

**FACING UNEMPLOYMENT: URBAN LAYOFFS\* AND THE WAY OUT IN  
POSTREFORM CHINA (1993-1999)  
AN EMPIRICAL AND THEORETICAL ANALYSIS**

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\* In the literature, there are several terms that are used to designate persons who are laid off, such as layoffs, retrenched workers, off-duty workers, left-post workers etc., which is in Chinese ‘*xia gang zhi gong*’ . The author prefer to use the term ‘layoffs’ in this paper, which seems to be consistent with other international studies.

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## **1 INTRODUCTION**

### **1.1 Statement of the research problem and justification**

Starting from late 1978, China's economic reform has been enforced for almost twenty years so far. The socialist market economy has been establishing and there are still more reforms to come. Evidently, in China the 1980s and 1990s have seen high rate economic growth and the living conditions of people have increased dramatically. Serious problems, however, have emerged along the process of reform, among which the increasing urban unemployment draws enormous attentions.

More specifically, a large number of workers have been laid off, particularly from state-owned enterprises (SOEs). According to the statistical data, the major cause for current urban unemployment in China is laying-off, which accounts for 40.9% of total urban open unemployment (SSBa, 1998: 176). By taking into account the figures of layoffs, scholars estimate that China's current urban unemployment rate has in fact reached about 8% or 9% (Hu, 1999; Gu, 1999), although the official registered unemployment rate is still quite low, 3.1% in 1997 (SSBa, 1998: 127). Urban unemployment and laying-off have already brought serious problems to China's economic development and social, political stability. Not only all the Chinese people, be employed or unemployed, but also the government has shown its great concern to the increasing open unemployment and the laying-off issue in the urban areas.

While works about China's employment and unemployment written by foreign scholars are still few, in China recently, many studies have been done by the government institutions and organizations, as well as scholars, to try to analyze the situations and formulate proper policies and strategies to address the issues about layoffs. However, there are some problems in those studies. First, since the laying-off issue is a relatively new phenomenon in China, which has emerged and gained great attention only in recent years, no comprehensive study has been done yet on one hand, and there are confusions and ambiguities associated with conceptualization of the term 'layoff' on the other. Second, when coming to the specific analysis, many current works reach their conclusions without sufficient arguments and some conclusions appear to be simplistic and untenable. Therefore, although many of these policies and strategies that have been suggested and formulated are reasonable, however, some of them are insufficient, and still some, if without further qual-

fication, will have negative effects on the SOE reform and layoffs in a long run, or can be only treated as temporary measures.

Based on those theoretical models and current works, this paper will try to clarify some ambiguities and misunderstanding about the laying-off issue in post-reform China, to enhance the comprehension on the root causes and real situations about laying-off issue, and to make my contributions in searching appropriate policies and strategies to figure out this problem.

## **1.2 Objectives of the research**

The specific objectives of this paper are:

1. To clarify the definition of layoff in the context of China and the correlation between layoffs and the unemployed; to identify the real situations and characteristics of the layoffs;
2. To selectively and critically review the relative theories on unemployment and labour market, and try to find or formulate a theoretical framework to analyze the laying-off issue in post-reform China;
3. To analyze and assess the policies and strategies that currently adopted by Chinese government to tackle with the laying-off issue;
4. To formulate a set of useful policies and strategies after analyzing and assessing those current ones.

## **1.3 Theoretical approach and major hypotheses**

An integrated theoretical framework, which is based on those relevant models of unemployment, such as structural unemployment model, cyclical unemployment model, job search model, labour market segmentation model, and so forth, will be used in this study to give an explanation to the laying-off issue in China. And policy analysis, through which some intervention policies and strategies will be generated, is also included. The key words in this paper include laying-off, layoffs, diversion, unemployment, enterprise reform, welfare reform, labour market reform, etc.

The major hypotheses are the following:

- In the context of post-reform China, layoffs, unless have been diverted, are in fact almost in the same situation as the unemployed. It can be viewed as a special form of unemployment in Socialist China in the transition era.
- Unemployment in post-reform China is very serious currently and measures should be made immediately to reduce it.
- Since laying-off results directly from the enterprise reform, it will be resolved to some extent through continuing and improving the enterprise reform and other relevant reforms efficiently and effectively.
- Under current situations, the economic efficiency of SOEs cannot be achieved without the sacrifice of the traditional Socialist unit-based welfare, which is currently under transformation into social welfare and security system.

#### **1.4 Methodology and data**

Both quantitative and qualitative methods will be applied in this paper. Due to lack of sufficient and systematic case data, this paper will focus on macro, national level rather than on local or specific city level. The data used in this paper is secondary data. The majority of them are from the published books, documents, articles and statistical yearbooks; Some of them come from internal circulated government reports and periodicals; Journals and newspapers provide another important source; Some on-line resources are also available.

#### **1.5 Limitations of the study**

As I mentioned above, little access to reliable survey and field trip data constitute one major constraint. This is partly because the complex concrete situations and the incapability of statistical institutions bring great trouble in getting those data, partly because of the traditional way that many Chinese scholars conduct their social science researches. The field trip and other study methodologies, broadly speaking, have not been given enough emphasis. The second limitation results from the first one. Due to insufficient data, I have been forced to analyze the laying-off issue at the national level, which will definitely be

oversimplified and can not fully take into account the local characteristics. Limited scope and time also make some analyses impossible.

### **1.6 Organization of the paper**

This paper is structured as follows. Chapter 1 is the introduction section, in which some basic introductory elements of this study, including the statement of the research problem, the specific objectives, theoretical approach and hypotheses, methodology and data, and justification and limitation, are given. To provide an empirical background, Chapter 2 clarifies the definition, examines the quantity, and identifies the characteristics and current situations of the layoffs. In order to formulate an integrated theoretical framework to guide the following analysis, Chapter 3 reviews several unemployment models and impact of labour market segmentation and restructuring on employment in developing countries, and then identifies the causes of China's increasing urban unemployment generally and layoffs particularly. Chapter 4 reviews and evaluates the major policies and strategies that have been adopted by the government and suggested by some writers. By doing so, the possible way out the increasingly serious laying-off is expected to come out. Finally, Chapter 5 presents the final conclusions.

## **2 AN EXAMINATION OF URBAN UNEMPLOYMENT AND LAYING-OFF SITUATIONS IN POST-REFORM CHINA**

### **2.1 Introduction and general background of current employment situation**

This chapter intends to introduce the empirical background and examine the real urban unemployment and laying-off situations in post-reform China, thus provides a base for the analysis and policy intervention discussed in the next chapters. To put it simply, two basic questions are the clue of this chapter: a) what is the problem? b) how big is the problem?

As we can see from Table 2.1, in China currently the majority of labour force are still working in agriculture, while both the number of rural employed and urban employed have increased steadily. In urban areas, several observations can be preliminarily made. First, the employment structure has clearly been diversified and non-state employment has

increased quickly. In share holding units <sup>1</sup>, foreign funded units, units funded by overseas Chinese from Hong Kong, Macao and Taiwan, private enterprises, employment has all shown an increasing trend. And so does the self-employment. Second, although state sectors have still played a dominant role in providing employment, their capability of absolving labour has declined. Definitely, they were the major sources where workers had been laid off in the past a few years. Third, while the number of newly employed persons is relatively constant, the open unemployment shows the upward trend.

Table 2.1: China's basic employment situations in recent years

	1993	1994	1995	1996	1997
a) Urban employed persons (10,000)	17589	18413	19093	19815	20207
State-owned units	10920	11214	11261	11244	11044
Collective owned units	3393	3285	3147	3016	2883
Joint owned units	66	52	53	49	44
Share holding units	164	292	317	363	468
Foreign funded units	133	195	241	275	300
Units funded by Hong Kong, Macao and Taiwan	155	211	272	265	281
Units of other type of ownership	18	9	11	9	18
Private enterprises	186	332	485	620	750
Self-employed	930	1225	1560	1709	1919
b) Rural employed persons (10,000)	48784	48786	48854	49035	49393
Township and village enterprises	12345	12017	12862	13508	9158
Number of the newly employed in urban areas	705	715	720	705	710
Number of the registered unemployed	420	476	520	553	570
Registered unemployment rate in urban areas (%)	2.6	2.8	2.9	3.0	3.1

Note: In 1997 and 1998 edition of *China's Statistical Yearbook*, the data on economic activity population, the total employed persons and the sub-total of employed persons in urban and rural areas had been adjusted in accordance with the data obtained from the sample surveys on population changes (SSBa, 1997 and 1998: 127). As a result, the sum of the data by region, by ownership or by sector is not equal to the total.

Source: SSBa (1998: 127)

## 2.2 Registered unemployment rate: an insufficient indicator

The term 'unemployment' did not appear in China's official reports until 1994 (ISDS, 1998). Since then, unemployed persons have been defined by the State Statistical Bureau as those who are 16 years or older, without work but have the capability to work and are seeking work in the reference period (a week) (Xu and Yang, 1998; Yao, 1998). And the figures of unemployment are currently limited only to urban areas. The so-called registered unemployed persons in urban areas, a category that used by State Statistical Bu-

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<sup>1</sup> In China, people are used to calling all kinds of organization, institution, company, etc. 'unit' (in Chinese *dan wei*).

reau, refer to 'the persons who are registered as permanent residents in the urban areas engaged in non-agricultural activities, aged within the range of working age, capable to labour, unemployed but desirous to be employed and have been registered at the local employment service agencies to apply for a job' (SSBa, 1998: 180). Table 2.1 gives the registered unemployment rate of recent years in urban China<sup>2</sup>. We can see that although the figures of registered unemployed rate are still low, comparatively speaking, they have increased rapidly.

In China, officially, there are two ways to get the relevant unemployment figures: one is from the labour management institutions conducting registered unemployment system, the other is from the labour and population sample surveys<sup>3</sup> that are conducted by the statistical institutions. Since the former method has a strong tendency of underestimating the real unemployment figures, emphasis has been made to rely more on the latter method. The State Statistical Bureau and Ministry of Labour have used the latter method to investigate the urban unemployment in China since 1995. The results have been published in recent *China Labour Statistical Yearbook* (SSBb, 1997; 1998), while the registered unemployment rates in *China Statistical Yearbook* are still there as the official unemployment rate figures. However, the sample survey results show that urban unemployment figures are much bigger than the registered unemployment figures (see Table 2.2).

Table 2.2: Surveyed unemployment in urban China, 1995-1997

Year	Number of surveyed unemployed (10,000)	Surveyed unemployment rate (%)
1995	790	4.3
1996	815	4.0
1997	980	4.9

Source: SSBb (1997: 3; 1998: 3)

But more importantly, as many scholars point out, the reason that the registered unemployment rate cannot indicate the real unemployment situation in urban China is because these figures do not take into consideration the large number of layoffs that could be

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<sup>2</sup> As noted above, in 1997 and 1998 edition of *China's Statistical Yearbook*, the data on economic activity population, the total employed persons and the sub-total of employed persons in urban and rural areas had been adjusted. But, unfortunately, the Registered Unemployment Rate published by the State Statistical Bureau was still calculated based on the unadjusted data.

<sup>3</sup> This method uses a definition of unemployment which is similar to the international standard definition, so by using this method the unemployed does not need to be registered as unemployed.

treated as unemployed (Hu, 1998a; ISDS, 1998; Xu and Yang, 1998). According to *China Statistical Yearbook* (SSBa, 1998: 176), besides youth unemployment, which accounts for 32.9% of total registered unemployment, laying-off is the most important reason for urban unemployment, taking up 40.9% of the total. But the number of layoffs that have registered as unemployed is only a very small proportion of the totality of layoffs. And although there is improvement by using the sample survey method, layoffs, who by the definition are not unemployed and probably due to their variety of forms, have not been fully taken into account by the sample survey method.

### **2.3 Layoff in China: a definition**

Under the international standards, layoffs, generally speaking, refer to persons whose contracts of employment do not end but have been suspended by the employer for a specified or unspecified period. Layoffs expect and have the recognized right to be back to their works when the adverse economic conditions have passed and the performance of the firm is turning good. Layoffs can basically be classified in any one of the categories 'employed', 'unemployed' and 'not in the labour force', depending on the nature of the attachment to their jobs, their job search activity and their current availability for work. For example, layoffs with formal job attachment are to be classified as employed, meaning that he or she has a job but not at work; layoffs without formal job attachment but seeking and currently available for work are to be classified as unemployed; layoffs without formal job attachment who are not currently available for work or not seeking work are to be classified as not in the labour force. It should be noted that the international standards prefer to relax the seeking work criterion in the case of persons temporarily laid off, identifying them (without formal job attachment, currently available for work but are not seeking work) as a special subcategory of unemployment (Hussmanns, Mehran and Verma, 1990: 103-104).

In the context of China, although it is one of the most popular terms, 'layoff' has no clear and consistent definition. The most commonly used, also official, one about SOE layoffs refers to 'those SOEs' permanent workers (not including those temporary contract workers recruited from rural areas) who had been employed before the Labour Contract System came into force, and those contract workers whose contracts are not due to time.

