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Overview of Current Labour Market Conditions in China

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China has achieved extremely rapid economic growth throughout the 1990s in a context of stable but low population growth. Although economic growth rates have slowed down somewhat in recent years, they are still remarkable when compared to most developed or developing countries.

China is increasingly linked to the global market economy and is itself becoming a market economy. In 1991, Deng Xiaoping inspected the special economic zones in southern China and stressed that “development is the only hard and fast principle”, thus liberating investors from the depressing and stagnant atmosphere that had prevailed after the Tiananmen massacre in 1989. Radical economic liberalization across the country in 1992-1993 attracted a large quantity of international capital and boosted China’s economy, but this also encouraged speculation in real estate and increased inflationary pressures. Yet motivated by the implementation of a “soft landing” in the mid-1990s using macroeconomic controls, the state decided to carry out comprehensive reforms in the direction of a market economy. This included further reform of state-owned enterprises, social services, and social security. The result has been insufficient domestic demand.

Since 1998 the Chinese government has adopted pro-active fiscal policy to counter the trend of reduced growth rates. The principal measures have included issuing long-term bonds to support public construction works, increasing staff wages in administrative units or institutional agencies, and cutting taxes to stimulate investment and consumption. Such expansionary policies seem to have contributed to an increased growth rate in the last year, Yet growing income inequality, increased unemployment, and a high level of uncertainty about changes in the social security system for low-income families could limit the viability of this approach, by constraining social demand.

Table 1: GDP and population growth rates

	<u>GDP</u> growth (%)	Population growth Rate (%)	<u>GDP growth</u> per capita (%)
1990	3.8	1.4	2.4
1991	9.2	1.3	7.9
1992	14.2	1.2	13.0
1993	13.5	1.1	12.4
1994	12.6	1.1	11.5
1995	10.5	1.1	9.4
1996	9.6	1.0	8.6
1997	8.8	1.0	7.8
1998	7.8	1.0	6.8
1999	7.1	0.9	6.2
2000	8.0	-	-

Source: National Bureau of Statistics, PRC.

A high level of urban unemployment

In China, the official figure for urban unemployment includes only registered unemployment. These figures were rather low throughout 1990s and seem to have significantly understated the actual level of unemployment, because they exclude jobless workers laid-off from state-owned enterprises (SOEs) and collectively owned enterprises as well as, unemployed rural migrant workers. Although laid-off workers still maintain some kind of technical relationship with their work-units, they do not have in regular work. Nevertheless, they are not included in official unemployment statistics. In addition, ongoing developmental disparities between urban and rural areas generates an uninterrupted supply of rural migrants, who constitute the reserve army of labour for both the state and non-state sector in urban areas. Thus the actual unemployment rate is much higher; no less than double the official figure according to an estimate (see Table 2).

Urban unemployment is compounded by both the size of labour force and the deficiency of job opportunities. Due to the maturation of the baby boom generation (born in the 1960s and early 1970s), many young people compete in the job market against tens of millions of redundant SOEs workers and surplus rural labourers. While a high level of employment was sustained in the past by the state's policy of keeping surplus workers in both SOEs and agricultural collectives, this policy was abandoned in the move toward a market economy. At the same time China's economy is undergoing large-scale structural adjustments, and this reduces the capacity of the agricultural and manufacturing sectors to absorb labourers. Facing unprecedented competition, state enterprises increasingly tend to adopt capital-intensive technologies. This has further limited their potentials to generate jobs.

Table 2: Registered urban unemployment rates and estimated actual unemployment rate (in percent)

	Registered rate***	Estimated actual rate***
1990	2.5	--
1991	2.3	--
1992	2.3	--
1993	2.6	3.3 - 3.7
1994	2.8	3.6 - 4.1
1995	2.9	4.4 - 5.0
1996	3.0	5.1 - 6.0
1997	3.1	6.8 - 7.8
1998	3.1	7.9 - 8.3
1999	3.1	--
2000	3.1	--

Notes: *The registered urban unemployment rate refers to the ratio of registered urban unemployment over total employment in urban enterprise (excluding those who have agricultural residence cards, re-employed retirees, and those who are from Hong Kong, Marco, Taiwan or other countries) **Registered urban unemployment includes people a) who have nonagricultural residence cards, (b) working age (16-50 years for males and 16-45 years for females), (c) who are available for work, but are not working, and (d) who want to work and have registered in the local labor exchanges. ***Estimated actual urban unemployment includes the unemployed who are registered, the laid-off workers who are still unemployed, and the jobless who have agricultural residence cards.

