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**Wirtschaftswissenschaftliche Fakultät
der Eberhard-Karls-Universität Tübingen**

**Active Labour Market Policy in China since 1978:
A Preliminary Assessment**

Sonja Opper



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**Active Labour Market Policy in China since 1978:
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1 Introduction

The transition of formerly centrally planned market economies into market economies is generally accompanied by major structural adjustments. It is well known that relative prices, production techniques and the planned allocation of resources of the former centrally planned economies depart from the patterns observed in western industrialized countries. Therefore the transition from a planned to a market economy calls for far-reaching adjustments of the production and employment structures. Consequently, a central task during transition processes - especially with regard to future growth expectations - is to transfer labour from inefficient to efficient uses, i. e. from shrinking to expanding branches. In this context, the creation of a well-functioning labour market is an indispensable prerequisite for the efficient allocation of resources.

Faced with the problem of rapidly increasing unemployment, nearly all transition countries implemented active labour market policies (ALMPs) in order to alleviate the situation. The aim of ALMPs is to increase aggregate employment and reduce the national rate of unemployment. In theory, ALMPs reduce equilibrium unemployment because on the one hand they enhance job creation and on the other hand support information exchange and retraining programmes in eliminating regional and structural mismatches between vacancies and unemployment.

Recent experience in Central and Eastern Europe (CEE) makes it clear that the performance of labour markets is crucial for the success of the transition. Therefore ALMPs should by no means distort the functioning of the labour market. In this light, it must be guaranteed that every single instrument of ALMP is compatible with the creation of a functioning labour market. Interventions which affect factor price relations must be avoided because they distort market employment structure and may eventually threaten the success of the economic reform programme. In this

context, not only programme structure but also *client targeting* is relevant for the efficiency of ALMPs. The whole concept must be adjusted to the qualitative and quantitative characteristics of labour market development and programmes have to be suited to the requirements of the target group.

The Chinese Ministry of Labour (MoL) used ALMPs from the very start of reforms, but there does not seem to be a well formulated philosophy when it comes to the goals and the implementation of ALMPs. As the government has not even set up a monitoring and evaluation system to assess ALMPs, a consistent picture of the concept and effects of ALMPs in the Chinese labour market is still non-existent. Western studies on Chinese labour market developments have also neglected the field of ALMPs. Therefore the following study focuses on a preliminary analysis of the subject and seeks to give some idea of the concept and possible efficiency of ALMP in the People's Republic of China (PRC).

The central question will be, whether ALMPs are actually in line with the transition aim of structural adjustment. Due to a lack of consistent micro-level data, theoretical considerations will be an important supplement for evaluating the Chinese concept. In order to illuminate the quantitative and qualitative requirements of efficient ALMPs, the following section will first describe the development of the employment situation in China since 1978. The third section provides an overview of the most important elements of current active employment policy in China. Special focus will be put on technical aspects, target groups and the coverage of the different instruments launched by the MoL. On the basis of these findings some tentative conclusions concerning the characteristics of Chinese employment policy and its possible contribution to structural change will be drawn.

The following observations are almost exclusively based on Chinese primary sources. In order to minimize the danger of one-sided, politically slanted conclusions, in addition to relevant official laws, regulations, circulars and statistical yearbooks, both results of regional and local sample surveys of various representatives and non-official investigation reports have been used.

2 Unemployment since 1978

Due to social considerations and fear of political instability, the CCP refuses to undertake any sudden reduction of overstaffing. Accordingly, managers of state owned enterprises (SOEs) are still unable to independently dismiss surplus personnel. Dismissals due to economic reasons are only legal within the consolidation period in case of bankruptcy. However, even bankruptcy proceedings are not an automatic mechanism for market exit, but rather depend on the case by case approval of the filing for bankruptcy by the relevant administration (ZRGGG, 20.12.1986; 980).¹ Furthermore, open unemployment is still regarded as a planned variable and has been held under 3% up to now; the next planning period foresees a slight increase to 4%. Consequently, in order to gain insight into the actual employment situation in China, different forms of hidden unemployment must be taken into consideration.

2.1 Open unemployment

According to official data, the unemployment rate rose to more than 5% at the beginning of the economic reforms in the late seventies but could be stabilized at a level under 3% after 1983 (see table 1).

Table 1: Open unemployment, 1978-95

year	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95
u	5,3	5,7	5,4	4,4	3,8	2,7	2,4	2,4	2,6	2,8	3,0	3,8	3,8	3,5	3,6	4,2	4,8	5,2
u (%)	5,3	5,4	4,9	3,8	3,2	2,3	1,9	1,8	2,0	2,0	2,0	2,6	2,5	2,3	2,3	2,6	2,8	2,9

u = unemployed

Sources: See ZTN 1996, S. 114, ZTZ 1995, S. 21; ZTN 1995, S. 106 und ZLTN (1949-86), S. 109.