They have been laid off from their working posts because of the productive and managerial reasons of the SOEs, but the labour relations between the layoffs and the enterprises have not been terminated, and they have not found another job yet' (MLSS, 1998). Based on this definition and also referring to the above international standard one, layoffs in China are different from unemployed theoretically, because they just quit from their jobs temporarily and still get allowance from the enterprises, which is supposed to be higher than unemployment benefits. And they are not eligible for receiving unemployment subsidies from the government (Smyth, 1999).

In fact, however, since most of them are redundant workers, which will be discussed in the next sub-session, their chances of going back to their former working posts are slim, at least in the foreseeable future, with reference to the performance of most SOEs. In this sense, the formal job attachment can almost guarantee nothing for the layoffs, therefore it is not a sensible indicator to judge whether or not a layoff is unemployed. As to the criterion of actively seeking jobs, it should be relaxed here, because for these involuntarily layoffs, they probably show some similarities with the category of discouraged workers due to their disadvantaged situations in the labour market and other institutional and psychological problems that are associated with transition, some of which will be discussed below. In addition, the official definition is unable to cover the various situations associated with layoffs, the different ways of enterprises' dealing with layoffs (Chen, 1998).

#### **2.4 Major sources of layoffs and specific forms of layoffs' diversion**

Generally speaking, redundant workers are the major source of layoffs. From the perspective of economic theory, an enterprise has redundant workers when its marginal cost of labour is greater than marginal benefit of labour. In other words, if the output of an enterprise does not increase or even decrease when more labour inputs are used, holding other things constant, then it means that there are redundant workers in this enterprise <sup>4</sup>. Due to certain political and historical reasons, the situation of redundant workers in Chi

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<sup>4</sup> Production capability is the criterion that has been used by most of the Chinese enterprise managers to judge if they have redundant workers. Other criteria include maximum profit level, maximum labour productivity. Based on different criterion, the calculation of redundant workers may be different (Fan, Lunati and O'Connor, 1998).

nese SOEs is very grave.

Because of the difficulty in measuring and calculating, the total number of redundant workers in Chinese enterprises is hard to get. Chinese government and scholars' estimations of SOE's redundant workers are different, ranging from 15 million to 60 million, but the majority tends to favour the number of 20-30 million (Dong, Yao and Liu, 1998), which taking up nearly  $\frac{1}{4}$  of the total number of SOE workers. The estimation of the Ministry of Labour in the first half of 1997 seems a little conservative, which thinks there are 22 million redundant workers in both SOEs and large-scale collective owned enterprises. The estimation is based on the labour quota of the enterprises for those have such a quota and on the managers' calculations for those do not have. The weaknesses of this estimation are obvious. Neither the backwardness of the labour quota management nor the voluntariness of the managers' calculation has been sufficiently taken into consideration (Dong, Yao and Liu, 1998). And it also neglects the dynamics of the economical structural adjustment and the SOE reform.

Meanwhile, relevant studies conducted by ILO and the World Bank also have shed some light on this issue. In 1995, ILO together with the Ministry of Labour of China conducted a survey to investigate the problem of redundant workers in China's enterprises located in urban areas. The survey shows that the general disguised unemployment rate of all kinds of urban enterprises in China is 18.8%, a figure lying at approximately the average of similar calculations by several Chinese government agencies (Wang, 1996). In the World Bank (1996) study, 84.6% of managers who had been interviewed thought that there were redundant workers in their enterprises in various degrees (see Table 2.3). In sum, despite whatever problems those studies may have, one thing is clear, that there are a large number of redundant workers in Chinese SOEs. These redundant workers have to be and have been released in pace with the enterprise reform.

Table 2.3: Redundant workers in 142 SOEs, first semester of 1994

Actual employment relative to optimal employment level	Enterprises
More than 30 redundant workers	17.0%
20 to 30 redundant workers	16.2%
10 to 20 redundant workers	26.8%
5 to 10 redundant workers	24.6%
About right	12.0%
Too low	3.4%

Source: World Bank (1996)

Other sources of layoffs include enterprise bankruptcy, merger, and others. Since the goal of China's economic reform is to establish socialist market economic system, laws and policies have been formulated and implemented to allow enterprises performing well in market economy. Bankruptcy system has been introduced since 1985. A significant increase in the number of bankruptcies can be seen after 1993, and the number of enterprises applying for bankruptcy is far more than the number approved <sup>5</sup>. Merger, which intends to relocate resources, increase the efficiency thus to revive the loss-making enterprises, of course, will also make workers be laid off <sup>6</sup>.

Since the central government only gives several guidelines of dealing with laying-off issue, it is local governments' and enterprises' concerns and measures, usually depending on their specific economic and social conditions, that count. In China's relevant literature, those measures dealing with layoffs are called layoffs' diversion (*Fenliu*). After couples of years' dealing with layoffs, three general forms of layoffs' diversion have been finalized currently by SOEs at the national level: diversion within enterprises, diversion through society, and natural reduction (early retirement). These can be seen from Table 2.4.

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<sup>5</sup> According to the data from the State Restructuring Commission, there were 9240 SOEs waiting for bankruptcy approval in September 1997 and 12.7 million workers would be involved (Smyth, 1999, cited from *Cheng Ming*, Dec. 1<sup>st</sup>, 1997, 16-18).

<sup>6</sup> For example, before the merger of Anhui No. 1 and No.2 Textile Factories, the totality of the workers of the two enterprises was 7700. The workforce was reduced to just over 3700 after that, meaning that almost 4000 workers were laid off (Smyth, 1999, cited from *Ming Bao*, Dec. 9<sup>th</sup>, 1997, A13).

Table 2.4: National-wide statistical figures of layoffs' diversion in SOEs, 1997

Totality of layoffs that have been diverted (10,000)	639.8	100%
1. Diversion within enterprises	278.3	43.5%
a) establishing economic entities by themselves	108.3	16.9%
b) labour export	44.1	6.9%
c) others	125.9	19.7%
2. Diversion through society	194.0	30.3%
a) going to other units	37.3	5.8%
b) seeking employment by themselves	117.9	18.4%
c) others	38.8	6.1%
3. natural reduction	167.5	26.2%
a) internal early retirement	132.5	20.7%
b) external early retirement	35.0	5.5%
4. Number of layoffs that have been reemployed	472.3	73.8%

Note: a) Percentages in the third column are the proportions to the totality in the first row respectively.  
b) The difference between internal and external early retirement is that, while the latter represents the formal meaning of early retirement, the former means workers have not retired formally, but have long-term holidays with basic wages and welfare higher than formal early retirement.  
c) The number of reemployed layoffs equals to the totality of diverted layoffs minus the number of natural reduction.

Source: SSBb (1998: 431-432)

Several points need to be noted. The first is that internal job rotation and shift has been used by many enterprises that have redundant workers. It is a safe in term of social responsibility but ineffective way in term of reducing redundant workers. Secondly, in most cases, after SOE workers being laid off, the provision of pension and other minimum welfare are still on the enterprise's side. Thirdly, because of the incomplete labour market system and other reasons, the communications among layoffs, their former enterprises and local employment service agencies are interrupting (Chen, 1998).

The problem here is, however, that although the forms of layoffs' diversion are different, the workers involved sometimes are all called layoffs. Laying-off is in fact much more than its original literal meaning. After the diversion, layoffs in China, generally include the following categories: a) reemployed layoffs, though they should not be called layoffs any longer; b) layoffs that are out of labour force either temporarily or permanently (internal and external early retirement); c) undiverted layoffs. This is broadly consistent with the international definitions reviewed above. For those undiverted layoffs, or in other words, layoffs who have not been reemployed and are still in the labour force, no matter what their specific sources and forms of laying-off are, and no matter they still have formal job attachments to their former enterprises or not, what they can get now are some basic allowance and minimum welfare, including pension and housing, which are very similar to

what the unemployed can get from the unemployment insurance and the social security system if they are completed, although a little bit better. In this sense, there is no much difference between them and the unemployed in China. Therefore, in order to show the real employment situation in China, the calculation of registered unemployment and the estimation of undiverted layoffs should be combined<sup>7</sup>.

## 2.5 Urban layoffs and unemployment figures in recent years: an estimation

The number of layoffs increased rapidly and enormously since 1993. According to Yang (1998), there were 3 million urban layoffs in 1993, 3.6 million in 1994, 5.64 million in 1995, 8.916 million in 1996, and 12 million in 1997. As to the figure in 1997, there is a difference between the statistical data provided by the State Statistical Bureau. Its on-line report says the number of layoffs by the end of 1997 is 12 million, among which 7.5 million are from SOEs (SSB, 1998). The newly published figures in *China Labour Statistical Yearbook* (SSBb, 1997; 1998) is much higher, 14.35 million in 1997. There are still no final figures of the totality of layoffs in 1998 and 1999 yet. The only reliable and relevant figure in 1998 came from the yearly statistical report of Ministry of Labour and Social security, saying that 6.099 million SOE layoffs in 1998 had been re-employed and the reemployment rate of SOE layoffs was 50% (Gao, 1999). And according to the latest news, China's Labour and social Security Ministry had conducted a sample survey covering 190 cities and more than 3000 enterprises, the data shows that in the first half of 1999, layoffs from SOEs are 7.42 million, among which only 2.02 million have been reemployed (*Ming Bao*, September 13<sup>th</sup>, 1999). And the number of new layoffs could be 3.5 million in the year 2000 (*Ming Bao*, October 30<sup>th</sup>, 1999).

Table 2.5 gives the information about the composition of layoffs in 1996 and 1997. Among these layoffs, the majority of them were coming from state sectors, which include SOEs, government organizations and public institutions. Since the number of layoffs from

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<sup>7</sup> The wording that unreemployed layoffs rather than undiverted layoffs should be calculated as unemployed (Hu, 1998a; ISDS, 1998) is inaccurate, because it ignores the number of layoffs who are out of labour force.

government organizations and public institutions were small in that years <sup>8</sup>, we can generally say that nearly 64% of the layoffs were from SOEs. Based on this and the data above, my estimation of the number of layoffs in 1998 and 1999 are 19.06 million and 23.188 million respectively.

Table 2.5: Composition of layoffs by unit ownership, 1996-1997

	Totality of layoffs (10,000)		Percentage of the totality of layoffs (%)		Percentage of the totality of urban formal employees (%)		Percentage of the totality of urban formal enterprise employees (%)	
	1996	1997	1996	1997	1996	1997	1996	1997
Sum	896.1	1435.2	100.0	100.0	6.0	9.8	7.9	13.2
State owned units	573.7	929.3	64.3	64.8	5.2	8.6	7.6	12.8
Urban collectively owned units	287.1	447.0	32.2	31.1	9.7	15.9	10.0	16.4
Other units	30.8	58.9	3.5	4.1	3.3	5.4	3.2	5.3

Source: SSBb (1997: 131, 213; 1998: 18-21, 230)

In order to know how serious is the unemployment problem currently in urban China, estimations should be made to get the real unemployment rate. Based on the analysis above, I agree with Hu (1999) that the number of real unemployed in urban China should include three parts: number of registered unemployed <sup>9</sup>, number of unemployed (undiverted) layoffs, and number of unemployed rural migrant workers in urban areas. Regarding to the last category, the data provided by *China Labour Statistical Yearbook* is that in 1997 rural migrant workers occupied 27.7% of urban economic population and their unemployment rate was only 1.5% (Hu, 1999). By fixing these two variables due to the fact that no other reliable data is available, I make my estimations on the number of unemployed rural migrant workers from 1993 to 1999 (see Table 2.6, row 5). Also as pointed above, the category of layoffs has to be disaggregated because it includes the re-employed, unemployed, and persons out of the labour force. Hu (1998a) gives us an equation:

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<sup>8</sup> Beginning from the year 1998, the government institutional reform will make 50% of the governmental employees (currently 5.48 million) to be laid off. Since the central government gave 3 year for local governments to divert these 2.72 million employees, however, I assume that this will not add to the totality of layoffs heavily at least in 1998 and 1999, and it will have little impact on the calculation and estimation of undiverted layoffs, because it is usually much more difficult to laid off governmental employees on one hand, and it is expected that they will have much higher diversion rate on the other.

<sup>9</sup> The reason why not using the number of surveyed unemployed is for fear of possible double counting of certain forms of layoffs.

The totality of layoffs = layoffs who are seeking jobs (1) + layoffs who are waiting for returning to their former jobs (2) + layoffs that waiting for registering to new units (3) + layoffs who have already found their jobs (4)

According to him, (1) (2) (3) should be calculated as unemployed. Therefore, the number of unemployed persons in urban China is the sum of registered unemployed and the unemployed layoffs. And later on he adds the unemployed rural migrant workers in urban areas to the totality, based on those just available data (Hu, 1999). However, this equation does not include early retiring layoffs and other forms of layoffs that are usually counted in the totality of layoffs but may be no longer in the labour force. Although in his latest article he realizes this, there seems no improvement in his method of calculation (Hu, 1999). Secondly, he has not used the adjusted data newly published by the State Statistical Bureau that I mentioned above, in which the figures of the total employed persons in urban areas are bigger.

