on the rates, and most people believe that the registered rate by no means reflects actual unemployment.

29. China Statistical Yearbook 2000

30. Green Paper on Population and Employment, China Academy of Social Science, 2002

In the book *Readings for Government Officials on Social Security* published in 2002 by the Ministry of Labor and Social Security of China, the Ministry estimates that national unemployment rates will increase by 30 percent per year during the next three years due to reforms related to China's entry into the WTO. In terms of China's unemployment figures, there are considerable differences between government statistics and researchers' studies, as well as between different researchers studies. Table 4 illustrates these discrepancies.

Table 4. Official and alternate figures on urban unemployment, 1980-1997

Year	Unemployment (millions)	Urban unemployment rate (%)		
		Official data	Alternative data	
1980	5.4	4.9	*	**
1990	3.8	2.5		
1991	3.5	2.3		
1992	3.6	2.3		
1993	4.2	2.6	3.3	3.7
1994	4.8	2.8	3.6	4.1
1995	5.2	2.9	4	4.7
1996	5.5	3	4.9	5.9
1997	5.7	3.1	5.7	7

Source: Hu Angang, China Employment Study, 1998, China Economic Publishing House

Note: Alternative estimates of urban unemployment include laid-off workers, who are not included in the official figures of urban unemployment

* assumes that 60 per cent of laid-off workers have obtained new jobs

** assumes that 40 per cent of laid-off workers have obtained new jobs

What should be pointed out is that the official level of unemployment in China, which is called registered unemployment rate, was between 3.1% to 4% in recent years, much lower than the close-to-two-digit figures reported in most western countries. In 1998, the official registered unemployment rate in China was 3.1%; comparatively to 4.6%, 4.1%, 10.4% in the U.S., Japan, and EU, respectively (Hu, 2001). In fact, the registered unemployment rate in

China does not reflect actual unemployment, which should be much higher than that in the U.S. and Japan, and about the same level as in Europe. This gap is due mainly to the statistical methods used in calculating the unemployment rate in China.

First, there exist differences in the age range when the “number of the unemployed” and the “total size of labor force” are registered. The age range is narrower for the former. The legal retirement age is 60 for males and 55 for females. However, registered unemployment covers those who are aged between 16-50 for males and 16-45 for females. Those older than 50 for males and 45 for females and capable of working and are actively seeking working opportunities are not included in the unemployed population.

Second, registered unemployment is only subject to those who have registered in a local employment service agency, whereas those who have not registered are not included. For various reasons, a considerable number of unemployed people either have not registered or have no right to register (for example, those without a local non-agricultural residence permit), which leads to a lot of unreported unemployment.

Third, registered unemployment excludes workers laid off from SOEs and collective enterprises, the redundant workforces in rural areas, and many short and long-term rural migrants who have moved into urban areas.

For all of these reasons, the official unemployment data is not complete, nor is it accurate, and does not reflect the actual unemployment situation in China. More importantly, the above analysis indicates that the true data on unemployment may be several times higher than government figures would indicate. According to the 2000 The Fifth Population Census

of China, the unemployment rate was 8.2%, while registered unemployment was 3.1%. A survey in five major cities (Fuzhou, Shanghai, Heilongjiang, Xian and Wuhan), conducted by the China Social Science Academy, shows that the unemployment rate was higher than 8% in 2000 and over 14% in 2002.

An influential researcher, Hu Angang from Tsinghua University's Center for China Study, estimates that the national average urban jobless rate was 8.3% in 2000. Heilongjiang Province had the highest unemployment rate in the country --- 13.0% in 2000. Beijing, which lags behind the nationwide wave of restructuring by two years, had a relatively low jobless rate. The delay is because government officials wanted for political reasons to make the unemployment figures in Beijing appear lower in 1999, the 50th anniversary of the foundation of the People's Republic of China. But the structural reforms in transition to market economy are now rapidly proceeding in the capital city.

2.5. Causes of China's unemployment and layoffs: transitional and structural unemployment

Many of the Chinese studies focused on efforts to reveal the causes of China's unemployment problem. The essential causal factors include economic transition, structural adjustment, and cyclical economic performance, as well as the stability-oriented macro economic policy implemented during the past two decades.

(1) Economic transition

Transitional unemployment or institutional unemployment is a phenomenon unique to

economies undergoing systemic transformation, and is the result of institutional change that devalues the contribution of workers formerly regarded as productively employed. Workers in SOEs and collective enterprises in China had highly secure jobs and various social benefits by the mid-1990s. Until recently, governments in China at all levels still pressured SOEs and collective enterprises to employ workers whose marginal product was zero or negative. Even after profit-seeking came to dominate managers' concerns, lingering socialist taboos insulated millions of redundant employees from market forces.