Source: National Bureau of Statistics, PRC; UNDP (1999). China Human Development Report 1999; and Ministry of Labour and Social Security, PRC.

Wage disparity persists despite rising average wages

Despite economic reforms, the employment experiences of urban workers is still largely structured by enterprises that are defined by form of ownership, economic sectors and administrative statutes. While the gap between the various levels of average wages in state-owned units and collectively-owned units has remained large, the difference in average wages between state-owned enterprises and enterprises having other forms of ownership (joint ownership, stock ownership, limited-liability corporations, foreign investment etc.) has been reduced. This is largely the result of policy to raise staff wages in administrative units and institutional agencies as mentioned above. Proponents of reform argue that this reflects the improved performance of production workers in state-owned enterprises induced by wage reform. However, an increased proportion of total 'wages' in the form of bonuses and subsidies (which has taken place since the government's delegation of control and responsibility to managers) has disproportionately benefited administrative personnel in state-owned enterprises.

On the other hand, the average wage levels in emerging industries such as telecommunications, banking and insurance, and real estate have increased significantly in recent years. Meanwhile the government's recent attempts to stimulate domestic consumption have raised average wage levels in state-owned industries such as health care, sports, education, culture, scientific research and in government agencies. However, wage levels in more traditional manufacturing industries, where older state-owned enterprises are concentrated, have stagnated throughout the decade relative to other industries. This is partly due to the difficulties these enterprises have had in providing adequate income to their workers once the government ceased to bear direct financial responsibility for these enterprises.

Table 3: Average wages of administrative staff and workers with and related indices

Year	Average money wage (in yuan) (1 yaun = \$.12)			Indices of average real wage		
	State-owned Enterprises	Urban collectively-owned enterprises	Enterprises with Other types of Ownership	State-owned Enterprises	Urban collectively-owned Enterprises	Enterprises with other types of ownership
1990	2284	1681	2987	159.8	149.6	153.9
	1.00	0.74	1.31			
1991	2477	1866	3468	164.6	157.9	170.0
	1.00	0.75	1.40			
1992	2878	2109	3966	176.2	164.3	179.0
	1.00	0.73	1.38			
1993	3532	2592	4966	186.2	173.9	193.0
	1.00	0.73	1.41			
1994	4797	3245	6303	202.3	174.3	196.0
	1.00	0.68	1.31			
1995	5625	3931	7463	203.1	180.8	198.7
	1.00	0.70	1.33			
1996	6280	4302	8261	208.4	181.8	202.1
	1.00	0.69	1.32			
1997	6747	4512	8789	217.1	185.0	208.6
	1.00	0.67	1.30			
1998	7668	5331	8972	231.6	190.7	205.1
	1.00	0.70	1.17			
1999	8543	5774	9829	261.4	209.2	227.8
	1.00	0.68	1.15			
2000	6518	4203	7409	-	-	-
(Jan-Sept)	1.00	0.64	1.14			
2000	9552	6262	10984	-	-	-
	1.00	0.66	1.15			

Note: Figures in the second rows for each year denote the ratios to average money wages in state-owned enterprises. Source: National Bureau of Statistics, PRC.