My general equation is the following: The totality of layoffs = diverted layoffs (re-employed layoffs + naturally reduced layoffs + undiverted layoffs (unemployed layoffs). In case that the diversion rates of layoffs and other direct data in recent years are not available, to calculate the number of unemployed (undiverted) layoffs, I use the following more specific equation:  $T = T \cdot K1 + (T - U) K2 + U$ , in which T is the totality of layoffs; U is the unemployed layoffs; K1 is the ratio of reemployment; K2 is the ratio of naturally reduced layoffs to the total of diverted layoffs. The idea is to rely on those available data. For example, the reemployment rate sometimes in available, and K2 in 1997 has also been given, that is, 26.2% (see Table 2.4). All the relevant data, my rough estimations and calculations are formulized in Table 2.6.

Table 2.6: Unemployment and layoff figures and estimations in urban China, 1993-1999

Year	1993	1994	1995	1996	1997	1998	1999
Number of registered unemployed (10,000)	420.1	476.4	520.0	553.0	570.0	571.0	580.0
Number of totality of layoffs (10,000)	300	360	564	891.6	1435.2	1906	2318.8
Number of unemployed layoffs (10,000)	165	198	310.2	490.4	789.4	743.8	904.9
Number of unemployed rural migrant workers (10,000)	73	76.5	79.3	82.3	84	85.9	88.2
Number of the totality of urban unemployed (10,000)	658.1	750.9	909.5	1125.7	1443.4	1400.7	1573.1
Percentage of unemployed layoffs in the totality of urban unemployed (%)	25.1	26.4	34.1	43.6	54.7	53.1	57.5
Number of urban employed persons (10,000)	17589	18413	19093	19815	20207	20678	21218
Urban unemployment rate (%)	3.6	3.9	4.5	5.4	6.7	6.3	6.9

Note: a)The figures of number of registered unemployed and number of urban employed persons in 1999 is the author's estimations based on their trends in recent years;

b)The number of totality of layoffs in 1998 and 1999, and all the number of unemployed rural migrant workers are the author's estimations, as indicated above;

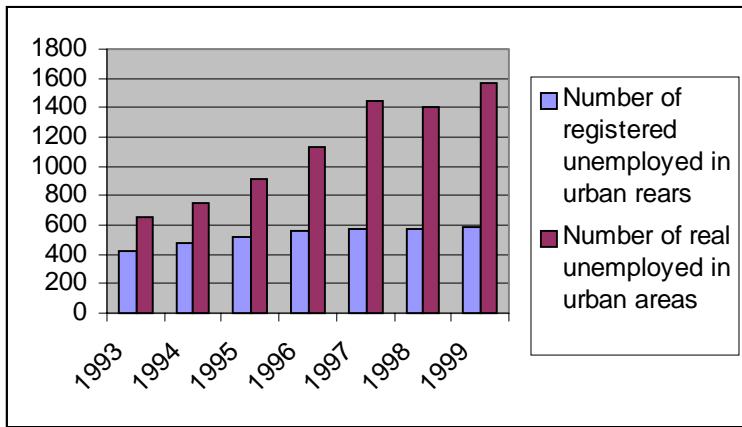
c)The calculations of the numbers of unemployed layoffs from 1993 to 1997 are based on the assumption that the diversion rate in each year is 45%. The basis of this assumption is that statistical data indicates that the totality of SOE layoffs in 1997 was 12.74 million and 6.40 million of them had been diverted (SSBb, 1998: 431-432), so SOE diversion rate of layoffs was 50.2%. Considering that SOE diversion rate could be a little bit higher than the national average diversion rate, I set up the latter at 45% and apply it to the preceding years;

d)To calculating the number of unemployed layoffs in 1998 and 1999, I used my second equation, in which I set up that  $K1 = 0.45$  and  $K2 = 0.262$ . Due to the dangerous number of layoffs in 1997, the government promised that all kinds of efforts should be made to secure the SOE reemployment rate at 60%. It was 50% actually in 1998, as indicated above. Again this is only SOE reemployment rate, I lower it to 45%. The SOE reemployment rate in the first half of 1999 was 27%, but hopefully it can be increased at the end of the year. The value of  $K1$  that I set up is also referred to Niu's (1998) finding that limited survey data indicates the national reemployment rate in recent years is between 40% and 50%.

Source: Yang (1998), SSBb (1998), Hu (1999) and the author's own estimations and calculations

The tentative conclusions from this table are that the urban unemployment rate in China has increased rapidly and it was over 6% in the very recent years, reaching the highest level that China ever has. As expected, the author's estimation is lower than Gu's (1999) for all these years and Hu's (1999) for the year 1997 and forward, but much higher than either the surveyed unemployment rate or the registered unemployment rate. And the proportion of unemployed layoffs in the totality of urban unemployed could be over 50%. The calculations, on the other hand, also show the influence of government intervention (see Note d of Table 2.6 above) and this could be the justification for policy analysis discussed in chapter 4.

Figure 1: Comparison of figures of registered unemployed and real unemployed in urban China, 1993-1999 (10,000)



Source: see Table 2.6

Of course, these rough estimations have problems. Due to data problem, values of certain variables, which subject to annual development, have been fixed in the calculations. Meanwhile, they also in certain degrees neglect the complexities within the category of registered unemployed, meaning that not all the registered unemployed persons are real unemployed, a small number of them may have found their jobs but still registered as unemployed. Therefore, it is very difficult to say whether these calculations underestimate or overestimate the real situation. However, the important observation is that once layoffs have been taken into account, the unemployment situation in urban China seems rather serious (see Figure 1).

## 2.6 Situations and characteristics of layoffs

### 2.6.1 Sectoral and regional distribution

Laying-off is closely associated with industrial structural adjustment and sectoral economic performance. In those traditional and depressive sectors, like forestry, mining and quarrying, war industry, and so on, there are a large number of layoffs, while in the newly developing sectors, such as IT, tourism, banking and real estate trade, there almost no layoffs exists (Yao, 1997). In 1998 manufacturing and commerce were the two sectors where both the number of layoffs and the rate of laying-off are much higher than any other sectors, according to statistical data (Hu, 1999). This could be the result of poor performance of the two sectors, due to unfavourable domestic and international economic situa-

tions. Laying-off also associates with regional economic development. In western and middle parts of China, employment opportunities are relatively less due to the poor economic performance and the poor financial capabilities of local governments. The problem of northeast China is that there are many old and large mining and industrial bases need to be structurally shifted <sup>10</sup>. After analyzing the survey data collected in the early 1997, Meng (1998) finds that it is where he/she works, rather than age or education that affect an individual SOE worker's laying-off or not. In this sense, laying-off shares the characteristics of structural unemployment.

### 2.6.2 *Educational and age distribution*

The survey conducted by Beijing Statistical Bureau in 1996 shows that the age profile of those layoffs focuses on middle age <sup>11</sup>. Among them, 52.9% is aging from 36 to 45, and there are 35.5% of layoffs belong to the age category of 26 to 35 (Dong, Yao and Liu, 1998). The idea that layoffs are principally of low educational and training level and of relatively old age is shared by many writers (Li and Liu, 1998; Wang, 1998; etc.). But Meng argues that 'the age and educational distributions of redundant workers are similar to the age and educational distributions of the urban population or urban labour force. If anything, those who were laid off were slightly more educated than the population as a whole' (1998: 3). Her analysis is reasonable because it seems that the criterion of laying off workers is based on the working posts rather than educational and age level, although workers who are old and less educated are in the disadvantage positions. It is still not clear to me, however, whether the redundant workers in her argument refer to layoffs. If not, that could be a problem, in that although the correlation of redundant workers and layoffs is clear, they are not the same.

Therefore, what we can say here at the national level is that layoffs do not have educational (see Table 2.7) and age advantages in the labour market. These unfavourable factors should have negative effects on their reemployment.

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<sup>10</sup> For example, Fuxin city, once a major coal production base of China, has almost dried up all its workable coal reserves, which means that about 400 thousand workers need to be re-employed (Wang, 1998).

<sup>11</sup> The middle age in China usually refers to ages between 30 to 50.

Table 3.7: Educational level composition of urban layoffs, 1997

Educational level	Percentage
Total	100
Illiterate and semi-illiterate	1
Primary school	9.6
Junior secondary school	52.6
Senior secondary school	33.8
College and higher level	3

Source: SSBa (1998: 177)

### 2.6.3 *Gender bias*

Various survey data reaches the same observation that female workers take up nearly 60% of the total number of layoffs (Yao, 1997; Dong, Yao and Liu, 1998; Liu and Zhuang, 1998). So, it appears that female workers are easier to be laid off than male workers are. The possible explanations are, firstly, manufacturing and commerce are also the sectors where a higher proportion of female workers are employed. Data indicates that in 1997 female workers take up 44.5% of the total workers in manufacturing, and 46.8% in commerce (SSBa, 1998: 146). Secondly, also more importantly, as we can see, China's female participation rate in the labour force, 45% in 1997, is at a relatively high level compared to the average level of different income group countries (World Bank, 1999: 50-52). The transition of China's economy to market system, however, have had negative impact, at least at the early stage, on female's employment participation (Dong, 1996), which can be explained roughly by those theories on gender segregation in the labour market (Anker, 1997) and especially in the informal sectors (Scott, 1995).

### 2.6.4 *Income inequality and poverty*

Currently, most of Chinese households depend mainly on their labour income. Statistical data shows that among the income sources of Chinese urban households in 1996, wages and welfare income associated with employment occupy 75.5% of the total income (Wei, 1998). Laying-off makes layoffs receive only low allowance and limited welfare. Obviously, income inequality has been enlarged after workers were laid off (Meng, 1998; Mok and He, 1999). In China the newly emerged urban poor may be largely because of laying-off and the suspending or reducing of wages for workers. The statistical data used by Chen (1998) shows that in 1996 the number of workers whose wages had been sus-

pended or reduced by their enterprises due to the poor performance was 13 million, occupying 12.4% of the totality of workers in China's SOEs and UCEs (Urban Collective Enterprises). Among them, those workers whose wages had been suspended took up 46.8%. Among those whose wages had been reduced, roughly speaking, the proportion of wages received by the workers which were higher, lower than and equal to the local minimum wages were 1/3 respectively. His estimate of the number of workers that had been laid off or whose wages had been suspended or reduced in 1997 was 16 million, 37.5% of them could be ascribed to laying-off, 62.5% were the cases of wage suspension and reduction.

In addition, the incomplete social security system and insufficient unemployment insurance make situations even worse. Statistical data shows that the national monthly average living allowance that layoffs received in 1996 and 1997 was only about 77.1 and 82.7 Yuan<sup>12</sup> respectively (SSBb, 1997: 213; 1998: 230), and it was much lower for layoffs in western, middle and northeastern China. For example, layoffs in Heilongjiang Province in average received merely 28 Yuan per month. This is clearly far from enough even for basic necessities. As indicated by statistical data, in 1997 per capital annual income of urban Chinese was 5160.3 Yuan, and the per capital monthly average expenditure for the low, middle and high income group was 98.76, 163.88 and 296.12 Yuan respectively (SSBa, 1998). So, poverty alleviation should be the concern here urgently.

#### 2.6.5 *Psychological problems of layoffs*

Several so-called psychological problems of layoffs have been identified by scholars (Gu, 1998; 1999; Li and Liu, 1998). Firstly, layoffs are much more reluctant to take those jobs that are usually considered to be 'dirty, hard, dangerous and disgraceful'<sup>13</sup>, like cleaning, porting, etc. Secondly, layoffs prefer to work in public sectors. A survey done by Beijing trade union vocational service agency has demonstrated this. The data shows that 86.4% of the sample layoffs want to work in SOEs or other public sectors, 47.0% want to go back to their former enterprises (Gu, 1998). Thirdly, a large proportion of layoffs are

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<sup>12</sup> According to current official exchange rate, roughly speaking, 8.3 Chinese Yuan equals 1 US\$.

<sup>13</sup> 'Disgrace' here is defined according to Chinese tradition and culture.

not active job seekers, they are waiting for government or their former enterprises to provide employment opportunities for them.

Although there are economic justifications for such kinds of thinking and behaviour, which I will discussed below, these psychological problems also have their ideological root. Under traditional socialist ideology, workers, SOE workers particularly, are the masters of the country and every worker has his right to work and to get a job. This kind of thinking is obviously incompatible with market rules. Although the ideology has changed gradually, under such traditional inertia many workers are still not ready to face the new challenge, especially when they become the looser at the early stage of the reform, as the Guangzhou city case shows that the majority of SOE workers that have been interview do not agree that their social status has been improved since the reform (Mok and He, 1999). So, on one hand, most of SOE workers prefer to be still attached to their former enterprises and wait for the government or the enterprises finding jobs for them; on the other hand, they can not psychologically stand taking those informal, low-end jobs and unemployment. For them, psychological adjustment towards market economy ideology seems necessary. They have to adjust to the new rule of work and life.

## 2.7 Observations

Statistically, layoffs cannot be categorized as unemployed, because the term ‘lay-off’ in China overlaps among reemployed, underemployed, unemployed, future starts and early retired. But undiverted layoffs are in a real situation almost the same as the unemployed. So, in this paper they are treated as the unemployed when calculating the real unemployed figures. Analyses also show that the emergence of massive layoffs is consistent with the introduction of major policies of enterprise reform and SOEs are the place where the majority of layoffs come from.