Up until the mid-1990s, the very concept of unemployment was almost unknown to ordinary people in China. The superficial phenomenon of "full employment" concealed the massive "hidden unemployment" in the state sector. The idea came into being with the transition from a planning economy to a market economy. It was in 1992 that the government declared that it would make a shift toward a "socialist market economy", and from 1993–1994 the government carried out a series of policies to implement the shift. From then on large scale restructuring started in SOEs and collective enterprises as well as government departments and other institutions.

With this transition, the role of SOEs and collective enterprises has been waning. From the mid-1990s, these enterprises were legally entitled to managerial autonomy, including the power of employment and dismissal of surplus workers. Estimates from the Information Center of China Ministry of Labor in 1995 indicate that roughly 30 million workers, accounting for 20-30 per cent of the workers in state industry, were superfluous. Hu Angang cites 1996 figures identifying about 22 million (just over 20 per cent) of the

workforces in SOEs and urban collective enterprises as redundant.

From Table 5 we can see that the share of SOE employment has consistently decreased over the past two decades, from 78.3% in 1978 to 59.2% in 1998. The share of collective sector employment decreased from its highest share of 26.3% in 1984 to 12.8% in 1998. In absolute numbers, SOE employment began to decline in 1996, and employment in collective enterprises started to decline in 1992. With this scale of downsizing of SOEs and collective enterprises, layoffs are unavoidable, leading to transitional unemployment. Two institutional factors, rooted in the social and economic regimes of China since its socialism was established, are responsible for this type of unemployment.

First, this type of unemployment is one of the consequences of China's long-implemented full and permanent employment policy before its reform, under which China attempted to maximize urban employment and offered its workers lifetime employment. This policy, called the "iron rice bowls", resulted in a considerable number of superfluous and inefficient workers in the state sector. With the shift to a market economy and the reorganization in favor of smaller, more efficient enterprises, SOEs and collective enterprises had to discharge redundant workers into society to improve efficiency, bringing the "hidden unemployment" concealed in the old system into the open (Wong and Yang, 2000; Knight and Song, 1999). The inadequate absorption of workers from non-SOEs meant that many displaced workers remained unemployed.

The other institutional factor is China's social security system. Before the reforms, SOEs were responsible for providing housing and social services to their workers (Song and

Chu, 1997). SOEs were thus much more than just employers. In 1992, SOE expenses on this kind of social insurance and welfare took up 35% of the total wage bill, with a corresponding figure of 26% for the housing subsidizing. Mo found that in 1995, 5.4% of SOE workers were actually engaged in social services for their employees, including healthcare, daycare, and schools (Mo, 1998). These burdens greatly increase production costs, which in turn caused many SOEs to be unable to compete with private or foreign-funded enterprises. They began to lose money, and many went bankrupt. With reduction in output and more bankruptcies, many SOE workers were laid off (Song, 2003).

Table 5. Urban Employment by ownership

Year	State-Owned		Collective-Owned		Private-Owned	
	Employment (millions)	% of employment	Employment (millions)	% of employment	Employment (millions)	% of employment
1978	74.51	78.3	20.48	21.5	0.15	0.2
1980	80.19	76.2	24.25	23	0.81	0.8
1983	87.71	74.7	27.44	23.4	2.31	2
1984	86.37	70.6	32.16	26.3	3.76	3.1
1985	89.9	70.2	33.24	26	4.94	3.9
1986	93.33	70.2	34.21	25.7	5.39	4.1
1987	96.54	70	34.88	25.3	6.4	4.6
1988	99.84	70	35.27	24.7	7.53	5.3
1989	101.08	70.3	35.02	24.3	7.77	5.4
1990	103.46	70.2	35.49	24.1	8.33	5.7
1991	106.64	69.9	36.28	23.8	9.74	6.4
1992	108.89	69.7	36.21	23.2	11.15	7.1
1993	109.2	68.5	33.93	21.3	16.34	10.2
1994	112.14	66.7	32.85	19.5	23.07	13.7
1995	112.61	65	31.47	18.2	29.29	16.9
1996	112.44	64.1	30.16	17.2	32.81	18.7
1997	110.44	62.4	28.83	16.3	37.61	21.3
1998	90.58	59.2	19.63	12.8	42.71	28

Sources: Calculated according to China Statistical Yearbook 1994, 1998, and 1999.

Note: Data on employment include both long-term and short-term contract workers.

