

**AN EMPLOYMENT AGENDA
FOR CHINA**

Background Paper for the China Employment Forum

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Chapter 1: Key issues

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 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 'floating' migrants, taking up unregistered informal sector or temporary employment. 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.

China National Re-employment Conference

The key employment challenges and appropriate policy responses were recently 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 presence of the President of China, Mr. Jiang Zemin, and the Prime Minister, Mr. Zhu Rongji, underlined the importance the Chinese Government is placing on employment promotion.

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. In his speech, Mr. Jiang Zemin highlighted an increasing imbalance between aggregate labour supply and demand, with a strong structural and regional dimension, which is in contradiction with the goal of full employment. 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 programmes, 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 programmes, 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.

All levels of government should now formulate and implement comprehensive policies to promote economic growth, accelerate the creation of jobs and gradually moderate regional disparities in economic development and employment. The policy conclusions of the Conference emphasized the key importance of labour-intensive industries and services, small and medium-sized companies and the private enterprise sector for new job creation and called for effective economic and employment policies to stimulate their further development. These conclusions are very much in line with the findings and policy recommendations of this report. The conference also stressed that the deepening imbalance between labour supply and labour demand needs to be overcome by massive investment in human resource development, the expansion and upgrading of vocational training, by fostering flexible forms of employment and promoting labour mobility, while improving the provision of employment services and guaranteeing basic living standards for laid-off workers and other unemployed persons.

China Employment Forum

The China Employment Forum is being organized in April 2003 jointly by the Ministry of Labour and Social Security (MOLSS) of the People’s Republic of China and the ILO with

the participation of social partners, international specialists, representatives of Labour Ministries from selected countries and international agencies. The Forum will provide a venue where ideas, and knowledge and experience (including examples of good employment practices from other countries) can be shared and built upon to develop the main strategic elements and practical proposals for an employment agenda for China.

The China Employment Forum also provides an opportunity to consider how the respective roles of the state authorities, workers' and employers' organisations could adapt to better reflect the opening of the economy to market forces and the experience of other countries in applying the ILO Declaration on Fundamental Principles and Rights at Work endorsed by the Chinese government. The core of good employment policies must include constructive social dialogue. Giving people voice through social dialogue is an effective process for generating sustainable and productive solutions to conflicts of interest at the workplace. A labour market that is free from discrimination in respect of race, colour, sex, age, religion, political opinion, national extraction or social origin, in the words of the ILO's Discrimination (Employment and Occupation) Convention, 1958 (No. 111) and that guarantees freedom of choice of employment is one where more productive job matches can be made. Finding the best ways to give expression to these basic workers' rights should be an important cornerstone of China's employment policy in line with the ILO's Employment Policy Convention, 1964 (No.122), which China has ratified. In that context *promotion of equality at work, with a particular focus on gender equality, is a crosscutting theme throughout this paper.*

Issues paper

The main objective of this background paper is to identify from both national and international perspectives the key employment and labour market challenges that China faces today and thus to inform and contribute to the debate and discussion at the China Employment Forum. The paper acknowledges the very thorough and useful "China employment report, 2001-2002" prepared by the Ministry of Labour and Social Security for this Forum.¹ Clearly the background paper cannot reflect fully the richness and diversity of China's recent experience. Its main purpose is to flag the issues, which need attention of policy makers taking into account international developments and social concerns.

The paper starts by analysing recent changes in the labour market situation in China. The analysis reveals that China faces a range of employment challenges. Some of them are essentially of a long-term nature such as the *low employment intensity of economic growth*, mainly resulting from shedding concealed labour surplus in state-owned enterprises (SOEs), labour-saving structural change and continuing underemployment in rural areas. In addition, *fragmentation and segmentation of the national labour market* is persistent resulting from the strict rationing of urban employment and an extremely restricted access of "floating" migrants to jobs in the formal urban labour market;² there is also *gender asymmetry* in the labour market as women are discriminated against by hiring and firing practices in many areas; there is *ethnic*

¹ The paper also makes frequent references to the OECD Report, *China in the world economy: The domestic policy challenges*, OECD, Paris, 2002.

² According to MOLSS information, some restrictions on jobs for migrant workers have recently been moderated but no details are available to the ILO.

asymmetry as certain ethnic groups are favoured in job creation; and there is a distinct slowdown in *poverty reduction* combined with *increasing income inequality* arising because large parts of the population, jobless persons, the working poor and their families are unable to obtain a fair share in the fruits of economic growth.

In many respects public policy has not always responded adequately to these challenges. It is essential for the future that public policy has the capability of working through institutions, programmes and practices to meet these challenges, which are likely to be intensified by a greater reliance in the future on market forces in shaping China's economy.

Raising the productivity of all workers must be at the core of any strategy for sustaining employment growth in China. This can be done best if it is based on a forceful drive for change on the one hand, together with a socially responsible management of change on the other. If structural change is managed well through appropriate investment in skills and knowledge development, pursuing active labour market policies to ensure a well functioning labour market and developing affordable social safety nets, then the country is in the best situation to cope with and take advantage of the opening up of the global economy and of the opportunities offered by new technologies. Such productivity growth will also provide the conditions for pursuing the non-inflationary and growth-oriented macroeconomic policies, which lay the basis for full employment.³

Key concepts and elements in developing an Employment Agenda for China

This paper identifies several key concepts and elements on which the China Employment Agenda as a comprehensive policy approach to current and envisaged employment challenges should be based. First, the overarching goal of decent work is clearly spelled out. The necessity to create equal employment opportunities for all people is a cross-cutting issue throughout the proposed Agenda, which is set out within the framework of the decent work agenda and is covered in different parts of the report. Some important considerations for re-direction of macroeconomic policy towards promotion of productive employment are then emphasized and further developed in Chapter 2. Finally, the seven key elements of the Agenda are briefly analyzed and key policy issues suggested here while Chapter 3 elaborates more on both the analytical findings and the relevant policy recommendations.

Decent work

The key concept in the proposed Employment Strategy for China is the decent work approach. It is self-evident that people work not only because they have an economic incentive to do so, but an economic imperative to do so as well. The concept of decent work, however, is not narrowly economic but more broadly based: work has significance not just in economic

³ This framework is developed in more detail in the Global Employment Agenda. The Agenda is the ILO's response to the General Assembly (24th Special Session) resolution to elaborate a coherent and coordinated international strategy on employment and the Millennium Development Goals. It aims to put employment at the top of the national and global agenda and to build a platform of strategic alliances for the faster creation of productive employment for decent work between the ILO and other UN agencies and the Bretton Woods institutions. (For details see website: <http://www.ilo.org/public/english/employment/empframe/practice/index.htm>.)

terms, but in moral and social terms as well. Labour markets are about people, their skills and competencies and incomes, but also about their aspirations and motivations. At work is where self-esteem is nurtured or denigrated, where a person's voice is heard or ignored, where opportunity is given or unjustly denied, where self-fulfilment is enhanced or repressed.

Distinctive of the ILO's approach to employment policy is the central observation that, irrespective of a country's level of economic development, there is no trade-off between the fundamentals of decent work - the threshold of which is expressed in the Declaration of Fundamental Principles and Rights at Work - and job creation. Not only is a threshold of decent work attainable at any level of economic development but also decent work itself is a factor in economic betterment and productivity improvement. Basic rights at work and freely chosen and productive employment must advance together. The ILO concept of decent work incorporates four main pillars: the centrality of employment; the guarantee of basic rights; a floor for social protection; and the promotion of social dialogue.

The key premise of an employment strategy is that there are sound economic as well as social reasons for supporting the decent work agenda. This is so because labour markets do not function as do markets for goods and services. Since income alone falls short of meeting people's aspirations and needs at work, an employment policy, if it is to be effective, must acknowledge the distinctive way in which labour markets function and how the exercise of basic rights supports that functioning. However, this policy should not lead to an excessive increase in labour costs which would be detrimental for employment.

A substantial amount of evidence supports the economic benefit of decent work, and this is of particular relevance to China. For example, the provision of basic social protection reduces the insecurity that inhibits people from accepting change, thereby improving labour market functioning and the movement of labour to more productive jobs, a critical objective in China today. Similarly, safety at work improves not only the quality of work, but has an immediate payback in making enterprises more productive. A labour market that is free from discrimination on all grounds is one where macroeconomic gains accrue through more productive job matches. And finally, giving people a free and independent voice at work will have substantial productivity advantages through facilitating consensus, minimizing social costs, and speeding adjustment by reducing resistance to change. These elements are part of the ILO Declaration on Fundamental Principles and Rights at Work and of the ILO's core Conventions that China is studying and gradually ratifying.

Creating equal employment opportunities for all

This is another 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.

Key issues

- Formulate and implement employment policies consistent with the Discrimination (Employment and Occupation) Convention, 1958 (No. 111), which China is now examining for ratification, to promote equal employment opportunity and treatment for men and women. Identify the obstacles facing particular social groups in finding and keeping jobs and institute appropriate remedial programmes;
- Ensure equal remuneration for men and women for work of equal value, as provided for in the Equal Remuneration Convention, 1951 (No. 100), already ratified by China;
- Insist that labour bureaus and agencies and institutions active in job placement and retraining should give vulnerable groups attention at least in proportion to their overall share in the labour force;
- Improve the data system so that gender-sensitive data and information can be generated to inform employment policies;
- Ensure that legislation on hiring people with disabilities is strictly enforced;
- Raise awareness among employers' organizations of the waste of resources implied by job discrimination and encourage trade unions to be vigilant in reporting instances of discrimination by gender, age, health state, ethnic origin, etc.

Towards an employment promoting macroeconomic policy

This paper points to the sharply declining labour absorption capacity of the Chinese economy despite sound economic growth. Macroeconomic and development policy needs to address this poor employment performance of the Chinese economic development. If the labour market situation is to improve significantly and absorb the expected numbers of new jobseekers and rural migrants, macroeconomic policy will need to sustain the currently high level of economic growth and become much more employment oriented, in part by providing an environment in which enterprises of all sizes can prosper. Economic growth will then be primarily driven by high labour productivity; wage growth should reflect productivity growth through the mechanism of collective bargaining within a well functioning labour market.

Sound fiscal policy combined with investment promotion has brought positive results in terms of economic growth. Nevertheless, many resources were devoted in the past to subsidizing inefficient state-owned enterprises without always stimulating their sound

restructuring (now the state no longer subsidizes such enterprises but co-finances policies for laid-off workers). Furthermore increasing regional economic disparities are partly the result of public policy since fiscal constraints have prevented the development of adequate transfer programmes. Future policy should support more balanced regional development and fairer access to financial markets.

Finally, targeted poverty alleviation programmes should be launched, and assessed, at different levels. Since much current poverty is connected with un- and underemployment and poor mechanisms for income redistribution, these programmes should attempt to provide a minimum level of income and also promote labour mobility to regions with higher labour demand. Infrastructure construction using labour-intensive techniques, combined with public works or community-run projects, will be one important activity promoting rural economic development and bringing employment and incomes to many poor people.

Key issues

- Macroeconomic policy should stimulate high economic growth and become more employment oriented. There is a need to promote more balanced regional economic development by creating a favourable environment for enterprise and job creation, in particular in underdeveloped regions with large labour surplus.
- The central government needs increased resources in order to minimize regional differences in welfare levels. This will help reduce inter-regional migration aimed at obtaining higher benefits in more favoured regions.
- Financial reform should produce a level playing field in terms of the availability of credit to enterprises of all sizes and types in all regions; such reform should benefit female and male workers equally and should provide easy access to bank lending for housing, education and business development.
- Local levels of government should be encouraged to identify the extent of labour underutilization in their area and propose infrastructure construction projects, in conjunction with private entrepreneurs and community associations, to absorb labour, set a target wage and raise levels of output.
- Promotion of “twinning” between more developed (richer) and less developed (poorer) provinces or regions.
- The tax system should be reviewed to improve income redistribution.

Seven key elements of the Employment Agenda for China

1. 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.

Key issues

- \$ 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. Improved business and entrepreneurship training must be matched by reduced levels of government intervention in small and medium enterprises, 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.

2. Social dialogue, employment and labour market governance

Recognizing the need to rebuild and improve the institutions of China's industrial relations system, the Government and the social partners have taken important steps toward tripartite social dialogue. The Tripartite Consultative Committee at national level is steadily being replicated in the provinces, districts and municipalities. Gradually a system of collective bargaining is evolving at enterprise level building on the provisions of legal reforms. China has

endorsed the ILO's 1998 Declaration on Fundamental Principles and Rights at Work. The standards referenced in the Declaration, together with other ILO Conventions and Recommendations and the experience of many countries, can help the Government and social partners modernise the governance of the labour market to meet the challenge of creating more and better jobs. Social dialogue is an important mechanism to enable the improvement of enterprise performance, prevent and resolve conflicts and foster social stability. By enabling participation in management in both the State and non-State sectors, the collective representation of workers at the workplace is one of the key factors facilitating modern enterprise management systems conducive to high productivity, high efficiency and high morale. Continuing to improve the industrial relations framework to provide greater space for representative unions and employers' organisations, the expression of divergent interests and genuine social partnership is vital to the growth of employment as China extends its market reforms and integrates into the global economy.

Key issues

- There is a clear need to strengthen the capacity of employers' and workers' organizations.
- Through collective bargaining in good faith, the social partners should conclude collective agreements for better working conditions and better economic performance.
- Tripartite social dialogue needs to be modernised in China in an inclusive manner to enable the social partners to tackle broader social and labour market policy issues including industrial relations issues. Social conflict is often avoided when workers feel that they have a real voice in such decision-making.
- The social partners need to consider how they can help, through tripartism and social dialogue, to adapt the governance framework for individual and collective labour relations, in line with the universal principles, with a view to creating an enabling institutional framework for socially responsible restructuring, more and better jobs for all, and poverty reducing development.

3. *Improving knowledge and skills for employment in a knowledge based economy*

The Chinese economy will be in a much better situation to take advantage of new opportunities and suffer fewer negative adjustment effects after its entry into the WTO if it accelerates the reform of its national education and training system. The objective is to link education and training more closely to economic and employment growth strategies and thus overcome skill mismatches. Training systems need to become more flexible and responsive to the rapidly changing demand for skills. They should equip workers not only with currently required skills but also help them to learn so that they can work effectively in new forms of emerging work organization and make full use of new technologies when needed. Training policy has to establish the conditions for the constant upgrading or extending of workers' skills, and encourage lifelong learning, which is critical if reasonable employment and income security are to be achieved in the constantly changing world of work. Thus better initial education and youth training are important as is the retraining of adults, which is urgently

needed in virtually all sectors of the economy. The social partners have to be strongly involved in the formulation and application of all aspects of training policy.

Given the large regional differences in the quality and availability of education and training, new non-traditional forms of training should be developed, such as distance learning, together with the transfer of knowledge from more economically advanced provinces to those with fewer skills and less experience of new practices. Community-based training has also been successfully tested by the ILO in China.

In July 2002, the High-level National Conference on Vocational Education recommended significant reforms that the State Council later adopted. In the new reforms, vocational education and training are recognized as major components of the education system in China as well as an important basis of national economic and social development. The main focus of this development strategy will be on the rural and western areas. New methodologies and practices are needed to meet the skills challenges.

Key issues

- Greater overall investment in education and training in China is needed for all people (including women and groups with special needs, such as people with disabilities). Responsibility should be shared between governments at all levels (primary responsibility), enterprises, the social partners, and the individuals.
- With the opening up of Chinese firms to international competition, there is an urgent need to develop "core work skills" (such as communication, problem solving, working in teams etc.) to prepare individuals for the knowledge-based society.
- China needs to reform its training system, including extended facilities for training delivery to private sector providers, while ensuring a fair deal for clients. Training systems need to become more flexible and responsive to rapidly changing skill requirements, educational and training programmes need to be well targeted, and greater use will need to be made of distance learning. In 2002, the National People's Congress adopted the Act on Promotion of Non-government Run Education. This Act will play a positive role in promoting non-government run vocational training.
- Many people have acquired skills from a wide range of non-traditional sources and these should be more effectively recognized. People should be able to have their skills assessed and recognized as part of a national qualifications framework, irrespective of where the skills were obtained.
- There is an urgent need to involve the social partners more closely in discussions on training policy and skills development.
- Workplace learning should be encouraged in all enterprises and new policies developed to assist its development. The expansion of private training should also be encouraged and supported in the new policies.

4. *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.

Key issues

- 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.
- Legislation and practices that exclude persons of rural origin from receiving equal treatment with those of urban origin should be reviewed and reformed as a matter of urgency, in conformity with ILO Convention No. 111.
- 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.
- Special measures should be taken to improve equality and end discrimination in the provision of employment services, also in conformity with ILO Convention No. 111.
- Policies and programmes 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 programmes performance should be possible with improvements in information.

5. *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.

Key issues

- 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;

6. *Social security and employment promotion*

In China, approximately 30 per cent of the population, mainly urban citizens, are covered by a social security system, including a number of social insurance schemes and the Minimum Living Standard programme – a social assistance system. The urban self-employed, workers in the urban informal economy, family dependants of the insured people, employees of township and village enterprises (TVEs) and the rural population are either only partially covered or entirely excluded from compulsory social protection. Moreover, in practice, many insurable people are not covered because they are not registered in the system or because they have been unable to preserve their accumulated benefit rights when changing jobs. Nonetheless social security coverage is being extended and some 60 million persons are participating in rural pension schemes nationwide.

Social security reform should first focus on legally insurable persons who are not covered in practice by reviewing current legislation, strengthening the social security administration and improving compliance with all statutory programmes. Social security inspection and the national social security information system should be largely strengthened.

There is also a need to review the level of contributions and benefits to reinforce the financial sustainability of the current systems. At the same time as the improvement of compliance, social security needs to be gradually extended to those groups who are currently uninsurable and excluded from the formal system. Among them, the self-employed and TVE workers could be firstly covered. Those groups which are uninsured may be covered either through the extension or modification of existing public schemes or through the development of other appropriate mechanisms, which may be community-based, occupation-based or private, depending on local conditions.

Key issues

- The need to effectively and efficiently protect the whole population against socio-economic insecurity;
- The need to strengthen the unemployment protection system and its role in employment promotion.

7. *Safework*

With rapid industrialization the number of workers employed in hazardous occupations is increasing. The mining, construction and chemical industries are often particularly dangerous. In new economic conditions the occupational safety and health system is facing many new problems. Many enterprises, and in particular small ones, strive to reduce production costs by neglecting safework and that leads to many accidents and causes heavy losses to life and property. A large number of occupational accidents and diseases still remain unreported. Pollution is also a widespread problem, often linked to outdated industrial processes and sometimes to misplaced cost-cutting, which entails considerable social costs. The Chinese government has been promoting safety and health through the slogan “Safety first, prevention priority”, which is well-known in the country. China’s commitment to adjust the OHS system in order to cope with the changing employment environment has been shown by the recent ratification of the ILO Chemicals Convention No. 170 and the Safety and Health in Construction Convention No. 167, and the establishment of the State Administration of Work Safety assigned to consolidate national policy on safety, and indeed some good progress in this field has been achieved including the enactment of new laws on safety and health.

Key issues

- Development of a clear national policy that jobs created should be safe and healthy and have a due regard to the environment. This should be supported by a high level national commitment based on the tripartite consensus of government and employers and workers.
- Developing comprehensive OSH laws and regulations based on the relevant international labour standards, particularly the Occupational Safety and Health Convention, 1981 (No.155) and the Occupational Health Services Convention, 1985 (No.161).

- Strengthening mechanisms for the implementation of legal requirements throughout the country, including inspection systems, OSH training, technical advisory and support services, information exchange and awareness campaign.
- Establishing the National SafeWork Programme with high-level government support and mechanisms for implementation under full collaboration of authorities and social partners at the national, provincial and local levels.
- Creating a common understanding among leaders of the government, business and trade unions that occupational safety and health and environmental protection should be a priority in business operation and in economic development and social progress.
- Establishing an OSH management system at the enterprise level as an integral part of business management.
- Developing special programmes to address hazardous industries such as mining and construction, and small enterprises with due attention to vulnerable groups such as migrant workers and women workers (reproductive health).
- Accelerating full implementation of the Chemicals Convention, 1990 (No.170), which China has ratified, reflecting the internationally agreed Globally Harmonized System for Hazard Communication with a view to improving protection of workers and the environment.
- Expanding the coverage by the worker injury insurance scheme and improving its linkage for prevention.

Chapter 2: The employment challenge: Past trends and new opportunities

Introduction

This chapter sets the scene for a review of the employment implications of China's entry into the WTO. It first reviews recent trends in employment, unemployment and education levels and points to the decline in labour absorption in recent years. It also discusses gender differences in labour market experience. The chapter then looks at the likely employment impact of China's joining the WTO using an analysis by sector. Broadly speaking, employment gains should outweigh losses. But it is virtually impossible for further trade liberalization not to lead to job loss in the short term, obviously first of all in hitherto protected industries. The optimistic conclusion that job gains will outweigh losses is based on experience of the resilience of the Chinese economy, confidence that overall macroeconomic policies will hold fundamental balances in place and a faith in the ability of workers and employers to work with more advanced technologies and produce high quality goods. The chapter finally reviews recent trends in fiscal policy and stresses the need for greater resource mobilization in order to finance better social programmes and help redress regional differences in welfare.

2.1 Past trends

Employment trends

Since opening up in 1978 China has achieved unprecedented economic growth, job creation and poverty reduction. GDP per capita in real terms has increased seven fold, real wages in the urban public sector almost tripled and the share of population living below the national poverty line had declined to 4.6 per cent in 1999. Employment growth accelerated between 1980 and 1990 when over 210 million new jobs of varying quality were created, in the first place by expanding township and village enterprises (TVEs) to absorb many labour market entrants and much surplus labour in rural areas. In urban areas new jobs emerged in state enterprises while private, own-account and foreign-owned firms gradually gained in importance.

In the decade of the 1990s, despite remarkably high – but since 1992, declining – economic growth (and partly because of slower labour force growth) employment generation slowed down to slightly over 80 million new jobs. That this was insufficient showed itself first as an increase in open unemployment and second as a slower rate of movement out of agriculture. One reason for the latter was the exhaustion under current conditions of the development potential of TVEs (of which most are no longer collectively owned) many of which faced economic problems. In addition, state-owned enterprises experienced economic problems in the new competitive environment, which finally forced them, despite huge government subsidies and preferential loans from state-owned banks, to shed large numbers of workers (some 36 million workers – about a third of all state employees – lost their jobs between 1992 and mid-2001)⁴.

⁴ Lardy, *Integrating China into the global economy*. Brookings Institution Press, Washington, 2002, p.22.

Farm work in the rural economy has not provided full employment, encouraging migration to urban areas as well as providing cheap labour for TVEs. Often rural migrant workers found employment in the private sector, which both in urban and rural areas has become the main job generator for new labour market entrants and for workers laid off from state-owned enterprises. Rural migrants mostly move from undeveloped and more remote rural areas towards flourishing eastern coastal provinces, the city of Beijing and a few other urban centres in central provinces. However, much movement to urban areas is entirely illegal or only semi-legal so that migrants are likely to be concentrated in individual and micro enterprises and to be employed under poor conditions with little if any social protection. Many of such migrants then return to the countryside, including both those who wish to invest earned money in their own business and those who failed in urban areas and return to subsistence farming.

Table 2.1 shows employment generation by type of enterprise and the shift in the allocation of employment from rural to urban areas in the course of the two decades between 1980 and 2001. The table reveals that the share of employment in state or collectively owned enterprises peaked in 1980 when 25 per cent of China's labour force lived in urban areas and practically all of them worked in this type of enterprises. In rural areas employment in collectively owned TVEs contributed 7 per cent to total employment while the vast majority of rural population was ostensibly active in farming. Between 1980 and 1990 state-owned enterprises continued hiring new employees although they already started losing their share in total employment. After 1990, SOEs and urban collectively owned enterprises (COEs) faced the challenges of economic restructuring that forced them to shed workers. This process accelerated after 1995 when their combined share declined by 10 percentage points just within 6 years. At the same time new private or foreign-owned enterprises expanded, but the number employed both in firms operating in the informal sector and of self employed workers expanded faster.

