Unemployment Problem and Unemployment Insurance in China

Hiroko IMAMURA

Abstract

In China, the rate of unemployment is listed as 3.1 percent in official statistics. However, the real rate of unemployment including, so-called “xiagang” workers, have reached 6.9 percent in year 2000. The “xiagang” workers in Chinese refer to those who actually lost their jobs or positions in their work units while retaining labor contract relations with enterprises. The distribution of “xiagang” workers is uneven. In the Northeast or Northwest regions, the real rate of unemployment is between 10 to 17 percent. The unemployment rate, including “xiagang” workers, is higher in age group of 40s and in manufacturing sector of industry. In the region where unemployment rate is high, the unemployment insurance system is not functioning well either.

As economic development continues, employment in service sector is supposed to expand as well. In China, service sector has not yet developed properly, and personnel to be employed in service sector are not trained yet, therefore, a phenomenon of labor mismatch already has appeared.

As unemployment increases, incidents of labor disputes have also increased. While disputes in foreign investment enterprises are usually on wage increase, most disputes in the state owned enterprises are increasingly on question of job security. With regards to unemployment insurance, the major problem is to maintaining the sources of insurance fund as the number of unemployment continue to increase. If China were to seriously implement reform in state enterprises, an increase in unemployment would be unavoidable, and thus invite a risk of social unrest. If, on the other hand, China does not reform state enterprises, an increased economic efficiency through restructure will not be possible a clear dilemma for China.

Keywords: “xiagang” worker, real unemployment, informal employment, labor mismatch, unemployment insurance

1. How to Evaluate China’s Unemployment Problems (Real Unemployment Rate)

According to the definition of China’s Statistical Bureau, “unemployed population registered in the city” refers to those registered nonagricultural permanent residents, who are in certain age group¹, capable of labor, without job and in search of job, and are registered for job search.

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¹ Usually 16 years and older.
The trend of the unemployed and unemployment rate, according to this definition is as shown in Figure 1. However, there are problems with this definition of unemployed. First, while the majority of countries in the world collect unemployment statistics based on sample data, China’s statistics is based on operation data of government employment service organizations. Second, as to the timing of data survey, the most of developed countries collect the data every month at a given short period of time such as a week or a day. China, on the other hand, collects data only once a year, that is, the unemployed population data at the end of each year. Third, as to the age limit of survey target, most countries have lower limit but no upper limit of age. China also has no upper limit of age by definition. Actual “unemployed population registered in the cities”, however, there are upper limit set up for female at 45 years old and male 50 years old. For these reasons, officially published unemployment number will be substantially lower than actual one. These official numbers also increased as shown in Figure 1.

The unemployment rate, especially unemployment rate of youth, increased immediately after the reform and open door policy was adopted because a large number of youth, who were sent to country side during the Cultural Revolution, returned to cities. In 1980, unemployed in the cities were 5.415 million, of which unemployed youth were 3.825 million comprising 70.6 percent of the total. Although the absolute number of unemployed youth decreased since, their share in total unemployed increased and reached 85 percent of total in 1987. Thereafter, the share of unemployed youth declined and reached 59.7 percent in 1995. Since then no statistics for youth unemployed, either in absolute number or in it’s share, were published. On the contrary to unemployed youth, the total unemployment itself declined in early 1980s and then increased again since 1984.

In addition to those mentioned above, there are others who are actually unemployed called “xiagang” in Chinese. These are the ones who lost job or position in the work unit, but retain contract relations with enterprise. In this sense, there is a difference with layoff in other countries and, therefore, this paper will retain Chinese word xiagang or xiagang worker to note the difference. In the countries like US, there are many cases where contractual relation is terminated in short term in order for the firms to readjust production process. In China, those xiagang workers who are off the job for more than 6 months are 59.9 per cent of total xiagang workers and average period that they are off the job post is 3 years and 9 months as of end of 1996.