While official data always has the tendency to underestimate unemployment figure, current studies by scholars seem to adopt a contrary position. Comparatively speaking, the unemployment problem currently in China, on one hand, seems still not very serious in term of unemployment figures not only compared with the corresponding figures of other

countries but also according to China's situation<sup>14</sup>. Particularly, when taking into consideration that most of the redundant workers will possibly be released, roughly speaking, within the coming 2 or 3 years, the unemployment situation hopefully could be turning good after a few years, holding other things constant. Arguably, it is not unemployment but probably poverty alleviation should be given more attention, because due to the incomplete social security system, the layoffs who become very vulnerable do need help, and the situation will be aggravated if no appropriate policies to address it. On the other hand, since unemployment has increased rapidly and reached the highest level since the founding of People's Republic of China, therefore, policies should be made to mitigate the unemployment and laying-off situation.

### **3 CAUSES OF MASSIVE LAYOFFS IN POST-REFORM CHINA: TOWARDS AN ANALYTICAL AND INTERVENTION FRAMEWORK**

#### **3.1 Introduction**

In this chapter, in order to answer the basic question 'what are the causes of massive layoffs in post-reform China', an overview is given briefly of the major strands of thought on unemployment. The impact of labour market segmentation and economic restructuring on employment and unemployment, is also mentioned. From these reviews, this paper tries to find some useful models or strands of thought that can be used to explain laying-off and unemployment in China, thus to provide a general theoretical background and analytical framework for policy analysis. And then, the analysis on the causes of massive layoffs in China is conducted from five perspectives.

#### **3.2 Unemployment theories review**

Due to the close correlation between layoff, unemployment and underemployment, the study of layoff has been emphasized and contributes to the general unemployment studies (Azariadis, 1975; Medoff, 1979; etc.). Obviously, the study of layoffs cannot be separated from those unemployment theories.

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<sup>14</sup> As referring to ISDS's (1998) study, their suggestions are that in present China at the national level 5% can be treated as the safety line of unemployment rate, while 6%, 7% and 8% can be seen as the light, medium and serious warning line.

### 3.2.1 *Mainstream unemployment theories*

The so-called mainstream unemployment theories are those once had and still have dominated the unemployment thinking, such as neoclassical, monetarist, the new classical and Keynesian. According to them, under free market system, the equilibrium between labour supply and demand will be achieved through changes of wages. Once the market functions perfectly, unemployment cannot exist. Unemployment, therefore, can only be a short-term problem, which must be due to market failure caused by either unemployment insurance or trade unions (Minford, 1983)<sup>15</sup>. In this case, there is no need for policy makers to formulate intervention policies. What they need to do, at most, is to help the market to be free from restrictions.

The existence of a minimum wage floor and unemployment insurance as the explanations of unemployment, however, has been both challenged. It is said that with rigid wages, the demand for labour could be expected to fall short of the number of available workers at the prevailing wage. While logically agreeing with this explanation, Summers and Clark (1990) question its empirical relevance. They found that concentrated unemployment among adult workers, almost none of whom work for near the minimum wage when employed. The latter explanation postulates that the reason of persons' remaining in the labour force for many months is because they want to get unemployment insurance. While unemployment compensation may have an important effect on the probability of withdrawal for those receiving benefits, it is unlikely to be a dominant explanation of the high overall rate of exit from the labour force (Summers and Clark, 1990). As far as developing countries are concerned, the unemployment insurance system is far from complete, so that the applicability of this explanation to most of developing countries is doubtful.

Keynesian unemployment theories emphasize the macroeconomic conditions and labour force disequilibria. Through attacking on Say's law, that supply creates its own demand, Keynes (1936) argues that unemployment is due to a lack of effective demand for the goods and services that workers produce. In his view, full employment can only be restored by increasing the demand for goods and services. Governments, at this point, can play a very critical role. They can increase public expenditure, cut taxes and lower interest

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<sup>15</sup> According to Minford (1983), other factors, like taxation, technological change, population change, etc are only contributory but not fundamental to unemployment.

rates. Keynesian policies, however, have been criticized for occurring increasing inflation, although they appear to be useful in controlling unemployment. And Keynesian approach definitely fails to take into consideration micro level types of unemployment (Schervish, 1983).

Another important unemployment model -- the cyclical unemployment model is derived from the neoclassical, Keynesian and Marxist theories (Samuelson, 1939; Keynes, 1936; Marx, 1974). Business cycles are the fluctuation of aggregate economic activity, usually consisting of peak, decline, trough and recovery. When demand decreases over the business cycles, not only new job seekers meet great difficulties in finding jobs, but also many workers will be fired or laid off. Clearly, the frequency of unemployment types is quite different among the cycles. In either the competitive sector or the oligopoly sector, a similar trend is quite clear that the relative frequency of involuntary unemployment increases during the recession period and data shows that the proportion of layoffs is almost doubled in the trough compared with the figure in the peak (Schervish, 1983).

### *3.2.2 Structuralist unemployment theory*

The changes of demand or production techniques due to technological progress and international competition influence the demand for labour, and some skills may become redundant, therefore structural unemployment arises. On one hand, there are persons seeking jobs, on the other hand, there are job vacancies. But those persons can not match those vacant jobs due to lacking of relevant skills and other characteristics. Structural unemployment, therefore, can be described as 'a group- and sector-specific inability to match persons and jobs' (Schervish, 1983: 49). Workers with these redundant skills will be unemployed until they can be retrained, or have moved to other industries and areas where such skills are still in demand. Frictional unemployment differs with structural unemployment in this point that it happens when job seekers have not yet been located the vacant jobs that fit their skills. Remedial policy for lowering structural unemployment focuses on retraining workers. And on the other hand, policies that can facilitate labour mobility may also work.

### 3.2.3 *Search theories*

Search theories (Stigler, 1962; Phelps, 1968; etc.) offer another explanation of unemployment, containing many fundamental insights into the behaviour of the labour market. According to these theories, individuals choose to be unemployed when the return to search exceeds the return to remaining employed or out of the labour force. In this sense, searching is a kind of investment. Persons invest by forgoing income and becoming or remaining unemployed in order to find jobs with higher wages. Here, the ‘high reservation wages’ by the unemployed has been highlighted to explain the extensive unemployment. When the market wage is more or less equal to his reservation wage, a person may choose unemployment for a period of time and waiting for high wages. For these unemployed people, joblessness should not be costly. And upgrading wages and job opportunities will have large influences on them. Thus, search theories give an explanation of both the flow into and duration of unemployment. However, such explanations do not appear capable of explaining continuing unemployment. And these models can not explain those substantial and persistent regional differences. Other criticisms of search theories are that they have ignored on-job-search activities, which means a certain number of persons change their jobs without being unemployed, and they show no relevance in explaining unemployment caused by a lack of demand for the product the unemployed worker’s previous firm produced (Hudson, 1988).

Here, a model called luxury unemployment hypothesis needs to be mentioned. As an important theory that suggests an alternative interpretation of high or rising rates of open unemployment in developing countries, the luxury unemployment theory holds that unemployment could be high due to social and economic changes, like the ‘rising incomes and aspirations, the breakdown of the extended family system and of social sanctions against female labour force participation, and the decline of self-employment’ (Udall and Sinclair, 1982: 51). There are debates on the validity and applicability of this theory, nonetheless, as different data reaches contradictory conclusions (Horton, Kanbur and Mazumdar, 1994; Turnham and Erocal, 1990; Udall and Sinclair, 1982). So, whether this theory can be applied to the laying-off issue of China needs to be considered. It seems, however, that luxury unemployment hypothesis can only be partly applied to China’s laying-off. Instead of getting support from their family members, layoffs in China, as the house-

heads of their families in most cases, still expect to benefit from the diminishing traditional socialist welfare.

### **3.3 The impact of labour market segmentation and economic restructuring in developing countries**

#### *3.3.1 Labour market segmentation*

Segmented labour market theory represents an alternative approach to that of neoclassical theory, in which the cornerstone is the concept of competitive labour market. This approach holds that labour market is segmented by the underlying socioeconomic forces, factors, which may take the form of social class, union, gender, race, education, rural-urban division, and so on (Doeringer and Piore, 1971; Wilkinson, 1981; Fine, 1998; etc.). As far as urban labour market is concerned, its segmentation parts owing to institutional factors and rigidities has also been broadly recognized (ILO, 1998). Variants of the segmented market approach include: the dual labour market hypothesis, the job crowding hypothesis and the insider-outsider theory (Smith, 1994).

Certainly, labour market segmentation has great impact on employment and unemployment in that segmentation creates ‘the failure of the labour market to treat its participants evenhandedly’ (Ryan, 1981: 4). Taking the dual labour market model here for example, workers in primary labour market enjoy high wages, employment stability, good working conditions, etc, while their counterparts in the secondary labour market face contrary situations. More importantly, there are barriers to prevent workers moving freely among the segments. As Smith (1994: 104) states, ‘experience in the secondary market could be an adverse signal when seeking employment in the primary segment. Those displaced from the primary market may prefer unemployment to jobs in the secondary market’.

#### *3.3.2 Impact of restructuring on employment*

The 1980s and 1990s have seen Structural Adjustment Programmes (SAPs) taken place in many developing countries. Formulated mainly by the World Bank or IMF, those structural adjustment programmes, which focused macroeconomic stabilization and market liberalization, usually had three main components, namely, reducing macroeconomic im-

balance, removing price distortions and reducing the role of the state (Demery, 1994; Toye, 1995), and had brought far-reaching influence to the recipient countries. China's restructuring programmes started together with the general reform. Basically, the policy formulation and implementation of the structural programme were self-determined by Chinese government, however, it did receive lots of advice and technical assistance from the World Bank and/or IMF (Ishikawa, 1993). Their impact on employment in China should not be neglected.

The impact could be analyzed and seen from several aspects. First, trade liberalization, a core of many structural adjustment programmes, can result in unemployment if wages do not adjust downward (Edwards and Edwards, 1994). A trade liberalization will tend to increase the wage gap between the importables and other sectors due to the wage rigidity in the importables sectors, thus we can see a decline in the level of employment, while wages are falling in the rest of the economy as some workers seek employment there. Secondly, there are convincing evidences to show the declining of the formal sector employment as a result of government expenditure cuts in the public sector. Informal sector, on the contrary, has played an increasingly important role in employment creation (Lachaud, 1994; Amadeo and Pero, 1997; Daniels, 1999). Thirdly, along with the macro stabilization and market-oriented structural reform packages of trade liberation adopted in many developing countries in the 1980s and 1990s, developing countries have experienced de-industrialization (Pieper, 1998). But, unlike the experience of western countries, industrialization and urbanization did not always achieve the levels of economic growth required to provide a rapidly growing urban labour force with productive employment. They did not generally result in the disappearance of traditional or informal sector activities, nor in a major reduction of employment in agriculture (ILO, 1998). In short, the short term impact of structural adjustment has often been demonstrated to be negative, 'with a precipitous decline in growth accompanied by higher unemployment, more survival self-employment, reverse migration to the rural areas, and falling real wages' (Turnham, 1993b: 32).

To conclude the review above, clearly, each unemployment model can find its relevance in unemployment realities. The point is that they play disproportionate roles and it seems to be inappropriate to separate these theories. Instead, efforts should be made to combine them effectively to provide a better explanation on unemployment issues. Ac-

cording to Layard, Nickell and Jackman (1991), unemployment is subjected to both demand shocks and supply shocks. The search behaviour of the unemployed also affects unemployment. In his general disequilibrium theory, Hudson (1988) also takes into account both demand-side and supply-side factors. He defines unemployment into the following different types: pure demand-deficient unemployment, pure supply-deficient unemployment, joint demand- and supply-deficient unemployment, and frictional unemployment. And he argues that the only way to reduce unemployment is to expand both the demand-side and the supply-side simultaneously. The demand policies should be ‘carefully targeted to stimulate demand in areas where employment is limited by a lack of demand’. The supply-side policies need to be formulated to promote the growth of new industries and prevent the collapse of existing ones (Hudson, 1988: 75). And, the impact of labour market segmentation and economic restructuring on employment is also so important that need to be taken into consideration. Having understood these, I now try to identify the causes of the emergence of massive layoffs in the context of post-reform China.

### **3.4 Causes of the emergence of massive layoffs and increasing unemployment**

#### *3.4.1 The process of enterprise reform*

Since the founding of the People’s Republic of China, high employment rate and life-long employment strategies, which were at the sacrifice of the efficiency of the enterprises, had been introduced. Problems associated with SOEs have been identified by many scholars (Broadman, 1995; Fan, Lunati and O’Connor, 1998), which include an inefficient of enterprise incentive and governance systems, distortions in the policy and regulatory regime, the lack of well-developed factor markets for labour, capital and technology, an excessive burden of social welfare payments to workers, and a high proportion of redundant workers. Among these problems, the issue of redundant works is definitely an important one.