Table 2.1: Employment by enterprise type, 1980 – 2001

Year	Total employment Thousands	Urban employment as percentage of total employment				Rural employment as percentage of total employment			
		Total share	SOEs ¹	Private	Foreign	Self ² - employment	Total share	Farms	TVEs
1980	423,610	25	25	0	0	0.2	75	67	7
1990	639,090	26	22	0.3	0.1	1.2	74	59	14
1995	679,090	28	22	1.2	0.8	2.2	72	51	19
1999	705,860	30	14	3.2	0.8	3.4	70	49	18
2001	730,250	33	12	4.7		4.5	67		18

¹ The figure covers employment in state and collectively owned enterprises.

² Earlier "urban individual labourers", later "self-employment".

The difference between the total share of urban employment and the enlisted categories is the proportion of persons with unknown, mostly informal form of employment and the same is true for rural employment. This proportion has rapidly increased since 1995 and in 1999 it already equalled 10 per cent of total employment.

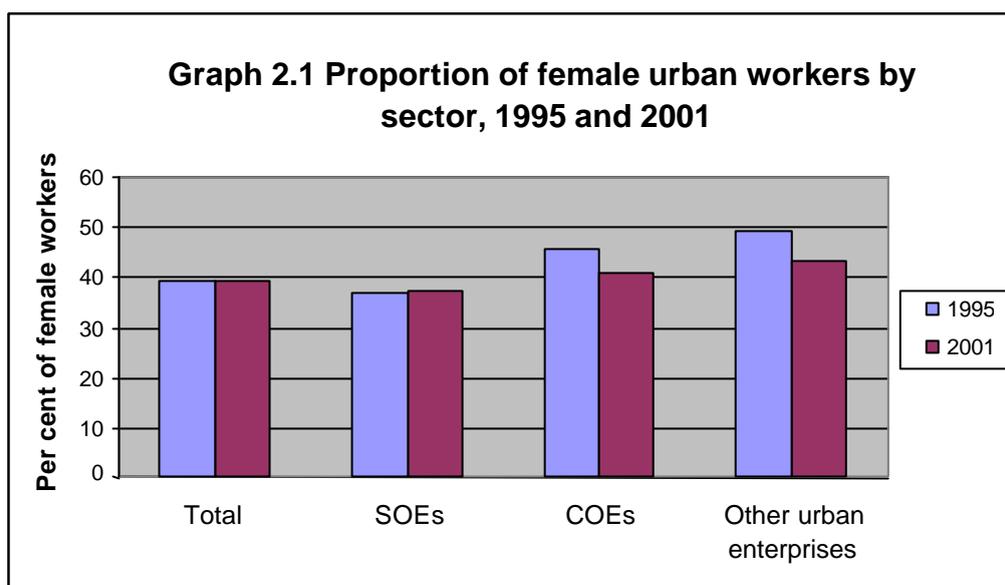
Sources: National Bureau of Statistics, *China labour statistical yearbook 2002*, Beijing, China Statistical Press, 2002; OECD (2002); MOLSS, *Labour and social security in China*, Beijing, 2002.

Substantial changes occurred in rural areas where more and more workers moved from farming to non-agricultural activities in TVEs or migrated to larger towns. After 1995 not only TVEs but also many other rural enterprises in inland provinces have faced serious economic problems, resulting in significant labour shedding and workers made redundant have had to look for self-employment or legal or illegal work elsewhere. Since 1995 the new private sector and enterprises with foreign or mixed ownership have become on a netted out basis the only

source of good quality new jobs but these have lagged more and more behind the number of jobseekers.

While some rural migrants have found employment in manufacturing or services, many have been hired for house construction or building other urban infrastructure. Investment in physical infrastructure in China sharply increased from US\$ 36 billion in 1990 to US\$ 188 billion in 1997 and between 1998 and 2000 the Chinese Government raised and invested US\$ 750 billion. Such infrastructure investment has contributed significantly to job creation, two-thirds of which have been apparently taken by workers from rural areas. At the same time, good quality infrastructure is the key factor for business development.

Women workers contributed 45.6 per cent to total employment in the national economy in 2001 and between 1995 and 2001 their share decreased by 0.1 per cent.⁵ The proportion of women workers in urban employment (without the small scale private sector) and their share in state-owned, collectively owned and other urban enterprises as well as the changes between 1995 and 2001 are depicted in graph 2.1. The graph shows a considerably lower share of female workers in urban enterprises than in the national economy as a whole. Moreover, while between 1995 and 2001 the share of women slightly increased in SOEs, women experienced layoffs at a higher rate than men in COEs and other urban enterprises.



Source: China labour statistical yearbook 2002.

Increasing unemployment

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 centres 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

⁵ China employment report, op. cit., p. 2., and China labour statistical yearbook 2002, op. cit., Table 1-39.

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 centres) was more than double at 5.5 per cent.⁶ 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.⁷ 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.⁸ Data on underemployment in the rural labour force are, however, more than usually disputable. Employment in agriculture equalled 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. In 1999 female 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).⁹ 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

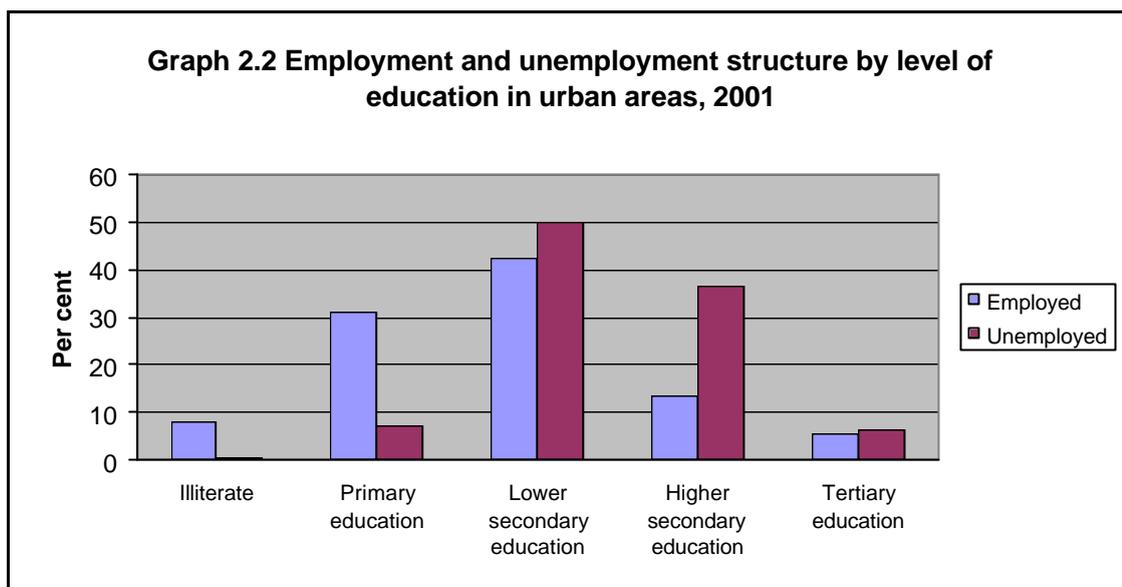
workers for improving its production competitiveness while on the other hand higher educated workers are over represented in registered unemployment as can be seen in graph 2.2.

⁶ Calculation based on Table 1-50 of the China labour statistical yearbook 2000. Unfortunately, more recent yearbooks do not include this table any more.

⁷ Reference in the Economic Intelligence Unit, *The labour flood*. Country briefing of 28 May 2002. However, precise definition of underemployment to establish this figure is not given.

⁸ Ibid.

⁹ See footnote 6.



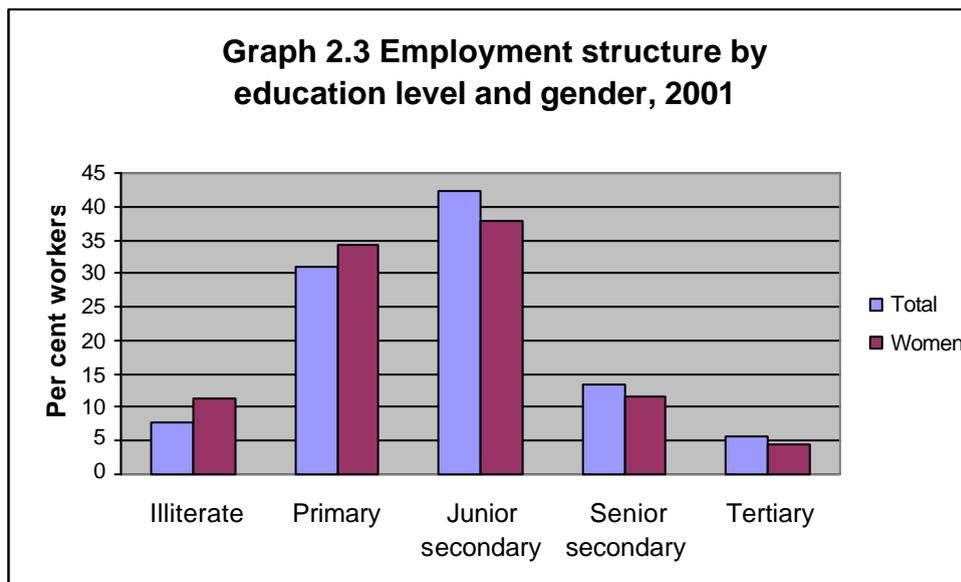
Source: China labour statistical yearbook 2002.

Part of the explanation is the higher average educational levels of those eligible for unemployment registration (e.g. workers laid off from state-owned enterprises constitute almost one-half of all registered jobseekers and, as noted, school leavers another one-third) as compared to the total employed population. The comparison is therefore somewhat flawed. However, the figures also reflect employment problems of school leavers connected with their transfer from school to work and pointing to large skill mismatches, and of older workers whose adjustment ability employers do not trust while they do not want (or have no funds) to invest in the training of both groups.

Education

China has made significant advances in improving the average educational attainment of its labour force in the last two decades, in particular due to an increased access of young population to primary and lower secondary education. However, a lot more needs to be done for enhancing the level of workers' qualifications.

The employment structure by level of education and by gender is presented in Graph 2.3.



Source: China labour statistical yearbook 2002.

The average level of education increases for younger cohorts of workers as only 3 per cent of workers aged 16-29 are illiterate and 26 per cent have primary education. This however, contrasts with the shares of young people between 16 and 29 having senior secondary and higher education, which surprisingly move only around the national average and point to the slower recent progress in educational attainment of the Chinese population. Also vocational training for youth and adults is lagging much behind the needs of the labour market. If the reform of the national education system does not allow more people to reach higher levels of education China will not be able to absorb new technologies and benefit more from the global division of labour. Indeed, there has been a slowdown in human capital accumulation, from annual growth rates of 5.3 per cent before the reform to 2.7 per cent during the reform period. Education spending in China has stagnated at around 2.5 per cent of GDP since 1984. The gap in distribution of education funding has been widening between richer and poorer regions, especially when taking into account increased private sector spending on education in the richer coastal regions.

Declining labour absorption

The phenomenal growth of the Chinese economy after 1978 was primarily based on a sharp increase in the productivity in farming as a result of land reform, improvement in agriculture's terms of trade and the opening of non-farm business activities. From the mid-1980s the policy of industrialization was twofold. The strategy of integrating China into the global economy was oriented towards the expansion of labour-intensive production. At the same time some industries were supported as "strategic". These included mining, steel, machine building and chemicals. As a result of economic growth, the share of agriculture both in production and employment was rapidly diminishing. In 1980 agriculture still contributed 69 per cent to total employment, industry and construction 18 per cent and services 13 per cent, while in 1995 the proportions changed to, respectively, 52, 23 and 25 per cent. After 1995 such structural shifts have significantly slowed down, and in 2001 the corresponding figures were 50, 22.3 and 27.7 per cent. The deceleration was mainly due to the immense economic problems faced by state or collectively owned enterprises and other problems faced by TVEs.

While the export strategy, however, has been extremely effective the strategy of targeting support to strategic industries has probably also contributed to a sharp increase in income differences between provinces.

Since the mid-1990s, the growth of TVE output has slowed down relative to their phenomenally high growth in the early 1990s. Reasons for their relative decline are associated with internal problems and with external conditions. Internal problems include: (i) too close an involvement of township and village officials, who were the main financial guarantors of the TVEs in the early years; and (ii) with their good performance, some TVEs have grown too big for their initial organizational and incentive structure to be sustainable. External conditions include: (i) a decline in exports in the late 1990s due to the Asian financial crisis and devaluation in Southeast Asia; (ii) financial difficulties faced by some SOEs had an impact on TVEs with direct production links to them; (iii) the enforcement of much needed environmental protection regulations. However, statistical data on the number of TVEs as well as their output and employment have also been substantially revised downwards in the second half of the 1990s: China's 1995 industrial census put the listed number of TVEs one-third lower and the output figure nearly 40 per cent lower in comparison with the figures provided earlier. Two years later the Ministry of Agriculture made another downward revision to the 1997 output and employment data for township and village industries.¹⁰

Table 2.2 illustrates the sharp decline in labour absorption in China's manufacturing sector to negative levels after 1995. In the 1980s state-owned enterprises were still firmly committed to the policy of providing lifelong employment to their workers while hiring large numbers of additional workers. The costs of this policy of labour hoarding resulted in a slowdown in real wage increases during 1985-90. With increasing competitive pressures on enterprises since the early 1990s and intensified wage demands by workers, state enterprises in manufacturing started restructuring production, sharply reducing new hirings and shedding redundant labour. The extent of layoffs has recently been fairly high – between 1998 and 2001 altogether over 25.5 million persons.

Table 2.2: Value-added, employment, real wages and output elasticity of employment in manufacturing in China (annual growth rates in per cent)

Time period	Value added	Employment	Real wages	Output elasticity	Wage bill
1980-85	9.9	4.7	4.5	0.47	9.4
1985-90	9.2	3.1	2.8	0.34	6.0
1990-95	17.7	2.6	7.8	0.15	10.6
1995-99	10.3	-4.6	8.3	-0.45	3.3

Source: *China labour statistical yearbook 2000*, cited in A.R. Khan, "Employment policies for poverty reduction." *Issues in Employment and Poverty Discussion Paper 1*. Recovery and Reconstruction Department. ILO, Geneva, 2001

Note: Growth rates are annual compound rates between end points. Real wages have been estimated by deflating nominal wages by the urban consumer price index. Output elasticity of employment is the ratio of growth rate in employment to growth rate in value added. The wage bill is measured in terms of consumer prices, value added growth is measured by producer prices.

¹⁰ See T. Rawski, *China by the numbers: How reform affected Chinese economic statistics*. <http://www.pitt.edu/~tgrawski/papers2000>.

In contrast, the share of the services sector in total employment is only one-half of the average share of this sector in countries at a similar economic level, according to the World Bank estimates.¹¹

Table 2.2 also shows that the growth of the wage bill in manufacturing has usually been far below the growth of value added. This has left a major surplus for investment while consumption has been severely dampened in recent years. Over two decades it was capital accumulation that accounted for half of China's growth. However, growth in total factor productivity was also significant showing that technological change and a shift to better working methods was important in economic growth.

Table 2.2 further shows high real wage growth in the 1990s - a period where the rate of poverty reduction declined. This suggests that high real wage growth did little to reduce income inequality.

There are three factors contributing to the obvious mismatches in China's labour market: first of all, as already mentioned, is the past commitment of enterprises to provide lifelong employment and social security to workers so that despite a weakening of this commitment since the early 1990s enterprises are still keeping many redundant workers within their workforce or in re-employment centres.

Second, there are large and ever increasing differences in the level of economic development among regions. Coastal provinces, the city of Beijing and a few other large cities in central China are largely benefiting from massive foreign direct investment as well as from excellent transportation connections. At the same time north western and, except for Sichuan, south western provinces, based on industries which have received little new investment and even less FDI, as well as other inland and mostly agricultural provinces with poor technical and social infrastructure, are underdeveloped.

Third, the persisting *hukou* system of official residential registration of households combined with the modest income security rural families receive from their land use rights, serves to lessen potential migration, although actual migration flows are much larger than the official statistics show. Presumably because of the rural-urban migration, the real shares of the secondary and tertiary sectors in urban areas are likely to be higher than the figures show, but the extent of this distortion is not known.

Developing a well functioning labour market in China is a serious challenge. The Chinese labour market is highly *segmented* in terms of the legal status of the employing enterprise, rural-urban residence and by region. These dimensions interact and action on more than one level is needed to produce a well functioning labour market. Labour market reforms need to be backed up by a supporting fiscal policy.

Poverty, inequality and the distribution of income

¹¹ C. J. Dahlman and J.E. Aubert, *China and the knowledge economy: Seizing the 21st century*. The World Bank, Washington 2001. As Chinese enterprises provide a range of services to their workers and to the community, similarly as enterprises in the CIS, which are statistically imputed to the main sector of activity of the enterprise, the actual share of the service sector in employment is higher. However, despite this the service sector is underdeveloped, as Chinese experts widely recognize.

China has made remarkable progress in reducing absolute poverty. The number of rural people below the official rural poverty line (of Y 635 per capita income per year) was about 34 million (3.8 per cent of the rural population) in 1999. There are no consistent estimates of urban poverty. According to estimates (based on an urban poverty line of Y 1,700 per person per year) the urban poor range from 12 million to 15 million people (or about 4 per cent of the urban population).¹²

There is, however, little room for complacency. World Bank estimates of the number of people living below US\$ 1 per day in 1998 ranged from 106 million (11.5 per cent of the rural population) to 230 million (18.5 per cent of the total population). The former estimate is based on a US\$ 1-a-day income norm (adjusted for purchasing power parity) and the latter on a US\$ 1-a-day consumption norm similarly adjusted.¹³ The incidence of poverty in the interior provinces, especially in the western parts of the country is much higher than the national average. Roughly half of children in households at or below the absolute poverty line are at least mildly malnourished. Education and health conditions in the poor areas and for poor families are far below the national average.

After achieving a rapid reduction in poverty following the economic reforms and the shift to the household responsibility system in 1978 there was a break in the trend in China's performance in poverty reduction. A detailed World Bank study estimated that the proportion of rural population in poverty in China, after declining by two-thirds between 1978 and 1984 as a result of systemic changes, which strongly motivated people to tap new production and income opportunities, showed no further decline in the rest of the 1980s.¹⁴ Partly this is because many of the remaining rural poor are in areas with unfavourable natural conditions. There is a similar break in trend in the incidence of urban poverty in the year 1984. Based on household surveys for 1988 and 1995 a study showed a slowdown in the rate of poverty reduction in the rural areas and also a much slower increase in urban poverty.¹⁵ Thus inequality presumably rose, despite recent efforts to counteract urban poverty by social transfers.¹⁶

Evidence also points to the fact that ethnic minorities, who often live in more isolated far western areas, are proportionally over-represented among the rural poor. There are about 10 million poor people unable to work, i.e. disabled or handicapped and old people without family support. Many urban poor are the new poor, i.e. where family members have been laid off as a result of SOE reforms. The hard-core urban poor comprise the disabled and elderly without family support and many migrant workers.¹⁷

In urban areas wages are still the main source of income. Wages in state-owned enterprises, which are only a part of the workers' remuneration package, are around the average urban wage while wages in collectively owned enterprises are some two-thirds of the urban average with wages in of other types of ownership somewhat around 10 per cent higher than the urban average. In the 1990s the overall tendency was towards lower average wage differences among these three main types of enterprise in urban areas, probably due to labour

¹² Cited in Asian Development Bank, *Country assistance plan (2001-2003): People's Republic of China*, December 2000.

¹³ Cited in ADB (2000).

¹⁴ Khan (2001).

¹⁵ Cited in Khan (2001).

¹⁶ The social welfare system in urban areas introduced in May 1998 is described in section 3.5.

¹⁷ See ADB (2000).

market competition. However, this is consistent with evidence of increasing wage differentials between enterprises related to their economic performance, location in more or less economically developed regions, and access to export markets. Conversely, wages in township and village enterprises are only some 60 per cent of the urban average wage and net incomes per able-bodied member of rural (i.e. mainly farmer) households around 40 per cent of that of urban households. Farm incomes are thus fairly low (in countries with a similar per capita income to China farm income per worker approximates to urban income in small-scale enterprises). However, with increasing movement of the rural labour force to the cities, the incomes of rural migrants are growing and their remittances are becoming an important part of rural household incomes.

It must be noted that workers in state-owned enterprises have cheap housing and are covered by, originally enterprise-based, now increasingly public, social protection programmes, including pensions, health care, sickness, maternity, occupational injury and unemployment insurance. Transfers may thus constitute a significant part of their income, in particular, of course, for retired workers.

The rural employment challenge

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.

Before 1978 rural employment was dominated by two factors: one was the institutional framework within which economic activity was organised in the countryside; the other was the structure of the rural economy. The former was defined by the three-tier system of rural communes, large production brigades and small production teams that had evolved in the second half of the 1950s. It provided an effective mechanism for mobilizing the rural workforce not only for farming and rural industry, but also for purposes of large-scale, labour-intensive rural capital formation (especially irrigation construction) and combating natural disasters. But it did so at the cost of inefficiency and low levels of labour productivity. At the same time, not only was the structure of the rural economy dominated by agriculture, but agriculture itself was also overwhelmingly orientated towards crop farming (especially grain cultivation) – that is, towards activities that permitted a high degree of labour intensity. The outcome of these institutional and structural features was that agricultural growth in China took place without significant improvements in labour productivity and with large-scale, concealed farm underemployment.

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.

It is true that in the 1980s and 1990s rapid rural industrialization (especially the growth of TVEs) made possible the creation of many tens of millions of new jobs for surplus farm labourers. In particular, the 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. While in 1978 just under one-third of all manufacturing employment took place in the countryside, by 2000 this had risen to half. During the same period, the performance of the rural sector in total *construction* activity was even more spectacular, its share in national construction employment having risen from 27 per cent to 76 per cent.

Table 2.3 illustrates the changing profile of employment in the Chinese countryside between 1978 and 2001:

Table 2.3: The changing pattern of employment in the rural sector since 1978 (in millions of persons; figures in brackets show sectoral employment as percentage of total rural employment)

Year	Total rural employment	Agriculture (crop farming, forestry, animal husbandry, fish farming)	Manufacturing	Construction	Transport, storage, posts and telecommunications	Retail and wholesale trade, and catering	Other
1978	306.38	274.88 (89.7)	17.37 (5.7)	2.30 (0.8)	0.80 (0.3)	0.52 (0.2)	5.21 (1.7)
1980	318.36	283.34 (89.0)	19.42 (6.1)	2.83 (0.9)	0.90 (0.3)	0.67 (0.2)	5.88 (1.8)
1985	370.65	303.51 (81.9)	27.41 (7.4)	11.30 (3.0)	4.34 (1.2)	4.63 (1.2)	13.19 (3.6)
1990	472.93	333.36 (70.5)	32.29 (6.8)	15.23 (3.2)	6.35 (1.3)	6.93 (1.5)	17.98 (3.8)
1995	488.54	323.35 (66.2)	39.71 (8.1)	22.04 (4.5)	9.83 (2.0)	11.70 (2.4)	43.80 (9.0)
2000	498.76	327.98 (65.8)	41.09 (8.2)	26.92 (5.4)	11.71 (2.3)	17.52 (3.5)	54.42 (10.9)

Source: National Bureau of Statistics, *China Labour Statistical Yearbook, 2001*, Beijing, 2001, p.28.