(2) Structural changes

China has been experiencing structural changes since 1978, which generates structural unemployment. With advancements in industrialization, the structural adjustment is imperative, some sunset industries such as coal and textile industries have undergone shrinkage. The employment-absorption capacity of primary and secondary industries, which had long been the major absorbers of the labor force in China, has weakened. The agricultural industry and traditional industries such as manufacturing and mining have seen a decline in their employment shares. While service sector employment increased rapidly, the huge number of labor force laid-off from the traditional sectors was too big to be absorbed.

As shown in Table 2, China's agricultural sector employed 70.5% of the total labor force in 1978. This share decreased to 49.8% in 1998. During the same period, the employment share of the service sector more than doubled, from 12.2% in 1978 to 26.7% in 1998. Table 2 also shows that the agricultural sector actually lost 38.5 million workers from 386.85 million in 1991 to 348.38 million in 1998. The manufacturing sector started to lose jobs in the late 1990s. In 1998, it lost 0.6 million workers. According to Mo, in 1998, textile SOEs laid off 0.6 million workers, coal SOEs laid off 0.4 million workers, and machinery SOEs laid off 0.2 million worker (Mo, 2000). These sectoral shifts contributed to China's structural unemployment.

In China, as in other populous low-income nations, structural unemployment appears in rural areas with unfavorable labor/land ratios, limited infrastructure, and low per capita levels of physical and human capital. There are various figures estimating China's rural surplus labor. Many previous studies claim that rural surplus labors amounted to 30-40 per

cent of the rural work force during the late 1970s and 1980s. After China's WTO accession, rural labor surplus will become a more serious problem for China, when low cost foreign agricultural products are imported. Hu Angang estimates that the rural labor surplus will reach 200 million by 2006.

(3) Technical innovation and capital accumulation

Technical innovation. China's industries — especially SOEs — have made dramatic technical upgrading and innovative progress during the past two decades. Technology and equipment imports from developed countries have been one of the four points of China's open-door policy since 1978³¹. This technical advancement accompanied by deepening industrialization contributed to China's unemployment problem from the very beginning of this problem.

Capital accumulation. Economic modernization has been China's main goal. While technological improvement in industry is being made, the economy is switching from extensive growth to intensive growth. The encouragement of capital-intensive production technologies has lowered the absorption capacity for the labor force. The government has been promoting the shift from extensive to intensive economic growth patterns by various policies. An important factor is the low level of the actual bank loan interest, which increased the relative cost of labor (by making capital cheaper), inducing the enterprises to prefer to

31. The other three components of the "open door" policy are: the creation of special investment zones, the attraction and efficient use of foreign investment, and the expansion of foreign trade (with great access to foreign markets).

select technology-intensive projects to labor-intensive projects (Carson, 1997, 3-78).

(4) Cyclical unemployment

Cyclical unemployment was unknown in pre-reform China. There was little choice for employers or workers. The matching of workers and employers was bureaucratic, mandatory, (mostly) permanent, and largely unrelated to preferences, productivity, or financial outcomes. There was a near-zero level of cyclical unemployment before the reform. Gradual expansion of market forces since 1978 has introduced cyclical unemployment into China's economy. Like other countries, China now experiences cyclical unemployment. Growing integration in world markets creates employment when exports boom, but destroys jobs when sales decline. Increasingly commercial patterns of domestic economy have the same effect. Unemployment and layoffs increased when a cooling in domestic economic growth occurred.

A clear illustration is the case of the Asian financial crisis, during which China's export growth rate decreased dramatically from 21.0% in 1997 to 0.5% in 1998. Hence, exports made a much smaller contribution to China's employment growth in 1998. A weakening domestic demand in recent years is also a cyclical phenomenon, which slows down economic growth and creates fewer jobs. Since Deng Xiaoping's southern tour in 1992, the real GDP growth rate remained in the double digits until 1996. From 1996 to 2003, the average GNP growth is around 8%.³²

It is worth stressing that although there is evidence showing cyclical effects in

32. China Statistical Yearbook 1999, 2003

China's unemployment, it is debatable whether business cycle is a main cause for China's unemployment. The GNP growth rates during the past two decades, in spite of some slowing down, have remained in the high range. However, the high level of economic growth has not ensured the balance of demand and supply of employment. This fact goes against the argument that the unemployment problem can be solved by maintaining high economic growth.