Efforts have been made since 1978 to restructure SOEs aiming to increase their efficiency, profitability and accountability for assets and performance. SOE reform in the 1980s, however, centered on decentralizing governmental controls and increasing managerial autonomy through the Contract Responsibility System, and the redundant worker issue had not been truly touched until the 1990s. The year 1993 was a critical year in the process

of China's reform. The 14<sup>th</sup> Central Communist Party of China (CCPC) issued the *Decision on Issues Concerning the Establishment of a Socialist Market Structure*, which established a 50-point agenda for 'creating a modern enterprise system'. The major points are the following: a) 'transforming SOEs into a modern enterprise system, with redefinition of the ownership of state assets and the distribution of rights between enterprises and the state; b) diversification of ownership structure of the enterprise by inviting more non-state ownership; c) creating a competitive market (or "level playing field") for state and non-state enterprises; d) speeding up the social security system reform by separating social welfare functions from the enterprises' (Fan, Lunati and O'Connor, 1998: 18). And this was the beginning of emergence of large-scale layoffs. In 1997, the policy of 'grasping the big, let go the small' accelerated the SOE reform by encouraging merge and bankruptcy, which meant that more than 100,000 medium and small SOEs would be privatized by selling or leasing to either domestic or foreign investors, while the government still controlled those 1000 large SOEs in key industries and infrastructure sectors. Currently, the restructuring of SOEs has been conducted through different ways, like merger, joint venture, divestiture, and bankruptcy. In general, accompanying with the process of SOE reform, a lot of redundant workers have been in most cases involuntarily laid off.

### 3.4.2 *Unit-based welfare system and layoff's perspective*

In China, the traditional welfare system is not society-based but unit-based, which means the responsibility of providing welfare is on every unit rather than society. As far as SOEs are concerned, besides life-long employment, they have to provide social welfare and security services, such as pensions, medical care and free or subsidized housing programmes to its workers. Specifically for example, under traditional unit-based welfare system, a retired SOE worker can get pension payments up to 80% of his/her salary at retirement age, and he/she is also entitled to medical care reimbursement and other subsidies. Other fringe benefits include transportation, heating, hair-cutting and bathing services, etc. And some of these benefits are not counted either as part of the wage bill or as welfare expenditures (Fan, Lunati and O'Connor, 1998: 41-50). SOEs as welfare providers highlights the need of workers to rely on the unit system (Womack, 1991). However, this kind of

work unit socialism, intending to protect the basic social rights of workers, creates a contradiction between freedom and security, as the reform towards market economy going on.

And more crucially, the traditional welfare system covers mainly state-owned sectors. Non-state sectors, like private enterprises, joint ventures, and foreign funded enterprises, generally speaking, which emerged after the reform, usually do not provide such a comprehensive welfare. For example, under traditional welfare system, retirement pension programme is available only for state employees, while rural workers and other non-state sector employees are not entitled to it. Staff and workers in state sectors can receive free medical care, while urban employees in other sectors received at best partial reimbursement and rural migrant workers are again not entitled to it. So, under traditional unit-based welfare system job transferring in China, unless to other state-owned sectors, has the very risk of losing certain welfare provision, if not all. Therefore, Gu (1998; 1999) and others have identified it as the institutional base of massive unemployed layoffs, pointing out that it is this traditional unit-based welfare system that makes layoffs reluctant to take non-state sector jobs. Of course, the unit-based welfare system is currently under transformation to the social welfare and security system, and certainly things have changed recently. But unfortunately, the speed of transformation is slow.

As far as those layoffs are concerned, the fact that they are reluctant to take certain low-end jobs clearly adds difficulties to the reform and enhances the unemployment and laying-off figures which otherwise will not be so high. At this point, some unemployed layoffs share certain similarities with luxury unemployed.

### *3.4.3 Urban labour market perspective*

The development of urban labour market also influence laying-off situation. Zhang, Xie and Dong (1998) analyze the degree of the marketization of China's labour. Four indicators have been used in their study, that is, the degree of freedom for labourers to choose jobs, the degree of freedom for employers to hire workers, the degree of freedom of labour mobility and the degree of freedom to determine wage levels. They conclude that the marketization degree was 60% in 1995<sup>16</sup>, and this means China's labour market has developed

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<sup>16</sup> They assume the degree of marketization in USA's labour market as 100%.

very quickly in recent years. In my point of view, however, this conclusion has problems. Firstly, several sub-assumptions in their method seem to be inappropriate. For instance, they have used the rate of signing a labour contract as the proxy of labour mobility, which probably makes an overestimation because the labour contract system in some cases has not been fully implemented rather than an outside show. Secondly, the basic assumption that the arithmetic mean of the values of the four indicators is also problematic. So, it seems to me that although China's labour market has developed quickly, its marketization degree is still pretty low. For example, investigations in provinces, like Hubei, and major cities, like Shenyang, indicated that the unemployed workers that found jobs again through the labour market's redistribution and adjustment were less than 10% of the totality (Chen, Xu and Zhang, 1995).

Further, a national wide urban labour market has not fully emerged and segmentation seriously exists within urban labour market (see Table 2.1). Because of the administrative control and registration system, the urban and rural labour markets are seriously segmented on one hand (Chen, 1995), and urban labour market has been separated by regions and cities on the other. And within one region or city urban labour market, there is the segmentation between state-owned sectors and non-state sectors due to the coverage of the traditional unit-based welfare system. The foreign funded firms, firms funded by entrepreneurs from Hong Kong, Macao and Taiwan, and some formal private enterprises can be seen as the primary labour market, once the social security system is completed, while SOEs, generally speaking, are somewhere between them and those low-end, informal non-state sector jobs. Even within state-owned sectors, there are segmented labour market among regular state workers, contract workers, and temporary workers with regard to different wage level, job security and protection (Granick, 1991). As Zhang (1998) states that it is such radical different institutional arrangements for urban and rural migrant workers which make urban workers easily desire better jobs in terms of higher wages and relaxed working conditions. For layoffs, they have little opportunities to find employment in the primary labour market because of their relatively low human capital, etc, and they also do not want to find jobs in informal non-state sectors where they can no longer enjoy the traditional unit-based welfare. Those different institutional arrangements, such as the unit-based welfare system, the household registration system, if cannot be transformed or abol-

ished respectively in the short run, are indeed the obstacles to the development of labour market.

Table 3.1: Comparison of the primary, secondary and tertiary labour market in urban China

	Primary labour market	Secondary labour market	Tertiary labour market
Wage level	high	middle	low
Welfare level	low	high	no
Labour mobility level	high	low	high
Unemployed situation	middle	high	low
Skill level	high	middle	low
Ownership of most employers in the market	foreign funded, HMT funded *, and formal private owned	state owned and urban collectively owned	state owned and informal private owned

Note: \* HMT funded means enterprises funded by entrepreneurs from Hong Kong, Macao and Taiwan.

Source: Hu (1999) (The author has made some modifications)

All these factors have negative effects on layoffs' job searching to other cities or other sectors within cities where certain jobs are available. In this sense, the reform of China's labour market was slow, or even failed (Korzec, 1992). Until now, again although things are changing, the reform of China's labour market is still slow.

#### 3.4.4. *The pressure of increasing labour supply and rural-urban migration*

China has the largest quantity of population as well as labour force in the world. In 1998, the national population growth rate was 9.53 per thousand (Zhang, 1999). Though lower than previous years, it is still a considerable number when taking the huge population base into account. And although the rate of urbanization is still low, the urban population has been growing about 10 million per year in the 1990s (see Table 3.2). Therefore, the pressure of increasing labour force on urban labour market will be still high for the coming decades (see Table 3.3).

Table 3.2: Growth of urban population in China in recent years

Year	Urban population (million)	Proportion in total (%)
1993	333.51	28.14
1994	343.01	28.62
1995	351.74	29.04
1996	359.50	29.37
1997	369.89	29.92
1998	379.42	30.40

Source: SSBa (1998) and Zhang (1999)

Table 3.3: Labour force in China, 1980-2010

Population aged 15-64		Labour force				
Year/million		Total (million)			Average annual growth rate	
1980	1997	1980	1997	2010	1980-1997	1997-2010
586	829	540	736	823	1.8	0.9

Source: World Bank (1999: 54)

More seriously, despite the protection of household registration system, urban employment has been facing the huge challenge of rural migrant workers. Estimations on the number of rural migrant labour in urban areas are quite different but all huge. Cheng's (1998) rough estimation of rural surplus labour is about 200 million currently, among which about 15-30 million have joined the so-called 'floating population', and he stresses that it is just the beginning. Chen (1998) estimates the total number of rural migrant labour increases to 30 million in 1997. And the green report presented by Rural Development Institute, Chinese Academy of Social Sciences holds that even earlier in 1993 there were approximately 39 million rural workers in urban areas at any time (Knight, Song and Jia, 1999). Using the method of sample survey, State Statistical Bureau finds that agricultural population took up 27.7% of urban economically active population in 1997 (SSBb, 1998). This means the figure of rural migrant labour in urban areas could possibly be over 50 million. Although rural migrants mainly take the low-end jobs, this definitely has limited the number of jobs that are available to urban job seekers, and among them are layoffs.

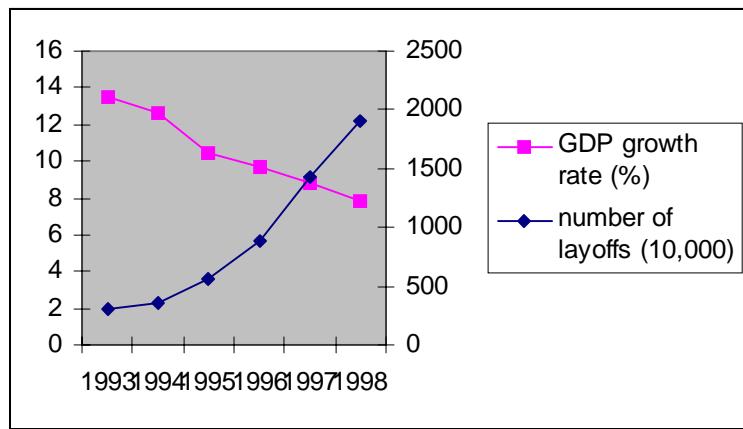
#### 3.4.5 Business cycle and restructuring factors

In order to reduce the high pressure of inflation, the government has adopted measures to slow the economic growth speed since 1993. 'Soft-landing' strategy has been created and implemented. As a result, economic growth speed has been slowing, and public investment has been reduced. Although the economic growth speed is still high in recent years, evidently it slows down. From 1992 to 1996, it was 14.2%, 13.5%, 12.6%, 10.5%, and 9.7% respectively. The growth rate in 1997 was 8.8%, 7.8% in 1998, and estimation of this year even less (See Figure 2). This has made enterprises facing more difficulties. Due to declining demand, many enterprises had to reduce their production, and some were bankrupt (Wang, 1998). Currently, the most serious problem that impedes China's economic development has been identified by China's State Planning Commission as lacking of efficient investment demand (Chinesenewsnet, 1999a), and a Chinese scholar has gone a

step further to consider it as harmful deflation (Chinesenewsnet, 1999b). Several measures have been taken to stimulate domestic expenditure and to increase the efficient demand. For example, the central bank has lowered the interest rate six times this year; meanwhile the wages of government functionary and SOE staff and workers have been raised recently. But the tendency of saving money for future expenditure is still strong, especially for those middle-aged people (Chen and Le, 1999).

It is quite reasonable, as some scholars argue, that business cycle factor is probably not the key point here because high economic growth does not necessarily mean high employment growth and more specifically a large number of workers have been laid off due to structural adjustment reason, which has little correlation with economic growth rate (Gao, 1998). In the process of shifting from developing the traditional heavy industry to developing the new capital-intensive and technology-intensive industry, the enterprises' capability of absorbing labour decreases. However, it is also right that the relatively unfavourable macro economic circumstance does nothing good but exacerbates the serious situation of enterprises' performance and laying-off. Besides the sectoral technical adjustment and improvement, laying-off could also be seen as one of the outcome of general restructuring. In this sense, it is the sign of the contraction of formal sectors in China.

Figure 2: Evolution of GDP growth rate and number of layoffs, 1993-1998



Source: SSBA and Table 2.6

### 3.5 Concluding remarks

In this chapter, several major unemployment theories have been reviewed. Unemployment is caused by some social and economic factors. It may have different reasons and take different form, such as frictional, structural, cyclical unemployment, and among others. As far as unemployment in developing countries is concerned, the impact of labour market segmentation and economic restructuring should be emphasized.

In the context of post-reform China, causes from five major perspectives have been elaborated to explain the emergence of the massive layoffs. All these reasons have played their roles, with the reason of enterprise reform appearing to be the more direct one. The restructuring of state sectors leads or needs the mobility from state sectors to non-state sectors, but the different welfare provision, registration system, and among others, which are the major factors of labour market segmentation, impede the mobility. It seems that urban unemployment associated with laying-off in China integrates the characteristics of structural unemployment, cyclical unemployment, frictional unemployment and hidden unemployment. It also shares some similarities with the luxury unemployment but under different background. Therefore, Gu prefers to call it ‘institutional unemployment’ (1998) and later ‘transitional unemployment’ (1999).