With regards to the number of xiagang workers, recent China Labor Statistical Year Book lists the number at the end of previous year, those who became xiagang workers in current year, those who are reemployed, and the number of xiagang workers at the end of current year. Therefore, the

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2 Ma Jun, Zhongguo Xiagang Zhigongde Zaijiuye Fenxi (Analysis of China’s Xiagang Worker’s Reemployment) p.2
3 During this period, they were called “waiting for job”, but really are the same as “unemployed.”
4 Zhonguo Laodong he Shehui Baozhang Nianjian (China’s Labour and Social Security Yearbook), 2000, p.488
5 Workers here include both white color and blue color workers.
number of xiagang workers at the end of current years is treated as unemployed in this paper and is included in the real unemployment figure. The Figure 1 shows the number and the rate of real unemployment. According to the estimate in Figure 1, the real number of unemployed was 15.05 million and the rate was 6.9 percent in the year 2000.

In estimating the number of unemployed, it is necessary to consider those workers who came from countryside to cities in search of job but were not able to find job. They are actually living in the cities but unable to register in the cities as residents and therefore excluded from official unemployment statistics of cities. In other words, real unemployment rate in the cities should be redefined as following. Unemployed population = number of unemployment registered + (total xiagang workers – newly reemployed xiagang workers) + number of unemployed rural workers living in cities.\textsuperscript{7}

\begin{figure}
\centering
\includegraphics[width=\textwidth]{fig1.png}
\caption{Number of Unemployed and Rate of Unemployment}
\end{figure}

Source) China Labor Statistical Yearbook each year

Since there is no statistics on unemployed rural workers living in cities are available at present, the estimate must be based on data excluding migrant rural workers.

\textsuperscript{7} Zhongguo Kexueyuan Guoqing Fenxi Xiaozu (Chinese Academy of Science National Status Analysis Study Team), Jiuye yu Fazhan-Zhongguo Shiye Wenti yu Jiuye Zhanlue (Employment and Development-Problems of China’s Unemployment and Employment Strategy) Liaoning Renmin Chubanshe (Liaoning Peoples press) 1998, p. 97. Author was told that in Sichuan Province, some state enterprises that are not doing well have earlier mandatory retirement ages of male 45 years old and female 40 years old, despite national regulation of male 60 and female 55 years old.
The Chinese Ministry of Labor and State Statistical Bureau listed the following as new definition of unemployment. 1. Those who are over age 16 and graduated from or still attending school, and attempted job search for the first time but was not able to find job. 2. Workers who have received bankruptcy notice from enterprise and were not able to find job. 3. Those whose contracts with enterprise were either ended or canceled or refused to accept and yet were not able to find next job. 4. Workers after resigning previous job and were not able to find job. 5. Others who meet the definition of unemployment workers. 8

In this paper, as stated above, xiagang workers at end of year, excluding those who regained position during the year, were treated as unemployed workers.

As to the reemployment rate of xiagang workers, however, there is a substantial difference between the rates listed in China Labor Statistical Year Book and media reports. Reemployment rates of xiagang workers estimated on the basis of the Year Book were 45.2 percent in 1998 and 36.7 percent in 1999. In this estimate, denominator was the sum of xiagang workers at the end of previous year and new xiagang workers in current year. The rate of those who either canceled or terminated labor contract relations was 11.5 percent in 1999.

On the other hand, according to fragmental information by media reports, the reemployment rate of xiagang workers was no more than 26 percent and those who received some sort of relief fund from society was mere 1.8 percent in 1996. 9 The rate of reemployment at the end of June 1999 as a benchmark was no more than 27.4 percent and reemployment rate at Shandong Province from January to May of 1999 was no more than 19.6 percent. 10 There is a report that the rate of reemployment of laid off workers at State-owned enterprises during the first half of 2001 was 11.1 percent and it is 4.9 percentage point lower than the rate in 2000. 11 In case of Chongqing at end of 1996, number of unemployed registered in the city was 109.5 thousand and the rate of unemployment registered was 2.98 percent. Number of xiagang workers, however, was 400 thousand, of which 200 thousand could not find reemployment, and thus the real rate of unemployment reached 16.32 percent. 12 As to the possible reason for the discrepancy between official statistics and the media reports may be due to the fact that many unskilled xiagang workers who had been once rehired but were laid off again.