(5) Anti-inflation policy

We can see from the above analysis and statistics that the unemployment problem has been becoming gradually more serious since the 1978 reforms. We should realize the relationship between China's macro economic policy with "stability" as a top priority in the past two decades and the increasing unemployment in the same period of time. That is, the Chinese government has considered a low inflation level as a major policy objective to ensure economic and social stability. In order to reduce the high pressure of inflation, the government has adopted measures to slow economic growth since 1993. The "Soft-landing" strategy, featuring tight monetary and fiscal policies, has been created and implemented. As a result, economic growth has been slowed, and public investment has been reduced. It is a fact that China's anti-inflation policy has been so far quite effective, with the "soft landing" of the economy is widely recognized. A drastic slowdown in inflation has been achieved, as shown in Table 6. However, unemployment has now become a major "destablizing" factor in the country's socio-economic life.

Table 6. Inflation rate, 1991-2002 (percentage)

Year	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Inflation												
Rate (%)	3.4	6.4	14.7	24.7	17.1	8.3	2.8	-0.8	-1.4	0.4	0.7	-0.8

Sources: Asian Development Bank, Asian Development Outlook, several issues.

Note: Inflation rate in the table are for the mainland China.

China's unemployment is a problem of transition from a planned economy to a market economy, as well as of economic structural adjustment. At the same time, the government's macro economic policy contributed to the unemployment problem. When inflation control has been strongly stressed during a long period of time, unemployment pressures seem inevitable. It is an open question whether China is now under inflationary or deflationary pressures. Yet some observers see that the current increasing unemployment is, to some degree, one of the results and costs of China's long run anti-inflation policy.

The causes discussed above, particularly the changes in the economic system and structural adjustment, adequately explain unemployment and layoffs. The change in the economic system is the determining factor because it deals with SOEs and collective enterprises through the adjustment of divested interests, causing structural adjustment of SOEs and collective enterprises. This was justified by the remarkable increases in layoffs in SOEs, the traditional industries, and the depressed industrial sectors. The next-stage-SOE reforms began in 1992 and were accompanied by a rapid rise in layoffs and unemployment since 1993. It is widely expected that the increase in current unemployment and layoffs is an inevitable result of the new round of economic reforms, which are necessary due to WTO accession challenges. There is an urgent call for a cohesive, integrated and new economic and

social policy to deal with the new challenges.

3. Lowering the unemployment rate: a top-priority, a national development strategy in the long run

As noted above, in general China's unemployment pressures come from the following four categories: (1) the layoffs of SOEs and collective enterprises; (2) registered urban unemployment; (3) rural labor surplus; and (4) the new urban labor force. I did not provide much analysis above of the fourth category, but the pressure from it is apparent and serious. According to China Statistics Bureau, 10 million new individuals entered into the urban labor market in 2003 by reaching the legal employment age, including 2.12 million graduates from colleges and universities. Based on China's huge population, it is almost impossible to increase employment to completely eradicate the unemployment problem. China has decided to give job creation the same priority as steady economic growth. It has to face the unemployment problem within a policy framework that is different from before. Neither high economic growth nor macroeconomic stability is the final goal of development. The underlying givens of China are the enormous size of the population and the abundant labor supply, coupled with a considerable disparity in regional development, which in turn will provoke a lot of migration from poorer to richer areas. The underlying objective, no matter what economic and/or social policies are employed, is the prosperity of the populace. The basic approach must be to create job opportunities so as to enable economic growth to simulate employment growth.

Many Chinese researchers are now talking about the employment priority strategy

(Cheng Xiusheng, 2003). Summarizing their arguments, the contents of the employment priority strategy are: (1) The development of the labor market should be the first priority; (2) The interest of labor should take moderate priority over the interest of capital; (3) Anti-unemployment policy should be given priority over anti-inflation policy; (4) Government expenditure should be more focused on employment promotion and social security rather than other fiscal considerations; (5) Job creation should be given priority over the increase in the aggregate income level. All these should constitute the long run labor market policy and be put at the same level as other national economic and social policies, such as family planning policy, education and technology development strategy, and sustainable development. That is, the three principle national policies should become four, adding the employment priority strategy.

Policy priority shifts did happen in recent years. In the ninth five-year plan (1996 – 2000), the first priority was inflation control, while employment promotion was taken as the last one of the seven objectives. In the tenth five-year plan (2001 – 2005), the first objective was real GNP growth, aiming for an average rate of 7%, while strong employment growth was taken as the second objective, aiming for a registered urban unemployment rate below 5%. In 2003, the government established a state-level employment-task-conference. The objectives of the state macro economic adjustment have been changed.