Note: The "other" category in the final column are included those engaged in real estate, health, education and science (teaching and research), government administration, etc.

As economic growth and structural change have proceeded, the share of agricultural workers in China's total labour force has steadily declined - from 71 to 45 per cent between 1978 and 2001. But, as Table 2.3 shows, changes in the *absolute* number of farmers have been

much less marked. Having peaked in 1991 (349.56 million), the farm labour force subsequently declined to a low of 329.1 million (1996), after which it began to rise again. In 2000, it stood at 328 million – 53 million more than in 1978. Concealed within the national picture, regional changes in the farm labour force have been far from consistent: the biggest contraction has occurred in eastern coastal provinces, followed by the west, but with hardly any change having occurred in Central China.

Table 2.3 offers persuasive evidence of major structural changes in rural employment after 1978. There are, however, two important qualifications to make to this story. The first is that there is an important regional dimension to the profile of non-agricultural, rural economic activities, which have exhibited a high degree of geographical concentration. Thus, in 2000, 60 per cent of all rural manufacturing employment was contained in just six provinces (Hebei, Henan, Shandong, Jiangsu, Zhejiang and Guangdong) – all of them, except Henan, being coastal provinces. These same six provinces accounted for some 40 per cent of *all* non-agricultural, rural employment – a figure that highlights a wider geographical spread in the growth of non-manufacturing, non-farm rural activities. In such regions, the disproportionately rapid rate of rural industrialization has not only alleviated the burden of maximizing local employment, but has also encouraged in-migration from other parts of the country, where that burden is much heavier.

The second qualification is that the momentum of expansion of early rural industrialisation has not been maintained in China. Between 1979 and 1990, the average rate of growth of employment in TVEs was 10.4 per cent a year, whereas during 1991-2001 it was a mere 3.2 per cent per annum. This deceleration of growth is likely to have reflected the impact of both positive and negative factors. On the one hand, rising profitability in successful TVEs has been associated with increases in labour productivity and shifts towards more capital-intensive technologies, both of which have reduced their rate of labour absorption. On the other hand, many less competitive enterprises have fallen by the wayside, causing job lay-offs and unemployment.

These developments are part of the background against which, in recent years, rural out-migration has taken place on an increasing scale. Migration in China is a complex phenomenon, involving not only the large-scale movement of population across provincial and sectoral boundaries – from one provincial-level unit to another, as well as from primary to secondary (or tertiary) sector – but also from one rural location to another within the same province. In addition, recent years have increasingly seen the return of migrants to their original villages, whether because their original goal of finding jobs elsewhere has been met or has remained unfulfilled.

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 centre. 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. This is the process which Chinese planners describe as “leaving the soil, without leaving the countryside; entering a factory without entering a city.” It has been one of the most creative

hallmarks of the Chinese government's approach to employment creation during the post-1978 reform era.

2.2 Entry into the WTO: Challenge and opportunities

The immense size of the Chinese economy underlines the key role of strengthening domestic demand as the main source of economic growth and poverty alleviation. The priority of economic policy in stimulating high economic growth by promoting internal demand has recently been emphasized by all the leading Chinese politicians. However, the development of external demand is also very important for the economy and China has experienced a great success in accelerating its exports and attracting large inflows of foreign direct investment.

Trade patterns

The last twenty years have indeed seen a remarkable expansion of China's international trade. The adoption of Re-Open Door Policy and the shift from quotas to tariffs¹⁸ and greater tariff reductions in the 1990s resulted in China becoming the 10th largest trading nation at the turn of the century, up from 26th place in 1980. WTO accession provides political commitment for further integration with the world economy.

WTO accession will not only bring about China's economic integration with the rest of the world, but exert pressure for greater integration of the domestic economy in order for the gains from accession to be fully realized. The main concern of policy makers and the social partners related to joining the WTO is that the *pace* of change and reform in the domestic economy will be *accelerated*. Potentially, the single most important aspect of China's WTO accession is that membership should prove to be a catalyst for accelerated economic reform and modernisation. This concern is in a way well founded but accelerated reform should not lead to instability if change is well managed, as will be discussed in chapter 3.

For China to benefit fully from greater integration with the world economy, a deepening of domestic reforms is needed. There is a possibility that the general economic impact of WTO entry could be negative unless significant rigidities in prices are relaxed and labour mobility increases.¹⁹ WTO accession could substantially contribute towards improving the efficiency of the internal market. Chinese producers will also get the opportunity to supply their products to international product and trade chains. In such a case the possibility of linking this access to international chains with promotion of basic labour standards among the producers should be utilized. Joining the WTO strengthens the political commitment that further reforms will follow. The management of change, especially in the labour market, must be such as to ensure social and political stability and avoid labour unrest. Employment, then,

¹⁸ China has been gradually reducing its tariff rates during the 1990s. Since the early 1990s, the average tariff rate fell from over 40 per cent to 15 per cent in 2000. It has been projected that China will reduce its average tariff rate to 10 per cent by 2005. By 2004, China has committed itself to reducing its agricultural tariff to 17 per cent, and by 2005, China has agreed to reduce the average industrial tariff to 9.4 per cent. By end of 2002, most quantitative restrictions are due to be removed.

¹⁹ J. Gilbert and T. Wahl, "Applied General Equilibrium Assessments of Trade Liberalization in China" in *The World Economy*, Vol.25, No.5, 2002, pp.697-731. They survey 30 economic models that were developed to assess the general economic impact of trade liberalization in China.

becomes the central aspect for a successful transition to an internationalized yet socialist market economy.

Manufacturing increasingly dominated merchandise exports and imports in China in the 1980s and the 1990s. The share of manufactured exports in total merchandise exports rose from 44 per cent in 1980 to 87 per cent in 1998. Within these manufactured products, in line with its expected comparative advantage, China became a net exporter of low and medium-low technology goods. At the end of the 1990s, China was increasingly a net importer of high and medium-high technology goods (Table 2.4).

Table 2.4 Trend in China's trade with the world

	1980	1990	1998
Total merchandise exports (billion US\$)	19.3	64.9	191.1
Share of manufactured exports (per cent)	43.9	71.4	87.3
Net exports (exports minus imports) in manufactures (billion US\$):			
High-technology	-0.6	-3.0	-8.1
Medium-high technology	-3.9	-9.9	-24.1
Medium-low technology	-1.8	3.1	25.0
Low technology	3.7	10.8	26.6

Source: Adjusted UN Statistics.

Note: Technological classification follows OECD R&D based estimates. OECD, *Science, industry and technology – scoreboard of indicators*. OECD, Paris, 1997. Manufacturing industries here excludes petrochemicals and food, beverages and tobacco.

High-technology goods are: aircraft, office & computing equipment, drugs & medicines and radio, TV & communication equipment.

Medium-high technology goods are: professional goods, motor vehicles, electrical machines, chemicals, other transport, and non-electrical machinery.

Medium-low technology goods are: rubber & plastic products, shipbuilding & repairing, other manufacturing, metals & mineral products.

Low-technology goods are: paper, products & printing, textiles, apparel & leather, wood products & furniture.

Based on past trends, further reductions in trade barriers are expected to increase import-competition in high and medium-high technology industries in the near future. However, China has increasingly gained competitiveness and established itself as a net exporter of low and medium-low technology goods. In terms of employment China's gain from a greater export market for these goods is likely to outweigh the direct job loss from import competition in the high-technology end.

A key feature of China's foreign trade has been the high degree of trade-related foreign direct investment (FDI). Much FDI has been concentrated in manufacturing, accounting according to the National Bureau of Statistics for 65.93 per cent (utilized FDI) and 70.6 per cent (contracted FDI) in 2001.

Throughout the reform period, the overwhelming share of export-oriented FDI into labour-intensive industries has come from Taiwan, China and the Hong Kong SAR. FDI into labour-intensive manufacturing accounted for about half of FDI in the manufacturing sector in

1998.²⁰ The employment and wage impact of such FDI tends to encourage the growth of labour-intensive manufacturing sectors.

During the 1990s, there were additional players driving FDI into China as OECD countries started to invest in China. FDI from OECD countries tended to concentrate in capital intensive and high-technology sectors where China had no apparent comparative advantage. They accounted for about 50 per cent of FDI into manufacturing in 1998. The employment impact of such FDI will partly depend on the factors that were driving this investment. If these operations are purely to tap into the domestic market, then benefits to China may be indirect through raising business efficiency. However, unless it stimulates local linkages with other industries, direct employment creation will be limited. There is no clear overall picture, but there are some instances where such linkages have been explicitly promoted by foreign investors.²¹

Some expectations about employment after WTO accession: Short- and long-term

Generally speaking, import competition after WTO entry is expected to have an overall negative employment impact in the primary sector and in capital-intensive industries, such as automobiles.²² Later, however, productivity in more technology- and capital-intensive sector can be expected to rise and the shift in exports to the medium technology category to increase.

The greatest potential benefit of China's membership of the WTO is that it will prove to be a catalyst for further economic reform. In particular, in the wake of accession, a key employment challenge will be the need for accelerated restructuring in order to accommodate the large number of job losses that is expected to occur. This challenge will be all the greater because of its disproportionate impact not only on particular sectors, but also on particular regions. As an example of the latter, it is likely that declining employment in the state-owned enterprise sector will be felt especially keenly in the north and northeast of China, while employment *gains* accrue more to central and southern coastal regions. The pace of restructuring will also depend on the extent to which the Chinese government can extend social security provisions (especially for unemployment insurance).

Rural sector

The adjustment of the rural sector labour market to the changes in production and consumption patterns is critical if full gains from WTO entry are to be realized. In agriculture in particular, the implications of Chinese membership of WTO are profound, embracing tariff and export subsidy reductions,²³ and limitations on domestic farm protectionist mechanisms.

²⁰ W. Tseng and H. Zebregs, "Foreign direct investment in China: Some lessons for other countries". *IMF Policy Discussion Paper*, PDP 2002/3.

²¹ UNCTAD, *World investment report 2001: Promoting linkages. Box IV.12. Motorola's backward linkage programme in China*, Geneva, 2001.

²² For example, Z. Wang expects a large negative employment impact in wheat and automobiles in: "The impact of China's WTO entry on the world labour-intensive export market. A recursive dynamic CGE analysis." In: *World Economy*, Vol.22, May 1999. But N. R. Lardy (2002) offers a somewhat less pessimistic view of the domestic employment impact of Chinese membership in the WTO.

²³ The average tariff on agricultural products is to be reduced to 15% by the beginning of 2004.

There is a fear that a Chinese farmer working with outdated technology may not be able to stand up to import competition from large farmers equipped with modern technology (in the United States, Canada and Australia) producing grain at lower prices. An authoritative Chinese source has, for example, estimated that almost 14 million crop farmers will be displaced,²⁴ while China's share of global agricultural imports will increase to over 12 per cent by 2010 (cf. 5 per cent in 1995). Such arguments may, however, prove to be overly pessimistic. The state retains considerable influence over the grain market, as do many other WTO members whether developed or developing, while in the last resort surplus grain producers could not substitute for the output of all China's farmers. Internal distribution costs are also important. Finally, pessimistic scenarios may be shown to have given insufficient attention to the effects of on-going structural transformation in alleviating the employment impact on agriculture of WTO membership.

Moreover, even if entry into the WTO does entail significant transition costs for agriculture by encouraging more imports of land-intensive products, it promises also to encourage Chinese farmers to shift from low yielding and water-using crops such as rice to more labour-intensive crops, such as vegetables, horticulture as well as animal husbandry and aquaculture. This kind of structural shift would accord with China's comparative advantage and could be a win-win situation with benefits in terms of higher labour productivity and greater labour use, while at the same time managing water resources better and protecting marginal farmland, the intensive use of which has seriously damaged the ecology of some areas.

Of course the employment situation in agriculture depends highly on the rate of movement away from the land either to rural industries or to urban areas. If urban migration accelerates within the coming ten years to double the rate of the 1990s, labour productivity in agriculture will certainly increase, contributing to higher farming income. With doubled migration the agricultural labour force will decline from 344 million in 2000 to 274 million in 2010. Lower rates of rural-urban migration will result in smaller improvements in labour productivity and per capita farming income.²⁵ But there are a number of variables to take into account such as the stimulus to greater efficiency in farming as well as more transparent pull factors operating to increase levels of rural-urban migration. The impact of trade liberalization on agricultural employment could well be negative, destroying up to 10 million full-time jobs. However, under many scenarios, especially of faster employment growth in services, such a loss may hardly be noticed.

Over the next twenty to thirty years, if farm workers are to benefit from economic growth, there must be a rapid increase in labour productivity. Without this the relative cost of labour-intensive products will increase, reducing China's comparative advantage overall by raising labour costs. This requires a massive shift of labour from agriculture to non-farm and other sectors of the economy and a functioning, unified labour market.

²⁴ The source is the Development Research Centre, which predicts the following job losses: 2.46 million in the production of rice, 5.4 million in that of wheat, and 4.98 million in that of cotton. After allowing for the creation of over 1.5 million new jobs in the crop sector, the net employment impact of China joining the WTO is in excess of 11 million lost jobs. The same source also notes that by 2010, some 5.4 million new jobs could be created in the textile and apparel industry as a result of WTO entry (cited in Lardy (2002)).

²⁵ X. Wang, *The impact of WTO accession on China's agricultural sector*, available at http://apsem.anu.edu.au/pdf/98128_wp3.pdf. Asia Pacific School of Economics and Management, 2002.

As noted, TVEs have been a major force in creating new jobs in the rural economy in the reform period and in 2001 they employed 26.7 per cent of the rural labour force. By 1999, TVEs accounted for 63.6 per cent of rural value added and 40 per cent of the country's total exports.²⁶ As in other sectors, China's accession to the WTO provides both an opportunity and a challenge to TVEs' future growth prospects. The six largest TVE sectors in 1999 were textiles and clothing (11.9 per cent), metal industry (11.2 per cent), building materials (10.5 per cent), catering (10.1 per cent), mechanical engineering (9.6 per cent) and electric and electronics industry (7.2 per cent). With expected reductions in local government subsidies, many of these products are likely to be exposed to strong competitive pressure, as domestic markets are opened. Even so, retail and wholesale, catering and tourism, i.e. service sector industries, are expected to develop further following WTO accession.

On balance, the current restructuring process of the TVEs will be further strengthened by WTO accession and could most probably result in lower labour absorption and, in the short-term, a net release of labour. Building up their production and encouraging the creation and development of new enterprises in rural areas is a priority in an employment strategy.

Urban industrial sector

The currently protected sectors, mainly SOEs in automobiles, petrochemicals, machinery and telecommunications, are expected to suffer the most from WTO entry. However, comparative advantage could well be developed in some of these sectors through dynamic private sector alliances and new investment. For other sectors, due to continued efforts at opening up the market, WTO entry is unlikely to cause a great shock. Labour-intensive industries with low technological barriers to entry, such as textiles, clothing and bicycle industries, are already internationally competitive. The competitive industries tend to be dominated either by domestic private firms or foreign invested enterprises.²⁷

However, it is clear that many SOEs in capital-intensive industries will either go out of business or will change ownership to either wholly private-owned or to an alliance between the government and domestic or foreign private enterprises. The employment impact of change in ownership and restructuring of SOEs is largely expected to be negative in the short- and medium-term. SOEs accounted for 12 per cent of total employment in 1999, employing 85.7 million workers. In the automobile-related sector, that includes the manufacture of vehicles, sales, services and repair centres and raw material production units, there were roughly 7 million workers, constituting 3.3 per cent of urban labour force in 1998.²⁸ The potential job losses in this sector are thus considerable.

²⁶ Q. Zhu, "Development of rural enterprises (TVEs) in China and adjustment policies in light of WTO accession" in OECD *China's agriculture in the international trading system*, OECD Paris, 2001.

²⁷ G. S. Liu and W. T. Woo, "How will ownership in China's industrial sector evolve with WTO accession?" in *China Economic Review*, Vol.12, 2001.

²⁸ E. Harwit, "The impact of WTO membership in the automobile industry in China" in *The China Quarterly*, 2001.

Service sector

The service sector in 2001 accounted for 33.6 per cent of GDP and 27.7 per cent of total employment according to the National Bureau of Statistics.²⁹ This sector has considerable potential for growth and employment after the dismantling of state monopolies gives space for the entry of private sector firms either in alliance with the state sector or wholly owned domestic or foreign invested enterprises. Industries, such as tourism, wholesale and retail sale, and service side of ICT, constitute a future dynamic sector.³⁰

In finance, the market is highly government controlled and yet domestically fragmented. A firm in Province A cannot invest in or borrow from Province B.³¹ Some financial sectors have been partially open to foreign entry, such as life and casualty insurance, and highly restricted local currency business. Under the WTO agreement, there will likely be greater foreign entry, but on highly restricted terms. While the direct employment impact of financial services is low, their efficiency has important repercussions on enterprise performance and investment and hence, ultimately on employment.

The ICT sector has been insulated from foreign entry³² and grew rapidly during the 1990s. By 1995, electronics (encompassing industrial electronics, ICT, consumer electronics, components and parts) constituted 6.1 per cent of total industrial output, tripling from the 1980s share of 2 per cent. Exports in 1995 of electronics were US\$17 billion, accounting for 11.4 per cent of total exports and representing a five-fold increase from 1986. Imports too had radically increased to US\$16 billion in 1995 and were 12 per cent of total imports. China exported one-half of its domestic production while one-half of its domestic consumption was from imports. Most of China's exports were, however, based on labour-intensive products.³³

China adopted Telecommunications Regulations in 2000. While these regulations are still skeletal in laying out responsibilities and the involvement of different vested interests (such as ministries related to security, ministry of finance, ministry of transport, foreign invested enterprises), they are a step forward in making this potentially high-growth sector more transparent and open to competition. This sector is expected to be profitable and continue to generate increasing employment in the medium to long term. Given the success of Beijing's approach in providing guidance and support, as against control, in encouraging horizontal network building in the ICT sector, something could be learned from their and other good experiences for further expansion of this sector.³⁴

²⁹ This ratio is unusual and may be suggesting considerable underemployment in the service sector, especially in retail. See e.g. W. T. Woo and R. Ren, "Employment, wages and income inequality in the internationalization of China's economy". ILO Employment Paper 2002/39.

³⁰ A. Chen, "The impact of WTO entry on the changing structure of Chinese industry. A summary assessment" in *China Economic Review*, Vol.11, 2000.

³¹ Y. Huang, "Economic fragmentation and FDI in China", *HBS Working Paper 374*, May 2001.

³² K. J. DeWoskin, "The WTO and the telecommunications sector in China" in *The China Quarterly*, 2001.

³³ *Ibid.*

³⁴ A. Segal and E. Thun, "Thinking globally, acting locally: Local governments, industrial sectors, and development in China" in *Politics and Society*, Vol.29, No.4, December 2001.

Box 2.1

New technology enterprises (NTEs) - China's path-breakers in the software industry

In China in the mid-1980s a new kind of enterprise emerged, originally initiated by individual scientists, engineers and R&D institutes actively seeking to commercialize their laboratory achievements and gain advantage from the onset of the PC market boom. These initiatives were endorsed in 1988 by a national reform policy, the *Torch Programme*, for the promotion of this type of commercial activity. The Torch Programme encouraged new business organizations spun off from R&D institutes; these were termed **New Technology Enterprises** (NTEs). Development zones were established to serve as institutional and geographical bases for the development of NTEs. By 1992, 52 national zones had been established in important industrial cities including Beijing, Shanghai and Shenyang. By 1995, the number of NTEs in the 52 zones increased to 14,000 and it is estimated that as many as 100,000 highly educated professionals had moved into NTEs in the early 1990s.

These emerging NTEs gave birth to the Chinese software industry. Although the Torch Programme had aimed at promoting a wide range of **new technology** industries, nearly two-thirds of the NTEs ended up working on software development. Seventeen among the **Top 20** computer and software companies could be identified as NTEs in the early 1990s.

Source: ILO, *World employment report 2001*, op. cit.

Deepening domestic reforms

To fully benefit from WTO accession, deepening domestic reform is fundamental. All sectors of the economy will be affected both positively and negatively in terms of employment. Reforms to allow for the easier shift of people and capital into positively affected sectors and to create conditions for exploiting the potential for productivity growth are critical in order to minimize short- to medium-term adjustment costs.

Labour mobility must obviously be encouraged while a further fundamental reform is that, in order for enterprises to operate efficiently and profitably, distribution channels, mainly in the state sector, must function as smoothly as possible with greater transparency. Distribution channels are important as they affect transaction costs of interactions between the market and the producers.

Financial market integration within the domestic economy is absolutely essential. If the state sector decides to retain control of the financial market, it must introduce better incentive mechanisms for asset management and better monitoring of loans. Such financial reform has an important effect on enterprise performance and future investment, and hence, an indirect but important impact on employment.

In addition, it is highly advisable to shift to more labour-intensive agriculture. This will require (a) technical extension services; (b) the provision of market information; (c) labour intensive investment in rural infrastructure; (d) increased spending on water control; and (e)

agricultural research and development for a creation of resilient and labour-intensive varieties of crops.

More productive agriculture will also benefit TVEs by providing an expanded local market, and if restructured effectively, they may stand to gain from WTO accession. An enabling institutional context needs to be created, including (a) the future development and modernization of its agro-processing sector and establishment of market-oriented infrastructure, (b) relaxation on restrictions on credits for small and medium-sized private enterprises, and (c) providing exporting rights to TVEs on a basis of transparent certifying system.

The rural sector is still the largest economic sector in China in terms of employment. For this reason, the initial priority – economic, social and (potentially) political of any analysis of WTO impact on jobs should be focused on rural sector employment and livelihoods. At the same time, however, effective enterprise restructuring and industrial reforms and development are required to allow the greater absorption of workers leaving agriculture for industry and services. One need is for a detailed assessment of the effects of the tax incentive structure on industrial performance, growth and ultimately on employment. Industrial policies are increasingly reliant on tax incentives and exemptions. These may be effective instruments to promote specific branches of industry, but given the potential loss of tax revenues and the risk of a further misallocation of resources, their use should be reconsidered. Overall, finally, it is important to encourage greater domestic economic integration through an integrated financial sector and labour market and better distribution channels. Full implementation of WTO commitments in the face of fragmented labour and capital markets may result in a further distorted and unproductive use of resources.

2.3 A supporting fiscal policy for employment growth

Employment growth depends on good labour market policy, openness to new technologies and investment and on solid macroeconomic management. The last has many aspects, including exchange rate policy. Here the emphasis is placed on fiscal policy, especially as effective and socially acceptable management of change is immensely facilitated by good government (local, as well as central) expenditure policies. There is no doubt that in recent year China's macroeconomic performance has been impressive. China managed to come out relatively unscathed from the Asian crisis in 1997 and indeed its economic stance helped the region to recover faster than it otherwise would have done so. It has maintained price stability despite periods of inflationary pressures as the reform process intensified and high growth overheated the economy.

China has been pursuing an expansionary fiscal policy in recent years. However, the overall fiscal deficit tended to fall after 1999, from 4.2 per cent of GDP in 1999 to 2.6 per cent in 2001.³⁵ The reason for fall in the fiscal deficit was better tax revenue collection. Much of the expansion in fiscal policy was directed at increased investment in infrastructure, and this had a positive impact on overall growth rate.

³⁵ ADB, *Country economic review: People's Republic of China*. October 2000, and recent updates at: http://www.adb.org/Documents/Reports/Annual_Report/2001/prc.asp

However, aggregate national figures provide only a partial picture of the overall reality of fiscal policy due to existence of several extra-budgetary revenue and expenditure items. In addition, fiscal decentralization during the reform period gave provincial governments greater autonomy in allocating the overall budget and this has biased fiscal spending towards revenue-generating sectors. While this may have generated economic growth, the fiscal capacity of the central government to induce more balanced regional development and provide improved social services has been significantly reduced.³⁶ The revenue of the central government fell from 35 per cent of GDP in 1978 to 14 per cent in 1992. The reform of 1994 that implemented a more broadly based value-added tax did not restore the fiscal capacity of the central government. As of 2000, central government tax revenue remained around 14 per cent of GDP. Economic growth has not been accompanied by greater central government resource mobilization.