Average Wage of Staff and Workers by Sector

Year	Total	Farming, Forestry, Animal Husbandry and Fishery	Mining and Quarrying	Manufacturing	Production And Supply of Electricity Gas and Water	Construction	Geological Prospecting and Water Conservancy	Transport, Storage, Post & Telecommunications	Wholesale and Retail Trade & Catering Services	Banking and Insurance	Real Estate Trade	Social Services	Health Care, Sports & Social Welfare	Education, Culture and Art, Radio, Film and Television	Scientific Research and Polytechnical Services	Government Agencies, Party Agencies and Social Organizations
1990	2140	1541	2718	2073	2656	2384	2465	2426	1818	2097	2243	2170	2209	2117	2403	2113
	1.00	0.72	1.27	0.97	1.24	1.11	1.15	1.13	0.85	0.98	1.05	1.01	1.03	0.99	1.12	0.99
1991	2340	1652	2942	2289	2922	2649	2707	2686	1981	2255	2507	2431	2370	2243	2573	2275
	1.00	0.71	1.26	0.98	1.25	1.13	1.16	1.15	0.85	0.96	1.07	1.04	1.01	0.96	1.10	0.97
1992	2711	1828	3209	2635	3392	3066	3222	3114	2204	2829	3106	2844	2812	2715	3115	2768
	1.00	0.67	1.18	0.97	1.25	1.13	1.19	1.15	0.81	1.04	1.15	1.05	1.04	1.00	1.15	1.02
1993	3371	2042	3711	3348	4319	3779	3717	4273	2679	3740	4320	3588	3413	3278	3904	3505
	1.00	0.61	1.10	0.99	1.28	1.12	1.10	1.27	0.79	1.11	1.28	1.06	1.01	0.97	1.16	1.04
1994	4538	2819	4679	4283	6155	4894	5450	5690	3537	6712	6288	5026	5126	4923	6162	4962
	1.00	0.62	1.03	0.94	1.36	1.08	1.20	1.25	0.78	1.48	1.39	1.11	1.13	1.08	1.36	1.09
1995	5500	3522	5757	5169	7843	5785	5962	6948	4248	7376	7330	5982	5860	5435	6846	5526
	1.00	0.64	1.05	0.94	1.43	1.05	1.08	1.26	0.77	1.34	1.33	1.09	1.07	0.99	1.24	1.00
1996	6210	4050	6482	5642	8816	6249	6581	7870	4661	8406	8337	6778	6790	6144	8048	6340
	1.00	0.65	1.04	0.91	1.42	1.01	1.06	1.27	0.75	1.35	1.34	1.09	1.09	0.99	1.30	1.02
1997	6470	4311	6833	5933	9649	6655	7160	8600	4845	9734	9190	7553	7599	6759	9049	6981
	1.00	0.67	1.06	0.92	1.49	1.03	1.11	1.33	0.75	1.50	1.42	1.17	1.17	1.04	1.40	1.08
1998	7479	4528	7242	7064	10478	7456	7951	9808	5865	10633	10302	8333	8493	7474	10241	7773
	1.00	0.61	0.97	0.94	1.40	1.00	1.06	1.31	0.78	1.42	1.38	1.11	1.14	1.00	1.37	1.04
1999	8346	4832	7521	7794	11513	7982	8821	10991	6417	12046	11505	9263	9664	8510	11601	8978
	1.00	0.58	0.90	0.93	1.38	0.96	1.06	1.32	0.77	1.44	1.38	1.11	1.16	1.02	1.39	1.08

Note: Figures in second rows denote the ratios to overall average money wages. Source: National Bureau of Statistics, PRC.

Falling poverty in rural areas; rising poverty in urban areas

Official statistics reveal that the Chinese government has been highly successful in reducing the incidence of poverty in past decades. While this is one of China's great accomplishments in human development, interpretations should be made cautiously. Estimates of the population in poverty covers only those counties concentrated mainly in the central and western parts of the country as defined by the central government. Estimates do not include those people residing in more developed rural areas who, nevertheless, are living in absolute poverty according to provincial standards. The emergence of urban poverty also makes official measurements problematic given that official figures normally include only residents in rural areas and people with chronic illnesses. The urban population is defined as people who have an urban hukou or household registration. Urban people who actually do live in poverty include, the unemployed, (laid-off and, under-employed workers in state-owned enterprises, pensioners who have not received their pensions, and the dependents of all these workers. Moreover, people belonging to the "floating population" are statistically invisible. This population is made up of – the rural migrants to urban areas, who fill the worst jobs in the private sector and foreign-owned enterprises – but who are not eligible for public services and legal protections at a time when they need them most because of their rural hukou status.

Table 5: Rural population below the poverty line

Year	Poverty rate (%)
1990	9.4
1992	8.8
1993	8.2
1994	7.6
1995	7.1
1996	6.3
1997	5.4
1998	4.6
1999	3.7

Source: National Bureau of Statistics, PRC.