One should bear in mind however, that these figures are misleading because of the specific method of unemployment registration. Unemployment registration is adapted to the Chinese household registration system which was implemented in 1958 and subdivides the whole popula-

¹ „Zhonghua renmin gongheguo qiye pochanfa“, 02.12.1986, §8.

tion into rural and urban households. Persons can only be registered as „unemployed“, if they belong to the urban segment of the population. Rural household members have - regardless of their current residence - no access to official unemployment registration. But the urban working population only represents a mere 27% of the total population (ZTZ, 1995, 18). Apart from this, only unemployed persons between the age of 16 and 50 (women: 16-45) years old are recorded. Consequently, the unemployment rate depends both on the household registration system (h) and on the age (a) of unemployed persons. The resulting formula is:

$$u(\%) = \frac{u(h, a)}{\text{urban working population}}$$

As numerator and denominator are under- and overrated respectively, the unemployment rate will consequently be systematically underestimated.

Apart from these systematic deficiencies, many regional registration offices developed bureaucratic strategies in order to comply with the targeted open unemployment rate. Song Zhangqing, employee of the State Statistical Bureau, stressed in an internal report that many labour offices arbitrarily vary the criteria for unemployment registration by changing the age limit or simply reducing registration work. Song points out that several labour bureaus only register unemployed persons up to 35 years of age or simply stop registration work once a certain limit is reached (Song, 1995, 22). On the basis of these observations, it is clear that fundamental reforms of the unemployment registration system are indispensable in order for it to produce reliable information on labour market development.

2.2 Hidden unemployment

As the CCP perceived the growth of unemployment as a threat to social stability and possibly to its own political survival, labour hoarding in the heavily subsidised SOEs has still not been significantly reduced. There is also a serious agricultural labour surplus in the countryside which is not recorded in official employment statistics. Consequently official employment data do not tell the whole story. ALMPs must therefore take into account both open and hidden forms of unemployment, in order to meet the qualitative and quantitative requirements of the current labour market situation. Quantifying the extent of hidden unemployment is quite complicated because "it

is not easy to give a clear-cut definition of underemployment, and it is even more difficult to measure it“ (Lin et al., 1996, 28). Underemployed employees cannot be personally identified, rather unemployment is observable as involuntary breaks from work (reduction of real working hours) or as low individual labour productivity per man-hour worked. Consequently underemployment may be defined as the difference between actual and desired levels of employment with productivity maximization at current levels of output.

Even modest official estimations state that at least 20 to 30 million employees (18-26%) in SOEs must be regarded as "in-job" surplus personnel (Zhang, 1996, 67). Some economists claim that underemployment is considerably higher. Economic reform czar Zhu Rongji, for example, quoted an underemployment rate of about 50%, other economists estimate that underemployment in the SOEs is even as high as 70% (JPRS, 18.11.1992, 31). A special group of underemployed personnel are those employees who are on long-term leave (*xiagang renyuan*). This form of underemployment has recently gained much significance as a result of hardening budget constraints and reduced corporate subsidies for SOEs. The so-called *xiagang renyuan* or „on-leave“ surplus workers still formally belong to their former enterprises but are on long-term leave because of reduced shiftwork or shutdowns in production. They do not receive a salary anymore and are only entitled to a small monthly subsidy to their costs of living. According to an internal investigation report of the ACFTU (All China Federation of Trade Unions) there were at least 12 million persons or 12% of the workforce in the state sector on such long-term leaves in 1994. The majority of "on-leave" surplus workers belongs to textile industry, coal and metal mining and processing, petroleum industry and armaments industry (Quan guo zonggonghui baoxian gongzuobu, 1996, 7). Including those *de facto* unemployed people, open urban unemployment would actually be about 10%.

The majority of comparable investigations concerning the employment situation in rural China come to the conclusion that approximately 150 to 200 million rural workers are underemployed (Zhang, 1996, 68; Cheng, 1995, 51). Most reports employ man-land ratios as a basic criterion. However, since the results of this method differ with changes in technical progress and the grade of mechanization, it is likely that the given results may even be underestimated because of time-lags.

All together, the different forms of underemployment in the primary and secondary sector amount to a total of 175 to 250 million persons, which means 28 to 40% of the workforce are structurally underemployed and need to be reemployed.

3 Active labour market policy

In China, the MoL and labour offices of different administrative districts are responsible for conceptualizing and implementing labour market policy. The major functions of the so-called labour service companies (*laodong fuwu gongsi*), LSCs, are registration and payment of unemployment benefits, placement and information services for job-seekers, training and retraining services and monitoring of the implementation of employment regulations (ZRGGG, 12.07.1986, 749).² In the following section the most important instruments of Chinese employment policy will be analyzed. Not all instruments can be discussed, therefore the focus is on those instruments, which are most common in China at present.