3.1. Economic growth and employment

In China, economic growth neither necessarily nor automatically promotes employment growth. According to a study of the China Study Center (Hu, 2001), in the 1980s

China's economic growth was 9.3 percent in terms of real GDP with 3.0 percent growth rate for employment. In the 1990s, the growth rate of the economy was 10.4 percent, but employment grew only by 1.1 percent, which means that for every one percentage point in economic growth, employment grew 0.106 percentage points — the capabilities for absorbing labor force dropped by two-thirds compared with the 1980s. Calculated in constant prices, the annual growth of total fixed assets (capital assets) was 23.1 percent, and dropped by 11.0 percent during the ninth five-year plan period (1996 – 2000). Between 1979 and 2000, the average employment elasticity --- the percentage of employment increase corresponding to a one percent GNP increase --- in the agriculture sector was 0.06. This shows that there is very limited potential for labor absorption in this sector. The employment elasticity in the manufacturing sector was 0.34 and kept decreasing during the period. These figures demonstrate the actual relationship between economic growth and employment growth in China, which seems to be attenuating over time.

It is a worldwide phenomenon that employment elasticity decreases with technology advancement and economic development (Cui, 2003). But this decrease is especially dramatic in China due to China's structural features. Although China is popularly called the "world's factory", the employment share in the manufacturing sector was only 23.5% in 1998, with the service sector 26.7% and the agricultural sector for 49.8%. In contrast to total employment, the employment share of the manufacturing sector was 23.3% in the US, 26% in the UK, 33.4% in Germany and 31.7% in Japan in 1999.³³ China's employment elasticity for the entire

33. 2003 World Development Indicators, Labor and Employment, World Bank

economy has kept decreasing in the past twenty years. The average employment elasticity was 0.32 in the 1980s, but decreased to 0.1 in the 1990s. In recent years, the elasticity was almost negative (Zhang, 2002).

Many Chinese researchers argue that the biggest risk for China in the next five to ten years is the increase of unemployment, rather than inflation and financial instability. On the one hand, retaining the current priority of growth in real GDP will raise living standards for many. On the other hand, the increasing unemployed population, including the huge rural surplus labor, will remain mired in poverty. In the social sphere, this will induce huge pressures and challenges for social and economic stability; in the economic sphere, income polarization and a large poor population will make domestic demand insufficient in the long run. The increasing productivity of China will heavily depend on exports, while the capacity of the world market to absorb Chinese exports is limited. The model of high GNP growth and low rates of employment creation is therefore unsustainable.

It is becoming gradually clearer to China's policy makers that an economic policy framework with an "employment priority" instead of a "growth priority" should be introduced so as to enable all laborers as much as possible to acquire secured and sustainable living conditions through the free choice of productive jobs.³⁴ Employment should be the most important indicator for China's economic development in the future. Given China's administrative regime, the creation of job opportunities should be the most important indicator to measure the performance of government officials at all levels.

34. Copenhagen Social Summit, 1995

3.2. Unemployment: now a more serious problem than inflation

It is well realized that unemployment, especially layoffs, has become a major factor influencing both economic and social stability of China. According to a survey by the China Institute of Macro-economics in 2000, the destabilizing factors listed by urban residents in 1998 (in order of importance) were serious corruption, increased inequality, and the increase in the number of layoffs. In 1999, the order was corruption of officials, followed immediately by the increase in the number of the unemployed and layoffs. The survey also shows that the average monthly income of families with unemployed members and/or members who are laid-off from state-owned enterprises was RMB272 (about US \$33), far lower than the national average.³⁵ The income of urban residents is therefore intimately associated with employment and unemployment.

As for unemployment pressures, it is estimated by the China Ministry of Labor and Social Security that there will be 6.5 million new individuals in the urban labor market in 2004, with about 10 million rural migrants and 4 million newly laid-off workers. Added to those who remained unemployed from 2003, the total unemployed population will be 65 million. The urban employment pressure in the coming future will be unprecedented.

At the same time, the inflation level in China seems well managed based on the macro economic policy implemented in the past years (Table 6). It is fair to say that measures for employment promotion should have more room in terms of macro economic policy adjustment with less inflationary pressure, although there are debates over the prospects for

35. Calculated according to the published exchange rate in China at about USD100 = RMB 828

inflation in the long run.

3.3. Labor market promotion: priority over the development of other factors

Increasing capital inputs, improving technology and management have always been the key points on which the Chinese government focuses. Absorbing foreign investment, importing high technology and management have been the major components of China's open policy, and taken as the major contributors to the successful economic development during the past two decades. Former Chinese leader Deng Xiaoping made a famous statement: "Science and technology are the first for productivity." The Sixteenth Congress of the Chinese Communist Party held in 2002 claimed that the important function and contribution of capital accumulation and technology should be greatly favored. It is apparent that the focus of productivity improvement has been on factors other than labor.