In 1998, there was information indicating where the xiagang workers were reemployed. According to this information nearly a half, 44.6 percent, of reemployment is by private enterprises, 29.3 percent by none-state owned enterprises, and rehire by state owned enterprises remained at 23.4%

9 The same as in footnote 7.
12 Hu Angang, op.cit. p.56.
percent. Whereas, 40.5 percent of those who were previously employed by the state owned enterprises found new job, only 26.2 percent of those who were previously working for collective enterprise found reemployment. However, the case of canceled contract is higher in state owned enterprises, 12.9 percent, while at collective enterprises remained at 7.5 percent.\(^{13}\)

2. Status of Xiagang and Unemployment

In observing age structure of xiagang workers, 32.6 percent of total was between 35 to 46 years old. In the age group classification, this age group also had a high rate of xiagang workers with 9 percent level. For example, it is an interesting contrast with age group between 50 to 55 years old, which had only 4.5 percent of xiagang workers. This may be not unrelated to the fact that many in this age group missed higher education during the Cultural Revolution period. See Table 1. As to the education level, 41.7 percent of xiagang workers received less than middle school education. In case of women, it was 46.7 percent.

<table>
<thead>
<tr>
<th>Table 1</th>
<th>Status of Xiagang Workers in 1999 (unit: person)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total of Year-end</strong></td>
<td><strong>9,371,765</strong></td>
</tr>
<tr>
<td><strong>State-owned Enterprises</strong></td>
<td><strong>6,525,157</strong> (69.6%)</td>
</tr>
<tr>
<td><strong>Collective-owned Enterprises</strong></td>
<td><strong>2,589,115</strong> (27.6%)</td>
</tr>
<tr>
<td><strong>Age Under 35</strong></td>
<td><strong>2,469,529</strong> (26.4%)</td>
</tr>
<tr>
<td><strong>Between 35 to 45</strong></td>
<td><strong>3,055,163</strong> (32.6%)</td>
</tr>
<tr>
<td><strong>More than 46</strong></td>
<td><strong>1,557,288</strong> (16.6%)</td>
</tr>
<tr>
<td><strong>Education Middle School or under</strong></td>
<td><strong>3,911,298</strong> (41.7%)</td>
</tr>
<tr>
<td><strong>Senior High School (2)</strong></td>
<td><strong>2,653,993</strong> (28.3%)</td>
</tr>
<tr>
<td><strong>University or more</strong></td>
<td><strong>516,669</strong> (5.5%)</td>
</tr>
</tbody>
</table>

Source) China Labour and Social Security Yearbook 2000 pp.640-642
(1) State-owned and State Join Ownership Enterprises & Sole State-funded Corporations
(2) including Technical College

Classification by industrial sectors of unemployed workers\(^{14}\) is available only in state owned enterprises in 1999. Table 2 indicates diversity in unemployment among different industrial sectors. The largest unemployment is in manufacturing sector comprising nearly a half of total unemployment. It may be related to a large-scale downsizing carried out in textile industry in 1999.

\(^{13}\) Calculate from Zhongguo Laodong Tongji Nianjina (China Labor Statistical Yearbook), 2000, p.409
\(^{14}\) Ibd, Workers listed under “not at post” are perhaps those whose contract relation is terminated and here they are regarded as unemployed
and in 2000. The rate of unemployment in manufacturing sector reached 28.4 percent. It is conceivable that the private enterprises in this sector also have a large number of unemployed. The highest rate of unemployment is in Wholesale & Retail Trade & Catering Service sector. In discussing labor problems, it is often mentioned that the surplus labor will be absorbed by the service industry, and as economy develop the share of employment in the tertiary industry will grow. However, in China it appears that the service industry is not yet able to absorb enough employment. This fact can be observed from comparison of numbers of workers seeking job and workers demanded by enterprises in Shanghai described below (Table6). In view of the fact that state owned enterprises in wholesale and retail trade and catering service sector is no more that a half of total, it is possible that the employment rate in private enterprises in this sector may be higher. The unemployment rate is 17.8 percent in the mining sector where small mines were closed. In comparison, government agencies and political party group have virtually no unemployment. Although administrative organizations were downsized in 1998 and supposed to have decreased number of employees since 1999, actual decrease cannot be noticed. Perhaps it is because many displaced workers may be ordered to transfer to other related organizations.