As noted, throughout the 1990s, industrial policy relied significantly on industry-oriented tax incentives as a major tool for industrial development and the promotion of strategic industries.³⁷ Combined with administrative decentralization, this industrial policy has tended to encourage the development of duplicated and unintegrated regional industrial sectors.

If China is to smooth out the pressures of the reform process, this will require sound fiscal and budgetary management involving the improvement of resource mobilization and greater efficiency and accountability in the utilization of public resources at all levels.

Specifically this requires:

- Fiscal measures to raise tax revenue to finance much needed expenditure increases in education and training, expand social security benefits and develop the required infrastructure to attract investment, especially to the less developed regions;
- More attention to the redistributive role of the Central Government to ensure balanced growth. Reforms of central-local government fiscal relations (including the proliferation of ad hoc fees and charges imposed by local government) are essential to increase the role of the Central Government in overcoming widening regional imbalances and problems of poverty in the poor regions and provinces;
- The use of fiscal instruments to contain and counter the negative consequences of widening income inequalities and gaps in the provision of social services;
- In the countryside, need to eliminate illegal levies and exactions.

Finally, one aspect of government expenditure policy, which should be given greater attention, is labour-based construction. While in the urban construction sector the overall trend is towards increasing productivity and quality through the adoption of advanced technologies and increased levels of mechanization, in rural areas with abundant labour there is still scope for labour-intensive techniques in the construction of roads, water supply systems, telecommunications and housing. Better infrastructure can be an important factor to boost

³⁶ S. Demurger, J. D. Sachs, W. T. Woo, S. Bao, G. Chang and A. Mellinger, "Geography, economic policy and regional development in China, *CID Working Paper No.77*, October 2001. See also Huang, op. cit.

³⁷ D. Lu, "Industrial policy and resource allocation: Implications on China's participation in globalization". *China Economic Review*, Vol. 11, 2000.

rural non-farm activities through improved provision of necessary inputs (e.g. water supply, electricity, etc.) and farm to market roads. A major effort should be directed towards the formulation and execution of special public works programmes, designed to construct and improve local infrastructure. These programmes use relatively simple technologies and are labour-intensive. This is particularly important given China's abundant rural labour.

Employment-intensive approaches to infrastructure works are being constantly developed and successfully applied. The ILO has shown that in a number of developing countries, without compromising the quality of the infrastructure, the labour-based option, in comparison with the equipment-intensive alternative, is between 10 and 30 per cent less costly, creates between two and four times more employment for the same amount of investment and reduces foreign exchange requirements (for imported machines and construction materials) by some 50 to 60 per cent.

Employment-intensive investment in infrastructure has progressed from focusing on short-term job creation schemes to longer-term programmes designed to increase the impact of investment on employment, to improve working conditions and to promote small and medium-sized enterprises. Such projects are particularly in low-income settlements, and are increasingly seen as a strategy that generates employment, contributes to an improved working environment and raises the productivity of informal sector enterprises.

Conclusions

China is in a process of reforms. But the process is not easy and many reforms are spasmodic. Change by and large has been socially acceptable but the signs of possibly stagnating rural poverty and of industrial unrest when obligations towards laid-off workers go unfulfilled are ominous. There is a potential tension between capital-deepening and capital-widening goals in seeking simultaneously to meet growth and employment goals. On the other hand high current and foreseen growth rates per capita must offer great opportunities for the creation of good quality jobs, if the labour market can be brought to fulfil its proper role, if entrepreneurship is stimulated and if social and anti-poverty programmes are properly financed and implemented. The low fiscal deficit gives China an enormous potential to increase expenditure on medium-to-long term investment in infrastructure and thus promote job creation.

Chapter 3: Policy responses

To ensure a better management of the process of change requires first and foremost well functioning institutions to ensure a fairer distribution of its benefits and opportunities, which it brings. This would lead to a more socially acceptable as well as more productive and equitable outcome.

This chapter proposes first of all that job creation can be spurred by the promotion of enterprise creation. The fewer the costs and bureaucratic hurdles involved in enterprise creation, growth and diversification the more rapidly do economies shift into new, more productive business sectors with more productive employment as a result. But alongside the promotion of enterprise creation must come the development of sound social dialogue and of representative and legitimate organizations of workers and employers. Social dialogue is not just necessary for industrial peace and stability, it also widens the information base for business decisions and helps raise productivity.

There is a need for mutually consistent labour market and social policies, guaranteeing a reasonable degree of employment and income security to workers. The chapter stresses the utmost importance of making the national education and vocational training system more flexible and responsive to rapidly changing skill requirements and creating conditions for lifelong learning. In order to reduce imbalances and tensions in the labour market, it advocates improvements in the accessibility and quality of employment services and active labour market policies to gradually reach all categories of jobseekers, including rural migrant workers. Special help is needed for vulnerable social groups, including elderly and disabled workers, combined with assistance to adversely affected communities. Discrimination of all kinds is economically wasteful and socially unacceptable; gender equality must be respected in all aspects of work. The chapter stresses the importance of a socially responsible approach to enterprise restructuring and to raising the productivity of workers in restructured enterprises.

China also needs to review its labour mobility policy to overcome regional labour market fragmentation, better allocate its labour resources and gradually establish a unified national labour market. The chapter further discusses the desired links between changes in employment and better income security of workers facilitating such changes. It suggests the gradual extension of social protection to all workers in urban areas and the elaboration of innovative approaches to social security of workers in rural areas. Finally it stresses the major deficit in work safety and the costs of industrial pollution.

3.1 Promotion of entrepreneurship and job creation

Developments

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.³⁸ 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.³⁹ 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 2000.⁴⁰

Table 3.1.1 The importance of SMEs in China

	Enterprises	Employed workforce	Industrial output	Total exports
SMEs' share (per cent)	98-99 (a)	70 (b)	76.6	40 – 60

Sources: Asia Pacific Economic Cooperation, *SME profile*, 1998, available at: <http://www.actetsme.org>; Hall, C., *APEC and SME policy: Suggestions for an action plan*, 1995, available at: <http://www.arts.monash.edu.au/ausapec/smepolic.htm>; China employment report, op.cit.; World Bank, *World development report 1999/2000*. World Bank 2001, Table 1, pp.230-231; OECD (2002), op. cit.

(a) Percentage differs among sources. Data is reported for 1999 or 2000.

(b) Manufacturing only (estimate), in urban areas the estimated figure is 75 per cent

SME growth is due to many factors. The economic reforms have given them more freedom and flexibility. In turn, during the early part of the reform process, SMEs and TVEs have facilitated the transition process substantially. They were able to respond faster to increasing and diversifying demands and to capitalize on business opportunities in the domestic market, in fields that had formerly stayed unexplored by the planned economy. Therefore, they have contributed to a more efficient resource allocation, marketization, and job creation.

Many SMEs (including TVEs, which have become a segment of the small business sector in China's rural areas) suffer from continuing high levels of control by local authorities and a lack of technological and managerial know-how. Technological upgrading and better use of new ICT are indeed a widespread need. Under-capitalization and low profitability add additional problems. Heavily indebted SMEs are already no longer able to secure loans for investment. Often, bank credits are granted only to pay salaries and pensions to minimize social costs.⁴¹

The situation of workers' cooperatives is another important facet of the Chinese SME landscape. Since the mid-1980s, small, experimental cooperative centres have been formed, primarily by the unemployed in both urban and rural areas. By pooling their own funds, borrowing start-up money, and learning to manage their own small businesses, former farmers,

³⁸ OECD, *China in the World Economy*, OECD Paris, 2002.

³⁹ Chinese State Statistics Bureau (2001); China employment report, op. cit.

⁴⁰ China industrial statistical yearbooks, in: Wang, Y. and Yao, Y., *Market reforms, technological capabilities, and the performance of small enterprises in China*, World Bank Institute, Washington, 2001.

⁴¹ OECD (2002); Wang, Yao (2001); Biggeri, M., *The township and village enterprises: The success of small and medium enterprises in rural China*, Quaderni ISESIO, Università Bocconi, Milano, 2001.

labourers, housewives, teachers, and others are generating jobs. Like the original Chinese Industrial Cooperatives (CIC), the modern cooperatives are also providing much-needed products and services to the Chinese public. Still, some problems with regard to management and ownership seem to persist. Many cooperatives still suffer from unclear ownership rights, lack of managerial knowledge, government interference and a non-competitive business environment.⁴²

WTO accession is expected to facilitate the integration of China's domestic economy into the process of globalization, thus creating favourable long-term conditions for employment creation, including in the SME sector. Increasing interaction with international customers, partners and investors will create potential business opportunities for both entrepreneurship and expansion of existing SMEs.⁴³ At present, China's low wages attract investment from countries in the region, which have already moved up the technology and productivity ladder. But FDI can become a source of new technologies, market access and skills training provided that SMEs are able to upgrade product quality, productivity and delivery reliability. Also, foreign investors and customers are giving increasing attention to labour standards within the foreign investment sector.

However, many Chinese SMEs are still based in households and in the service sectors, and only a few companies have attained international competitive standards. WTO accession will increase competition for many SMEs and many will be bought up, merged, or file for bankruptcy. Others may retreat from increased competition into the unregistered, informal economy. Mergers and acquisitions have already been increasing since the late 1990s. Some remaining companies will possibly be too weak to withstand heightened competition, but would remain protected from increased competition through subsidies or local support, thus delaying inevitable restructuring and leaving workers in unproductive work.⁴⁴

There is clear commitment from the Chinese government to bring about the necessary structural transformation of the economy by focusing on the private sector, with national policies moving towards the active promotion of the small enterprise sector.⁴⁵ The State Council has established a department in charge of small and medium-sized enterprises under the State Economic and Trade Commission (1998), reduced VAT from 6 per cent to 4 per cent for small commercial enterprises meeting certain criteria (1998), and reduced the income tax on small enterprises (with annual profits less than Y 30,000) from 33 per cent to 18 per cent (1999).⁴⁶

China has also established a National Technological Innovation Fund to support technology-based small and medium-sized enterprises through loans, interest-free financial assistance, grants and capital input. By the end of 2000 nearly 2,000 projects nationwide had received more than Y 1.4 billion from this fund. The Finance and Economics Commission of the National People's Congress is also currently finalizing a new law on promoting SMEs.

⁴² *The Economist*, 20 July 2002.

⁴³ China employment report, op. cit.

⁴⁴ OECD (2002).

⁴⁵ Harvie, C. and Lee, B.-C., East Asian SMEs: "Contemporary issues and developments – an overview", in: Harvie, C. and Lee, B.-C., *The role of SMEs in national economies in East Asia*, Edward Elgar Pub., Cheltenham, 2002, pp. 1-20; Wang, Yao (2001); Biggeri (2001); OECD (2002); China employment report, op. cit.

⁴⁶ China employment report, op. cit.

Deregulation is underway as well. Political discrimination against private sector companies was officially banned by a constitutional amendment in 1999. SMEs should therefore be able to enter activities formerly protected, and should find financing easier by both banks and foreign investors.⁴⁷ The Government has also launched credit guarantee funds and is monitoring their impact with a view to mainstreaming this approach throughout the country. Privatization of former state-owned SMEs, however, has had mixed outcomes. In some cases, shares are now held by investment agencies, which, in turn, are controlled by the state.

A new important initiative has recently been proclaimed by Mr. Jiang Zemin, the then President of China, in the 16th Congress of the China Communist Party, allowing entrepreneurs to enter the Party.

All the above initiatives have already been very helpful in establishing some of the primary and initially needed conditions for the further development of small businesses. However much more work remains to be done before the micro, small and medium-sized enterprise sector can achieve the vibrancy, productivity and sufficiently high growth rates to create enough new good jobs for those who seek gainful employment.

The rural sector

In all three major sectors of the Chinese economy (agriculture, industry and services), employment elasticity has fallen since 1978. The rural sector is no exception to this trend, although an important finding is that the employment elasticity of farming is lower than in rural construction, industry and service activities. Alongside the declining rate of labour absorption associated with this pattern of change, the rates of growth of agriculture and rural industry have also tended to decline since the early 1980s, further constraining the potential for job creation in the countryside.

Notwithstanding the increase in numbers engaged in farming during 1996-99, continuing structural change within agriculture and further rises in productivity seem certain to reduce the demand for labour in the farm sector. The implications of such development are that the already high surplus farm labour will continue to increase and will remain the central issue in the government's efforts to address unemployment and underemployment in the rural sector. It should be borne in mind that a sizeable percentage of this surplus has already at least temporarily migrated to urban areas.

As indicated above, one of the most noteworthy features of China's rural employment strategy has been to shift large numbers of rural workers out of farming into non-farm work located in the countryside. In this respect, most impressive of all has been the emergence of TVEs - nearly all of them small or medium in size⁴⁸ - as a new and powerful rural economic force, employing almost 131 million workers in 2001. In the face of the further downsizing of the farm labour force, the pressure to establish new TVEs in order to expand rural employment will doubtless intensify. On the surface, the potential labour absorptive capacity of the TVE sector is indeed considerable, not least given the heavy concentration of existing rural enterprises in a few narrowly-defined geographical regions. In reality, however, analysis of current conditions in China counsels caution in advocating employment policies based on a

⁴⁷ OECD (2002).

⁴⁸ Biggeri (2001).

further major expansion in rural industrialization. Slowing employment growth in TVEs since the mid-1990s - a reflection of various factors, including the Asian financial crisis, tighter credit policies and declining government support in the face of the increasing marketization of this sector⁴⁹ - has constrained the ability of enterprises to take on new labour, and has also generated demands for organizational and structural reforms that will enhance efficiency and productivity and to make the enterprises more economically viable.

On the surface, the geographical concentration of TVEs, especially in a number of central coastal provinces, makes the idea of extending them to many more interior regions an attractive policy option. But to be effective, such a policy recommendation requires the fulfilment of certain conditions, such as the availability of labour, attainment of an appropriate level of per capita income and the existence of adequate markets. Even if labour is unlikely to pose a major constraint, the other two conditions for implementing a more geographically comprehensive programme of rural conditions cannot be taken for granted. For example, it is a telling indication of the limited industrialization that the 62 per cent of China's population who live in the countryside account for only 37 per cent of national consumption. Bearing in mind that so many existing TVEs are to be found in coastal provinces, even more indicative of the potential rural market and income constraints on developing more enterprises inland is the fact that average per capita net rural income in the interior is less than 60 per cent of the corresponding figure along the coast.

In short, advocacy of accelerated rural industrialization simply on the basis of the existence of a massive and growing farm labour surplus is too simplistic. Future labour absorption by rural industrial enterprises will be contingent on changes not only in the relative price of capital and labour, but also in market conditions in the Chinese countryside. Nevertheless, subject to such constraints, the gradual extension of rural industrialization to parts of the country where it has hitherto been relatively lacking remains a high employment priority.

Against this background, it is pertinent to point out that rural industry by no means defines the full scope of the rural, non-agricultural economy in China. In fact, it accounts for only 60-70 per cent of rural, non-agricultural output, the remaining 30-40 per cent coming from rural construction, transportation, commerce and other services. This has important implications for rural employment, since many of these non-manufacturing activities are inherently labour-intensive or allow for significant substitution of labour for capital. It also helps explain the Chinese government's increasing advocacy of the expansion of rural tertiary occupations.

Migration out of the countryside has been another mechanism whereby surplus and often impoverished farm labour has sought more productive employment.⁵⁰ After 1978, deregulation and loosening controls over rural residents, as well as easier access to food in urban markets, facilitated net inflows of people from the countryside into cities. Rural industrialization also created new towns populated by former peasants, while subsequent rapid economic growth

⁴⁹ Another employment-constraining factor has been the shift, in successful TVEs, towards more capital-intensive techniques, resulting from upward pressure on wages and the need to upgrade product quality.

⁵⁰ Migration in China is a very complex phenomenon. It embraces large-scale movements of people not only from rural to established metropolitan centres (e.g. Beijing, Tianjin, Shanghai, Guangzhou, etc.), but also to smaller, rural-based towns and cities. In addition, it involves migration from one rural location to another, whether in the same or in a different province. Finally, as discussed below, the flow of returnee migrants from cities to their original villages has become an increasingly important phenomenon in recent years.

provided job opportunities for new migrants. Many migrants to cities became self-employed in informal activities (as street-traders, shoe-repairers, carpenters, household servants, etc.).

Estimating the scale of migration out of the countryside is inherently elusive. What is, however, clear is that the number of people leaving their villages has been huge. One estimate suggests that between 1978 and 1993, net rural-urban migration was at least 83 million; another concludes that by 1996, the number of rural migrants had reached around 120 million, indicating that over 15 per cent of China's rural labour force had left their villages of origin on a temporary or permanent basis. Data from the 2000 Census suggests that over 134 million people, or more than 10 per cent of China's *total* population, had lived for more than six months in areas – although not all of them urban⁵¹ - other than the place in which they were officially registered.

From an employment perspective, the potential role of migration is clearly important. The movement of people between village and city may transform the isolation of the countryside by establishing linkages between the two sectors and facilitating the enhancement of rural skills and rural capital-formation. To what extent this potential can be realized depends, however, on the efficacy of government policies to control and guide migration. To say that out-migration from the countryside offers a way of dampening rural economic and social pressures has little real meaning if the consequence is merely to shift such pressures to an urban environment. This seems frequently to have happened in China, where many migrants, having failed to find adequately-paid jobs in the large cities to which they have moved, have been the source of the growing incidence of urban crime. Even those migrants who do find productive employment are often exposed to discrimination and job insecurity, the burden of which may eventually force them to return home disenchanted.

There is, however, abundant evidence that those migrants who succeed are capable of making an important contribution to the rural economy. Through remittances to the families that they frequently leave at home, they help support agricultural production and investment. One source reported that in 1995, residents of Sichuan – most of them of rural origin - working elsewhere in China remitted an astonishing Y 20 billion to their home province, or the equivalent of almost 6 per cent of provincial GDP in the same year. Elsewhere, it is estimated that in the mid-1990s up to 30 per cent of rural income in Jiangxi derived from migrant remittances, to the benefit of local living standards and economic growth.⁵²

In many developing countries, migration is assumed to be an irreversible phenomenon. This assumption is, however, misleading in the Chinese context, where emotional and cultural factors encourage many migrants to return to their home villages. The precipitating cause of the return of some migrants to their villages may be negative, whether in the form of their failure to secure urban work, discrimination or other forms of ill-treatment to which they have been exposed. Others return, however, having accumulated sufficient savings to undertake investment in their original localities, albeit probably in a rural, non-agricultural activity rather than in farming. In ideal circumstances, the outcome is not only to enhance returnee migrants' own economic and social status, but also, through the transfer of newly-acquired skills, knowledge and work experience, that of the local community. It is incumbent on the Chinese government to

⁵¹ One study suggests that between 10% and 20% of migrants from villages have moved to other rural locations, the remaining 80-90% being distributed among large cities (c.33%), small and medium-sized cities (44%), and townships (22%).

⁵² Rachel Murphy, *How migrant labour is changing rural China*, Cambridge University Press, Cambridge, 2002.

formulate and implement policies that will maximise this significant potential contribution. Such policies should embrace measures to improve the status of rural migrants to cities by making appropriate provision for housing and other urban services on their behalf, by outlawing discriminatory treatment against them and by undertaking institutional initiatives that strengthen information links between countryside and city in an attempt to improve the balance between the flow and skill level of migrants and the number and types of jobs that are likely to be available to them.

The key question

How to better promote small enterprise development and its job creation capacity nationally, provincially and locally to properly respond to the employment challenges?

Policy response

Formulating a sound policy framework for SME development in China faces several difficulties. Local authorities continue to have a powerful lever with regard to both managerial and political decision-making, in particular for TVEs and urban collectives, and many of them are unwilling to allow necessary exits of heavily indebted or uncompetitive SMEs. SMEs take many different forms of ownership (state/private, domestic/foreign capital involvement, business/cooperative), and are treated differently in taxation and legal regulation. Geographic dispersion makes it extremely difficult to implement policy reforms, in terms of legal and business environments, at a consistent pace across the country. And technological upgrading and better use of new ICT are still proceeding at a slow pace.

While some SME problems can be solved at the macro-level, many problems are closely linked to the regional state of market development, skills, and governance. Therefore, local implementation of national policies to promote SME development, including policies suited to advancing the productivity of TVEs and cooperatives, seems to be of paramount concern. Strategies should focus on ways to facilitate technology transfer and develop human resources. China is currently still capitalizing on its cheap labour force. But with moving up the technological ladder, human capital in SMEs could be a major source of competitive advantage for the country.

Important groundwork has been laid for ILO support to the Chinese government in its efforts to help the SME sector realize its employment potential. In 1997 a pilot programme to promote employment in first rural, and later urban areas, was begun as a partnership between the ILO and China, with sponsorship from the Government of Japan (See Box 3.1.1). In 1998 the ILO in partnership with the ACFTU helped create a credit guarantee fund for small and micro enterprises in Zhenjiang after which around 200 guarantee funds have been established in the country. Together with the SME Centre of Beijing University, the ILO offers training courses on the effective management of guarantee funds. Last year, action research projects were completed in five urban areas to identify the most effective ways the ILO could work with MOLSS in stimulating local economic development (Box 3.1.2).

Box 3.1.1
Project on Strategic Approaches towards Employment Promotion [PEP]

The ILO/Japan Inter-Country Project on Strategic Approaches toward Employment Promotion (ILO/PEP) is a regional project executed by the ILO with financial support from the Japanese government. It aims to assist the labour ministries of recipient countries in developing employment creation schemes for un/under-employed people in Asia and the Pacific.

Since 1997 the project, in partnership with China's Ministry of Labour and Social Security (MOLSS), has carried out pilot activities in China's rural and urban areas. *Phase 1* of the project was implemented from 1997 to 2001 in 23 counties of Gansu, Hebei and Jiangxi provinces, developing employment promotion models for *rural* low-income families. It was successful in organizing low-income households in these areas to start up new income-generating activities.

Phase 2, inaugurated in 2001, aims to assist laid-off and unemployed workers in establishing small businesses in *urban* areas by providing (1) Start Your Business (SYB) training as entrepreneurship training and (2) Credit Guarantee Funds (CGF) micro credits plus small loans (3) follow-up technical supports. This work is being conducted in three pilot cities: Jilin (Jilin Province), Zhangjiakou (Hebei Province) and Baotou (Inner Mongolian Autonomous Region). In addition to these pilot activities, the project has also established a National SYB Training Programme in Shanghai in order to organize training programmes for SYB trainers from non-project pilot areas and organized training courses for SYB trainers who are from the vocational training institutes and other social partners of the project. After a year of pilot implementation, MOLSS has recognized that SYB training and CGF micro-credits are effective means for enhancing the capacity of laid-off workers to create small businesses and generate jobs. In the National Re-employment Conference, a series of policies for laid-off and unemployed workers were proposed, including the establishment of credit guaranty companies under labour and employment bureaux throughout the country and priority in re-employment efforts to be given to business start-up training. ILO/PEP contributed the initial ideas for these two new policies.

Source: ILO

Box 3.1.2
Action Research on Local Economic Development

Comprehensive socio-economic assessments in selected localities* identified problems and constraints for local economic development and brought local stakeholders together to identify priority economic initiatives, including how best to expand and upgrade local SMEs:

- Better coordination of the development efforts by different economic and social sectors in a given locality in order to overcome an unbalanced and sometimes non-sustainable mix of economic, industrial and production structures.
- Focus on development of one or a few key economic or social sectors, which are expected to be the driving force in local job creation (e.g. tourism) or which will remove the major bottlenecks (e.g. training needs) for local economic development.
- Strengthen and coordinate support of local government and public administration provided to the local business community.
- Assist local businesses in creating partnerships for achieving better access to markets, credit, technology or training.
- Establish and develop appropriate institutions for removing constraints on small business development in the locality, such as training facilities, financial institutions, micro-credit funds, credit guarantee funds, and business incubators.