Now the unemployment issue, especially the great challenges the issue faces, makes both researchers and policy makers review the relation between labor and the other factors (Cheng, Xiusheng, 2003). China is marching towards a market system. The voice for labor market development priority has become stronger. The development of the labor market should focus on the creation of job opportunities. At the same time, the development of markets of other factors should also be considered in the context of employment improvement.

In general, the policy objectives of labor market development are to raise employment competitiveness among laborers and to improve the capacity of the various entities to expand employment (Song, 2003; Zhao, 2002). The objectives should include:

(1) Establish a good labor market environment. Basically solving the unemployment problem can't depend on the government, but mainly on the market. It is a key issue for the labor market to build a fair and effective labor market, by eliminating discrimination in employment, providing timely and correct employment information and encouraging labor to move to non-state-owned and non-collectively-owned enterprises as well as encouraging self employment and launching private businesses.

Although labor mobility is the necessary condition for an efficient labor market, and in the long run free movement of labor and competition among urban and rural labors should be promoted to improve labor efficiency, China should limit massive rural migration flowing into cities in the short run. Since the reforms in 1978, migration became much easier. Many rural workers have moved to cities for better jobs and a better life. This places great pressure on employment in the cities, worsening the urban layoffs and unemployment problems. Many SOEs and collective enterprises lay off their employees, but at the same time hire rural migrants, because temporary rural workers not only demand lower wages, but also receive less or no other benefits, such as housing, medical care, and social welfare. Thus job competition is institutionally biased against urban workers, causing unfairness and social conflicts. To maintain social stability and reduce urban labor supply, it is a rational short run policy to control rural migration.

(2) Strengthen the job training received by redundant workers. With economic restructuring, many workers have been laid-off due to the downsizing of SOEs and collective enterprises. At the same time, many positions need to be filled, and a lot of work needs to be

done. Chinese researchers call the first phenomenon “lack of jobs for many people” and the second “lack of people for many positions”. This double shortage situation is caused by two major factors. One is the imperfection of the labor market. For many reasons (such as lack of information and labor mobility), these job opportunities do not materialize for people who need jobs. The other factor is related to mismatched labor skills. The skills of the overall labor force do not meet the challenging requirements of industries.

To improve the situation described above, public policy needs to further promote and support various employment programs at all levels, especially local and community job training programs. Most of the existing training programs are run by private institutions and receive little funding from governments. Therefore the training fee is usually a major barrier for laid-off and jobless workers who would like to take part in the programs. Financial support to these programs and private institutions can be made through exemption of the commercial registration fees of the private institutions and giving tax rebates to them in order to lower the training fee they charge. Governments can also encourage state universities and state-owned research institutions to send their staff to the programs as instructors, free of charge.

(3) Encourage the creation and improvement of NGO employment intermediary organizations. Private employment agencies are a new concept in China. The tendency still exists that the laid-off and the unemployed workers are more likely to look for assistance from the government and government-run employment promotion agencies. Now private employment agencies are getting more and more popular, especially with white-collar

workers. These agencies are of great importance to an effective labor market.

(4) Enhance the diversification of the employment of women. It is necessary to launch emergency employment aid programs for women, given that women are experiencing a higher incidence of unemployment and layoffs, and are less competitive in reemployment due to various reasons, including a lower education level than men.

(5) Improve and monitor statistics reporting unemployment and containing information about unemployment by establishing key indices of the labor market (an International Labor Organization program introduced in 1999). China is such a large country that timely and correct information about employment is often difficult to get.

3.4. Employment creation and income increase: insisting on the labor-intensive orientation

In the past too much emphasis has been put on technology and efficiency improvement as well as on increasing aggregate income. The rapid increase of the average wage encourages investors to pursue profit by increasing capital input instead of labor input. Since the reforms of 1978, the average wage in China increased fast enough to contribute to the unemployment problem. In 2002, there was a 14% increase in the urban average real wage, which is much higher than GNP growth level for the same year. This reduced the competitiveness of the labor force as a whole.³⁶ Therefore China should try to prevent the average wage increases while employment is insufficient. Regarding current wage changes, many researchers argue that wages in public sector have increased too fast. Former Premier Zhu Rongji was criticized for increasing the wages of government employees significantly.

Other institutions such as schools, hospitals and public transportations then followed that increase, which led to an overall pressure for wage increases in the labor market.