3.1 Placement and information services

Placement and information services are provided by employment agencies (*laodong jieshao jigou*) managed by local LSCs. In contrast to international practice, employment services are not available to all job-seekers, but are linked to the above mentioned household registration system. According to current regulations, only the following target groups can take advantage of placement and information services:

- (1) job-seekers, who hold an urban household registration and are registered as „unemployed“,
- (2) urban residents, who are still employed, but wish to find alternative employment,
- (3) rural migrants, who hold a valid urban residence permit (LZfZ, 1996 / No.1, 6).³

Rural migrants without valid residence permits have no access to any official employment services and have hence no choice but to look for work on so-called „free markets“. In addition to these

² „Guoying qiye shixing laodong hetongzhi zanxing guiding“, 12.07.1986, section 4, §12.

³ „Zhiye jieshao guiding“, 09.11.1995, §14.

official employment agencies, private persons, social organisations and companies can also be authorised to operate a commercial employment agency. These commercial agencies typically specialize on certain target groups.

Local governments are responsible for setting up public labour offices in order to ensure an appropriate supply of services (ZRGGG, 02.081994, 679).⁴ Official employment agencies are largely financed by local tax authorities (LZFZ, 1996 /No. 1, 8).⁵ Consequently, there is a strong connection between the range and quality of services and the level of local economic development and prosperity. Therefore, backward regions additionally suffer from poor employment services. In contrast to international practice, employment services are not offered free of charge, but rather agencies are also partly financed by fees which have to be jointly paid by job-seekers and employers. Free services are only provided for long-term unemployed (LZFZ, 1996/ No. 1, S. 8).⁶

Table 2: Development of placement services (1985-95)

year	1985	1988	1993	1994	1995
employment agencies	10.604	11.800	18.000	24.560	29.900
persons registered (million)	1,24	1,75	8,0	13	12,6

Sources: 1985: Liu, 1988, pp. 80, 90-93, 124; 1988: Hu, 1988, p. 13; 1993: ZJN 1995, p. 388; 1994: ZLTN 1995, p. 112 / Zhang, 1996, p. 65; 1995: Laodongbu, 1996, p. 42 / ZTN 1996, p. 131.

Although labour offices and services have expanded quite rapidly (see table 2), labour services are still in short supply. According to labour ministry data, at the end of 1994 only 80% of communities, which are domestically exporting labour, and 50% of other communities had their own labour offices (LZFZ, 1994 / No. 9, 18).⁷ On average there was one employment agency for 25,000 job-seekers, but there are still considerable regional differences. For instance, in Shanghai one employment agency is responsible for approximately 140,000 job-seekers (ZLTN 1995, 12, 112). In addition, the technical equipment and staffing of employment agencies is often disastrous. Computerized offices are still an exception to the rule and the personnel's know-how and motiva-

⁴ „Zhonghua renmin gongheguo laodongfa“, 05.07.1994, §11.

⁵ „Zhiye jieshao guiding“, 09.11.1995, §29.

⁶ *ibid*, §§30, 31.

⁷ „Zujin laodongli shichang fazhan he wanshan jiuye fuwu tixi jianshe de shishi jihua: 1994.8-1996.8, 08.08.1994, item 5.

tion is quite poor. On top of that employment agencies are concentrated in urban regions, so that rural residents often simply have no access to any employment services.

3.2 Training and retraining services

Training and retraining services are of central importance, especially in transition countries „because workers in declining industries are losing not only their jobs, but very often their skills as well; without training or retraining many will remain unemployed while the growth of new industries could be hampered by skill shortages“ (Boeri/Sziraczki, 1993, 257). Training can help overcome these structural imbalances by adjusting the qualifications of labour supply to meet the new requirements of labour demand. But training and retraining are not in general suitable for forcing reintegration into the labour market. A central difficulty is estimating the future requirements of skills and implementing an appropriate training scheme. As long as a precise diagnosis cannot be made - and this is certainly to be expected - training in general qualifications and knowledge about modern production techniques is preferable (Standing / Fischer, 1993, 16).

In China, training and retraining is generally organized by LSCs. Initially only young unemployed, self-employed persons and underemployed workers of SOEs were entitled to participate in training and retraining programmes, so that exclusively persons with urban residency benefited from those services (ZJN 1986, X-91).⁸ Then the „rules for job-training“, which were enacted in January 1995, expanded the target group and legalized training and retraining for rural residents seeking employment in urban areas (LZFFZ, 1995 / No. 2, 19).⁹ Since then, Guangdong, Shanghai, Dalian and other immigration regions conceptualized training courses for migrant workers (FBIS, 22.11.1994, 41). In rural areas there is still no systematic training program. In general there are only classes for practising agricultural production techniques and writing and reading classes. Therefore underemployed farmers have hardly any chance to attend retraining classes in order to qualify for non-agricultural jobs.