<table>
<thead>
<tr>
<th>Industrial Sector</th>
<th>Total</th>
<th>State-owned</th>
<th>Private</th>
<th>B/A + B</th>
<th>Per Capita Annual Living Expenditure (yuan)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Farming, Forestry, Animal Husbandry, Fishery</td>
<td>494</td>
<td>475</td>
<td>19</td>
<td>9.7</td>
<td>1246</td>
</tr>
<tr>
<td>Mining &amp; Quarrying</td>
<td>581</td>
<td>448</td>
<td>128</td>
<td>22.2</td>
<td>2178</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>3240</td>
<td>1415</td>
<td>642</td>
<td>31.2</td>
<td>2058</td>
</tr>
<tr>
<td>Production &amp; Supply of Electricity Gas &amp; Water</td>
<td>282</td>
<td>233</td>
<td>14</td>
<td>5.7</td>
<td>4840</td>
</tr>
<tr>
<td>Construction</td>
<td>744</td>
<td>372</td>
<td>100</td>
<td>21.2</td>
<td>2394</td>
</tr>
<tr>
<td>Geological Prospecting &amp; Water Conservancy</td>
<td>109</td>
<td>107</td>
<td>14</td>
<td>11.6</td>
<td>2934</td>
</tr>
<tr>
<td>Transport, Storage, Port &amp; Telecommunication</td>
<td>65</td>
<td>549</td>
<td>74</td>
<td>11.9</td>
<td>3202</td>
</tr>
<tr>
<td>Wholesale &amp; Retail Trade &amp; Catering Service</td>
<td>977</td>
<td>531</td>
<td>259</td>
<td>32.8</td>
<td>1334</td>
</tr>
<tr>
<td>Finance &amp; Insurance</td>
<td>294</td>
<td>200</td>
<td>7</td>
<td>3.4</td>
<td>7935</td>
</tr>
<tr>
<td>Real Estate</td>
<td>93</td>
<td>60</td>
<td>5</td>
<td>7.7</td>
<td>3241</td>
</tr>
<tr>
<td>Social Services</td>
<td>457</td>
<td>314</td>
<td>30</td>
<td>8.7</td>
<td>2667</td>
</tr>
<tr>
<td>Health Care, Sports &amp; Social Welfare</td>
<td>476</td>
<td>419</td>
<td>7</td>
<td>1.6</td>
<td>2965</td>
</tr>
<tr>
<td>Education, Culture &amp; Arts, Radio, Television</td>
<td>1500</td>
<td>1447</td>
<td>17</td>
<td>1.2</td>
<td>4375</td>
</tr>
<tr>
<td>Scientific Research &amp; Polytechnic Service</td>
<td>164</td>
<td>147</td>
<td>6</td>
<td>3.9</td>
<td>4102</td>
</tr>
<tr>
<td>Government Agencies, Party &amp; Social Organ.</td>
<td>1091</td>
<td>1086</td>
<td>17</td>
<td>1.5</td>
<td>4626</td>
</tr>
<tr>
<td>Others</td>
<td>99</td>
<td>76</td>
<td>10</td>
<td>11.6</td>
<td>2604</td>
</tr>
</tbody>
</table>

By 1999, the financial sector, where there had been no previous displacement of workers, had been pressured to decrease employees in order to improve efficiency in the face of an increased competition with foreign firms after joining the World Trade Organization. The China People’s Bank displaced 7900 employees in 2001. The Bank of China closed 141 branches and laid off 5200 employees in 2001, followed by closing of 88 branches and layoff of 5000 employees planned in 2002. The China Industry and Commerce Bank planned to lay off 30,000 employees in 2002 and ultimately plan to decrease the total number of employees from 57,000 to 40,000. The four big state owned Commercial Banks currently have 130, 000 employees and may be necessary to plan for a substantial downsizing.\textsuperscript{15}

The average amount of living expenses paid out is in 1,000s yuan in sectors with high rates of unemployment as in manufacturing, mining, and wholesale & retail sale& catering service sectors. On the other hand, employees in sector with low rate of unemployment as in financial sector and in government agencies and political party organizations were paid much higher amount, 7,002 yuan and 4,364 yuan respectively.

