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Recent development in China's labour market

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Background

Since the economic reform initiated in 1978, state enterprise reform has been a difficult task for policymakers. The enterprise reforms introduced in the early 1980s were aimed at providing managers of SOEs with more autonomy in the decision making process. However, as SOEs still operated under soft budget constraints the increase in decision-making power encouraged SOE managers to pursue the maximisation of income and benefit per employee rather than profit maximisation. This led to three important results

- The earnings of SOE employees have been increasing very fast relative to their productivity and relative to the earnings of other sectors.
- The disregard for profit has led to overstaffing. It has been estimated that more than one-third of total state employment is excess to requirements.
- Competitiveness of state enterprises has been very low and declining. In 1996 the total amount of loss making by the SOEs exceeded their total amount of profit. A worse situation prevailed in 1997. Drastic reform of the state enterprises, thus, was desperately needed. A policy of 'Grasping the big, let go the small' was introduced.¹

Government policies toward redundant workers are best summarised in the State Council's recent document published in *People's Daily*, 23 June 1998. The basic theme of the document is that the reform in the state enterprises is an inevitable process and is consistent with the long-run objective of the economic growth. During this process some workers may suffer temporarily from being laid-off and the government is committed to support them. In particular, the document states that:

In 1997, around 12 million urban SOE employees were laid-off under the reform policy. They account for around 10 per cent of SOE employees and 7 per cent of the total urban employment. By the end of 1997, more than 6 million of these redundant workers were re-employed. This year, up until June, another 3 million were laid off. Although the rate of lay off has been reduced the need for further adjustment remains critical. In addition, the large number of redundancies has created unrest among urban residents, which in turn has caused deep concern among policy makers and academics within and outside the country. The questions naturally arise as to whether further reform will

create political instability, whether the Asian financial crises will worsen the situation, and to what extent such instability may affect the rate of reform.

This paper provides some insights into the problems associated with redundant workers and discusses the effect of the slow down of economic growth as a result of the Asian crises and tighter monetary policy of the last few years on future employment and unemployment.

Recent government policies toward redundant workers

The basic theme of the State Council's document is that reform of state enterprises is an inevitable process and is consistent with the long-run objective of the economic growth. During this process some workers may suffer temporarily from being laid-off and the government is committed to support them. In particular, the document states the following.

1. Enterprises should consider workers' living standard before making decisions on who should be made redundant. For example, they should not lay off both husband and wife from the same family.
2. Local governments should encourage the rural labour force to find jobs within rural regions and the size of rural migration should be controlled.
3. Every enterprise with redundant workers should set up a re-employment service centre, which will distribute living allowances and other benefits, as well as pensions, unemployment and medical insurance for redundant workers.
4. The re-employment centres will take care of redundant workers for no more than 3 years. The living allowance for redundant workers should gradually reduce over the three-year period, but no lower than unemployment benefit.
5. Redundant workers should be encouraged to set up small businesses of their own. For those who do so, they should enjoy three year tax-free status. Financial institutions should provide loans for these businesses.
6. Redundant workers, regardless of whether they were re-employed or not, should enjoy the same pension benefits and housing arrangements.
7. Enterprises with vacancies should give employment preference to redundant workers, especially female workers.
8. Redundant rural migrant workers are not eligible for any of these benefits.

How big is the problem?

Informal estimates suggest that there may be a stock of 9 million redundant workers who have not yet been re-employed. Will the economy be able to provide jobs for them, how big will the problem become, and will it create political instability? To

answer these questions, one needs to understand who these redundant workers are, what is their actual living condition, and why these people have not been re-employed.

Who has become redundant?

Among OECD countries, redundant workers are likely to be less educated, older and lower income earners. This is not the case in China. A survey of 1,300 redundant workers from 55 cities conducted early last year² indicates that the age and educational distributions of redundant workers are similar to the age and education distributions of the urban population or urban labour force (see Figures 1 and 2 in separate document, zin2.pdf). If anything, those who were laid off were slightly more educated than the population as a whole. This may indicate that the main factor which affects whether an individual is laid-off is not whether the worker is skilled or productive or not but where they work.

This conjecture may be further supported by other information revealed by this survey that indicates that about 78 per cent of redundant workers were from medium and small firms, while for the population as a whole workers from small and medium firms only account for about 60 per cent. This indicates that perhaps many loss making small and medium firms or workshops within firms have been closed and the bankruptcy or merging of firms made the whole workforce of a workshop or an enterprise redundant rather than the low productive ones within each firm being made redundant. This is certainly the intention of 'grasping the big, let go the small'.

How are they surviving?