⁸ „Guanyu jiuye xunlian ruogan wenti de zanxing banfa“, 14.09.1985, §2.

⁹ „Jiuye xunlian guiding“, 09.12.1994, §2.

Normally job-seekers can decide on their own which of the locally available training classes they would like to attend. Only long-term unemployed are encouraged to attend a class suggested by the local LSC LZFZ, 1995 / No. 2, 19).¹⁰ In general, training services should be well-suited to local labour demand. The training period lasts 6 months to 3 years depending on the degree of specialization. But according to official data, the majority of classes are only short-term measures. In 1994 about 70% of participants attended classes with a training period of less than 6 months (Laodongbu jiuyesi, 1996, 25 / ZLTN 1995, 108). Classes are basically financed by tuition fees, which have to be paid by the participants themselves (LZZ, 1991 / No.6, 9).¹¹ According to MoL information, in 1994 about 57% of funding originated from tuition fees (ZLTN 1995, 106), although some of the long-term unemployed who attend training classes may be exempted from fees. In this case, training centers receive subsidies from unemployment insurance funds (Laodongbu laodongli guanli he jiuyesi, 1993, 311).¹² A total of at least 15% of insurance premiums is reserved for training programs. Additionally, training centers are subsidized by local employment funds, LSCs, local industry and local training funds (LZFZ, 1995 / 12, 22).¹³

Until the end of 1994 2,628 training centers (*jiuye xunlian zhongxin*) throughout the country with a capacity of approximately 0.6 million people were registered with the MoL. In the course of the year, 2.76 million young unemployed persons attended training courses and 470,000 people attended retraining classes. Approximately 17% of participants in retraining classes were unemployed, 22% were underemployed workers of SOEs and 49% were either workers in rural industrial enterprises or rural migrants (ZLTN 1995, 104/108/111). According to official statistics 89% of persons who completed training classes could be employed; the remaining 11% stayed unemployed (ZLTN 1995, 110). At the moment there are no national statistics on the reemployment rate of persons who graduated from retraining classes, but regional samples provide evidence that reemployment chances significantly increase after completion. According to a Shanghai sample, the duration of unemployment is 32 months in general, but only 15 months after the completion of retraining programs (Gu, 1995, 38).

Altogether, compared to eastern European transition countries, training and retraining measures in China still play a minor role. Only 1,7% of registered unemployed persons could attend retraining classes in 1994; referring to the estimated amount of 200 million underemployed persons, re-

¹⁰ „Jiuye xunlian guiding“, 09.12.1994, §9.

¹¹ „Jiuye xunlian zhongxin guanli guiding“, 25.02.1991, §13.

¹² „Laodongbu guanyu jiaqiang daiye zhigong zhuan ye xunlian gongzuo de tongzhi“, 20.07.1992, item 2.

¹³ „Jiuye xunlian guiding“, 09.12.1994, §38.

training was available for only 0,2%. With regard to the working population, the ratio was a mere 0,08%.¹⁴

3.3 Labour service enterprises

Labour service enterprises (LSEs) have become an extremely popular instrument in China and are basically comparable to western job creation measures such as the German employment creation enterprises. According to §2 of the „Administrative Regulations for LSEs“, which were passed in January 1990, LSEs „should allocate urban unemployed and are intended to run a collectively owned enterprise“ (ZRGGG, 28.01.1991, 950).¹⁵ LSEs have the right of self-administration in the fields of personnel management, finance, production, procurement and sales, but they are still influenced by local labour offices and industrial administration bureaus, which are responsible for local development plans and industrial guidance of LSEs (ZRGGG, 28.01.1991, 952).¹⁶

SOEs, social organisations, and institutions as well as the unemployed themselves are all authorized to found LSEs in order to allocate unemployed or underemployed persons. According to the „Regulations“, enterprises can be registered as an „LSE“, if the amount of formerly unemployed persons reaches at least 60% of the enterprise's total workforce. If the status quo of LSEs is to be maintained, urban unemployed have to be permanently hired in a certain ratio. In addition, SOEs are allowed to transfer underemployed personnel from the parent company to their own LSEs. In other words, LSEs can be used for an internal displacement of underemployed workers (ZRGGG, 28.01.1991, 954).¹⁷

The initial capital stock must be raised by the LSEs themselves. However, parent companies are allowed to grant loans or to acquire interests in the company (ZRGGG, 28.01.1991, 954).¹⁸

¹⁴ In 1992 in Hungary 1,2% of the workforce attended retraining measures. In the Slovak Republic 1,0%, in Bulgaria 0,5% and in Poland 0,4%. See Scarpetta / Reuteward, 1994, 285.