*The five local areas selected jointly by MOLSS and ILO were Qingtongxia City in Ningxia Autonomous Region; Yunglong District of Xuzhou City in Jiangsu Province; Duyun City, in Guizhou Province, Xiuyan County in Liaoning Province, and Houma City in Shanxi Province.

Source: ILO

New work, which began in 2002, focuses on local implementation of the Government's policies to support small enterprise development. Building on the experience of the PEP and LED programmes, this partnership with MOLSS will produce comprehensive profiles of the small enterprise sector in selected cities: access to services, local regulation and administrative support, market opportunities and risks (especially associated with China's joining the WTO), labour standards and compliance with labour protection in micro and small enterprises. The profiles are expected to identify success factors in some regions' dynamic SME sector and formulate SED strategies for further support by MOLSS and the ILO.

The purpose of these pilot activities – on SED training, policies, financial services, and local development - is to demonstrate to local and national stakeholders effective tools that could be adapted on a wider scale to the realities and challenges of employment creation in rural areas and smaller cities.

Policy challenges

\$ *National policies are moving towards the active promotion of the small enterprise sector. 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. Improved business and entrepreneurship training must be matched by reduced levels of government decision-making in small and medium enterprises, 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 offer decent work and livelihoods to more women and men.*
- \$ *Returnee rural migrants could play a bigger role in establishing rural SMEs and/or otherwise encouraging rural economic growth and diversification.*

3.2 Social dialogue and employment policy

Developments

Recognizing the need to rebuild and improve the institutions of China's industrial relations system, the Government and the social partners have taken important steps toward tripartite social dialogue. The National Tripartite Consultative Committee was established in August 2001. Also tripartite consultative committees (TCCs) were established in 30 provinces, autonomous regions and municipalities as of October 2002, some of which preceded the establishment of the National Tripartite Consultative Committee. The Government and social partners at the central level planned to establish TCCs in all provinces by the end of 2002, with a future plan of establishing TCCs down to municipality and to district/county level. In addition to tripartite dialogue, in some districts it is reported that the district level union organizations have successfully concluded regional collective agreements, which cover minimum wages, often higher than the municipality minimum wage, as well as basic working conditions enshrined in the labour law, covering both organized and unorganized workers in mostly small and medium size private enterprises.

The composition of the TCCs is based upon equal representation of the three parties: the chief government representative is the deputy head of labour administration, while workers and employers are represented by deputy presidents of the ACFTU and its local trade unions, the China Enterprise Confederation (CEC) and its local confederations, respectively⁵³. The primary roles of the tripartite consultative committees are said to be mainly to:

⁵³ The only exception is the National Tripartite Consultative Committee where CEC, MOLSS and ACFTU have 4, 5, 6 seats respectively (4:5:6 formula) reflecting the current relative strength of the three parties.

- 1) Study and analyse the impact of economic reform policies and social and economic development programme on labour relations, and to make policy proposals;
- 2) Make proposals on laws, regulations and policies in terms of regulating labour relations, and finally
- 3) Provide advice and guidance at local level for creating tripartite mechanisms and concluding collective contracts through an 'equal consultation' system, and to sum up experiences for diffusion to others.

The Government's and social partners' concerted efforts to construct new legal frameworks for individual and collective employment relations, and to institutionalize them during much of the 1990s, preceded the creation of tripartite mechanisms in China. Among other things, the Labour Law in 1994 laid down a legal framework for individual and collective employment relations.⁵⁴ According to government statistics, by the end of 2001, 130 million individual labour contracts and 270,000 collective contracts covering over 70 million workers were already signed. This signals the systematic effort to replace the lifetime employment of SOEs with new contract-based employee-employer relations and to render explicit rights and responsibilities in the context of employment relations. The campaign for 'equal consultation' and 'collective consultation on working conditions' at the workplace shows the effort of the trade unions, supported by the Government, to institutionalize a new labour relations system suitable for the new reality of the market economy.

Social dialogue and labour market governance

China has endorsed the ILO's 1998 Declaration on Fundamental Principles and Rights at Work. The Declaration obliges all Members of the Organization to respect, to promote and to realize, in good faith and in accordance with the Constitution, the principles concerning the fundamental rights, which are the subject of eight Conventions,⁵⁵ including those on freedom of association and the effective recognition of the right to collective bargaining. These rights are universally applicable and enable workers to claim freely and on the basis of equality of opportunity, their fair share of the wealth that they have helped to generate, and to achieve fully their human potential. As such they facilitate employment adjustment through democratic representation and participation in a manner that provides greater fairness, efficiency, and security.

In an age of globalization, countries around the world have found that the exercise of these rights provides the least costly and most effective means of coping with the conflicts and problems in and around the world of work that will arise in a period of accelerating change. Social status and self-esteem are strongly tied both to occupation and income and to the way people are treated at work. Labour market changes, especially on a large scale, cause insecurity

⁵⁴ The ILO's Committee on Freedom of Association has noted, in examining Case 1930, that provisions of the 1995 law and also the Trade Union Act of 1992, as amended in 2001, are not in conformity with ILO principles concerning freedom of association and the right to organise and bargain collectively.

⁵⁵ Forced Labour Convention, 1930 (No. 29); Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87); Right to Organise and Collective Bargaining Convention, 1949 (No. 98); Equal Remuneration Convention, 1951 (No. 100); Abolition of Forced Labour Convention, 1957 (No. 105); Discrimination (Employment and Occupation) Convention, 1958 (No. 111); Minimum Age Convention, 1973 (No. 138); Worst Forms of Child Labour Convention, 1999 (No. 182).

in the lives of individuals, families and communities. Inequity in working relations and a shortage of decent work opportunities damages economic performance and undermines social stability.

An important and long-standing pillar of the work of the ILO is the discussion and definition of standards that incorporate benchmarks of fairness, which governments, employers and workers can use to help them govern labour markets. These are practical real world debates that produce standards, which can be applied in a wide variety of countries and circumstances by workers and their unions, employer's and their organizations, and governments.

The relationship between the employer and the individual worker, and employers and workers in general, has a key influence on employment, output, earnings, working conditions and the economic performance of the country. The quality of this relationship, and the rules the parties use in their dealings with each other, are a matter of direct importance to the organisations representing employers and workers, but are also of interest to society as a whole. All states therefore have legislation governing the way employment issues are handled. The practical necessity of having rules specific to the workplace, or similar workplaces in the same industry, and being able to change them if the work process is changed, means that legislation is supplemented both by regulations, by collective agreements and by work practices because laws can never cover all aspects of the work process and working relations.

Governance of the labour market is thus a shared responsibility of governments, employers' and workers' organisations. The term "social dialogue" describes the process by which these three parties set, change and apply rules concerning work, and work-related issues. In most countries, social dialogue is institutionalised to some degree with employers and workers having their own representative organisations, often described as the "social partners", to facilitate discussion and negotiation between themselves, and with the government. In many countries, the topics discussed through social dialogue mechanisms have expanded to include employment policy and wider issues of economic and social policy. Given the central importance of work to the well being of all members of society and capturing the potential benefits of international economic integration, the quality of this tripartite relationship is of considerable significance.

In countries making the transition from central planning to market systems, the reconfiguration of relations among the State, employers and unions is a key stage of reform. Changes to laws, and equally important the culture, of industrial relations to separate the functions of the state, employers and unions and generate new relationships based on respect for distinct roles is a significant challenge. Indeed, the form of the legal provisions for sharing responsibility for labour market governance between the state and employers' organisations and trade unions is a matter of continuous debate in most countries. ILO standards on freedom of association and the right to organize and bargain collectively are frequently cited in such discussions. Over many years, dialogue between member States and the ILO on the application of these standards has helped shape basic legal frameworks for freedom of association and social dialogue, without requiring that all such frameworks be exactly alike.

Efficient institutions of industrial relations make a great contribution to employment policy. Two major areas of particular importance to increasing the availability of decent work opportunities in China are the economic performance of enterprises and conflict prevention and social stability. Democratic participation at the workplace, tripartism and social dialogue,

firmly based on fundamental principles of the right to freedom of association and the right to organize and bargain collectively, are key institutions to be built and strengthened in China. Modernisation of the governance of the labour market is a key component of the reform process.

Sound industrial relations are a competitive advantage

Social dialogue, of which collective bargaining, worker participation, and tripartite negotiations are a part, improves enterprise performance in at least three ways. First, broadening participation in the decision-making process, whether at the enterprise level or above, to include the views and opinions of those affected by such decisions is an important means of increasing the amount of information upon which to make decisions. Decisions are quite simply sounder when they are based on all relevant information, including that provided by workers as well as by managers. Second, involving those who will be affected by decisions in the decision-making process is a vital way in which to secure commitment to decisions. This, in turn, speeds adjustment to changing circumstances. Third, collective bargaining tends to provide employers with an institutional incentive to improve managerial and productive efficiency. Higher productivity and the growth of employment are the usual outcomes and this will be a vital competitive advantage as Chinese enterprises adjust to WTO accession.

Studies of workplace relations in a large number of market economies show the beneficial effects on economic performance arising through these channels, and indicate that high-performance workplaces are generally characterized by well-developed systems of worker participation. The collective representation of workers at the workplace, by enabling their participation in management through institutionalized channels of negotiation and consultation, is one of the key factors facilitating modern enterprise management systems conducive to high productivity, high efficiency and high morale.

Sound industrial relations are a tool in preventing labour disputes

Economic restructuring and mass lay-offs of some Chinese enterprises have led to an increase in labour disputes. For example, restructuring of SOEs and large-scale lay-offs, have provoked unrest among workers, particularly in Northeastern provinces. Issues related to the termination of employment contracts, wage disputes of various kinds and issues of social insurance and welfare account for a large proportion of labour disputes. Cases presented under China's dispute settlement system rose from 33,000 in 1995 to 135,000 in 2000.⁵⁶

The rise in labour disputes is an indication of a growing divergence of interests between workers and employers in the labour market, which reforms to the system of representation and bargaining need to reflect. The recent phenomenon of job loss arising from restructuring of SOEs and the accompanying social conflict suggest that the community of interests between the enterprise and its workers, which was once taken for granted, is being eroded.

As the centrally-planned economy that used to guarantee lifetime employment with social benefits has changed to a more decentralized market based system, the old way of trying to reconcile interests of all parties through the administrative intervention is proving to be increasingly ineffective. The need to develop a new and sounder footing for industrial relations

⁵⁶ China labour statistical yearbook 2001

is recognised by the government and the social partners as an important tool for the prevention of labour disputes. The current social and economic transformation towards a market economy calls for a modernization of the institutions of industrial relations to accommodate and reconcile the diverging interests of workers and employers.

The link between social dialogue and employment policy is direct. For example, tripartite consultations at the national level can set the parameters for an employment-maximizing labour market strategy. Collective bargaining at the enterprise level can strike the right balance between wage and employment growth, as well as find solutions to minimize layoffs or cushion their impact in a transparent and equitable manner when they must occur. The dispute resolution system supports these objectives when differences occur. In the context of job loss and high unemployment, a well-functioning dispute resolution system is essential. To ensure that all of these institutions of social dialogue work effectively in employment or any other sphere, the roles and structures of the social partners need to be examined from the standpoint of how they can best represent the different interests of their constituents.

The key question

How can China improve the industrial relations framework to provide greater space for representative social partners and the expression of divergent interests so that the relevant institutions may play the vital role of resolving conflicts and fostering the promotion of employment and productivity growth effectively?

Policy response

As tripartism in China is at its early stage of development, it is too early to make any accurate assessment of progress. Social partners in China will develop their own system of tripartite social dialogue, which best serves their own needs, as they gain more experience.⁵⁷ The new Trade Union Act of October 2001 has created a minimum legal basis for tripartite consultation at various levels of the economy⁵⁸. However, the tripartite consultative committees operate largely on an experimental basis with an expectation that the system will improve as the actors gain more experience. The following are some of the major policy issues to which the Government and the social partners will wish to respond in their discussions on how to maximize the potential benefits that tripartite social dialogue institutions and practices can deliver.

Broader mandate of the tripartite consultative committee

As described earlier, the main focus of the TCC is labour relations issues: to regulate and coordinate labour relations through jointly developing a regulatory framework for labour

⁵⁷ China has ratified ILO Conventions 122 on Employment Policy and 144 on Tripartite Consultation which together provide a framework for these developments.

⁵⁸ Section 34 of the Trade Union Act: The people's governments at or above the county level may, through meetings or by other appropriate ways, inform the trade unions at the corresponding levels of their important work programmes and administrative measures related to trade union work, analyse and settle the problems as reflected in the opinions and aspirations of the masses of the workers and staff members conveyed by trade unions. Administrative departments for labour under the people's governments at various levels shall, together with the trade unions at the corresponding levels and the representatives of enterprises, establish trilateral consultation mechanisms on labour relations and jointly analyse and settle major issues regarding labor relations.

relations; to investigate jointly labour dispute trends and propose measures to improve labour relations; and to promote individual and collective contracts through the 'equal consultation' system at the enterprise level.

The importance attached to coordinating industrial relations and keeping industrial peace through tripartite social dialogue reflects the shared recognition of a great need to address newly-emerging labour relations issues through institutionalization of tripartite social dialogue at various levels of the economy. This is an important step towards sound industrial relations in China. However, it is also to be noted that social partners, already weak in terms of being representative, often need to tackle much broader issues than the labour relations issues currently being considered. The most obvious case would be labour relations issues arising from enterprise and industrial restructuring. To achieve harmonious and sound labour relations in the process of enterprise restructuring, the social partners need to look into much broader issues of active labour market policies and social security reform at a higher level of the economy, while ensuring that the voices of workers affected by the restructuring are heard through representational channels at the workplace. It is therefore desirable for the social partners to consider both how to expand the mandate of the TCCs with a view to addressing broader labour market policy issues effectively, and how to coordinate the functions of the newly established TCCs with existing channels of de facto tripartite social dialogue dealing with other social and economic policy issues.

One emerging issue is the need to make a clear distinction between the TCCs and the regular system of dispute settlement at the local level. China has a three-tiered regular system of labour dispute settlement: the bipartite institution of the enterprise mediation committee, the tripartite arbitration committee and the people's court. In principle, there is a distinction between the TCCs, which are responsible for promoting consultation on industrial relations issues at macro and intermediate levels and for proposing major reform policies on industrial relations, and the tripartite arbitration committees responsible for prevention and resolution of labour disputes. However, while the main role of TCCs in labour disputes is in principle said to be "to investigate and to work out measures to improve the system", in practice TCCs at municipal level have occasionally intervened in major labour disputes with a view to bringing a quick political resolution to the disputes. Without a clear distinction between the two institutions, the functions of the regular labour dispute settlement system of the tripartite arbitration committee could be undermined. The regular system of dispute settlement has weaknesses such as the lack of skilled mediators/arbitrators and the perhaps linked lack of confidence of workers and employers in their independence and credibility. However, this is not so much a reason for TCCs intervention but rather calls for the TCC to examine policy options to improve and strengthen the dispute settlement system itself.

Social dialogue on broader social and economic policy issues

Tripartite social dialogue can also make a direct contribution to objectives of employment policies and labour market policies. Social dialogue at national level in many developing and developed market economies and transition economies is instrumental in developing economic and social policies geared towards more and better jobs. (See box on Hungary)

At the local level, tripartite cooperation can make a more direct contribution on employment policy issues. Experience of adjustment in industrialised countries show that local

governments, communities, and workers' and employers' organizations can implement a number of strategies and take a variety of actions at the local level to retain jobs and reduce the scale and severity of dislocation and its impact on workers, their communities and business enterprises.

Social dialogue can help improve the governance of comprehensive employment programmes at the local level, by enhancing the participation of all stakeholders and improving transparency of the policy design and implementation. Participation and transparency are two key attributes of good governance that help ensure a real, fair and effective process of consultation with those affected by enterprise restructuring. Participation also helps social partners and other stakeholders in exploring and mobilizing their local economic possibilities and institutional resources to cope with the unemployment challenge. President Jiang Zemin stressed the relationship between deepening reforms and employment promotion as one of the five priority areas for policy response in his statement to the National Re-employment Conference in September 2002. Participatory social dialogue is the key to good governance in managing the painful process of enterprise restructuring and in developing alternative strategies for employment creation. This, as observed earlier, is because genuine social dialogue can significantly improve the quality of information across actors and policy domains, improving the response to external shocks and creating a better fit between policies.

Sound financial policies and institutions are a necessary underpinning for pro-poor growth but work more effectively alongside an equally sound framework for maintaining social stability. Social dialogue is an important part of such a framework. Building national institutions that reconcile conflicts, increase social cohesion and stimulate a brisk and steady pace of productivity growth diminishes the risk of political instability at home interacting with volatile international capital markets to create unmanageable economic shocks.⁵⁹ In a world where the opening up of national economies to global markets challenges the policy sovereignty of nation states, full and meaningful social dialogue enlarges the capacity of countries to choose their own path towards sustainable pro-poor growth.

Synergetic interaction of legislation and industrial relations

In coping with labour market challenges, ensuring the enforcement of the relevant laws is not sufficient, as legislation often does not have detailed, ready-made provisions for complex situations. In China, there appears to be a tendency among the actors of industrial relations to see collective bargaining and tripartite social dialogue mainly as a means to promote, enforce and monitor the implementation of existing regulations. This can help advance of the principle of the rule of law in the labour market, as existing laws and rules have often been ignored and violated by labour market actors, in part because they do not seem to be widely known or understood. However, in principle, labour relations at the workplace and tripartite social dialogue should be both a means of building on or adapting the application of rights already guaranteed by law and a direct source of regulation on topics that are not completely addressed by legislation. Free collective bargaining is, by its nature, more flexible and more capable of addressing specific needs of sectors and enterprises than is legislation alone. In this way, tripartite social dialogue and collective bargaining complement legislation creating a synergy

⁵⁹ As described in Lee, E., *The Asian financial crisis*. ILO, Geneva 1998, countries such as Malaysia, Singapore and Korea have found that tripartite discussions and agreements helped to mitigate the social consequences of external shocks and speed recovery.

between two different but inter-related means of labour market regulation. The results are improved economic performance and more and better jobs for all.

Social dialogue thrives on constructive divergences

With the number of labour disputes on the increase in recent years, one of the greatest challenges for social dialogue and tripartism in China is how to channel potential and actual conflicts into negotiated compromise. For successful social dialogue through which conflicts can be channelled into compromise, it is vital that trade unions and employers' organizations at the tripartite institutions have the legitimacy and organizational capacity to represent workers and employers in both state and non-state sectors from enterprises up to national level. Legitimacy and organizational capacity are products of local action within a framework of laws that facilitate the independent representation of worker and employer interests.

While there are a rapidly growing number of disputes at the enterprise level, it is reported that the three parties have very few conflicts at the national TCC and resolve differences, if they arise, through harmonious consensus. The virtual absence of conflicts among the tripartite actors is said to be the reason why there are no established procedures or rules on how to resolve a deadlock if the parties fail to reach an agreement on a contentious issue. The absence of conflicts at the national TCC could be due to the fact that TCCs are mostly one or two years old and therefore no significant conflict has arisen so far. This contrasts with a rapidly growing number of labour disputes at the workplace level and may indicate that the system of representation channelling voices of workers and employers at the workplace to the tripartite social dialogue at higher levels needs to be improved.

The challenge is to facilitate the modernisation of the roles of the social partners by building a representational labour relations system at the workplace and reforming the overall governance framework of the labour market. To ensure that society can benefit from social dialogue, it is necessary to strengthen the representativeness of trade unions and employer organizations.

Representation of employers

The employers' organization CEC was set up in 1979, as China began its reforms and opening towards a market economy. CEC members were mainly SOEs whose directors and managers tended to regard the organization as a bridge or channel of access to the Government. With the development of non-public economy and gradual introduction of market reforms, CEC has made impressive efforts to strengthen its organizational capacity to represent all types of employers. It reports to have a majority of over 52% of its 436,000 affiliated enterprises in the non-state sectors (this does not reflect the size of enterprises). While issues in industrial relations become more prominent, and negotiating contracts in the context of market conditions is a rapidly emerging concern, CEC faces the tremendous challenge of how better to represent and safeguard the interests of enterprises of all forms of ownership. It needs to strengthen its capacity to represent enterprises specifically as employers in industrial relations. The move away from the bridging role between the Government and the SOEs, and expanding membership and influence among non-state enterprises, are major challenges for the CEC. There is evidence that the CEC's involvement in newly institutionalized tripartite consultation offers a strong incentive for it to strengthen its membership basis in non-state sector. CEC is

also making efforts to consolidate its membership structure in all parts of the country and different forms of enterprises.

Representation of workers

As the history of industrial relations in market economies shows, it is only when trade unions begin to pose a real challenge to individual employers at the workplace that employers tend to respond to the challenge through either organizing or joining employers' organizations to defend and represent their rights and interests vis-à-vis workers' demands. One of the difficulties social partners face in many transition countries, in their effort to build sound industrial relations and tripartism, is that central planning mechanisms tended to merge the roles of trade unions and enterprises since workers and employers were not expected to have differing interests. The transition toward a market economy, including democratic reforms, has revealed the need to first recognise and then find ways to resolve by negotiation divergences in the interests of workers and employers.

In the transition towards the market economy, there is a gap between workers' expectations and demands and the capacity of unions to defend workers' rights and interests. Organizational systems, working mechanisms and modes of operation of unions need to change to meet these challenges. The working of the labour dispute settlement, where staff shortages are a problem, also needs to be improved. The legacy of the planned economy poses the issue of how trade unions can meet these challenges and gain strength and credibility. Avoiding the risk of disputes being submerged, and then re-emerging in costly and socially destabilizing forms, is of key importance to the evolution of a new role for unions. When formulating proposals for a collective agreement, trade unions should articulate the legitimate rights and interests of the employees as expressed by them and on the basis of workers' participation, independently from management concerns. Strong trade unions, built from the workplace up, able to represent a large majority of workers and pass their members' views up to higher-level union organizations, are important institutions for society when balancing economic innovation with social security.

Collective bargaining and workplace governance

Even in some enterprises where better working conditions than the legal minimum are gained through 'collective consultation', the negotiated gains are not always included in the collective agreements, partly because of the tendency to see a collective agreement as a means to apply the legal minimum. As emphasized earlier, collective bargaining should be both a means of amplifying or modifying the application of rights already guaranteed by law and a direct source of regulation on topics that are not completely addressed by legislation. Experience shows that management tends to have less incentive to improve productivity and develop the human resources of the company in the absence of the pressures of organized workers at the workplace. Union representation at the workplace, by enabling workers participation in management through institutionalized channels of negotiation and consultation, is one of the key factors facilitating modern enterprise management systems conducive to high productivity, high efficiency and high morale.

Issues of labour relations in the non-state sector

Trade unions are much weaker in the majority of small-scale non-state enterprises and sometimes are not able to counter those employers who are in violation of the relevant laws. Some overly profit-oriented employers tend to infringe on the rights and interests of workers in ways that affect social stability. The ACFTU states that its recent organizing campaign in the non-state sector has resulted in a significant increase of new trade union organizations in this sector. Nevertheless, ACFTU local organizations need to be able to give greater support to workers in such enterprises and cooperate closely with the labour inspectorate to ensure that they abide by appropriate legislation. While currently CEC is the organization authorized by the Government to represent all types of employers in China, CEC membership and influence in the non-state sector is also weak.