The same survey indicates that more than 60 per cent of redundant workers are already re-employed. The rest rely upon living allowances provided by their previous employers or the government unemployment benefit. Overall, about 57 per cent of redundant workers receive an income of Y200 or below. Before being laid off about 37 per cent of the sample were paid Y200 or below. This indicates a 20 percentage point increase in low paid workers after being made redundant. At the other end of the income distribution, there are about 11 per cent of redundant workers who earn above Y600. This figure was 3 per cent for the situation of before being laid off. Thus, there are about 7 percentage points more high income earners than before (Figure 3, xin2.pdf). These figures indicate that income inequality is enlarged after workers are made redundant.

When we look closely at who became low income earners after being laid-off, it is found that neither age nor education affects whether a displaced worker will become a low income recipient (Figures 4 and 5 in xin2.pdf). The simple correlation coefficients between the percentage of low income earners in each education category before and after being laid off is 99 per cent. The correlation coefficient across age categories is 98 per cent. However, the regional distribution of low income earners before and after layoff seems to change dramatically with the correlation coefficient being 35 per cent

(Figure 6). These results indicate that redundant workers may become low income earners not because they lack skill or are less employable but because they live in places where employment opportunities are limited. If they can move to other regions they may well be able to find jobs which pay higher earnings.

Are there enough jobs to re-employ redundant workers?

There is not much detailed micro-level information to indicate the difficulty of re-employment. However, we know that at a national level 50 per cent of redundant workers were re-employed in 1997 (unpublished government sources), and the survey data from 55 cities suggest some 62 per cent of the laid-off workers are re-employed (Wang 1998). Two important factors may explain why the remaining redundant workers are unable to find jobs.

First, jobs may be available but redundant workers may be unwilling to take them. There is some evidence to support this conjecture. Currently there are about 80 to 100 million rural migrants who are working in urban areas. These migrants came to urban areas with no government support or subsidy whatsoever. According to three surveys conducted in Shandong, Guangdong, and Shanghai, 98 per cent of migrants were able to get a job before migration or able to find a job within one month after migration. The unemployment rate among migrants is below 1 per cent (Meng 1998). Since 1995, many provincial and regional governments have requested that when there are jobs available, redundant workers should have first priority. In other words, rural migrants have been and still are in a very inferior situation in comparison to urban redundant workers where employment is concerned. Nevertheless, the number of rural migrants working in urban areas has not been declining. This indicates that redundant workers may be unemployed not because there are not enough jobs around, but perhaps urban redundant workers are unwilling to take the kinds of jobs available for them.

A survey conducted among Shanghai urban residents and rural migrants suggests that more than 93 per cent of rural migrants were working as trade, service, or production workers, whereas this figure for urban residents is only 56 per cent (Meng and Zhang 1998) The detailed occupational comparison further reveals that among blue collar jobs, most migrants work in dirty, dangerous and 'disgraceful' occupations, such as construction work, domestic service, cleaners, food and agricultural product merchants, whereas very few urban residents work in these occupations. In addition, rural migrants worked about 55 hours per week, whereas the average work week for urban residents was 42 hours. Furthermore, the hourly earnings of rural migrants was only 48 per cent of that of urban residents. These data suggest that rural migrants are accepting jobs which pay much less than average and involve longer hours of work (Table 1, xin2.pdf).

After 50 years of strict separation of the rural and urban economies and discriminatory treatment in favour of the urban residents, some urban residents are used to the idea that they are superior to rural migrants. A recent study on urban redundant workers found that one of the most important reason that urban laid-off workers found it difficult to find jobs is that they are unwilling to take what they believe to be 'low status' jobs. Some laid-off workers would rather voluntarily quit from the labour market than accept the kind of jobs rural migrants take (Wang 1998). It will take time for redundant workers to make the psychological adjustment to accept that in the market place everybody is equal.

Second, lack of labour mobility may also be a contributing factor to the high unemployment rate among redundant workers. China has huge regional variation in economic development. In the coastal regions, where economic growth is very rapid, jobs are more likely to be available. But not all redundant workers are living there. In fact SOEs in inland regions are more likely to be less competitive and more likely to make losses, and hence are more likely to lay off workers. Furthermore, the service sector is more likely to grow fast in large cities but not in small towns. Redundant workers in small towns and less developed regions are unlikely to get jobs (Wang 1998). The fact revealed from Figure 6 that there is a low correlation between the regional distribution of low income earners before and after redundancy may also indicate that regional variation in job availability played an important role in re-employment of redundant workers. If redundant workers from small towns and less developed regions are willing to move, they may be able to find job in more developed regions. Government policy, therefore, should encourage labour mobility. Some supporting measures, such as allowing redundant workers to keep their housing while they work in other regions, should be put in place.