¹⁵ „Laodong jiuye fuwu qiye guanli guiding“, 22.11.1990, §2.

¹⁶ *ibid.*, §§9,10.

¹⁷ *ibid.*, §2, parts 1,2.

¹⁸ *ibid.*, §§2,14.

In order to promote the development of LSEs, the state grants tax relief (ZRGGG, 28.01.1991, 951).¹⁹

- (1) after establishment, LSEs are exempt from income tax for 2-3 years;
- (2) LSEs may apply for another year of tax concessions if urban unemployed are still hired in a certain proportion;
- (3) after that, reasonable tax concessions can be negotiated.

Local financial authorities may grant subsidised loans aswell (Jie / Deng, 1993, 63) and state organizations are required to offer assistance in the fields of procurement, technology and finance (ZRGGG, 28.01.1991, 951).²⁰ But these subjects are not specified in detail by the „Regulations“, so activities depend heavily on local authorities. In the beginning, LSEs took action in labour-intensive industries of the secondary sector. But since 1993, both CC and the State Council lobby for the additional development of service industries to absorb even more labourers. Labour-intensive branches with low capital-endowment like trade, catering trade, workshops and transport are specifically recommended (ZLK, 1993 / 12, 36).²¹

According to official data, at the end of 1994 approximately 188,000 LSEs were registered throughout the country. They employed about 8,8 million people, or 5% of the total urban workforce. With regard to new recruitment, LSEs even reached 12%. When judging LSEs, one has to differentiate between those LSEs run by labour bureaus and social organisations and those which are established by SOEs. LSEs run by local labour bureaus are preferable since they first and foremost hire young unemployed persons, who couldn't otherwise be placed (Hebel / Schucher, 1992, 188). These companies help to reduce youth-unemployment and to restrict long-term unemployment. Simultaneously, job-seekers gain some professional experience and have the chance to practice simple production techniques, which will in turn improve their reemployment chances. On the other hand, SOEs establish LSEs, in order to reduce underemployment by transferring surplus personnel from the parent enterprise to subsidized workplaces. In this case there is no net effect because subsidized jobs have been simply substituted for unsubsidized jobs. In 1994, at least 30% of total LSE personnel were originally underemployed workers from SOEs (ZLTN 1995, 3/8/100), placed through internal procedures and not allocated by local labour bu-

¹⁹ „Laodong jiuye fuwu qiye qiye guanli guiding“, 22.11.1990, §4.

²⁰ *ibid.*, §5.

²¹ „Guanyu laodong jiuye fuwu qiye fazhan di san chanye anzhi fuyu renyuan ruogan wenti de tongzhi“, 25.06.1993, item 3.

reaus. It is quite evident that such internal replacements cannot improve intersectoral and inter-plant mobility of labour. In addition, internal reallocation facilitates the maintenance of low labour turnover rates and lack of individual initiative. From the perspective of the parent companies, labour costs, and consequently the pressure to adjust, are reduced. Apart from possible substitution effects it has to be expected that a large portion of jobs would have been created anyhow (dead-weight losses). Although there are no large scale systematic analysis available, it has to be expected that deadweight losses of LSEs are significant. Finally it must be stressed, that state sector employees usually have above-average technical skills which are in short supply in the rapidly expanding non-state sector. However, SOE employees will prefer employment in the heavily subsidized state sector as long as midterm income expectations and social welfare returns from SOEs and their LSEs exceed market wages paid by non-state enterprises.

Additionally there is some evidence that LSEs, like their parent companies, suffer from underemployment. According to a sample survey conducted in 1995, approximately 24% of LSE personnel was in fact underemployed (Zhang, 1995, 7). This means LSEs are not suitable for significantly reducing underemployment, but rather have only redistribution effects. Since the amount of LSEs operating with losses has already reached 20% (ZLTN 1995, 100/103) and the financial situation of parent enterprises continuously deteriorates²², it is clear that the current number of LSEs cannot be maintained permanently.

3.4 Labour exports

Labour exports represent a direct reduction of the labour supply in order to ease the national employment situation. Labour exports have been employed since the beginning of the reforms, but at first were not a significant part of the employment program. Recently, the government has started to propagate the expansion of labour exports as an appropriate instrument for reducing the national excess supply of labour. In addition to the immediate ease of employment pressure, the benefits from human capital education and currency inflows seem to be strong arguments for labour exports.

²² It is estimated that two third of SOEs are in the red. See Zhang, 1996, 67.

Since the early 90's the Chinese Communist Party started making efforts to institutionalize labour exports as an integral element of Chinese employment policy. A preliminary legal framework has been passed and information centers for migrant workers have been built (La, 1990, 59). For example, in 1991 Guangzhou built a training center for construction workers who sign contracts in the Asia Pacific region. The major task of training courses is to teach some basic knowledge of laws, regional studies and customs of the immigration country. Since October 1, 1994, graduation from those classes is regarded as a prerequisite for labour exports. (Liu, 1994, 35) Exports are organized by authorized LSCs and private employment agencies.