Most new jobs in China are being created in the non-state sector and it accounts now for the bulk of economic activities. Remedying the weakness of industrial relations actors in the non-state sector poses great challenges for policy-makers. Sound labour relations based upon the principle of democratic representation of social partners is vital to ensuring harmonious industrial relations and better economic performance. An increasing number of foreign investors, conscious of their global social responsibilities, are paying close attention to the labour environment of the countries in which they choose to invest. Despite considerable efforts by CEC and ACFTU, the development of collective institutions of industrial relations in the non-state sector remains a priority.

It might therefore be necessary for the CEC to develop concrete plans and measures to work together with other employers' and business associations, which currently represent business interests of local private enterprises, joint ventures and foreign invested enterprises respectively, with a view to formulating industrial relations policies, which can represent interests and views of all types of employers covered by the associations concerned, and representing of all types of employers in the tripartite social dialogue institutions.

The challenge for workers is to build and strengthen workplace level union organizations that can effectively protect workers' rights and negotiate better working conditions for members, whose interests are increasingly coming into conflict with employers concern to raise profits.

Policy challenges

- *There is a clear need to strengthen the capacity of employers' and workers' organizations to represent their members' separate and sometimes divergent interests and to develop sound industrial relations with a view to achieving better economic performance, and more and better jobs for all in both the state and non-state sectors.*
- *Two key attributes of collective bargaining are relevant to the challenges facing China's emerging new system of industrial relations. On the one hand, it provides a means of determining by free and voluntary negotiations between the two independent parties concerned the wages and conditions of employment for the workers covered by the ensuing agreement. On the other hand, it enables employers and workers to define by agreement the rules governing their mutual relations. These two aspects of the bargaining process are closely interrelated. Through collective bargaining in good faith, the social partners should be able to conclude*

collective agreements for better working conditions and better economic performance. Instead of just replicating legal minimum conditions defined by the labour law, collective agreements should strive for more legitimate rights and interests for employees, and itemise in detail the obligations of the two parties and in particular, the terms and conditions of labour, including all benefits due to particular categories of employee and to employees as a whole.

- *Tripartite social dialogue needs to be modernised in China in an inclusive manner to enable the social partners to tackle broader social and labour market policy issues including industrial relations issues. Tripartism is basically a means of cooperation among parties with a view to promoting economic development and social justice together and, where necessary, reconciling competing claims on the resources needed to meet these two goals. Tripartism and social dialogue help to sustain the effective functioning of the market economy by dealing with its social consequences, while they also help to strengthen democracy by allowing social partners, who represent important segments of the population, to participate in various ways in the policy formulation and the decision-making on economic and social policies. Harmonious consultation should be tried to resolve deadlocks in Tripartite Consultative Committees (TCCs) if parties fail to reach agreement. At the same time, procedures and rules need to be developed to ensure the effectiveness of the regular work of the tripartite mechanism. Social conflict is often avoided when workers feel that they have a real voice in such decision-making.*
- *The social partners need to consider how they can help, through tripartism and social dialogue, to adapt the governance framework for individual and collective labour relations, in line with the universal principles, with a view to creating an enabling institutional framework for socially responsible restructuring, more and better jobs for all, and poverty reducing development. In doing so they, and the Government, can avail themselves through the ILO of the varied experiences of many countries in developing mechanisms for the governance of the labour market which balance the twin imperatives of efficiency and equity.*

3.3 Improving knowledge and skills for employment in a knowledge-based economy

Human resources development, education and training contribute significantly to promoting the interests of individuals, enterprises, economy and society. By helping individuals become employable and informed citizens, human resources development and training stimulates economic development, full employment and social inclusion. They also help individuals to gain access to decent work and good jobs, and escape poverty and marginalization. Education and skills formation contributes to less unemployment and to greater equity in employment. The economy and society at large, like individuals and enterprises, benefit from human resources development and training. The economy becomes more productive, innovative and competitive through the existence of more skilled human potential. Human resources development and training also underpin the fundamental values of society - equity, justice, gender equality, non-discrimination, social responsibility, and participation. In order to be effective, education and training must form an integral part of a

comprehensive set of economic, labour market, community development and other policies for employment and growth.⁶⁰

Developments

The major forces driving changes in the world of work, such as globalization, rapid advances in technology, trade and investment – in particular, China’s recent accession to the WTO - have several important implications for skills demand and human resources development and training. Firstly, the use of new technologies, especially ICT, new manufacturing processes and new modes of work organization have led to a skills intensification of the national economy and an increase in the demand for higher skills. In particular, there is a huge shortage of skilled labour at management and technician level, which is felt most acutely by those operating in international markets (see Box 3.3.1). But the education and training system, which is still geared mostly to the SOEs operating in traditional industries, is struggling to keep up. This constantly changing situation means a continued skills gap. Of the present workforce, 84 per cent of workers have only junior high school qualifications or less, and 44 per cent have a primary school education or are illiterate⁶¹. The global picture is similar. In the developed countries, there has generally been a reduction in the demand for unskilled labour and a rise in the market value of advanced skills and workplace competencies.

Secondly, growing international competition from lower cost competitors on the one hand and high quality producers on the other is forcing domestic firms to adopt more efficient technologies and modes of production. Export-driven companies in China are faced with the same challenges as their counterparts in Europe and elsewhere **B** the need to achieve an international quality recognition benchmark such as ISO 9000 with its corresponding implications for skill development and training. Global exposure also brings an opportunity to learn from competitors and to improve the organization of work, provided that the workforce is adequately educated and trained. A problem for many small and medium-sized private-sector firms, however, is that they have only limited capacity to correct their skills shortages. These firms face considerable difficulties in attracting managers and technicians, because they have few benefits to offer to prospective recruits.

The rapidly changing skills requirements, as a result of the SOE reforms and the structural changes due to the WTO entry, present a substantial challenge to the existing training system. While some sectors, such as the mechanical, electrical and automotive manufacturing sectors are losing large numbers of jobs and other sectors such as the textile, chemical and construction sectors, and the service sector, for example, are requiring more skilled workers, it will be very difficult to address this imbalance and develop the necessary skills quickly, as the skill requirements are very different between the various sectors. Furthermore, the task of re-skilling a worker with mechanical/electrical engineering skills to work in textile or construction sectors presents not only a major technical challenge, but will also require an extensive range of guidance and counselling support mechanisms, as these emerging sectors are not particularly attractive places to work for highly skilled workers.

⁶⁰ Conclusions concerning human resources training and development, International Labour Conference 2000, para 1.

⁶¹ China Employment Report (2001 – 2002), op.cit.

The retraining of workers laid off through the restructuring of SOEs has been given high priority by the Government, with many innovative approaches being tested. The first term of the Re-employment training project “Ten million in three years” yielded impressive results, with a total of 65 per cent of those trained finding employment, as shown in table 3.3.1.

Box 3.3.1.

Knowledge and skills in China: Employers’ perceptions

The ILO, together with the Centre of Labour Market Studies, University of Leicester, responded to a request from the China Enterprise Confederation (CEC) to determine employers’ views on the quality and relevance of the education and training system to enterprises in China. A survey was conducted of 465 organisations located mainly in eastern, southern and coastal areas of China, with a broad cross-section of size of enterprise and type of ownership. The study found that employers require not only higher-level skills but also a much broader range of skills, for managers, and to a lesser extent, technicians, than for other types of workers. These broader skills include, for example, the ability to organize, solve problems, communicate with others, and work in teams. Those organisations operating in international markets have the highest level of skill demands. In these organisations, there is a huge shortage of skilled labour at management and technician level. While foreign-owned enterprises are able to minimise the impact of the shortage of managerial workers through their attractive salary packages, smaller firms, especially the Chinese private sector firms, experience considerable difficulties in attracting managers and technicians, because they have few benefits to offer prospective recruits. Employers also felt that the existing training system is geared to meet the needs of the SOEs and public sector. It less tightly geared to the needs of the new economy and those enterprises operating in international product markets. The employers at the leading edge of world markets use training to deliver task skills but also to inculcate a high level of commitment from their employees. The survey also found that there has been a rapid growth of IT usage in enterprises over the last five years. Most of these skills have been delivered through public sector training sector provision, especially for managers and senior staff. Manual workers acquire their IT skills more from in-house provision. The usage of IT is highest among those firms competing in international markets.

Source: Venter, K., *Education and skills in the People's Republic of China: Employers’ perceptions*, ILO/University of Leicester/CEC, 2002.

Table 3.3.1 Implementation of the first term of the Plan of Re-employment Training of “Ten Million in Three Years” (in 10 thousand persons)

Year	Trained persons in plan	Actually trained persons	Re-employed persons	Re-employment rate (%)
1998	357	386	281	73
1999	500	614	376	61
2000	365	358	226	63
Total	1222	1358	883	65

Source: China employment report (2001-2002), op. cit.

Across the country many different approaches to retraining workers were tested. In 1997, Shanghai started a pilot project “The government purchases the training harvest”. In this

programme the government would call for tenders for training and award contracts through an open bidding process. Training providers were also assessed on the number of workers who were re-employed after training. In other provinces, different approaches were being implemented. In Shanxi, a “Re-employment partnership scheme” was established, and in Jiangsu, emphasis was placed on the community employment training programmes.

What is clear, however, is that large cities, for example, Shanghai and Guangzhou and special economic zones, such as Shenzhen, are better equipped to handle the economic and social changes being brought about by the effects of globalisation and China’s recent entry to the WTO. However, although Shanghai has probably the most advanced system in China, and indeed, many workers receive training within industry, its capacity to train large numbers of workers is finite and access to training for a large number of laid-off workers is limited or not available.

Conversely, western and central regions lack human, financial and technical resources to provide the type of skill training required for modern enterprises that is found in the more dynamic centres such as Shanghai and Shenzhen. The challenge in these regions is to assess the emerging skill needs and develop new approaches to providing skills to workers seeking employment within these regions and for those migrating to more economically developed regions.

There is great potential to improve access to training and employment by skill development through distance learning. But there are constraints. Vulnerable groups are often at risk of being denied access to training and employment due to low education levels, gender or disability issues. They are also often excluded from training because they do not have access to the appropriate information and communication technology or because they work long hours in low skilled jobs and have no time to attend training. Finding the money to cover the costs involved in attending training is also difficult for unemployed persons and their families, as the average monthly income is only 300 Yuan per person.⁶²

The State Council adopted a significant policy decision on advancing the reform of vocational education and training (VET) in August 2002, based on recommendations of the High-level National Conference on Vocational Training held in July 2002. Vocational education and training are recognised as major components of the national education system in China as well as an important basis for national economic and social development. The target is to offer access to VET to a total of 50 million urban workers, 150 million rural workers and 3 million laid-off workers every year.

Under the State Council’s guidance, local governments have the main responsibility for developing VET, with the involvement of social partners. While VET institutions are given more independence, they should establish effective consultation mechanisms with key partners. Enterprises should establish their own training facilities and build links with vocational schools in the regions. Private vocational training will be encouraged and supported. Contents and methods of teaching must be adapted to current needs. Distance learning must be developed, and skills needed in current and emerging jobs should guide the development of curricula and teaching materials. Rural and western areas are the priority concern for development of VET in the near future. In those areas, VET institutions should be centres for human resource

⁶² Institute of Labour Studies, China Employment Report (2001 – 2002), June, 2002.

development and training for migrant workers. The schools in eastern areas and big cities must assist and support those in the west and rural areas, including the use of enhanced distance learning.

An important part of the new reforms is to more effectively link the national labour market information system (LMIS) with VET to provide enhanced vocational guidance and placement. Better certification systems will also need to be developed to improve the recognition of skills.

The new reforms also aim at increasing the overall investment in VET. Governments, at all levels, will be encouraged to increase their investment in VET. Enterprises will be encouraged to allocate 1.5 - 2.5 per cent of the total payroll for staff education and training.

The key question

How to ensure effective implementation of the recent vocational education and training policy decisions and build the partnerships needed to facilitate the development of workers' skills through lifelong learning.

ILO response

Many countries, both industrialized and developing, have embarked upon a range of education and training policy and system reforms to address the challenges of promoting employability, productivity and social inclusion. Many of these reforms have a solid base in social dialogue. Reforms endeavour to improve the relevance, effectiveness and equity outcomes of education and training. They also aim at increasing investment in training by all parties concerned, in particular the private sector and individuals themselves. These reforms target the systems of general education, the systems of vocational education and initial training and the (nascent) systems of further education and training and lifelong learning. China, along with many other countries, needs to establish policies that lay a solid foundation for employability, e.g. by instilling "core skills" (e.g. ability to identify, analyse and solve problems, the capacity to learn, communication skills, the ability to use technology etc.). These core skills are prerequisites for acquiring advanced skills and for making use of new technologies.

A major feature of education and training reform should be sharing responsibilities for investing in education and training and, in particular, lifelong learning, through various forms of partnerships between the State, the social partners, individuals and other stakeholders. The state has to assume primary responsibility for basic education and to promote equal opportunities in training by developing special targeted training programmes for women, young people, older workers, people with disabilities, ethnic minorities, and otherwise contributing to overcoming discrimination. The private sector needs to take over a greater share of the burden of financing the workplace and lifelong learning needs of their staff. New incentives to stimulate increased private sector involvement in training need to be developed. These could include, for example, tax relief for training costs, skill development funds, technical support from public providers to develop new workplace training courses and a range of other financial measures. Where feasible, the individual worker should take larger part in

shaping her or his self-development and be helped by the appropriate workers= organization. Access to lifelong learning opportunities has particular significance for women, who, more than men, are likely to leave and re-enter the workforce at different stages in their life cycle.

The ILO is developing a database on current expenditures on vocational and continuing training, and a series of benchmarks on investment in training, differentiated by different regions of the world, size of companies and sector of industry. This will allow the ILO to advocate useful investments in skills and knowledge and promote them through technical cooperation. Training systems will need to become much more flexible in the courses offered and how these are delivered. There will need to be much stronger linkages with enterprises to ensure that workers develop both the theoretical knowledge and workplace-based skills.

Box 3.3.2

Reforming training systems: a major challenge for policy makers

The training system in China is presently more closely geared to the needs of the SOEs and will need major reforms if it is to meet the knowledge and skill demands of the emerging private sector enterprises, which have to compete in the global market. Many other countries are also facing this challenge, and despite some successful reforms, such as those in Australia, Chile and South Africa, reforming national vocational education and training systems is proving to be very difficult. The major challenge is for the national systems to be flexible and responsive to the needs of the local labour market while developing the knowledge and skills to enable the workforce to compete in the global economy. A particular problem that these reforms have addressed, with varying success, is the emphasis that should be placed on general academic education and the development of transferable skills on the one hand, and on occupationally-oriented training on the other, in order to facilitate the smooth transition from school to work and enhance employability. Many countries have also integrated workplace-based learning and training into the vocational education curriculum. Germany is perhaps the best example of this approach. Australia, Chile and Sweden have introduced competitive bidding among public and private training providers in order to encourage them to improve the efficiency, quality and labour market relevance of their training programmes.

Source: ILO

The ILO recently carried out a skill assessment mission in Shanghai and Shenzhen. This was followed-up with more information on the existing and future skills development systems from the labour bureaus in these cities. However, a major conclusion from information gathered was the need to develop an enhanced system of distance learning that provides a combination of theoretical learning and practical skill training at the point of learning.

The Ministry of Labour and Social Security, relevant regional authorities, national and international consultants and the ILO intend to carry out further studies of the systems in Sichuan and Hunan provinces. The potential to link with and take advantage of the high level of skills and knowledge available in Shanghai and Shenzhen, both in the public training system and workplace-based training programmes in enterprises, will be assessed and a project outline will be drafted for consideration by the main stakeholders. In addition to developing distance-learning packages, this may involve the movement of skilled trainers from Shanghai and Shenzhen to the other provinces to train the local instructors. The outcome will be a project that will provide a model for development of enhanced distance learning and training for adaptation and implementation in other regions within China. The purpose of the study is to investigate the transfer of knowledge and skills, utilising strategies such as distance learning and vocational training, from more economically advantaged regions, particularly Shanghai and Shenzhen, to Sichuan and Hunan. These are heavily populated provinces identified by the MOLSS as suffering from a deficit in skills and knowledge development.

Box 3.3.3

Community-based training model for Chinese farmers

An ILO survey in 1998, designed to examine the problems in the rural labour force, found that job creation and farmers' income-generating activities were often restricted because of a shortage of capital and a lack of technical skills, particularly in areas calling for non-traditional skills. They also lacked innovative ideas, business and marketing skills as well as management and bookkeeping knowledge. The findings are based on interviews with farmers in Gansu and Jiangxi provinces. During the interviews, the farmers stated that if they were able to generate an adequate income locally, they would not move to urban areas.

In response to this problem, the ILO introduced its Community Based Training (CBT) model for a trial period. Initial follow-up of pilot training programmes in Xingtang County, Hebei Province, showed that the CBT model had been a success. Farmers were happy with the CBT training activities, and government officers considered it effective. The CBT was initially adapted to local conditions and requirements during the pilot training programmes and further action research on *Market Opportunity Survey and Review of the CBT Tools in the Chinese Context* has been conducted in Min County in Gansu by China's Institute for Labour Studies. This work has culminated in the development of a unique Chinese version of CBT.

ILO, *Skills in Asia and the Pacific: how training matters*, Regional Office for Asia and the Pacific, Bangkok, 1999

The loss of competitiveness in the agricultural sector as a result of WTO entry similarly as gains in agricultural productivity will mean a further increase in surplus rural labour. For those still working in agriculture it will also mean higher skill demands. The effects of these changes will require a modernisation of the primary industry, including the introduction of new agricultural technology, with its resulting demand of more highly skilled workers.

In all sectors of the economy there will be a need for retraining. In some cases, it will be focussed on upgrading workers' existing skills to new technology and work methods. In other cases it will require a major skills development programme for those with low skills. However, the retraining programmes in China, if they are to be effective, will require a major investment in terms of facilities, training materials and updating the skills of the trainers. As part of the technical support to the Urban Employment Promotion Project, the ILO undertook a review of retraining activities in Chengdu and Shenyang. A technical advisory report was prepared which contained a number of recommendations designed to improve the quality and effectiveness of the retraining, including developing standardized monitoring and evaluation systems, and mechanisms to improve the quality of curricula, training materials and the training of trainers. A number of other studies on retraining in several provinces were commissioned. These research findings were presented in an *ILO/MOLSS High-level Seminar on Re-employment Training for Laid-off Workers in SOEs*, in Haikou City, November 1999.

Policy challenges

- **Investment in education and training.** *There is a critical need for a greater overall investment in education and training in China for all people (including women and groups with special needs, such as people with disabilities). Education and training investments should be closely linked to economic and employment growth strategies. Responsibility should be shared between the government (primary responsibility), enterprises, the social partners, and the individuals. There is also a great need for increased private sector investment and new, innovative methods of financing training.*
- **Developing core work skills.** *With opening up of Chinese firms to international competition, there is an urgent need to move beyond traditional occupational skills. The development of "core work skills" (such as communication, problem solving, working in teams etc.) is an important part of the reform to prepare individuals for the knowledge-based society.*
- **Reforming the vocational education and training system.** *To make lifelong learning for all a reality, China will need to make a major reform of its vocational and education and training systems, including the opening up of training delivery to private sector providers. Training systems need to become more flexible and responsive to rapidly changing skill requirements, particularly with the growth in service sector jobs with WTO entry, and develop innovative approaches to training and retraining of laid-off workers from SOEs. In order to cater for the huge number of people requiring training and retraining, greater use will need to be made of distance learning and training. Attention will need to be given to the skills of migrant rural workers and provide them with greater access to high-quality training.*
- **Workplace learning.** *New approaches to workplace learning should be developed and introduced in all enterprises. New policies are also needed to encourage the establishment of in-house and private vocational training centres.*
- **Mobility of skilled workers.** *Many people have acquired skills from a wide range of non-traditional sources, but these go largely unrecognized and are a major impediment to mobility of workers. It is critical that people should be able to have their skills recognized as part of a national qualifications framework, irrespective of where the skills were obtained.*
- **Social dialogue on training.** *There is an urgent need to involve the social partners more closely in discussions on training policy and skills development, if the desired reforms and increased investment are to become a reality. It is clear that the government alone cannot cater for huge demand for training and retraining. The most successful training systems in the world are underpinned by a strong social dialogue process.*
- **Labour market research.** *Systematic data collection and analysis of labour market changes are necessary for developing relevant training programmes.*

3.4 Labour market policies for an integrated labour market

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.

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.⁶³ 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.

However, these figures give an inaccurate picture of the whole employment problem, as many are not registered, work in the informal economy or in self-employment. In the future the proportion of the groups with labour market difficulties will probably increase because of the downsizing of labour market intermediaries (enterprise-based re-employment centres). An increase in the number of unemployed will be accompanied by a rise in older job seekers and the share of long-term unemployed will increase.

While the Chinese government places great hopes in the development of “flexible employment” the need for covering these persons with basic social security and employment measures will add to the challenges on the Chinese labour market.⁶⁴

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

⁶³ H. Y. Lee, “Xiagang, the Chinese style of laying off workers”, *Asian Survey*, Vol. XL, No. 6, November/December 2000, p. 918.

⁶⁴ MOLSS, *The China Employment Report (2001-2002)*, op. cit., pp. 52-62, identifies social insurance and income security as key challenges together with laws and regulations for minimum wages, working hours and labour contracts.

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 2001.⁶⁵ 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.⁴

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 centres 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.

⁶⁵ P. Saunders and X. Shang, *Social security and poverty alleviation in the People's Republic of China: Issues, constraints and choices*, A report prepared for the Asian Development Bank, Sydney, September 2000, p.16.

The key question

How to design and implement labour market policies and strengthen delivery institutions (especially public employment services) in order to efficiently and equitably allocate labour from surplus areas to growth areas and establish a unified labour market, combat social exclusion and promote decent work.

Policy response

Over the past twenty years the Chinese government has been taking significant steps in moving towards a more market-oriented labour market and demand-driven employment support services. These developments have followed the policy of, “labourers finding employment on their own initiative, market adjusting the demand for employment, and the government promoting employment.”⁶⁶ The labour administration system includes public labour bureaus, labour market training, an unemployment insurance scheme and labour service enterprises. There are special programmes for disadvantaged groups such as laid-off workers.

The government accelerated the development of this system by promoting service provision at all levels of government. There are employment services that reach from central and provincial levels to grass-root structures like district or even street level. They are accountable to the corresponding level of government while MOLSS exercises only indirect authority through guidelines and recommendations. While the current system is still largely non-integrated, it will benefit a lot from ongoing efforts to improve service delivery through better integration.

In the current system China is taking advantage of a wide variety of service providers. The main role is played by the public employment service, providing the vulnerable groups with re-employment services, and their activities are complemented by services of private employment agencies. Overall labour departments operate 69 per cent of labour exchanges. By the end of 2000, the public employment services consisted of some 4,000 employment agencies run by labour department at and above district and county level nationwide with 16,000 subsidiaries run by sub-district offices and towns. In total, there were 29,024 labour exchanges with a staff of 86,742 persons in 2000. If in 1996 the employment services registered 19.4 million jobseekers and were able to place 8.9 million of them in jobs, four years later they succeeded to provide re-employment assistance to 9.75 million out of 19.9 million registered unemployed persons.⁶⁷

Prominent in this system are active labour market programmes targeted mainly at laid-off workers from SOEs, which include apart from reemployment service centres established in all state-owned enterprises (i) reemployment training programmes; (ii) start a business training programmes; (iii) promotion of community service employment opportunities; (iv) promotion of self-employment; and (v) reemployment assistance action to guide employees leaving reemployment centres to other forms of assistance. These efforts have contributed to a remarkable restructuring of the labour market: two-thirds of the workers laid-off by SOEs

⁶⁶ Ministry of Labour and Social Security,, *White paper on labour and social security in China*, State Council Information Office, Beijing, April 2002, p. 2.