3. Actual Unemployment Rate by Province in 2000

According to Table 3, which shows the unemployment of only those who have legal residency in cities, there is a regional diversity in real unemployment rate. Whereas national average unemployment rate was 6.9 percent, Beijing had lowest unemployment rate of 2.3 percent, and lower number of unemployed and xiagang workers. Although northeastern three provinces had low unemployment of 3 to 4 percent, actual rates were about 16 percent in Jilin and Heilongjian Provinces and 17.6 percent in Liaoning Province because of a large number of xiagang workers. The xiagang workers in northeastern three provinces comprised 29 percent of those of entire country.

Other than unemployment problems of cities, generally speaking surplus labor force in rural area reached 120 to 130 million,\textsuperscript{16} and thus one can realize the seriousness of unemployment problem of China as a whole. On this question, Hu Angang estimated, based on size of arable land, that the surplus labor was 252.9 million in 1990 and decreased to 160.12 million in 1996. China’s labor productivity in grain production is very low at 1.26 ton per capita, compared to 91.32 tons in US and 107.51 tons in Canada. Even Brazil has 2.54 ton per capita. If China’s productivity is comparable to Brazil, number of surplus labor is estimated to be 290 million.\textsuperscript{17} From 1978 to 2000

\textsuperscript{15} Liaowang Xinwen Zhoukan (Observation News Weekly) May 27 2002.
\textsuperscript{17} Both from Chinese Academy of Science National Status Analysis Study Team, 1998. The former, p.185 and the latter, p.198.
about 130 million of rural population transferred into nonagricultural field, and that means average of 5.91 million people per year.\textsuperscript{18}

(\textbf{Table3}) Actual Unemployment Rate by Province in 2000  \hspace{1cm} (unit: 1000 persons)

<table>
<thead>
<tr>
<th>Province</th>
<th>Workers</th>
<th>Real Unemployment Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>212740</td>
<td>5950</td>
</tr>
<tr>
<td>Beijing</td>
<td>4563</td>
<td>33</td>
</tr>
<tr>
<td>Tianjin</td>
<td>2386</td>
<td>105</td>
</tr>
<tr>
<td>Hebei</td>
<td>7341</td>
<td>174</td>
</tr>
<tr>
<td>Shanxi</td>
<td>4305</td>
<td>97</td>
</tr>
<tr>
<td>Inner Mongolia</td>
<td>3851</td>
<td>126</td>
</tr>
<tr>
<td>Liaoning</td>
<td>8466</td>
<td>412</td>
</tr>
<tr>
<td>Jilin</td>
<td>4379</td>
<td>230</td>
</tr>
<tr>
<td>Heilongjiang</td>
<td>7218</td>
<td>253</td>
</tr>
<tr>
<td>Shanghai</td>
<td>4175</td>
<td>201</td>
</tr>
<tr>
<td>Jiangsu</td>
<td>8708</td>
<td>304</td>
</tr>
<tr>
<td>Zhejiang</td>
<td>5921</td>
<td>218</td>
</tr>
<tr>
<td>Anhui</td>
<td>5751</td>
<td>165</td>
</tr>
<tr>
<td>Fujian</td>
<td>4161</td>
<td>91</td>
</tr>
<tr>
<td>Jiangxi</td>
<td>3881</td>
<td>167</td>
</tr>
<tr>
<td>Shandong</td>
<td>10222</td>
<td>375</td>
</tr>
<tr>
<td>Henan</td>
<td>8593</td>
<td>214</td>
</tr>
<tr>
<td>Hubei</td>
<td>7261</td>
<td>366</td>
</tr>
<tr>
<td>Hunan</td>
<td>6060</td>
<td>276</td>
</tr>
<tr>
<td>Guangdong</td>
<td>10759</td>
<td>302</td>
</tr>
<tr>
<td>Guangxi</td>
<td>3850</td>
<td>113</td>
</tr>
<tr>
<td>Hainan</td>
<td>1097</td>
<td>37</td>
</tr>
<tr>
<td>Chongqing</td>
<td>2839</td>
<td>101</td>
</tr>
<tr>
<td>Sichuan</td>
<td>6468</td>
<td>308</td>
</tr>
<tr>
<td>Guizhou</td>
<td>2433</td>
<td>102</td>
</tr>
<tr>
<td>Yunnan</td>
<td>3465</td>
<td>68</td>
</tr>
<tr>
<td>Tibet</td>
<td>226</td>
<td>10</td>
</tr>
<tr>
<td>Shaanxi</td>
<td>4696</td>
<td>114</td>
</tr>
<tr>
<td>Gansu</td>
<td>2476</td>
<td>74</td>
</tr>
<tr>
<td>Qinghai</td>
<td>666</td>
<td>18</td>
</tr>
<tr>
<td>Ningxia</td>
<td>765</td>
<td>38</td>
</tr>
<tr>
<td>Xinjiang</td>
<td>3184</td>
<td>110</td>
</tr>
</tbody>
</table>