To increase labor intensity, the government should launch new projects selectively and cautiously, with fewer capital-intensive and high-tech intensive large projects, except those related to national technological development. For new projects, labor-intensity should be the priority. The state should direct more investment towards employment-intensive and labor-intensive economic and social infrastructure facilities, and favor those public facility investment projects that include not only objectives of infrastructure functions but also the economic and social objectives of creating jobs. These projects include rural infrastructures, rural roads, bridges, rural water supply facilities, rural power grids, rural telecommunication facilities and public phone services, rural medical and health centers, farmland improvement projects, ecological environment construction, water conservation projects, as well as construction of flood-prevention works. In addition to undertaking these engineering projects to cope with contingencies such as natural disasters relief and post-disaster reconstruction, the objective of job creation should also be taken into consideration. All these underscore the employment objective of linking project investment to the creation of job opportunities in all public investment programs, nationally and locally (Cui, 2003).

3.5. The informal sector: the partial remedy for labor surplus

For the past two decades, China has enjoyed fast economic growth, which has

36. Report on 2003 Urban Wage Study, Wage Research Center, China Ministry of Labor and Social Security, <http://www.cq.xinhuanet.com/>

brought massive gains in every aspect of material welfare, including the rapid expansion of job opportunities. Although the formal sector still provides major channels for employment, it is a fact that China's labor market is incapable of meeting the labor supply. Layoffs plus unemployment, and especially the considerable rural labor surplus, put China's employment problem solution beyond the reach of the formal labor market. As Hu Angang, the famous Chinese economist on employment, pointed out, encouraging, supporting and promoting the informal sector to "absorb" the excess supply of labor is a necessary measure in terms of both current and future employment policies (Hu, 2001). The formal sector cannot be relied upon because it has productivity as its primary objective, it employs higher quality labor, and it lays off lower level employees. This is particularly true in the face of WTO challenges. Therefore, job creation from the formal sector will be very limited compared to the needs of the labor market.

The potential for employment development in the informal sector is huge. In the future, urban and township informal employment will become one of the main channels for creating new job opportunities. Hu predicted that in the next five to ten years, the proportion of informal employment in the total urban and city employment would increase to 50%. He argued that the government should remove restrictions on the informal sector. Among the barriers for informal sector development mentioned above, the government should start with the easier ones, such as to provide more government-funded training programs, abolish various limitations for informal economic activities, and improve laws and regulations to protect informal workers. According to the Ministry of Labor and Security of China, the

government is studying a policy “package” to promote the informal sector in cooperation with the International Labor Organization (Guo, 2002), which may include:

-- Stimulate the development of small business by simplifying the examination and approval procedures, by reducing or exempting their income tax payment together with providing a package of management services, including funds, credits, information and technology, and training as well, so that small enterprises may apply for loans to use in personnel training.

-- Help traditional industries or enterprises so as to create irregular jobs, such as temporary jobs, for which workers only get wages, but are not covered by social security. The government should launch various projects for irregular employment to relocate the laid-off workers.

-- Actively create irregular jobs in communities by promoting the establishment of community service centers, enhancing labor services and labor intermediary functions, and developing services such as home-stay childcare, home cleaning, homes for aged people and other services to absorb layoffs.

3.6. Other means of employment improvement

By reviewing the existing studies, we may summarize the classic arguments for improvement in employment as follows:

(1) Further promoting the service industry in the context that China has a relatively underdeveloped service sector compared with many other countries, which would have great potential for development, especially after China’s WTO accession.

(2) Further attracting foreign direct investment (FDI) to increase labor demand. FDI has played important role in China's economy, especially in increasing labor demand. In 1998, the share of employment in foreign-funded enterprises in total urban employment reached 3.84%.

(3) Promoting the development of the private sector. In 1998, the share of private sector employment in total urban employment reached 28%. The private sector has become the sector that the jobless and laid-off workers heavily rely on.

(4) Further increase public expenditures to create job opportunities.³⁷

Particularly, expanding education is suggested by many researchers to reduce labor supply in the short run and improve human capital investment in the long run. Extending education will keep students in schools longer and postpone young people's entry into the labor market. Feasible measures may include expanding senior secondary education and increasing the enrollment in colleges and universities.

3.7. The costs and potential risks of priority shift

As discussed in the above sections, there are more and more signs showing that China is experiencing a major policy adjustment towards promoting greater growth in employment. Concerns arose at the same time over that new employment-orientated strategy might bring some other costs and risks, which might be, even partially, inevitable.