Table 3: Development of labour exports (1982-95):

year	1982	1988	1991	1992	1993	1994	1995
total of labour exports	30.000	60.000	90.000	130.000	174.000	220.000	260.000

Sources: 1982, 1988, 1991: FBIS-CHI-146 (29.07.1992), p. 21; 1992: JPRS-CAR-93-033 (18.05.1993), p. 29 / Liu, 1994, p. 35; 1993: JPRS-CAR-94-035, p. 18 / FBIS-CHI-94-121 (23.06.1994), p. 45; 1994, 1995: CEN, 20.01.1996.

According to official data, labour exports have nearly tripled since 1991 (see table 3). Currently about 0,02% of the Chinese workforce works abroad, which is comparable to the level of Indian labour exports. About 70% work in neighbouring Asian countries (CEN, 20.01.1996, 5), but exports to Eastern Europe, the United States, and the Middle-East are gaining importance as well. Exports to the EC are also increasingly recommended in scientific discussions (La, 1992, 58). Nevertheless, for the time being labour exports cannot be regarded as a helpful tool for significantly reducing underemployment in China as the capacity of international labour markets is limited as well. Finally, effects of human capital formation are limited because Chinese workers are generally hired for labour-intensive work with low level job qualifications

3.5 Working time reductions

Working time reductions have been implemented since 1995 in order to increase labour demand. Despite mostly negative experiences in western industrialized countries, legal working time was cut from 48 to 44 working hours per week and 8 hours per day in January 1995 (ZRGGG, 02.08.1994, 683).²³ On May 1, 1995, the State Council promulgated a further reduction of

²³ „Zhonghua renmin gongheguo laodongfa“, 05.07.1994, section 4, §36.

working hours to 40 hours per week (ZRGGG, 06.04.1995, 223).²⁴ So, compared to other developing countries, China legalized an extremely short working time. According to calculations of the MoL, working time reductions will cause a significant increase of labour demand and ease employment pressure. The MoL expects that the current level of production can only be maintained if total employment increases by 10% (FBIS, 22.06.1995, 32; Cao, 1995, 1). The State Council research center estimated that additional labour demand will even reach 16% (Zhang, 1994, 33). But since the influence of wage increases and substitution effects are totally neglected in these computations, it is very doubtful that these prognoses will actually be fulfilled.

In theory, working time reductions can only increase labour demand if there is no on-the-job underemployment. In contrast, an official investigation on efficient working time in Chinese SOEs uncovered, that efficient working time since 1985 is only between 19,2 and 28,8 hours per week or 48 to 72% of legal working time (Zhang, 1996, 66). Consequently, additional labour demand in SOEs cannot be expected. With reference to the non-state sector, it is also doubtful that enterprises will really comply with the current regulations, as there are still no efficient controls on working time and the influence of labour representatives is still low. Current sample surveys indicate that working time is regularly heavily exceeded. In Qingdao, for instance, 87% of a sample survey were not in line with current legislation. In Shenzhen average working time per week was as much as 70 hours per week (Chen et al., 1996, 34). However, even if enterprises were to comply with the new working time regulations, this would not result in an increase in labour demand. In view of the fact that prices for capital and energy are still controlled and held on a below-market price level while wages are quickly increasing, profit-maximizing enterprises would rather increase the level of mechanization and employ labour saving techniques.

3.6 Reemployment projects

The largest and also most comprehensive employment promotion project launched in China is the so-called „reemployment project“ (*zai jiuye gongcheng*). It represents the first employment-programme in China, which combines job-services, training and retraining services with reemployment instruments. First, reemployment projects were tested in 30 cities with relatively high unemployment rates and well-developed LSCs between November 1993 and December 1994

²⁴ „Guowuyuan guanyu zhigong gongzuo shijian de guiding“, 25.03.1995, §§3, 9.

(LZFZ, 1994 / 1, 29).²⁵ In 1995, the MoL decided to expand the project nationally. According to official plans, reemployment projects should achieve the replacement of 8 million persons within 5 years (ZLB, 16.05.1995, 1).