(Source) China Labor Statistical Yearbook 2000. p.11,73,404
(Note) Total number is not coincident sum up number

\textsuperscript{18} \url{http://www.peopledaily.com.cn/2001/07/04/jp/20010704-7076.html}
Table 4 shows net increase in labor force, which is estimated by subtracting total labor force of previous year from total labor force of current year. According to the Table 4, net increase in labor force, both nation as a whole or in cities alone, began to decrease since 1997. Primary reason for this will be the fact that one child policy began to take effect but also one cannot ignore a large increase in enrollment into college or universities in China. If enrollment into higher educational institutions increases from current level of 7 percent to 30 percent, new entrance into labor force will decrease by 3 percentage points and will relieve nearly 30 million job seekers. At the same time, there is no question that a phenomenon of aging of society, that is, an increasing proportion of older people, in China pose a serious social problem. Although this paper will not deal with questions of old age pension annuity, one of most difficult social welfare problems is question of old age pension annuity. The rates of contribution toward old age annuity out of employee’s wage are not uniform throughout the entire country. The difference is due to difference in the ratio of those who need old age pension annuity, i.e., difference in ratio of those who are retired or unemployed to total employed, and also because of difference in overall management situation. Naturally, city like Shenyang has a high rate of contribution to old age pension annuity of 31.5 percent, of which 23.5 percent is enterprise share, because it is an old industrial region and with a larger proportion of recipient of old age pension annuity and therefore is unavoidable to have a higher rate of contribution for the fund. Zhuhai City has the lowest rate of contribution of 15 percent, of which 10 percent is enterprise share.

China in year 2000 already became an aging society with 6.95 percent of population with 65 years old and older. The number of cities, where revenue for the old age insurance were less than the expenditure, were 5 in 1997, but increased to 21 cities in 1998 and 25 cities in 1999. According to survey results of five cities, Beijing, Shanghai, Chengdu, Xian and Dalian, if workers retire at legal retirement age (60/55/50), 3.65 workers must support one retired worker in 2001, but 1.87 workers must support one retired worker in 2050. Based on estimated revenue and expenditure of the fund in next 25 years, if workers retire at legal retirement age, average deficit will be estimated to be 71.7 billion yuan per year, and total of 1.8 trillion yuan in 25 years. If retirement age is extended to age 65, the total deficit will be 860 billion yuan. On the other hand, if estimate is based on actual retirement age (58/55/48), the total deficit will be 2.88 trillion yuan. As for the methods of supplementing the fund the following ideas have been considered. These are, to allocate 5 percent of annual fiscal revenue, to improve management and control of wage, which is the main source of contribution to the fund, and utilize the stock market to manage the fund. If retirement age is raised, burden of old age pension annuity fund will decrease but will aggravate solving surplus labor problem, a clear dilemma.