It is a widely recognized argument that China's unemployment problems stem from its reform aiming at social and economic transition. Given the increasing unemployment

37. China Statistical Yearbook 1999

pressures, there are strong voices in China for not only shifting policy priorities but also reviewing the existing reform policies as a whole, raising risks for retreating from the reform. While the further reforms including property rights diversification and personnel management in small and medium-sized SOEs have been initiated and implemented, and are expected by many to cause further layoffs, the same reforms in large-sized SOEs were held.³⁸ This postponement was publicly confirmed by the government at the end of 2003.³⁹

Another issue worth being stressed is that employment-orientated macro economic policy adjustment is attracting focus on the unknown relationship between inflation and unemployment. Arguments for the trade-off between inflation and unemployment find their supports from some economic theories such as the Philips-Curve. China has experienced serious inflationary pressures from the beginning of its reform till the late 1990s. Tight monetary and fiscal policies have been applied to avoid inflation for a quite long period of time, which caused a move toward austerity and retrenchment, and thus seemed costly in terms of long-term job creation. Moreover, since these policies slowed down growth outside the state sector, whose access to credit was sharply reduced, and to some degree forced layoffs by state and newly privatized former state firms. In this way, a restrictive monetary policy raises the rate of unemployment. Owing to the special treatment for the inefficient and

38. In China, the Commission of State-Owned Assets Management under the State Council decides the name-list of large-sized SOEs which will be under the direct "instruction" of the Commission, and receive special treatments in terms of bank loans, land use, social welfare as well as personnel management. For instance, some well-performed SOE executives can be "promoted" to ministers of the central government departments. By the end of 2003, there were 197 companies on the list of large-sized SOEs.

39. 2004 SOEs Reform and Development Guideline, the Commission of State-Owned Assets, December 22, 2003, China Financial Times.

relatively capital-intensive state sector, China faces a Phillips-curve-type trade-off between inflation and unemployment, as well as a soaring public-sector debt, which may now reach 70% of GDP, including non-performing loans of state banks (Carson, 1997, chapter 2).

Adjusting the current monetary and fiscal policies is expected to be part of the policy shifts for employment improvement. Then the above-mentioned trade-off is worth particular attention. There are growing debates over whether China is now still facing inflation pressure. Particularly the real estate bubble in major cities is a very hot issue. Meanwhile, China's CPI is estimated to increase by 3% in 2004, which is taken as a signal of increasing inflation pressure by China Central Bank.⁴⁰

Moreover, some employment promotion measures, such as increasing public investment, re-employment projects as well as more spending on education and training programs, may add much drive for new inflation risks. There are increasing overlapped investment projects by different areas, including new highways, airport construction, government buildings and steel plants. Some economists from the government research institutes warn that preventing the economy from over-heating and from inflation should not be removed from the list of policy foci (Wu, 2003).

4. Summary and conclusions: implications for policy shift

In essence all of the unemployment issues are rooted in China's economic reform and structural adjustment. They can be seen as unexpected outcomes or costs of the reform, which

40. China Central Bank, Report on 2003 China Monetary Policy, Economic Daily, Feb.24, 2004

brought high economic growth and a low inflation rate in the past two decades. While economic growth is the essential aim of China's development and is still taken as the priority of its public policy, high economic growth will not necessarily ensure the balance of labor demand and supply. A new policy framework with macro policy adjustment combined with other social policies is urgently needed. This policy shift seems on the way. It is well understood that China's unemployment problem is and will be very difficult and complicated because China has the world's largest population and is experiencing the economic restructuring and system transition on a very broad scale.

The existing statistics, especially the published registered urban unemployment rate, can hardly reflect the actual unemployment situation of China today. Registered urban unemployed workers, layoffs from SOEs and collective enterprises, rural labor surplus and urban new labor force are the four sources for China's unemployment. All of them are increasing, and the rates tend to be higher in post-WTO entry era, in which further reforms are carried out.

The unemployment situation in China is the result of some special characteristics. Economic transition from a planning economy to a market economy and large scale restructuring are the major causes for unemployment. The new policy framework dealing with unemployment problems should be based on these characteristics. The sign of the shift of economic development priorities can already be seen from recent government statements as well as academic researches.

In the foreseeable future, both high economic growth and a low inflation policy may

give their priority to employment. Employment priority means (1) China's macro economic policy and other social policies should give more emphasis on the development of the labor market. (2) Labor-intensive orientation should be emphasized in industrial investment policy in the long run. (3) Anti-unemployment policy should have priority over anti-inflation policy. (4) Government expenditures should focus on employment promotion and social security rather than other fiscal uses. (5) Job creation should have priority over the increase of aggregate income. While we can already see some steps towards this employment priority, the concrete policies to carry out this strategic shift are yet to come. One certain point is that none of the unemployment issues can be resolved in the short term.

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