⁶⁷ China employment report, op. cit.

between 1998 and 2001 have been reemployed, a majority of them however in flexible forms of employment.⁶⁸

In addition to job centres operated by the Ministry of Labour and Social Security there are employment services provided by mass organizations such as the All China Federation of Trade Unions (ACFTU), the All China Women's Federation (ACWF), the All China Disabled Persons Federation (ACDPF) and the All China Youth Federation (ACYF). For example, ACFTU is running 4000 job centres, which have so far assisted 3 million laid-off workers in job placement, and 6000 training institutions, which have provided training to 1.5 million workers. Other services offered by ACFTU include promotion of business start-ups through micro-credits and employment services to older redundant workers (men above 50 and women above 40). It also plans to establish poverty alleviation centres in cities in the next three years. State-owned enterprises, educational institutions, training providers, local communities and private agencies also provide services.

Assisting laid-off workers

The re-employment centres have provided a temporary buffer between the work unit and labour markets. Government programmes for *xiagang*⁶⁹ workers include the provision of basic living allowances, payment of social insurance premiums, retraining for new employment opportunities and assistance in job search activities. As the centres are phased out, challenges for protection and employment will be passed on to unemployment insurance, social assistance and employment services. More generally there is concern that past under-investment in human resources will become a major constraint for economic growth and employment creation. In this regard systems of education as well as training need further reform. The Ministry of Labour and Social Security has launched a comprehensive approach to assist laid-off workers during the transition from re-employment centres to an unemployment insurance scheme. The *Re-employment and Social Security Assistance Programme* combines employment promotion and social security. The government plans to help laid-off workers through re-employment programmes, social insurance and social assistance. The programme establishes guidelines for localities that will then identify concrete action plan to assist laid-off workers. While the target group is laid-off workers from state-owned enterprises, the programme may later be extended to a wider group of unemployed workers. The ideas for active labour market policies draw on the experience of re-employment service centres.

Supporting migrant workers

Another approach to employment problems is aimed at migrant workers. An on-going programme is the *Rural Labour Force Development Pilot Programme* that coordinates the efforts of several ministries. A new programme supports business start-ups for migrant workers who return to their hometowns. Some localities have initiated start-up programmes under preferential policies. The Ministry of Labour and Social Security is in the process of summarising best practices to disseminate under the new programme. These include initiatives for the rural labour force, small business development and small town development.

⁶⁸ MOLSS (2002), op. cit.

⁶⁹ *Xiagang* means "step down from the post" referring to those who are not working but are retained by their original units with partial or not pay.

Mobilising community initiatives

Impressive measures are being taken to provide social services and employment assistance at the grass roots. One example in Nanjing City is the “Ten Thousand Families Helping Ten Thousand Families” Community Service Centre. The Centre is set up at the street committee level to provide “people-oriented” services to neighbourhood communities. In addition to offering assistance in job placement, self-employment and vocational training it provides a wide variety of other services including legal services, self-service laundry, medical care, psychological services, fitness centre, reading library, dance hall, Internet facility and recreational facilities. Community-based services are an important channel for providing employment opportunities for laid-off workers. These have been promoted in Nanjing City. There are ten types of services at the community level called “informal employment” that are regulated by the neighbourhood community: delivery of goods to families, baby care, cleaning, care of older persons, community environment, vehicle management, lunches for students, primary health care, education and training for children and birth control counselling. Community-based services employing laid-off workers receive three years exemption from income tax and business tax. They also receive preferential treatment with regard to administrative fees, commercial licenses, business premises and credit arrangements.

As far as gender equality is concerned, In May 2001 the State Council issued a Programme on Women’s Development in China (2001-2010) to ensure economic equality, eliminate sex discrimination, improve social security, provide labour protection and alleviate women’s poverty.⁷⁰ The China Disabled Persons Federation (CDPF) operates employment service centres for women and men with disabilities.

Improving information systems

In response to an increasing complex labour market, A *Labour Market Development Programme* was designed to encourage standardised computer networking for labour market information. Since 1999 local labour bureaus in 100 major cities have been required to release labour market information. Labour bureaus analyse labour markets on a quarterly basis. The Institute for International Labour Studies under the MOLSS in Beijing is developing a set of labour market indicators that is appropriate for the situation in China. These will use concepts developed by the ILO for its Key Indicators of the Labour Market (KILM). The indicators will be used to alert policy makers to significant changes in labour markets.

Strengthening labour market institutions

Although the government has coped with many of the problems linked to changes, many problems remain in the labour market institutions. For example, the major of these institutions, the public employment service, has to take over new and more complex tasks, such as managing growing numbers of unemployed workers, laid-off employees and rural poor. Employment services are however still largely limited to the formal sector in urban areas. Although unemployment insurance is intended to cover all workers in urban areas, it actually protects just under half of them.⁷¹ The extension of unemployment insurance and provision of

⁷⁰ China employment report, op. cit.

employment services to the large numbers of rural migrants and urban poor who are seeking jobs or are in temporary employment, the informal sector or unproductive work represent a key challenge.

In general there are gaps in funds available to pay for basic living allowances, unemployment insurance benefits and minimum living standards subsidies. For example, in 1999 one-fifth of laid-off workers did not receive the basic living allowances to which they were entitled. There are also problems associated with the financial difficulties of state-owned enterprises such as delayed salaries, unpaid debts and severance pay. In addition, there is also a shortage of funds for recruiting and training staff to handle the increased workload and new responsibilities for collecting unemployment insurance contributions, maintaining individual records, processing benefit claims, organizing training courses, providing placement services, etc. Resources are generally inadequate to pay for offices and equipment needed to carry out routine functions and necessary improvements for employment services. And finally, few funds are available to provide credit for business start-ups.

In addition to strengthening delivery institutions that are based on public-private cooperation and providing income and social protection for the jobless, labour market programmes have to be improved.

Across the world, public employment services are becoming a strategic planner of employment services rather than a monopoly service provider. In its current system China is taking advantage of a wide variety of service providers. One possibility is using private sector service providers, either for training courses or job placement. Various international models of public-private cooperation have been identified, including sharing of labour market information, exchange of vacancies and outsourcing to private agencies for the provision of special services to vulnerable groups. Care needs to be taken, however, that the rights of workers, particularly women and men in temporary jobs, are respected.

Need for monitoring and evaluation of labour market programmes

In order to know which labour market policies work best for what groups of jobless people, close monitoring and evaluation of these programmes has to be undertaken. For a fully functioning employment service it is imperative to have information on the labour market situation, the characteristics of the unemployed and the working of labour market programmes. Only the matching of this information can lead to improved programme design and delivery. Monitoring programmes, which allow a comparative assessment of the results of different job centres in terms of placement results, should be used to enhance effectiveness of the labour exchange. However, care has to be taken that different employment situations are sufficiently taken into account for allowing fair assessment.

All these enhanced or new functions can only be undertaken if the labour market intermediaries (with the public employment service at the core) have sufficient and sufficiently trained staff to carry out this work.

⁷¹ A. Hussain, *The Chinese social security system (With special reference to unemployment insurance)*, Final report: PRC social security program for the Asian Development Bank, London, 2000.

While China has undertaken many steps in order to accommodate a new labour market, the “iron rice bowl” formerly provided through the SOEs must now come from new employment in private enterprises and in the public sector and from self-employment. Also intermediaries that provide income and social protection as well as an array of employment services ranging from counselling and vocational guidance, to training and job creation programmes participate actively in securing – at least temporarily - income and security to workers in transition. While there should be a focus on active measures that allow participation in paid employment, for many of the older redundant workers passive measures such as early retirement must also be provided as the example of other transition and also developed countries shows.

Policy challenges

- *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.*
- *Legislation and practices that exclude persons of rural origin from receiving equal treatment with those of urban origin should be reviewed and reformed as a matter of urgency, in conformity with the Discrimination (Employment and Occupation) Convention, 1958 (No. 111), which China is now examining for ratification.*
- *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 women workers and vulnerable groups and broadened to cover rural areas, the informal economy, the private sector and flexible labour.*
- *Better targeting of employment services and active labour market policies at vulnerable groups of workers; introduction of special measures against discrimination and programmes promoting employment of these groups.*
- *Policies and programmes should be strengthened through strategic planning based on best practices from international models and Chinese experience as well as compilation, analysis and dissemination of labour market information, including monitoring and evaluation of labour market programmes.*
- *The capacity of cooperation and coordination between the employment services and the network of other public and private service providers at central, regional and local level should be improved in order to enhance job placement and worker’s employability.*
- *The capacity of programme design and delivery should be enhanced through feedback between programme monitoring and evaluation and changes in programmes.*
- *Labour market policies should support economic measures stimulating business development and new job creation and be integrated in local development projects.*

3.5 Socially responsible enterprise restructuring

Developments

Chapter 2 described how after more than 20 years of growth and transformation China has become a major location for multinational enterprises and attracted large sums of foreign direct investment (FDI). Most of the classic characteristics of a planned economy have already been dismantled in recent years (e.g., fixed prices, procurement rules, or strict quantitative plans). Furthermore, the overall level of competition has increased significantly since the early 1990s, in particular in industries such as food, steel production, consumer electronics, textiles and garments. China now has a very diverse industrial structure, with SOEs, urban collectives, township and village enterprises (TVEs), foreign-invested companies, individual and private firms co-existing.

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.⁷² 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. However, careful handling of the reconfiguration and restructuring process is required. The Chinese government has already made major efforts to prepare the industrial sector for the WTO accession, which is why the OECD clearly underlines that "the potential ability of China's industry to absorb the shocks should not be underestimated".⁷³ Still, the protection of automobiles, electronics, petrochemicals, and textiles and clothing will, in theory, have to be decreased substantially. 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

⁷² OECD (2002)

⁷³ Ibid.

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. In an international survey conducted by the IMD Lausanne in 2001 with 49 countries participating, China ranked 40th on business efficiency, and 39th on infrastructure.⁷⁴ An additional problem in China has been the over-development of sectors that were dependant on capital instead of labour, even though labour-intensive industries are one of the country's international comparative advantages. Furthermore, constructing large "national champions" is still the favoured industrial policy of the state, even though most jobs are created in SMEs. While world leadership in certain industries clearly has a positive impact on employment levels, the chances that lie in SMEs with regard to employment creation should not be forgotten. Some industries, such as food, textiles, clothing, and electronics, have already seen an increase of private companies. But in 1997 the turnover of the top five Chinese SOE groups was still 35 times greater than of the five largest private enterprises.⁷⁵

Fragmentation of markets was pointed out by the OECD. "Thousands of undersized producers, manufacturing the same products, are spread all over the country".⁷⁶ Accordingly, China still has 2,426 companies in its automotive industry, with 115 of them producing cars. However, the top 15 firms account for almost 90 per cent of the industry output. In other words, 87 per cent of all competitors manufacture only little more than 10 per cent of all products.⁷⁷ Very often, inefficient enterprises cannot leave the market due to political interests, as taxes are collected at provincial level. A duplicative economic structure is the outcome, again preventing resources from being used in the most productive location or industry. For example, China has some 8,000 cement companies, compared to 58 in Brazil and 106 in India.

⁷⁴ IMD Lausanne. In: OECD, 2002.

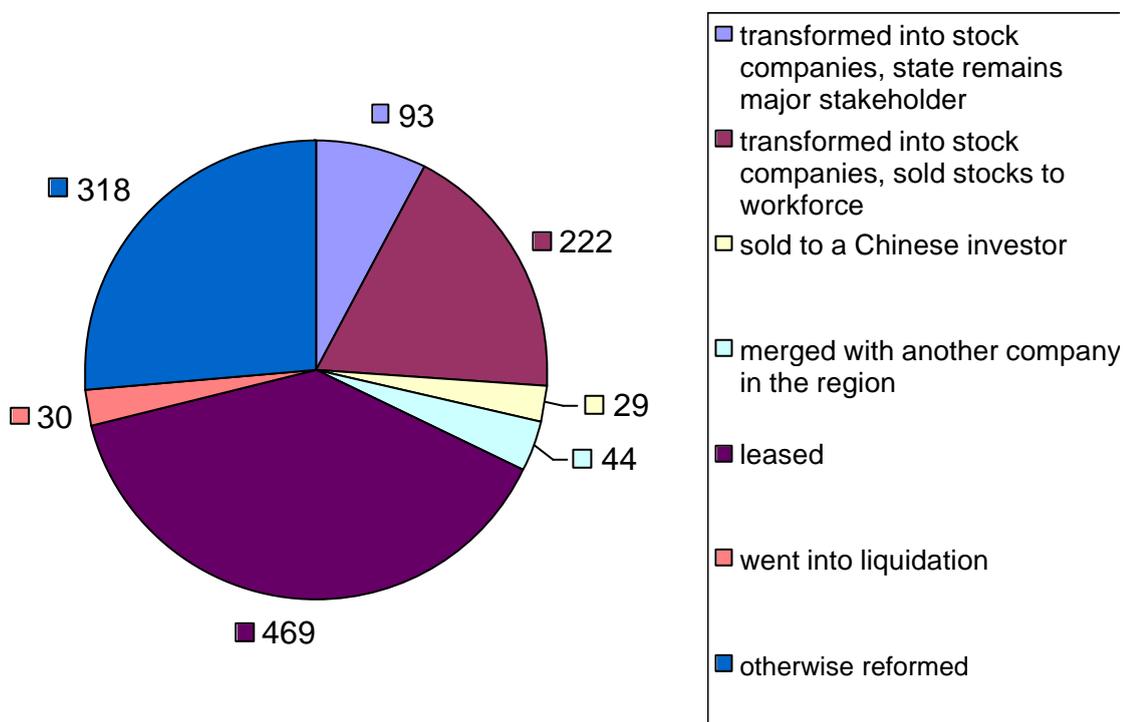
⁷⁵ OECD (2002).

⁷⁶ Ibid.

⁷⁷ Wang, *Policy reforms and foreign direct investment: The case of the Chinese automobile industry*, 2001, cited in: OECD (2002).

Another important constraint is poor infrastructure in some regions, making inter-province trade difficult. Inflows of FDI also differ dramatically among provinces (e.g. the Guangdong province alone received 25.7 per cent of all utilized FDI for China in 2001, and coastal provinces account for 88 per cent). Moreover, many provinces, particularly those in the hinterland, have not been integrated into the international division of labour. And in many, the state is still the most powerful economic actor. But efforts to create more viable entities and to diversify ownership have shown first successes, even though these efforts are in an early stage. Companies that have been acquired or partially bought by foreign or domestic investors have shown the most effective outcomes. Success factors are a more dynamic management, a known brand name, access to new domestic or even international markets, and favourable bank lending policies. Interestingly, those companies that have sold shares to their workforce display rather negative results. Mergers and acquisitions as one way of economic reconfiguration activities have as well clearly gained importance. In 2000, 177 deals worth US\$ 41.7 billion were concluded compared to 145 worth US\$ 10 billion in 1999.

Restructuring of SMEs has as well been forcefully put forward – with mixed results. Often, for example in TVEs, local authorities have maintained control through state asset management companies. Other deals have actually taken place within the state-controlled sector, without any private participation. The following diagram shows an example from Guangxi province of how 1205 state-controlled SMEs (about 15 per cent of all SMEs in Guangxi) have been transformed.⁷⁸

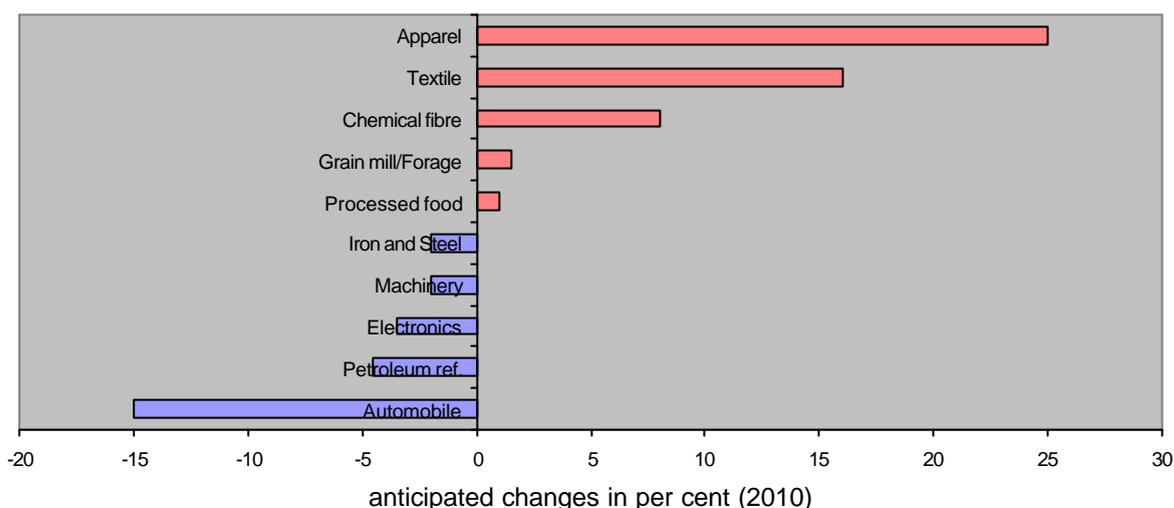


One lesson learned can already be drawn from the first phase of state withdrawal. In China, this alone has not proven sufficient to ensure business success. External control

⁷⁸ OECD (2002)

mechanisms (in particular in case of internationalization) and the establishment of a viable social security system are crucial milestones. Two additional factors have so far been decisive in the evolution of restructuring in China. Companies that are operating close to final consumers have faced pressure and have therefore already experienced a process of concentration. Other industries have successfully concentrated geographically, making it easier to cooperate with each other, and to be administrated by the authorities.

Possible effects on employment in selected industries in 2010 due to China's WTO accession, compared to a no-entry scenario, differ substantially as depicted by the following diagram:⁷⁹



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 favourable 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.

The degree of management autonomy in Chinese companies is important, as it indicates the level of freedom that Chinese managers have when it comes to employment decisions. In general, this autonomy now varies significantly among different areas of managerial decision-

⁷⁹ F. Zhai and S. Li, *The implications of accession to WTO on China's economy*. Paper presented at the Third Annual Conference on Global Economic Analysis, Melbourne, Australia, June 27-30, 2000. <http://www.monash.edu.au/policy/conf/cnprog1.htm>

making, but those related to human resources still show much room for improvement, as Table 3.2 shows:⁸⁰

Table 3.5.1 Degree of management autonomy in China (selected areas)

	Per cent of enterprises declaring complete autonomy of decision-making in the listed area
Right to decide on organizational structure	78
Right to hire workers	58
Right to manage personnel	55

It is also vital to pay careful attention to challenges deriving from the privatization and de-officialization of *cooperatives* in rural areas, especially rural marketing and supply, manufacturing, construction, and banking. The People’s Republic of China counts 29,135 agricultural supply and marketing cooperatives with 180 million households as members, but there is presently no cooperative law in China. The primary societies, organized in over 2,000 local, provincial and national federations, employ 5.8 million people and reach an annual turnover of US\$150 billion. These cooperatives are involved in a wide range of trading, manufacturing and service activities in both rural and urban areas and both the agricultural and non-agricultural sectors. Cooperatives at all levels could best be described as holdings that own and manage a variety of enterprises. The federations at national and provincial levels have recently been “separated” from the state and thus gained autonomy from their parent ministry (trade and industry). At country and primary levels, however, there is still a mixture of state and cooperative interests in the ownership and management of cooperatives and their enterprises. The economic situation of many cooperatives is not sound and they also need substantial restructuring. All the necessary changes would be much smoother if a supply and marketing cooperatives act, which has already been drafted by the All China Federation of Supply and Marketing Cooperatives (ACFSMC) with inputs from the ILO, were adopted. This law would be the precursor of a general cooperative law that would cover all cooperative sectors in China.

The key question

How to facilitate sound enterprise restructuring and productivity upgrading in a smooth and socially acceptable way?

Policy response

In light of the challenges outlined above, recommendations to lower the pressure on China’s economy and to limit the negative effects on national employment target the creation of a favourable business climate. In order to absorb those who have been affected by structural adjustments and shifts, employment strategies should therefore facilitate the creation of viable

⁸⁰ World Bank (1996).

business entities to allow economies of scale, based on a reduction of regional protectionism, using mergers and acquisitions and foreign capital should be facilitated. Creating “national champions” should not go at the expense of strengthening successful SMEs. Success is even more probable if the general restructuring strategy also leads to increased R&D and innovation in all enterprises, irrespective of size.⁸¹ Similarly, improving corporate governance and increasing the level of management know-how, particularly in SMEs, would certainly have a positive impact, as well as streamlining the responsibilities between central, provincial, and local state authorities. The Chinese authorities should also try to facilitate the inflow of workers into labour-intensive industries now. Later on, these industries might very well lose their comparative advantage to other (less developed) countries.

A tripartite approach to restructuring is very important. Social dialogue, reflected in collective bargaining process and labour-management consultations, offers an effective and socially responsible way of restructuring. The existence of a genuine partnership ensures that prior consultation with representatives of the workforce takes place, the precise extent and nature of that consultation depending upon the particularities of the partnership process. The survey data that exist in some European countries suggest that enterprises adopting the partnership approach are also reaping economic benefits in the form of higher productivity. Moreover, International Labour Standards on restructuring should be taken into account, as they can prevent useful guidance at both the strategic and operational level (see box 3.4.1).

Box 3.5.1
International Labour Standards on restructuring

Attention should be given to existing International Labour Standards (ILS) concerning restructuring. As concerns lay-offs, the Termination of Employment Convention (No. 158) and Recommendation (No. 166) from 1982 should form the basis of the discussion on how to plan and manage restructuring in China. These put emphasis on early information, assistance, and fair treatment, specifically prohibiting dismissals on a discriminatory basis. Even though no specific guidelines when to dismiss are provided (which is seen purely as a business decision), long-term thinking and functional flexibility are promoted. Recommendations for both collective and individual dismissals are given. Additionally, ILS actively promote multi-skilling and flexible assignments. Severance benefits should be offered when possible, and former employees should be given priority in rehiring. Assistance in finding alternative employment should be offered, and fair treatment should be ensured.

Additional guidance on recycling workers to new employment is found in the Discrimination (Employment and Occupation) Convention, 1958 (No. 111), which prohibits discriminatory treatment both in access to employment and occupation, and in treatment at work. This Convention also prohibits discrimination and encourages equal treatment in vocational guidance and training.

At the enterprise level, enterprise should first of all try to avoid overstaffing to prevent the unexpected and painful displacement of workers. The key aspect is an anticipation of

⁸¹ While R&D expenditure as a share of GDP accounted for 0.69 per cent in China in 1998, in Japan it was 2.98 per cent, in South Korea 2.89 per cent (1997) and in the U.S. 2.74 per cent. Source: *Taiwan Statistical Data Book, 2001*.

imbalances between skill needs and resources as businesses grow and decline as well as the necessary retraining for employability. Adjustment strategies should concentrate on key enterprise challenges as *productivity* and *product quality improvement*. Enhanced productivity fosters competitiveness and improves financial results, which, in turn, increases demand for labour. At the same time, product quality improvement will further strengthen a company's market position due to higher customer satisfaction and increased sales, which again lays the foundation for expansion-related employment creation. The enterprise strategy should also facilitate new and appropriate wage determination and remuneration systems and introduce performance-based payment systems. All these measures at the enterprise level should be accompanied by a set of human resource management policies and practices, which should not discriminate against any group of workers, in particular women workers.

In the field of human resource management policies, the ILO is currently conducting a project aimed at the development of people-oriented human resource development policies in state-owned enterprises in Export Processing Zones, concentrating on how to attract and retain a high-quality workforce. Another current ILO activity is related to the promotion of *socially responsible enterprise restructuring* (see box 3.4.2). The ILO supports the efforts of enterprises to build the human and social capital essential for sustained productivity improvement through good workplace practices. Such practices are all based on the same principles that lead to decent work: involvement, participation and dialogue; labour-management partnership; respect and recognition; sharing the gains of productivity improvements; skills development and providing good working conditions.