There should be no cure-all for unemployment, however, it seems that policies and strategies to address increasing unemployment could be effective from both the demand side and supply side. Perhaps, the most important thing to do is to analyze the specific situations whereby unemployment happens and to cope with it accordingly and comprehensively. When coming to policy analysis, it seems that layoffs in this study can be ideally classified into three categories: real unemployed, visible underemployed, and luxury unemployed. The difference between the real unemployed and the luxury unemployed is the reluctance of the latter to receive certain jobs. For each category, there should be special strategies and policies to resolve the unemployment issues that are facing it.

## **4 POLICIES AND STRATEGIES TO DEAL WITH LAYING-OFF: A POLICY ANALYSIS**

### **4.1 Introduction**

This chapter covers certain aspects which may lead to a better understanding of what probably are the appropriate strategies and policies to tackle the unemployment issue in general and laying-off in particular in China's urban areas. Several key questions will be analyzed in this section: Are the current quantity of jobs enough to meet the growing labour force, unemployed and layoffs towards full employment? If not, what are the possible and useful policies and measures to facilitate the target of employment creation? When jobs are available, are layoffs willing to take them? If not, why and how to resolve this problem? What are the weaknesses of current strategies and policies? For the sake of convenience, some policies and strategies that will be discussed below are roughly divided into two major categories: labour supply side and labour demand side.

### **4.2 Summary of policies and strategies currently adopted by the government**

There are abundant suggestions on policies and strategies for the government to address the layoffs issue. Some of them have been adopted by the government. Of course, the government has its own political and social concerns. The government's strategies and policies are more or less summarized in China State Council's document (State Council, 1998). I list the major points here:

- The enterprises should fully recognize their social commitments and the interests of the state, and be responsible for their layoffs' reemployment. They should consider workers' basic living standard before making decisions on who should be laid off. For example, a couple should not both be laid off.
- As a social security system, reemployment service centre or similar institution should be set up, which will distribute living allowances and other benefits, as well as pensions, unemployment and medical insurance for redundant workers on one hand, and deliver vocational guidance and training on the other.
- The funds for the operation of reemployment centre will be shared by the government, enterprises and other social sources, each providing 1/3 of the funds. The reemployment centre is supposed to take care of the layoffs for no more than 3 years.

And the living allowance for them will reduce gradually, but no lower than unemployment benefit.

- Local governments should develop labour-intensive industries based on specific conditions. The development of the Tertiary Industry, especially commercial sector, catering sector, tourism sector, household and community service sector should be given the priority with favourable policies.
- Small enterprises and labour-intensive industries should be developed as the main ways of increasing reemployment.
- Layoffs are encouraged to set up their own businesses. They will have tax-free status for three years. Financial institutions should provide loans for them.
- The number of rural migrant workers should be controlled. And they are not eligible for any of those special benefits that are given to layoffs.
- Layoffs, regardless of whether they were re-employed or not, should enjoy the same pension benefits. As to housing, layoffs that have not bought their houses according the housing reform policy can continue to rent their houses.
- In order to guarantee the living standard of layoffs, the establishment of urban living security system should be speeded.
- More attention should be given to the development of vocational guidance and labour market information system.

This document provides a rather comprehensive package of policies to deal with layoffs. It has drawn some popular ideas and useful suggestions on one hand, and represents the government's concern of political and social stability on the other. I will try to analyze these policies and strategies that have been come into use, together with other policy recommendations. Not all of them will be covered due to limited scope and data, which does not necessarily mean that those not discussed are not important.

### **4.3 Labour supply side policies and strategies**

A basic question should be answered: is the labour supply and demand in China balanced? Data shows that from 1991 to 1995, the average annual growth rate of employment is only 1.9% and it is diminishing (SSBa, 1996: 22-23), while the labour force grew rapidly (see Table 3.3). Gu (1999) calculates the number of newly created jobs in urban

China in the period of 1991-1995, and concludes that there were enough jobs available for layoffs to take. His calculation, however, has ignored those who had not finished their middle school study before they entered the labour market. And the average number of layoffs between 1991 and 1995 can not indicate the current laying-off situation, since the figures are much bigger after 1993 (see Table 2.6). The competition from rural migrants has also been neglected.

Based on the population growth trend analyzed from 1% population sample survey data collected in 1995, Zhang (1997) predicts the situation of China's national wide labour supply, labour demand and unemployment in the coming decades. His model shows that until 2020 the overall labour supply will gradually begin to decrease and therefore the unemployment pressure will be still relatively high for at least two decades (see Table 4.1<sup>17</sup>). Therefore, measures should be and can be made to reduce the high pressure of increasing unemployment and laying-off from the labour supply side.

Table 4.1: Predictions on China's labour supply, demand and unemployment in 2010 and 2020

Year	2000	2010	2020
Labour supply (a hundred million)	7.1358	7.8193	7.7574
Labour demand (a hundred million)	6.8130	7.4143	7.4143
Number of unemployed (a hundred million)	0.3228	0.4050	0.3431
Unemployment rate (%)	4.52	5.18	4.42

Source: Zhang (1997)

#### 4.3.1 *Youth: more education and training provision*

In China the youth's employment participation rate is much higher than the world's average level. For example, in urban areas, 58.78% of youth whose age are between 16 and 19 have entered into the labour force in 1995 (SSBc, 1997: 54-58). Therefore it is possible and also reasonable to reduce youth employment by providing them favourable education and training opportunities (Yao and Chen, 1997; Hu, 1998b). Some elements of the rationale under this suggestion have been demonstrated somehow in the European countries in order to reduce youth unemployment (Poupard, 1996).

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<sup>17</sup> It should be noted that the unemployment rate calculation here does not take into consideration other labour market factors, as frictional unemployment model and search theory postulated, thus may underestimate the rate.

Education and training definitely have a very important role to play. Fortunately, Chinese government has realized this and this year 330 thousand more students have been enrolled by state-run universities (Xinhua News Agency, 1999b). It is a helpful effort to reduce the high pressure of oversupply of labour, though the quantity is very small. A national preemployment training programme has also started this year, which will give vocational training to those young people who failed to continue their study in junior and senior secondary school and wanted to enter the labour market. And later on this programme will be applied to all new labour market entrants for 1-3 year preemployment vocational training. Additionally, relevant regulations, including training identifications, are under formulation (Li, Xin, 1999). Although these measures are not directly addressed to layoffs, because the majority of them are middle-aged, they can hopefully help to reduce the totality of labour supply.

#### *4.3.2 Early retirement: just a makeshift solution*

Early retirement has been adopted by enterprises and also has been chosen by some layoffs as the one of the major ways of diversion. But, meanwhile, there are a considerable number of retired staff and workers being employed again. And on the other hand, there are a great number of people who are already older than the official retiring age still being employed <sup>18</sup>. Statistical data shows that till 1996 the number of employees who are within the age range 60-64 is 6.83 million, with their employment participant rate as high as 44% (SSBa, 1997: 54-58). The reasons for this phenomenon are the following. Certainly, there are some kinds of mal-implementation of labour law and personal concealment on his/her real age. But more importantly, for those retired staff and workers, they had received very low wages for a long time when they were young, therefore their savings and pensions are not enough for making living under current price levels. In this sense, they are forced to seek employment again. For the employers, those retired are not only more experienced and skilled, but can accept lower wages and there is no need for the employers to provide housing, pension and medical care to them (Yao and Chen, 1997).

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<sup>18</sup> The official retiring age for male staff is 60, for female staff is 55, and for male workers is 55, 50 for female worker.

Having understood these, the arguments that by strictly implementing the labour law to let those old employees that should officially be retired leave their working posts the high pressure of labour supply can be resolved greatly (Hu, 1998b) and early retirement as a way to divert layoffs appear to be untenable. It is not only theoretically unreasonable but practically difficult. As Layard, Nickell and Jackman (1991) argued, the idea of early retirement seems not to be a solution for unemployment because it makes a wrong assumption, that is, it take output as a given. However, due to the possibly rising inflation, the output will be affected. Also the empirical evidences in some European countries were not favourable to early retirement argument. Besides, it will deteriorate the situation of provision for the aged (Wagner, 1998) and occur unnecessary waste of human resource.

#### *4.3.3 The effect of wages*

As a critical factor that influences the labour supply and demand, wages should be fully analyzed. Theoretically, as reviewed in the second chapter, once the market functions perfectly, in other words, wages clear labour market, unemployment cannot exist in the long-term. Therefore, real wage rigidity can cause unemployment. In the situation of China, a strong negative effect of average wage level on employment has been found (Meng, 1998). Arguably, unemployment in the developed countries probably may be because of market failure caused by either unemployment insurance or trade unions. But in China what stops wages falling when there is clearly an excess supply of labour?

This can be analyzed from two aspects. The analysis here is focusing on SOEs and layoffs. First, are the employers/enterprises free to choose the wage level following the market rules? For those non-state enterprises, they are almost free to set up their own wage level. Some foreign funded firms and large private enterprises have to pay higher wages to compensate the housing and medical costs for their employees which are normally not provided by private enterprises (Fan, Lunati and O' Connor, 1998). For SOEs and UCEs, along with the wage reform, now they have much more power in deciding their wage level. However, the maximum and minimum wage levels have still stipulated by the state and among other guidance (You, 1998: 111-133). According to a study, the degree of freedom of SOEs to decide their wage levels was about 70% in 1995 (Zhang, 1998). Another study shows that enterprises that have a high-level supervisor are usually in disadvantaged places

in deciding the bonuses (Granick, 1991). And the bargaining between the state and enterprises continues. The state cares more about the remittances that it gets from enterprises, while the latter usually are driven by the desire to maximize the wages for their workers as possible, often regardless their productivity, due to the increasing bargaining power of SOE workers. The proportion of individual income in GNP has increased dramatically, from 50.5% in 1978 rising to 80.9% in 1997 (Li, Xinxin, 1999). Certainly there are doubts about the economic rationality of wage structure in urban China.

The second concern is the reservation wages of layoffs. As reviewed above, when the market wage is more or less equal to his reservation wage, a person may choose unemployment for a period of time and waiting for high wages. According to the statistical data, in China the average wages for SOE workers are higher than UCE workers, but lower than formal non-state sector employees and workers (SSBa, 1996: 126). However, workers in SOEs can get higher subsidies, other sorts of non-cash income, and housing and medical welfare. Therefore, the wage gap between SOEs and formal non-state sectors is not so big as it looks. Although the average wages of the informal sector as a whole are not very clear, limited data shows that the average wages workers get from SOEs are higher and much more secure than that of those informal, low-end jobs <sup>19</sup>. Meanwhile, the differences of individual income distribution between different sectors and different ownership have kept enlarged (Li, Xinxin, 1999). For those layoffs, since formal non-state jobs where wages are higher are indeed a luxury, which definitely need high human capital (Knight and Song, 1993), SOEs are their second best choice. So, it is natural that layoffs who were working in SOEs have relatively high reservation wages.

Consequently, as Meng (1998) suggested that more efforts should be made to introduce a flexible labour market, making wages more responsive for unemployment. Concerning the reservation wages of layoffs, welfare and social security reform as well as psychological adjustment hopefully will work.

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<sup>19</sup> Despite the fact that there are so many debates on the informal sector, it is an important analytical tool (Rakowski, 1994; Maggi, 1996; Mead and Morrisson, 1996). But in China's academic research, little effort has been made to study it, even no effort to categorize it. If it has to be done here, we can very roughly consider that the informal sector in China includes small and micro private enterprises, small and micro township and village enterprises (TVEs) and self-employment. Other forms of enterprises in Table 2.1 can be treated as formal sector enterprises.

## 4.4 Labour demand side policies and strategies

### 4.4.1 *Tertiary Industry development: feasible in the short term?*

In China there seems to be a consensus that the Tertiary Industry should be encouraged to develop as rapidly as possible to generate more employment opportunities (SDD and ISDS, 1998; Wang, 1998; etc.), because in China the Tertiary Industry is still underdeveloped in term of employment generation (See Table 4.2). In 1997, the proportion of employed persons in the Tertiary Industry was 26.4%, still much lower than 40%, the approximately average level of developing countries as a whole. Certainly, it is a right direction, because the Tertiary Industry has greater capability to absolve more labour than other industries, but first we should analyze the reasons why it has developed so slowly rather than making simple comparison. As we all know, the Tertiary Industry is a 'catch-all category' (Edgren and Muqtada, 1990: 24). It includes many sub-sectors, the majority of which are to provide services to the Secondary and Primary Industries. So, in some senses, the development of the service sector depends heavily on the development of productive sectors in the Secondary Industry (Liu and Zhuang, 1998; Sun, 1998). The underdevelopment of capital and technological intensive industries is the major limitation for the further development of both the service sectors and labour-intensive industries in China (Sun, 1998). So, knowing that the development of the Tertiary Industry is the right and possible way to create more jobs, China has to firstly overcome the limitations that are underway to make the right way more practical.