The target groups of reemployment projects are the long-term unemployed and underemployed persons who still belong to a company, but haven't received salaries for 6 months (*xiagan renyuan*) (LZFZ, 1995 / 4, 7).²⁶ Consequently, reemployment projects focus exclusively on the urban workforce; either the unemployed or the underemployed. In order to improve job matching, training and retraining programmes and job services are tied together (Schädler Schucher, 1995, 160). Such combined services may generate higher cost-benefit ratios if unemployment benefits are only paid under the condition that unemployed persons regularly attend information and training programs (LZFZ, 1994 / 1, 29).²⁷

Current regulations contain the following elements:

- Persons, who are unemployed for more than 6 months are obliged to attend the following programs:
 - (a) consultations which provide information services (*zhiye zhidao zuotanhui*);
These meetings are held once a month and provide information on current labour demand, application procedures, employment opportunities etc.;
 - (b) retraining measures (*zhuanye xunlian*);
After successful completion of the course, the unemployed are entitled to preferential treatment in the field of job brokerage. Failure to attend retraining courses may result in the cancellation of unemployment benefits.
- For long-term unemployed who are without a job for more than 12 months, the following services are provided:
 - (a) Personal consultation and employment for a probationary period. Employers, who hire long-term unemployed can apply for wage subsidies. In this case unemployment benefits are transformed into wage subsidies.
 - (b) If workers are not offered a labour contract at the end of the probationary period, workers can be placed in LSEs.

²⁵ „Zaijiuye gongcheng“, 03.11.1993, item 3.

²⁶ „Laodongbu guanyu quanmian shishi <zaijiuye gongcheng> de tongzhi“, 19.01.1995 item 2.

²⁷ „Zaijiuye gongcheng“, 03.11.1993, section 2.

(c) Unemployed persons who wish to start up their own business are entitled to receive their benefit payments as a lump sum (LZFFZ, 1994 / 1, 29).²⁸

In addition, there are the following aid measures;

- If enterprises start new activities in the service sector and, therefore, hire unemployed or underemployed persons in a certain ratio to total employment, they may apply for the same tax concessions as LSEs. They can also apply for subsidised start-up loans which are offered by the unemployment fund (LZFFZ, 1995 / 4, 8).²⁹
- If the duration of labour contracts exceeds one year, employers are eligible to capitalized unemployment benefits as lump-sum hiring subsidy. If underemployed workers are hired, the new and the former employer can also negotiate a lump-sum subsidy (LZFFZ, 1995 / 4, 8).³⁰ If underemployed workers decide to quit their posts, enterprises can offer termination pay (*anzhifei*) (LZFFZ, 1995 / 4, 8).³¹ In Shanghai, for instance, SOEs pay one month's salary for each working year (maximum 24), if underemployed workers who are on long-term leave (*xiagang renyuan*) quit their posts (Yang, 1996, 23). Employees are allowed to negotiate an extended probation period between 3 and 6 months (LZFFZ, 1995 / 4, 8).³²

As there is no reliable data on reemployment projects available yet, some theoretical considerations concerning their effect have to suffice. Assistance to employees concentrates on the reduction of capital costs and wages. Without doubt, a reduction of interest rates can increase the propensity to invest. But in the case of the PR of China, factor prices are already distorted in favor of capital. Interest rates are not investment barriers, but rather the common lack of access to bank loans for non-state enterprises. There is no official information as to how investment subsidies will be distributed. If mostly SOEs benefit from subsidised capital - and this may be expected - this would be only a subsidization of underemployment in a new form. Capital investment, which is already in short supply, would then simply be channeled into SOEs under the new label of „employment policy“. Finally, dead-weight losses, which are inevitable in each form of subsidization, reduce the efficiency of start-up loans and wage subsidies.

²⁸ „Zaijiuye gongcheng“, 03.11.1993, item 2.

²⁹ „Laodongbu guanyu quanmian shishi <zaijiuye gongcheng>“, 19.01.1995, item 5.

³⁰ *ibid*, item 6.

³¹ *ibid*, item 7.

³² *ibid*, item 8.

Although the capitalization of unemployment benefits can indeed serve as an incentive to set up a business, possible employment effects should not be overestimated. In general, technical skills of long-term unemployed persons are low, thus self-employment is often equivalent to low-quality activities in the informal sector. Furthermore it has to be expected that the survival rates of these firms are comparatively low.

Wage subsidies, which encourage reemployment of certain target groups (long-term unemployed) will in general not increase total employment, but simply alter the distribution of vacancies in favor of the target group. There will be a substitution effect, that is to say unsubsidized employment is substituted by subsidized employment. Thus, wage subsidies may be appropriate for supporting the reemployment of the long-term unemployed and reducing persistent unemployment, but will certainly not have a net effect on total labour demand.

Based on these considerations, it would seem that reemployment projects will probably not increase total labour demand. One may expect a simple redistribution of vacancies in favor of the long-term unemployed and underemployed workers of the state sector. Thus, reemployment projects will certainly secure the interests of urban workers and thereby hinder the development of a free labour market.

3.7 Structural characteristics of Chinese labour market policy

One can derive two structural peculiarities of Chinese employment policy (see table 4).