Box 3.5.2

Socially responsible enterprise restructuring at ZEIM Group, Russian Federation

ZEIM Group is one of a few survivors of the Russian instrument-building industry. With the economic transformation and the break-up of the Soviet Union, together with the general economic slow-down in the region, the limited product specialization of the company at that time resulted in the loss of its traditional clients and markets. To survive, the company had to radically restructure, choosing to pursue two strategic objectives: diversification of the product lines and improvement of productivity. To this end, at the beginning of the '90s, the company was one of the first in Russia to start dismantling its old vertically integrated production structure. A distinctive feature of ZEIM restructuring was the fact that it was conducted in the socially responsible manner. Some of the guiding principles and features of the process were:

- minimization of negative impacts on the employees and their families;
- involvement and consultation of employees;
- sensitivity with regard to social services (e.g. health and medical care, education, housing, heating);
- gradual approach to restructuring;
- intensive training and re-skilling of managers and workers;
- together with the ILO, setting up a "Personnel Service" Centre to assist individuals or groups of displaced workers to find new employment or to start private businesses, making use of the facilities and credits provided by the mother company.

The main visible result was that the company had managed to avoid all together the major workers layoff. As a result, the total number of employees stood the same and lately started to grow. The company is now converted into a flexible semi- horizontal business system including 37 semi- and fully independent successful business units. The ZEIM experience of

socially responsible restructuring had become familiar to many enterprises on the territory of the Former Soviet Union and even outside of it due to the video film, benchmark packages, publications, seminars prepared and conducted by the company management with the ILO support.

When radical enterprise restructuring is unavoidable, responsible management usually takes several important steps. The first task is to perform a study of the enterprise environment, local and international competition, market, as well as enterprise strengths, weaknesses, opportunities and threats. The needs of all the stakeholders concerned, including employees whether being displaced or survivors, managers, community leaders, local businesses, politicians, media, and government agencies should be identified as well. Then, the enterprise long-term objectives have to be formalized, and the long-term strategy identified for their achievement. In the second step, the management should define human, financial and material means necessary to reach these objectives in the time allowed, by analyzing the overall enterprise's activity, particularly in dividing it into separate processes, and then to optimize each process from economic perspective. Consultations with workers' representatives at the very early stages of restructuring should help enterprises avoid any unfortunate surprises in the future. While optimization is done, it should be clear how many workers should be displaced from each process. Again, this decision has to be made jointly by management and workers' representatives. Then an enterprise should go through an action phase, which is the most difficult part, including the creation of tools to minimize social costs, holding interviews, following-up individual cases, and training the "survivors". In the event of major layoff and/or plant closings, enterprises together with worker representatives may create full-time bi-partite re-employment units that provide maximum support to each employee who will be directly affected. These units may also play a role in external job creation, provide support for SMEs development, and help workers to set up self-employment. At the end, enterprise management has to evaluate what has been done, the difficulties occurred, the problems appeared, and think of a future HR management system.

Every successful restructuring process starts with the commitment of those involved. But commitment alone will not produce the best possible results. Learning from international experience is paramount. In combination with open-mindedness and commitment, it triggers the so-called process of 'mind restructuring'. Successful mind restructuring can therefore be considered as a crucial precondition for successful transition.

The experience of West European countries shows that the success of the process of restructuring depends, to a large extent, on the enterprise's overall management philosophy. Enterprises that seek to meet the needs of all stakeholders on an ongoing basis usually apply this same philosophy to restructuring. For example, the extent to which human resources are recognized and managed as important assets or simply seen as costs, and the role and importance of the human resource function will also determine how the enterprise approaches the human dimension of restructuring. There is overwhelming evidence that the history of labour relations and community involvement affect how those constituents are created during restructuring.

Policy challenges

- *Create a business environment that enables the absorption of laid-off workers, and foster industry structures that allow economies of scale and are able to withstand heightening international competition;*
- *The transparency, accountability and efficiency of management should be priority objectives to corporate restructuring;*
- *Facilitate efficient decision-making at the enterprise level with regard to recruitment, restructuring, and displacement. Support innovation and productivity and quality improvement. Encourage enterprises to seek new markets, upgrade products and management know-how, and support necessary retraining.*
- *Coordinate and streamline the sharing of responsibilities between central, provincial, and local state authorities, and establish transparent rules applying nationally on the support which enterprises can expect to receive from the authorities, whatever sector they are active in;*
- *Use social dialogue in enterprise restructuring to ensure and maximize the interests of all stakeholders and minimize its social costs. Encourage trade unions to contribute to enterprise survival, and consider International Labour Standards as important sources of strategic guidance.*

3.6 Social security and employment promotion

Developments

People wish to secure a reasonable standard of social security and protection from decent work. In most countries, social security evolves over time to ensure income security and access to adequate health care in respect of the range of contingencies set out in the ILO's Social Security (Minimum Standards) Convention, 1952 (No. 102). Social security helps people adapt to both cyclical and structural change arising from social and economic development and, in this context, it is an indispensable part of government policy and an important tool to prevent and alleviate poverty.⁸²

China's social security system has been shaped both by its level of development and by the priority hitherto given to SOEs. It includes social insurance programmes covering old age, employment injury, maternity, ill health and unemployment all primarily for the urban working population, and a programme of cash assistance available to low-income households again mainly in urban areas. Social security schemes are much underdeveloped in the rural areas and are mainly restricted to pensions, health insurance and social assistance.

⁸² In general, ILO activities in social security are anchored in the Declaration of Philadelphia (1944), the Decent Work concept and relevant ILO social security standards. The international standards set out in the Conventions and Recommendations of the International Labour Conference provide an international legal framework for social security, whilst the Decent Work strategy proposes global and national policies to create decent employment for all and to ensure that regardless of circumstances all people have access to a decent level of social security.

Over recent decades, each of these programmes has experienced significant changes in structure, financing, coverage and administration. These changes were initially triggered by the general economic restructuring. However, the impact of demographic and employment changes and the process of globalisation have exerted more pressure on the development of social security.

In the context of employment promotion and development, the major challenges currently facing China's social security system are:

- ***Efficiently and effectively protecting the whole population against socio-economic insecurity***

Under current regulations, the five statutory social insurance programmes being implemented in the country (old-age pension, health care, unemployment, employment injury and maternity) cover all public and private enterprises in urban areas and their workers. In addition, civil servants and public workers are insured under the same schemes as employees of enterprises in the case of health care, but are covered separately in the case of old-age pension and maternity. Provincial governments may, at their option, extend coverage of unemployment insurance to social organisations and private non-enterprise units as well as extend coverage in respect of pensions, unemployment and health care to the self-employed and employees in small units. In addition, provincial governments may also include workers of township and village enterprises in their health insurance systems. In regard to social assistance, the minimum living standard programme targets all urban people whose income has fallen under the local minimum line.

Thus, not only are there significant differences in the scope of social insurance coverage in different parts of the country and between different sectors of the labour force, there are major gaps in that coverage. The majority of the population, in particular the urban self-employed and employees of small enterprises, family dependants of the insured persons, employees of township and village enterprises and the rest of the vast rural population, are excluded from one, several or all statutory social security schemes under current legislation.

In addition, there are many persons who are insurable but who are, in practice, excluded. Gaps in compliance arise, particularly in the private sector, because employers perhaps with the collusion of their workers avoid their registering under the scheme and do not pay contributions. SOEs rarely do pay contributions for rural contract labour. This has major implications both for contribution income and benefit entitlement. For example, it is estimated that only 43 million workers were participating in the pooled employment injury insurance schemes at the end of 2001. This implies that the majority of the insurable workforce was either still insured under the old, and unreliable, employer-liability programme or was totally unprotected against the adverse consequences of any work-related accident or disease. Difficulties in enforcing compliance is with those SOEs, which lack financing capacity for paying due contributions for their workers.

The preservation of benefit rights is another significant problem. It arises on change of employment where, for example, a SOE worker is laid off and later starts work in the private or informal sector or where a worker moves to another part of the country in search of employment. In practice, coverage in the national system is fragmented and it is difficult to ensure that periods of insurable employment are linked and that benefit rights are maintained.

The problem is of particular significance for SOE workers and migrants. It is estimated that between 1998 and 2001, the overall number of employees of SOEs decreased from around 75 million to around 50 million.⁸³ The majority of these laid-off workers found work in the private or informal sector and some of them have been unable to secure, entirely or partially, their accumulated entitlement to social insurance benefits due to either the absence of efficient and effective arrangements to ensure preservation and continuity in the case of the private sector or the unavailability of social security schemes in the case of those who have found work in the uncovered informal sector.

- ***The need to strengthen the functioning of the unemployment protection system and its role in employment promotion.***

In China, the unemployment protection system now consists of two subsystems: unemployment insurance and re-employment centres. However, the second component focusing on laid-off workers from SOEs is to be phased out in line with the Government plan. The unemployment insurance system was established in 1986 with the aim to support the SOE reform. In 1999, the State Council issued the Regulation on Unemployment Insurance – the first contingency-specific regulation on social security. The Regulation has reinforced and improved the unemployment insurance system in five aspects: (i) the legal coverage has been extended to other groups of workers besides those laid off from SOEs; (ii) related costs are jointly born by employers, workers and the State; (iii) part of unemployment insurance funds can be allocated to vocational training and re-employment promotion activities; (iv) criteria for qualifying conditions and claiming procedures have been standardized; and (v) mechanisms for administration and supervision of funds have been strengthened. At the end of July 2002, more than 100 million persons were covered by the unemployment insurance schemes with 3.69 million beneficiaries.

For persons of working age, the best way to provide a secure income is through decent work. The provision of cash benefits to the unemployed should be designed so that they can, on the one hand, protect the unemployed and their families from poverty and do not, on the other hand, create dependency or barriers to employment. In addition, employment-oriented provisions such as training, retraining, re-employment services and other assistance, which aim at improving the employability of the unemployed and finding them jobs, need to be increasingly integrated and strengthened. Needless to say that employment and re-employment are the utmost important security for families, society as well as the social security system, because most social insurance schemes are financed out of labour incomes and protect against risks related to employment capacity, such as unemployment, sickness, disability and old age.

At the National Re-employment Conference, the Government recognized not only the extreme importance of employment and the balance between employment and economic development but also the likely persistence of the excess of labour supply over labour demand in the market. The demand for developing a comprehensive and integrated unemployment protection system combined with active labour market policies, providing unemployment benefits, training and retraining, various job generation programmes, job mediation and other employment services to the jobseekers will be increasing.

⁸³ “People’s Daily, 10 September 2002.

The key question

Within the limited financial capacity, how can social security better address these issues related to coverage and employment promotion in the changing environment?

Policy response

Box 3.6.1

ILO assistance to improve the China social security system

The Government of China is committed to improving the social security system with wider personal and contingency coverage and better governance. This is entirely consistent with ILO's strategy. The ILO has expressed its willingness to assist the Government to achieve its goals. From the mid-1980s, the ILO has been closely involved in the restructuring and development of social security in China. Subsequently, projects have been implemented mainly towards capacity building in the early 1990s and on social security legislation and policies in the mid-1990s. Recently, short-term projects have been implemented, notably to carry out surveys related to unemployment in three provinces, to undertake studies on the new roles of communities in social security, and to conduct an in-depth study on the feasibility of introducing social budgeting into Guangdong province.

The ILO undertook a comprehensive review of the social security reforms in early 2002. This review concluded that there was a need for a significant restructuring and strengthening of the social security system in China. This should relate not only to policy issues and legislation but also to financial and administrative governance and to capacity building at both the provincial and national level. It was recommended that technical cooperation should be provided to support reforms and capacity building and that the objectives should be to:

- Extend personal coverage under each social insurance programme throughout the country;
- Improve the level of benefits through reforms relating to qualifying conditions and the benefit formulae;
- Improve the financing of benefits and the overall long-term viability of the system;
- Strengthen and increase the uniformity of administrative procedures and rules relating to registration, the determination of benefit entitlement, the collection and recording of contributions and ensuring compliance;
- Reinforce national capacity in achieving uniformity in the design and implementation of social security programmes;
- Improve institutional arrangements for the administration and management of social insurance programmes at all levels of government;
- Improve decentralised training capacities and establish facilities where they do not already exist;
- Conduct pilot experiments to test the applicability of policies formulated.

Within the framework of basic social security principles, the Government of China should

determine national strategies for extending social security coverage to all by contingency or by group of people. In addition, there is likely to be scope for decentralised schemes at the community level to address unmet social protection needs and research and innovative pilot schemes should be encouraged. Where possible, government support might cover initial start-up costs, in-kind support in the form of facilities and equipment, or support for low-income groups.

Policy challenges

- *As regards the challenge of extending social security, there is a need for a different approach depending on whether or not those excluded are currently insurable. Both from a practical and an equitable viewpoint, it would be preferable to focus initially on those who are insurable but de facto excluded. This could be addressed by a combination of reviewing the current legislative framework; strengthening the administration; and securing improved compliance and inspection. To achieve this, the capacity of social insurance management should be strengthened by systematic in-house and occupational training for the staff, and social dialogue and tripartite mechanisms should be established or improved to promote awareness among employers and workers of the scheme and its objectives and obligations. Consideration should be given to establishing a special social security inspection service which focuses on social security compliance and which operates separately from labour inspection. Special attention may need to be given to ensuring compliance in the field of employment injury and maternity insurance programmes where the coverage rates are much lower. As to non-compliance due to financing incapacity of some SOEs, pragmatic approaches and measures need to be developed by the central and local governments in consultation with the social partners. As one of the direct impacts of the sinking of SOEs and the restructuring of the labour market, labour mobility between sectors, industries and regions is becoming necessary and increasing. Given that, the National Re-employment Conference calls for creating and developing concrete methods and procedures for preserving and maintaining all accumulated rights and entitlements to social security benefits for all insured workers who have changed employment.*
- *There is also a clear need to strengthen the national social security information system so that registration records of employers and employees can be linked electronically both for the purpose of ensuring compliance and to facilitate the integration of periods of insurable employment with different employers. The establishment of national records which link periods of insurable employment under a unique registration number needs to be supported by accounting arrangements which reflect financial responsibility among the schemes with which the insured person was registered. The scale and importance of these tasks illustrate the need for a major capacity building programme.*
- *With regard to the extension of coverage to those groups who are currently uninsured and excluded from the social security system, there is a need for the formulation of national and regional strategies, which identify the different categories, their priority needs and the process by which coverage can be gradually provided. Those with a regular source of income such as the self-employed and workers in townships and village enterprises should be potentially within the scope of a social insurance scheme.*

Others and in particular those working in agriculture may best be covered through the extension or modification of existing public schemes or through the development of other appropriate mechanisms, compulsory or voluntary, basic or supplementary, self-financing or subsidised, occupation or community-based. Extension in terms of contingency coverage, in particular in terms of health insurance, employment injury insurance and maternity insurance, must also be addressed. One priority group for the extension set up by the National Re-employment Conference are those working in the urban informal sector. The Government is committed to create appropriate ways for extending effectively the coverage to these people. Another priority group on the Government's agenda for the extension of coverage is the vast rural population. The 16th Congress of the Communist Party of China, held in November 2002, determined for the first time since the reform of the social security system that a social security system for the rural population should be established and developed. Within the framework of the social security system, three contingencies, namely old-age insurance, health insurance and minimum living standard programme, have been identified as the priority areas for the development of social security in the rural China. This is an essential move towards the universal coverage although this is inevitably a long-term goal.

- *The unemployment protection mechanism should be designed and adjusted so that it both protects the unemployed (and underemployed) against poverty and also encourages them to return to employment as soon as possible. In line with this criterion, the level of UI benefits may need to be raised to secure a reasonable standard of living without reliance on the minimum living standard programme. On the other hand, consideration could be given to reducing the duration of benefit entitlement to encourage job seeking. Since training programmes are critical to promoting employability, training and unemployment insurance could be more closely integrated within an unemployment protection strategy. The action plan for unemployment protection and employment promotion set out by the Government for 2003 has, among others, two operational objectives: one is to continually secure the delivery of unemployment cash benefit to the unemployed in full and in time, another is to reinforce the role of the UI system in employment promotion through the mobilization of more funds for activities such as training, retraining, job mediation, job creation and other employment services available to the jobseekers. Consideration should also be given to removing responsibility for financing unemployment insurance from its current lower administrative level to a higher or broader level.*

3.7 Safety at work, safe environment and employment

Developments

With the rapid expansion of industrial activities in China, the number of workers employed in industry has been increasing, particularly in construction, which is one of the most hazardous industries. Other dangerous occupations include those in mining and manufacturing processes, in particular in small enterprises and TVEs, using hazardous chemicals or dangerous machines without sufficient protective measures.

According to an official statistics, in 2001 there were 11,402 fatal accidents and 12,554 workers' deaths in the industrial and mining enterprises, including 4,395 fatal accidents and 7,602 miners died in the mining enterprises. There were also 215,863 fire accidents and 2,314 deaths; 760,327 road traffic accidents and 106,367 deaths; 664 water traffic accidents and 490 deaths or persons lost; 12,335 railway fatal accidents and 8,409 deaths.⁸⁴ Many of the victims of latter mentioned fire and traffic accidents are also workers on duty. In 2001, 13,218 cases of occupational diseases were reported to the Ministry of Health, a rise by 13 per cent over the figure in 2000.⁸⁵ A large number of occupational accidents and diseases still remain unreported, and the magnitude of the problem is much bigger.

In addition to daily accidents and diseases occurring at work, major accidents have been often occurring killing more workers, sometimes over 100 workers, at once. Such accidents are occurring in coalmines and activities involving hazardous chemicals. Major accidents involving chemicals often have serious damages to the environment.

The national system for the protection of workers and environment requires reform from the one established for the planned economy to the one accommodating the measures for a market economy in order to provide sufficient protective measures.

The Chinese government has been promoting safety and health through the slogan "Safety first, prevention priority", which is well-known in the country. It has taken a number of major actions to strengthen the leadership of work safety. China's commitment to adjust the system in order to cope with the changing employment environment has been shown by the ratification of the ILO Chemicals Convention (No.170) in 1995 and the Safety and Health in Construction Convention (No.167) in 2002. Further, the ratification of Occupational Safety and Health Convention (No.155) and Occupational Health Services Convention (No.161) has been seriously examined by tripartite partners. The Law on Prevention and Control of Occupational Diseases came into force in May 2002 and the Law on Work Safety came into force in November 2002.

Stricter control of small coalmines has been introduced in recent years and a number of dangerous small coalmines have been closed, including the closure of 58,000 illegal mines in 1998 and closure of 775 small coalmines run by state-owned coalmines. Several new regulations on coalmine safety have been issued, such as the Regulation on Coalmine Safety Inspection and the Regulation on Tracing Administrative Responsibility for Major Accidents. However, major mining accidents continue to occur. In June 2002 alone, there were a coalmine accident in Ji Xi City of Heilongjiang Province, which killed 115 workers and a gold mine accident in Fan Shi County of Shan Xi Province, which killed at least 37 people. It has been questioned by media if the safety policy is strong enough and properly implemented at all levels of government administration and is ensuring that safety is not compromised in relation to energy, economic and employment policies.

The State Administration of Work Safety (SAWS) and the State Administration of Coalmine Safety were created formally in 2001, under the leadership of the State Economic and Trade Commission. The SAWS serves as the secretariat of the Work Safety Committee of the State Council, which was established in March 2001 in order to coordinate the work of

⁸⁴ Information received from the State Administration of Work Safety of the People's Republic of China.

⁸⁵ Information received from the Ministry of Health of the People's Republic of China.

different authorities and to consolidate national policy on safety and health. In 2001 the SAWS issued National Guidelines on Occupational Safety and Health Management Systems based on the ILO Guidelines (ILO-OSH 2001) and a mechanism for auditing and certification has been established. The Regulation on Safety Management of Hazardous Chemical Substances was revised in 2002.

A National Safety Week campaign has been organized annually over the decade. This has recently been reorganized into a National Safety Month with more extensive programmes focusing on education and publicity on work safety. The employers' and workers' organizations have been collaborating actively on mobilizing their network throughout the country.

The key question

How to strengthen the national policy, institutional framework and programmes to ensure the protection of all workers' health and safety and the environment, responding to the rapid changes to a market economy and as an integral part of national policy for economic development and employment creation.

Policy response

During last decade, the ILO has been closely collaborating with China in the field of occupational safety and health and environment.

Box 3.7.1

ILO technical cooperation in occupational safety and health

A number of technical cooperation projects have been implemented with various authorities covering the subject areas of mining safety, chemical safety, construction safety, OSH training and information. Extensive activities have been carried out in support of full implementation of the Chemicals Convention after its ratification by China in 1995. These included the development of new legislation, training programmes and promotional campaigns. The ILO has carried out two comprehensive reviews in close collaboration with the national authorities and the social partners. These reviews were summarized in advisory reports titled "China in transition: Towards a better workplace and environment" (1995) and "China: Promoting safety and health in township and village enterprises" (1998) and have been serving as policy guidance.

ILO support has been covering a wide range of industries and technical areas including mining, construction, chemicals, OSH management systems, elimination of silicosis, practical OSH training and OSH information networking. A series of national tripartite workshops has been organized facilitating high-level dialogue among different authorities and employers' and workers' organizations.

The process of developing a National SafeWork Programme has recently started as a joint effort by the ILO, the State Administration of Work Safety, and the Ministry of Health.

The National Programme will be developed based on the review of the current framework and programmes on occupational safety and health and changing needs of workplaces, and in consultation with other relevant authorities and the social partners. Active participation of all stakeholders is crucial for a sound and practical programme. The information being collected for the review will be summarized as a National Profile on Occupational Safety and Health and will serve as a reference for future progress.

The review and the National Programme will address key area of concern including legal framework, enforcement, training, information, hazardous occupations such as mining and construction, chemical safety, small enterprises, OSH management systems, and inter-ministerial collaboration.

The preparatory process for the National SafeWork Programme will facilitate collaboration among key authorities and institutions, including government authorities and employers' and workers' organizations. Further the launching of the Programme would ensure the visibility of the commitment and programmes nationally and internationally. The Programme would provide the basis and framework for international support for the promotion of OSH in China. High-level government support such as that of the State Council is essential to have real impacts envisaged by the Programme. The ILO will provide technical support throughout the process and develop technical cooperation project proposals as well.

The ILO will facilitate the exchange of experience with other countries, which have carried out reforms or developed comprehensive strategic programmes.

Policy challenges

- *Development of a clear national policy that jobs created should be safe and healthy and have a due regard to the environment. This should be supported by a high level national commitment based on the tripartite consensus of government and employers and workers.*
- *Developing comprehensive OSH laws and regulations based on the relevant international labour standards, particularly the Occupational Safety and Health Convention, 1981 (No.155) and the Occupational Health Services Convention, 1985 (No.161).*
- *Strengthening mechanisms for the implementation of legal requirements throughout the country, including inspection systems, OSH training, technical advisory and support services, information exchange and awareness campaign.*
- *Establishing the National SafeWork Programme with high-level government support and mechanisms for implementation under full collaboration of authorities and social partners at the national, provincial and local levels.*
- *Creating a common understanding among leaders of the government, business and trade unions that occupational safety and health and environmental protection should be a priority in business operation.*

- *Establishing an OSH management system at the enterprise level as an integral part of business management.*
- *Developing special programmes to address hazardous industries such as mining and construction, and small enterprises with due attention to vulnerable groups such as migrant workers and women workers (reproductive health).*
- *Accelerating full implementation of the Chemicals Convention, 1990 (No.170), which China has ratified, reflecting the internationally agreed Globally Harmonized System for Hazard Communication with a view to improving protection of workers and the environment.*
- *Expanding the coverage by the worker injury insurance system and improving its linkage for prevention.*