Table 4.2: Composition of employed persons in the three Industries, 1993-1997

Industry\Year	1993	1994	1995	1996	1997
Primary Industry (%)	56.4	54.3	52.2	50.5	49.9
Secondary Industry (%)	22.4	22.7	23.0	23.5	23.7
Tertiary Industry (%)	21.2	23.0	24.8	26.0	26.4

Source: SSBa (1998: 127)

Of course, certain sub-sectors, like the community-life and personal service, which only takes up 20% in China's Tertiary Industry, can play a role in providing employment mainly in urban areas. First, it has great potentiality to develop. In 1998, a survey was done to investigate the potential demand for community services in seven major cities of China. It shows the demand is high (See Table 4.3). There are about 7.07 million households that can provide about 11 million temporary employment opportunities. The survey data also

indicates that over 90% of the households prefer to use local labour, especially women for some kinds of services (Lan, 1998). Secondly, these service employment opportunities can be taken by layoffs since these employment opportunities usually require low level of education and skill, less training and initial working capital, and are not associated with danger and dirt, although the ‘disgrace’ factor does exist.

Table 4.3: Demand for community services in seven China’s major cities, 1998

City	Percentage of household that need community services (%)	Number of household that need community services (10,000)
Beijing	77.6	150.16
Shanghai	93.5	245.63
Guangzhou	71.5	61.50
Chengdu	76.5	44.67
Xian	89.5	54.39
Shenyang	98.5	108.35
Qingdao	87	42.54
Average/Sum	86.2	707.24

Source: Lan (1998)

#### 4.4.2 *Small enterprise development: is this a possible and/or sufficient strategy?*

Despite their very important role, the future potential contribution of small enterprises to employment needs to be reconsidered<sup>20</sup>. Firstly, we can not say small enterprises as a whole show ante-cycle behaviour as they are theoretically expected (Uribe-Echevarria, 1991). Rural enterprises, the main body of small enterprises in China, were in fact consistent with the business cycle. Wu (1994a) analyzes the employment performance of rural enterprises in the past three periods of time. In 1979-1983, employment in the rural indus-

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<sup>20</sup> In China, the criteria used to categorizing the size of enterprise are the production capability and/or investment (sometimes the size of fixed assets), which is different from the criteria of number of employees that is commonly adopted by many countries (Lan, 1993; SSBA, 1996). Consequently, the definition of small enterprise is different among industries and sectors. According to official classification, the most commonly used categories of enterprise in China are three broad categories of enterprise: state-owned enterprises (SOEs); collective enterprises, which in turn have their sub-categories, like urban collective enterprises (UCEs), township and village enterprises (TVEs); other enterprises, include private enterprises, joint ventures (JVs), and some others (Otsuka, Liu and Murakami, 1998). Private enterprises include individual businesses, defining as individually owned businesses employing up to 8 workers, and private businesses with 8 or more employees. The overwhelming majority of them usually are engaged in small-scale industrial activities and services, like retailing, construction, repairs, transport and light manufacturing, etc (Young, 1995). So, the term ‘small enterprise’, which is focus on size, appears to be a catch-all category in Chinese official classifications. It should includes a minority of SOEs and UCEs, which are normally big in size, a majority of TVEs, JVs, and private businesses. Therefore, under this circumstance, as to the term ‘small enterprises’ used in this paper in the context of China and unless specified, the author will follow other writers’ definitions when they are quoted on one hand, and sometimes use TVEs, private enterprises, and rural enterprises as the proxies of small enterprises in some specific analysis.

trial sector grew by 6.4% per year, while urban industrial sector grew 3.8% per year. This was consistent with the fast growth of GDP in general and fast expansion of rural enterprises in particular. In 1989-1991, when economic austerity was imposed, however, the employment growth of rural non-agricultural sector slowed down dramatically. While urban enterprises did not retrench workers in order to survive the recession because of the government control of labour planning and allocation, their rural counterparts were following market signals and reduced their labour. This had been confirmed by the increase of agricultural employment, meaning that many rural labourers employed by rural enterprises shift back to agriculture during economic recession. Notably, it was urban service sector that contributed the largest share to the employment growth during the economic recession. Unfortunately, Chinese economy currently is currently in relative recession again. Since 1993, non-state enterprises' employment generation speed has slowed about 0.8% per year (Sun, 1998) and as far as TVEs are concerned, their growth rate, as well as the profit rate of TVEs has also declined in recent years (Smyth, 1998). Data from Suzhou, Jiangsu Province, where the development of TVEs is in the leading position in China, substantiates this trend. It shows the migration of rural surplus labour has been stagnant since 1995, and one of the reasons has been identified as the diminishing trend of labour absorption function of TVEs (Wang, *et al.*, 1998).

Secondly, many small enterprises have to compete with their larger counterparts, some of them have followed and most of them will follow the way to increase economic efficiency by reducing labour inputs and to use capital and/or technology to substitute labour. As far as rural private enterprises concerned, a survey from Shanghai found that capital has become an increasing important prerequisite as competition gets tougher (Odgaard, 1992b).

Thirdly, since TVE already has its important mission of absorbing rural redundant labour, it seems impractical for it to provide many employment opportunities for layoffs, except for a small number of skilled workers. By examining the *hukou* (household registration) status, a research finds that 94.5% of employees in the 90 rural industrial enterprises surveyed are from the countryside. In addition, the workforce is dominated by the people from the local community. Only a few specialized managers are from urban areas (Wu, 1994b). Particularly since the traditional unit-based welfare is not available in most

rural enterprises, rural enterprises usually can only recruit retired urban workers who have already secured their welfare provision from their former enterprises (Smyth, 1998).

Fourthly, it should be noted that despite their fast growth, small enterprises in China have many disadvantages and problems, which are impeding and will continue to hurt the development of small enterprises. The problems are as follows: a) simple technology and equipment; b) low quality of products and also low sales/output level; c) low level of specialization; d) unfriendly policy environment and insufficient government support; e) lack of social service network; f) unreasonable enterprise and industrial structure; etc (Lan, 1993; Wang and Yao, 1999). In addition, although little work has been focused on the qualitative side of jobs generated by small enterprises, this problem is very serious actually (Odgaard, 1992a; 1992b). Therefore, unless these problems have been addressed correctly, there is doubt about the further development of small enterprises.

Regarding to self-employment, a case study of Shanghai in 1995 shows that although self-employment or setting up own business has already been seen as a route to considerable private wealth, self-employment still has limited opportunities to generate high income and almost all the self-employment activities that had been interviewed were working on the margins of the city economy (Davis, 1999). Since China's layoffs are generally of low human capital and have little working capital, we should notice that training, financial and institutional supports are really needed to ensure the effectiveness of self-employment programmes. Additionally, the market assistance and entrepreneurship training is very important for self-employment promotion, and these have not been mentioned in the State Council document or suggested sufficiently by scholars. These have all cast doubts on the effectiveness of using self-employment policy as a way out of increasing unemployment and laying-off.

So, on one hand, definitely small enterprises can play a positive role in employment generation, but we should not overestimate it; on the other hand, we should borne in mind that the jobs created by small enterprises probably will not be taken by urban layoffs.

#### *4.4.3 Labour-intensive industry development*

Demonstrated by the success of some East Asian economy, labour-intensive strategy has shown its superiority in resolving employment problems and therefore has been

recommended to developing countries (Turnham, 1993a). As China still has the advantage of comparatively low labour cost, the export-oriented labour-intensive industries should be encouraged and labour-intensive strategy can be used in developing infrastructure (Hu, 1998b). However, there are problems here for the former idea. The lack of both foreign and domestic market demands for labour-intensive products, relatively speaking, has been identified as the main problem for further employment generation of labour-intensive industry in China (Sun, 1998). While for most Chinese people their income has increased, the income inequality has also enlarged rapidly (Khan and Riskin, 1998)<sup>21</sup>. This may have negative effect on the demand of labour-intensive products, the majority of which are of low-income elastic. More importantly, both urban and rural people show their strong tendency of saving. Statistical data shows that both urban and rural household saving deposits have increased dramatically in recent years (SSBa, 1998). Survey data gives an explanation to this strong saving tendency despite the introduction of lowering interest rate and levying tax on the interest of saving policies, that is, people are saving for the unpredictable future expenditure along with many reforms going on (CEIN, 1999). Notwithstanding the Asian financial crises does not have too much negative effect on employment growth (Meng, 1998), it definitely has negatively affected the performance and development of China's export-oriented labour-intensive industries at least for the short term, and have further limited their already declined employment generation capability. And, since China is a big country, export-oriented labour-intensive industries can only resolve a small part of the employment issue, not to mention the increasing disadvantaged international economic environment and competition (Chowdhury and Islam, 1993) and the different stories within the 'Asian Miracle' (Mommen, 1996).

#### *4.4.4 Enterprise reform: may be the decisive point to be continued*

As indicated in the last chapter, China's enterprise reform is in its way now. The SOEs particularly are supposed to have more power in decision making, have less social burden than before. But due to the government's guidance that enterprises should not for-

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<sup>21</sup> Although as Ravallion and Chen (1998) point out, the official methods of processing data may overestimate the inequality level.

get their social commitment and lay off workers freely, which is though a good news for layoffs, the process of enterprise reform in some senses has been slowed down or deviated.

Although a large number of workers were laid off, they have not been really pushed to the labour market and are still attached to the enterprises. National statistical data and limited regional survey data have confirmed this. As shown in Table 2.4, in 1997 the proportion of SOE layoffs diverted within enterprises was much higher than layoffs diverted through society. In Shanghai 1996, 46% of layoffs took the form of job rotation and shift, waiting for retirement 6%, early retirement 6%, waiting for reemployment 35.2% and those registered as unemployed only 6.8% (Liu and Zhuang, 1998). One of the policies formulated by the State Council to deal with layoff issue, that is, enterprises should undertake 1/3 of the fund to establish reemployment service centre to support layoffs by providing living allowance, pension and unemployment insurance, and reemployment training, has been forcefully criticized by Gu (1998; 1999). He thinks that this policy continues to burden enterprises. It is a new obstacle rather than supplementary to the on-going SOE reform.

According to the figures of the State Statistical Bureau, the financial position of the SOEs is deteriorating. Not only their profits are falling, but they have to spend more on the provision of social welfare, due to the increased cost of aged and medical care (Smyth, 1999). Although it is understandable that the government pays more concern on social stability and poverty concern, it will be unnecessary for the government to adopting inconsistent policies. Rather, there is scope for the government to facilitate the enterprises in continuing the reform.

Firstly, those SOE reconstructing measures which have been demonstrated to be useful, like corporatization, merger, joint venture, and so forth, should be fully implemented, because they will be beneficial to the economy and laying-off issue in the long term. Probably, the number of layoffs and open unemployment rate will increase in the short term, but as argued above the real unemployment problem is still not very serious on one hand, and there are other ways to deal with it on the other. The importance of enterprise reform must be fully recognized. Those enterprises, SOEs particularly, are the leading force in the development of China's economy and the development of the Tertiary Industry relies heavily on them. Further, their function of labour absorption hopefully will be

revived to some extent soon. Secondly, SOEs have many resources that have not been used efficiently. Currently, many SOEs have set up new companies by using their land, facilities and of labour by themselves or jointly with other private or foreign investors. After some time, these new companies register as independent ones without sharing the burden of those old SOEs (Fan, Lunati and O' Connor, 1998). This has been demonstrated as an effective way of diverting redundant workers. Here, arguably, the development of non-state sector does not necessarily mean privatization, which in turns need not mean denationalization. It can be understood as a withdraw of the activities of the state through reduction in state provision, reduction in state subsidy and reduction in state regulation (Wong, 1998: 71-72, cited from Le Grand and Robinson, 1985). Thirdly, the serious problems of many SOEs are caused by mal-management (Sun, 1998). There could be less layoffs from them once they have been managed well <sup>22</sup>. Fourthly, some of the enterprises, mainly medium and small-sized, could be reconstructed to be employment-oriented rather than profit-oriented (CDS, 1998).

Since laying-off issue is in close correlation with the enterprise reform, it can certainly be at least partly resolved along the enterprise reform. Restructuring SOEs in terms of reducing their social burdens, improving their financial and employment structures, as well as other important and integrated agendas, should be continued with great efforts. On the other hand, as indicated above, institutional reforms, like labour market reform, welfare and social security system reform, are also very relevant or even crucial to address laying-off issue.

#### **4.5 Labour market reform: a long term goal**

Let's begin with the 'odd phenomena' identified by Gu (1998; 1999): a) many enterprises employ a great number of temporary rural migrant workers while laying off a great number of formal workers; b) in many big and coastal cities, the size of the migrant labour force is much greater than that of local layoffs; c) layoffs prefer to be reemployed in the state sector rather than non-state sector and low-end jobs. These phenomena have also

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<sup>22</sup> Xinhua News Agency (1999a) provides a typical example: Guiyang public transportation company once had 1/3 redundant workers, but none of them has been laid off. And the company makes profit again. All these can be attributed to the improvement of its management.

been observed by many other scholars (Dong, Yao and Liu, 1998; Li and Liu, 1998; Meng, 1998).