The impact of the Asian crises and the recent economic slowdown upon future employment

Over the last four years, to control for economic overheating, China has adopted a restrictive monetary policy, which, together with the Asian crises, resulted in a slow-down of the economy. Since the first quarter of 1997, the GDP growth rate has reduced from 9.4 to 9.2, 8.0, and 8.2 per cent for the following three quarters of the year, and further reduced to 7.0 per cent for the first half of this year. The reduction in the rate of growth of exports is even more dramatic. The export growth rates are 25.7, 26.7, 20.7, 14.7 for the 4 quarters of last year, respectively, and 7.6 per cent for the first half of this year (Figure 7, xin2.pdf). Although the Chinese government is still trying to maintain 8 per cent GDP growth for this year, it may be a hard task to achieve. Many policy measures to encourage GDP and export growth have been introduced this year. For example, the tax deduction for textile exports is increased from 9 per cent to 11 per cent; government investment in infrastructure increased 13.8

percent for the first half of the year; and home loans have been introduced for the first time to encourage consumption.³

It is difficult to judge how effective government policies will be. But one thing is clear, if a currency devaluation is out of the question government policies are more likely to be effective in their impact on the domestic economy than on export growth.

How will the current economic slow down, especially the dramatic slowing down of export growth, affect employment growth? To test the extent to which GDP and export changes will affect the change in employment, a simple cross-section time-series analysis using data for 30 regions over the period 1993–95 was conducted. The results are reported in Table 2 (xin2.pdf). The estimated results suggests that a one percent increase in real GDP will increase employment by about 0.62 per cent whereas a one per cent increase in exports will increase employment by 0.15 per cent. This implies that a given percentage change in exports has a much smaller impact on employment than a change in real GDP.

If one believes that government policies are more likely to impact on the domestic economy than on exports and that GDP growth is not heavily dependant on export growth due to the large size of the domestic market,⁴ it is possible that the GDP growth rate will not fall too much for the next few years. Thus, the Asian crises should not have too much of a negative impact on employment growth.

What is more interesting from the results obtained in Table 2 is the strong negative effect of the average wage on employment. This result indicates that every one per cent reduction in average wages will bring a 1.2 per cent increase in employment. It suggests that introducing a flexible labour market is the most effective way in resolving the unemployment problem. This result reconciles very well with the analysis provided earlier which shows jobs are available as long as urban employees can adjust themselves to accept lower paid jobs. In summary, this result implies that under the situation of an economic slowdown, reform of the labour market which encourages wage flexibility should be speeded up to encourage employment growth.

Conclusion

This paper investigates some recent developments in China's labour market—the issue of redundant workers. Some conclusions may be drawn.

1. The limited evidence available suggests that workers become redundant not because of who they are but of as a result of where they work. It is possible that workers in less productive, loss making enterprises are made redundant regardless of their age and skill levels.
2. Income inequality is increased after workers become redundant.
3. Redundant workers who become low income earners may not because they are lack of skill or less employable but may simply because they live in regions where

the macroeconomic environment is not very good. If they can move to other regions they may well be able to find better paid jobs.

4. A further comparison on redundant workers and rural-urban migrants indicates that jobs are available in urban areas, but they may not be the type of jobs urban residents believe to be 'suitable' for them. Hence, some psychological adjustments are needed.
5. The impact of the Asian crises and the recent economic slowdown on urban employment is also investigated. A regression analysis showed that a change in GDP has a much higher impact on employment than a change in exports. Thus, we may conclude that the Asian crises is unlikely to have a large impact on China's employment growth. Recent economic slowdown is mainly due to restrictive monetary policy over the last few years. Given that the government now realises that monetary policy was too tight and is trying to encourage domestic investment and consumption, the slowdown in GDP may be stopped, and hence may not further affect urban employment.
6. Finally, it is found that the average wage level has a very strong negative impact on employment. This suggests that the introduction of a flexible labour market, where wages are more responsive to unemployment, should be the most efficient way to solve the unemployment problem. More emphasis should be placed on wage flexibility in SOEs. Reform should not only be focused on laying off workers.

Endnotes

¹ Under this policy, only 1000 large SOEs, which hold more than 70 per cent of SOE fixed assets and generate about 80 per cent of profit and tax, will remain under government control. The rest, more than 100,000 medium and small enterprises, will be freed by selling and leasing assets to workers, merging them with non-state enterprises, forming joint venture with foreign enterprises, or auctioning them to private individuals (EAAU, 1997).

² All the figures provided in this section are from Wang, 1998.

³ Data are from Dong, 1998 and SSB, 1998.

⁴ Some evidence to support this proposition can be found in Figure 7 which shows that between 1997 and 1998 when export growth reduced from 27 to 7.6 per cent, GDP growth fell from 9.6 to 7 per cent.

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