Severe inequality among regions and between urban and rural areas

Regional disparity in income is still substantial, especially between the eastern coastal and the western interior regions. Although China still a largely agrarian country, existing regional disparities cannot be accounted for fully by differences in natural resources. Fiscal decentralization introduced after 1978 has greatly diminished the ability of the central government to reduce regional

disparities. Before the reform, the central government succeeded in reducing regional inequality through inter-regional fiscal transfers from rich to poor provinces. Discriminatory policies that favor coastal regions over the interior have also reinforced the rising regional disparities. Similarly, the administrative and institutional arrangement of the urban-rural divide is responsible for perpetuating inequality. The income gap between urban and rural residents is still very large as shown in Table 6. Because various government price subsidies for food and others goods consumed by urban residents have not been included in the official calculation of incomes, the figures in Table 6 might underestimate the real urban-rural income gap. The simultaneous development of capital markets and urban in poverty have widened income disparity within urban areas. Likewise, while township and village enterprises have generated many low-paying rural jobs, economic developments in China have simultaneously created a wealthy managerial class, and this has deepened intra-rural income inequality.

Table 6: Per capita annual income of urban and rural households

Year	A: per capital annual net income of rural households (in yuan)	B: per capital annual disposable income of Urban households (in yuan)	Ratio B:A
1990	686.3	1510.2	2.20
1991	708.6	1700.6	2.40
1992	784.0	2026.6	2.58
1993	921.6	2577.4	2.80
1994	1221.0	3496.2	2.86
1995	1577.7	4283.0	2.71
1996	1926.1	4838.9	2.51
1997	2090.1	5160.3	2.47
1998	2162.0	5425.1	2.51
1999	2210.3	5854.0	2.65
2000	2253.0	6280.0	2.79

Source: National Bureau of Statistics, PRC.

Table 7: Per capita annual income of urban residents and per capita net income of rural households by selected region in 1999)

Region	Urban residents		Rural households		
	Disposable income (yuan)	Ratio*	Net income (yuan)	ratio*	
National average	5854.02	1.00	National average	2210.34	1.00
Beijing	9182.76	1.57	Beijing	4226.59	1.91
Heilongjiang	4595.14	0.78	Heilongjiang	2165.93	0.98
Shanghai	10931.64	1.87	Shanghai	5409.11	2.45
Hubei	5212.82	0.89	Hubei	2217.08	1.00
Tibet	6908.67	1.18	Tibet	1309.46	0.59
Qinghai	4703.44	0.80	Qinghai	1466.67	0.66

* figures denote the ratios to the national average total. Source: National Bureau of Statistics, PRC.

High level of union memberships without independent unions

As illustrated in Table 8, the participation rate of administrative staff and workers in “grassroots unions” has been very high throughout the past decade. But the figures, in fact, reveal both the extent of state/party domination in people’s lives under the slogan of “liberalization”, and the low level of basic freedoms enjoyed by citizens. The state recognizes only one union body, the All China Federation of Trade Unions (ACFTU). The trade union law of 1992 ensures that the ACFTU enjoys a strict legal monopoly on organizing in the workplace, it stipulates that the formation of any new union branch or organization requires the prior approval of the higher-level trade union organization. This means that all trade unions must join the ACFTU, a profoundly hierarchical and undemocratic organization which operates under the direct leadership of the Chinese Communist Party. Throughout the 1990s, there have been numerous cases of members and organizers in independent unions receiving heavy prison sentences. This means that the capacity of unions in China to provide adequate representation and protections for members is seriously undermined. At the same time, the incidences of industrial unrest is expected to increase. Discontent is growing because of these factors, hidden unemployment and layoffs in state-owned enterprises,

exploitative working conditions in private enterprises (especially in those factories subcontracted to transnational corporations where trade union participation is extremely low and discouraged), and the WTO's free trade initiative. This last factor has precipitated a race to the bottom in labour standards in both developing and developed countries.

Table 9: Number of employees in grassroots unions (in tens of thousands)

Year	Unionization rate		
	Number of employees	Union membership	
1990	14059	10135.6	72.1%
1991	14508	10389.1	71.6%
1992	14792	10322.5	69.8%
1993	14849	10176.1	68.5%
1994	14849	10202.5	68.7%
1995	14908	10399.6	69.8%
1996	14845	10211.9	68.8%
1997	14668	9131.0	62.3%
1998	12337	8913.4	72.2%
1999	11773	8689.9	73.8%

Source: National Bureau of Statistics, PRC.