For the first one, why do enterprises use rural labourers? Data from the fifth survey of floating population in Shanghai indicates that for those rural migrant in Shanghai who are engaged in economic activities, which amounts to 74.63% of the total floating population, 90.5% of them are working as manual labourers, handicrafts-men, or working in the construction industry and small-scale businesses (Zhang, 1998). In one word, most rural migrant workers are taking low-end jobs in the urban labour market. Although layoffs do have some advantages, like skills, experience and favourable policy, over rural labour in getting those jobs, at the same time they have higher labour costs and some psychological problems, which make them reluctant to do so. The majority of managers that had been interviewed also hold such an opinion that rural migrant workers can not be replaced by layoffs, and prefer to use rural migrant workers (see Table 4.4). Therefore, the first phenomenon in this sense is not odd at all. It is pretty rational for the enterprises to hire rural migrant labourers. To help those layoffs, the point is how to reduce the labour costs of layoffs rather than give more bias to rural labour, and try to make them ready to face those low-end jobs. Controlling rural migrant labour will aggregate the bias to the rural labour, which is harmful to the national labour market integration. Since the rural-urban migration is an inevitable trend in China, policy makers should consider more on how to integrate those rural migrants rather than clear them from the urban labour market (Zhang, 1998). And certainly, psychological adjustment for layoffs towards market rules is needed.

Table 4.4: Management attitudes towards migrants

Questions	Percentage of respondents
a) Why do you recruit rural workers?	
Lower cost	29.6
They can bear hardship	60.9
They are more manageable	33.0
Urban workers are not available	40.0
b) Can rural workers be replaced with redundant urban workers?	
Yes	25.5
No	66.0
c) If not, why not?	
Urban workers are inadequate for the job	14.9
The worker is too hard for urban workers	50.7
Urban workers do not want to do the job	49.3
d) Are you satisfied with the quality of migrant workers?	
Yes	60.2
No	38.9

Note: Figures do not necessarily amount to 100% because more than one answer is allowed.

Source: Knight, Song and Jia (1999) (Based on their enterprise questionnaire)

For the second, definitely there are areas in China where labour demand exceeds labour supply. Cities in eastern China generally have more employment opportunities than their western counterparts, while the latter generally have a greater number of layoffs. Based on this, arguments that government should encourage labour mobility emerge (Meng, 1998; etc.). But the question is whether these jobs can be taken by external layoffs. Although Ni and Din's (1998) study focuses on external rural labour supply, it can provide a useful reference. They find that the reasons for Zhongshan City's recent shortage on external rural labour are not because of the wages and welfare, not because other cities are more attractive, not because of external rural labour's inverse migration, but because the increasing administrative and institutional fees charged on them have augmented the mobility costs. Compared with rural labour, layoffs will have more mobility costs, not only economically, but also socially and psychologically, in terms of losing free housing, medical care and other welfare, having negative effect on children's education, and so on so forth. The argument that the primary thing is to solve layoffs' psychological problems here in some senses is unreasonable, because it does not take into account whether layoffs can achieve at least cost-recovery by taking those jobs. So, Meng (1998: 5) suggests that the government should provide some supporting measures, such as allowing layoffs to keep their housing while they work in other regions. Certainly this kind of suggestions can not resolve the problems fundamentally, but they will be useful temporarily.

As indicated above, many layoffs in fact have already found some kinds of jobs, but they still prefer to attach themselves to their former enterprises as layoffs. This can be called hidden employment, which has both positive and negative effects (Yuan and Lu, 1998). The positive effects are: a) it lowers the real unemployment rate thus is helpful for social stability; b) those layoffs are feeling and following market signals, which will be very helpful for them to correct their old employment ideology and the psychology problems; c) their labour has been used rather than wasted. The negative effects include: a) it impedes the mobility of labour; b) it is harmful to the enterprise reform, because the burden on the enterprises has not been really reduced; c) the efficiency of reemployment project has been lowered. But the negative effects seem to be far greater than the positive effects, at least in the long run, because these are contradictory to the top story: enterprise reform. But the point is that labour market is unable to reflect the hidden employment. Therefore government, employers and employees can not get right and clear labour market signals.

The speed of China's labour market reform needs to be accelerated. A national labour market with the free mobility of labour between rural and urban areas, among regional urban areas in general, and a urban labour market with labour force mobility between different sectors in particular, are needed. Clear labour market information should be provided to layoffs comprehensively and in time. And apparently labour market reform should be done together with welfare and social security reform.

#### **4.6 Welfare and social security reform and poverty alleviation**

Analyses above indicate the vital role of welfare and social security reform in dealing with laying-off. To break the traditional unit-based welfare system, Gu (1998; 1999) gives three policy recommendations: a) Shift from 'laying-off' to unemployment. This can help to get the labour market information right, and break the economical, social and psychological links between layoffs and enterprises; b) Let the social security system, including unemployment insurance, old-age insurance and medical insurance, cover the whole urban economic sectors. This is supposed firstly to break the institutional segmentation between public sectors and non-public sectors, and secondly increase the social security fund; c) Speed the housing reform. The responsibility of providing housing should

transfer from the enterprise to the government, or treat housing privatization as a second-best way.

The first suggestion has its significance. Besides those have been mentioned above, it helps the luxury layoffs to face the real world. The last two ideas in fact are more or less consistent with main strategies of the government, that is, to socialize the welfare and security system, making the safety net no longer based on unit only. Individuals are required to share some costs that formerly paid by their units. Specifically, reform of pensions now seeks to involve state workers in contributions for pensions and to extend pension programmes to workers in the non-state sectors; employees now need to buy either their old apartments or new commercially built ones; reform of health care recently is designed to increase the responsibility of individuals for small medical expenditures in order to reduce the costs of SOEs. For example, pilot experimental medical-insurance programme launched by the government started in 1994, under which the government, employers and employees shared the medical costs (Fan, Lunati and O' Connor, 1998). However, due to various difficulties and problems, that experimental programme has not been extended yet and the speed of these reforms is slow. And the government would prefer that SOEs continue to take care their layoffs, as long as the social security system is completed. Naturally, Chinese government has its concern of social stability, that probably is the reason why China adopts a gradual way of reform. But, those difficulties have to be overcome efficiently and quickly.

As to the social security system, the previous unemployment insurance was too poor to be called security system. The new system has to be improved from every dimension, like legal basis, institutional building, internal management, and its coverage and amount (Ding, 1998). Subsequently, the establishment and improvement of social security system can stimulate the aggregate demand and enhance employment (Wang, 1999). The argument postulated by job-search models that unemployment workers have become more choosy about the jobs sought in part because of the improving social security system (Blinder, 1988) will not be a problem, because what China is doing now is establishing a new system or improving the traditional one, which was of very poor level. And, as Turnham and Erocal (1990: 20) point out, 'job search models seem more helpful in explaining

job change among the employed population rather than as an explaining of unemployment or the duration of unemployment' .

Increasing poverty during the early stage of transition to a market economy is common (UNDP, 1999). Layoffs in China now rely on the support from the reemployment service centres, a temporary institution based on those enterprises and funded evenly by the government, enterprises and other social sources. However, neither the government nor the enterprises are financially strong enough to provide sufficient fund. For example, in five major cities of Anhui province, the reemployment fund in 1997 was coming mainly from: city financial budget, unemployment insurance fund, pension fund and social contributions. But the fund was limited and had almost been used up (RPISG, 1998).

The situations, however, seem to be improved recently due to the efforts of the government. In the first half of 1999, 5.40 million layoffs had not yet been re-employed. But 95% of them had entered the reemployment service centre and 94% had received the basic allowance. As to the insurance fund for layoffs, 8800 million Yuan had been collected in the first half of 1999, among which 46.6% was from state financial allocation, 30.9% from enterprises, and 22.5% collected from social channels. The average living allowance for the layoffs was 170 Yuan per month, together with the social insurance that had been paid for them by the reemployment service centre, a layoff in fact got 253 Yuan per month (*Ming Bao*, September 13<sup>th</sup>, 1999). These show that the government can do and have done something to take care layoffs. But considering the limited amount of fund, limited money should be targeted at those unemployed layoffs on one hand, and on the other hand more efforts need to be done to enhance the fund. For example, Niu (1998) suggests that it can be transferred gradually from state-owned stocks through the operation of stock market, which is just unfolding in China. So, in this area, better targeted programme, social assistance and other reforms are really needed (Milanovic, 1995).

#### **4.7 Training and other measures addressing directly to layoffs**

So far, we have assumed that layoffs are homogeneous, however, human capitals are in fact sectoral specific. So technical and skill training is very necessary for undiverted layoffs to be re-employed. For those training programmes, they should be well formulated and targeted towards layoffs. Depending on concrete conditions, training programmes can

be either enterprise based or educational institution based. Those potential state and private employers should be involved. Government subsidy for those training is also needed, but again the subsidy should focus on the need of unemployed layoffs. As to the financial source, it seems that payroll levies can be treated as a useful medium-term expedient (Middleton, Ziderman and Adams, 1993).

From the state document, we can see that several other direct measures have been taken, such as establishing reemployment service centre, providing vocational guidance, etc. Although the funding of the reemployment centre has been criticized, it is still necessary for the government and enterprises to provide institutional service at the early stage. And it can be established by sectoral organizations or local governments. As to the psychological adjustment of layoffs, time is needed for the market system and those reform policies to do this. And efforts can be made to improve the balance between the benefits of the transition and the drawbacks of it, including the increasing unemployment (Rutkowski, 1995). How to make such adjustment quickly and smoothly while achieving the social and political stability is a tough task and has great implications.

#### **4.8 Concluding remarks**

Generally, the currently adopted and suggested policies and strategies, like increasing the growth rate of the economy, increase in retirement, limiting the recruitment of rural migrant workers, and so on, seem nothing new compared with those in the 1980s (Bonnin and Cartier, 1988). Meanwhile, unlike developed countries and Eastern European countries, the policy suggestions that the bargaining power of unions <sup>23</sup> should be limited and the duration of unemployment benefit should be shortened in order to reduce unemployment (Layard, Nickell and Jackman, 1991; Vodopivec, 1995) are not the case in China now. Rather, the social security system should be established or improved as soon as possible to replace the traditional one, in order to solve the laying-off issue fundamentally and thus to benefit the enterprise reform.

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<sup>23</sup> There are similarities, but more important here, differences between China's trade unions and their counterparts elsewhere, such as the lack of autonomy and collective bargaining, etc (Hong and Warner, 1998). Due to limited scope, the role of China's trade unions will not be discussed in this paper.

More efforts should and can be made to reduce labour supply on one hand and create more jobs on the other. Several strategies and policies currently adopted by the government or suggested by scholars, such as further limiting the hiring of rural migrant workers, early retirement, etc, appear to be problematic or impractical, or even harmful. The development of Tertiary Industry, labour intensive industry and small enterprises, the encouragement of non-state sectors could be the right way, but it appears that they are facing some challenges now. To continue those reforms, including enterprise reform, welfare reform and social security reform is the basic and probably the best way to resolve the laying-off problem. And certainly in China under present situations, it would be ideal to keep relatively high economic growth with increasing the employment intensiveness of the growth process and give the employment concern the priority on the policy agenda (Hu, 1998; 1999). Regions and industries where laying-off problem is very serious should be given more supports. And those facilitating programmes well targeted at unemployed layoffs will be quite useful. The policies and their implementation should no gender bias.

## 5 CONCLUSION

This paper has examined the urban unemployment and layoffs' situations in post-reform China, reviewed relevant unemployment and labour market models, and discussed some policies and strategies. The major hypotheses have been generally confirmed, except for the second one, namely, the urban unemployment situation seems to be still at a relatively manageable level, though government's intervention is needed to reduce it. It has pointed out that laying-off is a special phenomenon in the transition era of post-reform China. It reflects the process of releasing redundant workers from the enterprises, or in other words, the visualization of disguised underemployment and hidden unemployment, which is extremely serious in China due to historical and political reasons, and the reluctance of the government to make it visualized (Yuan and Lu, 1998). Although official open unemployment rate is still low, the real unemployment rate is much higher and unemployment problem concentrates on layoffs. The number of layoffs has increased enormously and those undiverted layoffs should be viewed and calculated as unemployed. And laying-off, as a discourse, has gone beyond its literal definition, it also includes unemployment and expresses the feeling of poverty.

Consequently, laying-off issue can not be resolved overnight and the reemployment of layoffs should be treated as a long run task. At the general level, the strategies and policies to cope with unemployment and laying-off discussed in this paper are three folds. From the labour supply side, the quantity of labour force should be controlled. From the labour demand side, more jobs should be created. And some social and labour market policies, like facilitating labour mobility, reforming the welfare system, establishing and improving social security system, have also been emphasized. Some popular suggestions may be ineffective or their roles have been overestimated. Certain temporary measures will do harm to the enterprise reform and the long-run development. Since laying-off is mainly associated with enterprise reform, it should not deviate from the direction of enterprise reform, SOE reform particularly. With all these reforms, such as enterprise reform, labour market reform and social security reform, going on smoothly, rather than only focusing on laying-off specific measures, laying-off situation in China will hopefully be improved. In a word, macro-economic policies, social policies and labour market strategies should be combined effectively.

High rates of open unemployment in developing countries have attracted considerable concern in recent years. Although the ILO report (1995: 59) optimistically predicts that the crisis of mass unemployment in developing countries will be ultimately solved by 'the expansion of output and the creation of jobs in new activities in line with the comparative advantage of these economies', for transitional economies, including China, the transition process towards market system could be very tough. Old systems and institutions have been broken, but the new ones have not been established completely yet, particularly as China has adopted an incremental approach in its reforming way forward. Indeed, more efforts and research should be done in building adequate institutions to facilitate the transition (Kolodko, 1998).

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