(1) Asymmetrical structure of instruments: In China, active employment policy concentrates on the creation of subsidized jobs (LSEs / reemployment projects), so that the creation of a functioning labour market is not encouraged. In contrast, human capital formation does not play an important role in labour market policy and is still widely neglected. Consequently, individual reemployment chances and labour mobility have not improved significantly. If structural change is not to be hindered by a shortage of know-how and the low level of education, human capital investment has to be expanded considerably. A long term training program, which not only includes retraining classes for underemployed state sector workers, but also training classes for underemployed agricultural workers in rural areas would be ideal. The supply of job services does

not meet the quantitative and qualitative requirements of the current labour market situation in China either. They are still far below international standards, but also below the service level of Eastern and Central European transition countries. Thus, without major personnel and technical improvements, information- and employment services will not be sufficient for improving the efficiency of interplant and interregional mobility of labour.

(2) Asymmetric structure of the target group: Most employment measures are directed at urban job-seekers. For instance, the popular LSEs and the new reemployment projects employ exclusively job-seekers who hold an urban household registration. The majority of underemployed workers, agricultural workers from rural areas, often have no employment services at their disposal. Apart from job placements, other instruments of employment policy are simply not available. Thus, one has to concede that employment policy serves to maintain the assets of the formerly privileged urban workforce. In contrast, farmers remain beyond the state's responsibility and are basically left to their own devices. It is quite obvious that employment policy does not facilitate the creation of a free and functionable labour market because services and information are rationed and channeled into certain market segments. It goes without saying that in such a case only minor improvements of labour mobility and structural change can be realized.

Table 4: Active employment policy in China since 1978

	target group	effect
job services; consultation	<ul style="list-style-type: none"> • job-seekers with urban registration; • immigrants with residence permit 	<ul style="list-style-type: none"> • regional disparities in institutional infrastructure, • deficient interregional coordination, • lack of know how and equipment cause low efficiency
training and retraining	<ul style="list-style-type: none"> • job-seekers with urban registration; • since 1995 training is available for agricultural workers 	<ul style="list-style-type: none"> • retraining classes duration: 6 months - 3 years participants (1994): 0,47 million persons
LSEs	<ul style="list-style-type: none"> • urban unemployed • underemployed state sector workers 	<ul style="list-style-type: none"> • labour-intensive jobs in the secondary and tertiary sector total (1994): 8,8 million persons = 5% of urban workforce
labour exports	<ul style="list-style-type: none"> • no special target group 	<ul style="list-style-type: none"> • exploitation of international labour markets total (1995); 0,26 million persons (0,02% of the Chinese workforce is placed abroad)
working time reduction	<ul style="list-style-type: none"> • no special target group 	<ul style="list-style-type: none"> • uncertain employment effect: reduction of enterprise under-employment / additional labour demand.
reemployment projects	<ul style="list-style-type: none"> • urban long-term unemployed • urban underemployed workers who do not receive a salary (<i>xiagang renyuan</i>) 	<ul style="list-style-type: none"> aim: 8 million placements (1995-99) • redistribution of placements in favor of target group; • limited creation of additional jobs.

4 Concluding remarks

This report has illuminated that the Chinese MoL indeed employs a wide variety of active employment instruments. However, the asymmetric structure of instruments and target groups impediments the creation of a functioning labour market and improvements of labour mobility in China. In addition, key elements such as job services and education are in short supply, so that intersectoral and interregional job changes are hardly supported by labour market policy.

Simultaneously, for the next few years a severe deterioration of the employment situation in China is to be expected. Apart from the natural increase of labour supply of about 10 million persons p. a., labour shedding of SOEs will probably increase during the 9th FYP because of hardening budget constraints and increasing financial losses. According to a Labour Ministry estimation, enterprise restructuring and bankruptcies will cause lay-offs of 3,5 million persons p. a. from 1996 to 2000 (Gilley, 1995, 46). Dong Fureng, a vice-chairman of the Financial and Economic Committee of the National People's Congress, recently warned, that unemployment will drastically surge in 1997 after mass bankruptcies of SOEs. It is estimated that loss-making firms account for 43% of SOEs which total more than 20 million workers; another 30% of SOEs which employ another 20 million workers are only making money through false accounting (Chan, 1997). On top of that, the employment elasticity of rural township and village enterprises (*xiangzhen qiye*) is decreasing, so that less and less rural workers can locally transfer into non-agricultural jobs. Consequently, developed regions of China will attract a constantly increasing number of rural migrant workers (Zhang, 1996, 3).

Altogether, the restructuring and an increase in the capacity of employment policy seems to be inevitable. But this demands a substantial budget increase. In the long run, the central government will have to increase employment policy funds if a constant level of employment services is to be guaranteed in the whole country. The technical and personal aid of international organisations is also required in order to improve employment services. But employment policy alone will not suffice to increase job mobility and create a functioning labour market. The reform of the Chinese household registration system and housing reforms are indispensable supporting measures, which should no longer be neglected or postponed.

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