21 Male, 60 years old; female cadre, 55 years old; and female blue color worker, 50 years old.
22 http://www.peopledaily.co.jp/GB/shenghuo/76/123/20010529/476775.html
(Table 4) New Laborforce

<table>
<thead>
<tr>
<th>Year</th>
<th>Total</th>
<th>Urban</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>890</td>
<td>361</td>
</tr>
<tr>
<td>1992</td>
<td>755</td>
<td>264</td>
</tr>
<tr>
<td>1993</td>
<td>819</td>
<td>348</td>
</tr>
<tr>
<td>1994</td>
<td>826</td>
<td>824</td>
</tr>
<tr>
<td>1995</td>
<td>748</td>
<td>680</td>
</tr>
<tr>
<td>1996</td>
<td>903</td>
<td>722</td>
</tr>
<tr>
<td>1997</td>
<td>750</td>
<td>392</td>
</tr>
<tr>
<td>1998</td>
<td>357</td>
<td>471</td>
</tr>
<tr>
<td>1999</td>
<td>629</td>
<td>336</td>
</tr>
<tr>
<td>2000</td>
<td>564</td>
<td>260</td>
</tr>
</tbody>
</table>

(Source) China Statistical Yearbook 2001 p.110
(Note) Figure in 1998 is estimated wrong, but other Statistical Yearbooks also indicate same figure.

4. Why Choose Xiagang

Why workers choose the path of xiagang? In case of contract workers the primary reason is that the contract period is still in effect. If you become a status of xiagang worker, there is a merit, for example, to receive some sort of technical training at reemployment training center with compensation. However, in reality there are many workers neither enter the training center nor receive compensation. The reasons for some workers nonetheless to choose the path of xiagang are as following.

System of insurance for unemployment, old age care and medical coverage started in 1980s in China. Contributions for the insurance differ depending upon the region and enterprise and, in general, employees of state enterprises have better coverage. In case of non-state enterprises’ employees, it is not just have less coverage but rather have no benefits of social insurance at all in many instances. According to opinion survey of xiagang workers, 74 percent of them pointed out that the “worry for losing old age care and medical insurances” as reason for opting for xiagang, and thus, it is apparent that the concern for losing insurance coverage is the primary reason for choosing xiagang. Xiagang workers, as mentioned earlier, are largely middle to old age group, and old age care and medical insurance coverage no doubt will be matter of their major concern. The insurances are separately controlled by region and insurance coverage does not follow each individual employee. In other words, in many cases the insurance will not cover at all if a worker is reemployed at another region or at a different type of enterprise or leave the current enterprise.

23 op.cit. in footnote 11, p.106
When labor contract is terminated, enterprise is supposed to pay economic subsidies to employees. The amount of subsidies is different depending upon the region, and even in the same region, some enterprise do pay the subsidy and other enterprise often do not pay it at all. The standard of subsidies is not uniform either. The termination of labor contract is not taking place much in a region where there is no economic subsidies to terminated workers.

There are contributions to fund to enable employees to start some sort of private business and that contributions are not refunded if one leaves the enterprise.

5. Labor Disputes

There is an increasing tendency of labor disputes as the employment problems become more severe and intensify. When the number of complaints by employee side is examined by type of enterprises, the number of dispute is much greater both in state and foreign enterprises. In foreign enterprises, problems concerning labor compensation comprise 36.5 percent of reasons for labor disputes. In state enterprises, 33.2 percent of dispute is based on cancellation or termination of labor relations, indicating the fact that employment guarantee is the primary purpose of dispute from prospect of employee side. (These are based on number in year 2000)

The labor demonstrations demanding on timely payment of retirement annuity or unemployment compensation have been reported from early 1990s. Perhaps, reporting such demonstration itself meant to mitigate the zeal or intensity of demonstration. As the downsizing of state enterprises proceeded in earnest, the demonstration movements became larger in scale and more intense. The expressions of labor complaints, which are not permitted and therefore not listed in statistics, have been increasing. In March of 2002, laborers in more than 30 factories in Liaoyang, Liaoning Province carried out a large scale demonstration demanding payment of delayed wages, retirement annuity and compensation for unemployed, and their leader was arrested. It has been reported that the workers requested to hold an anti-corruption demonstration at the end of April and, as police refused to give permission, the movement once again intensified and thus resulted in a biggest protest movement since Tiananmen Incidence of 1989. The similar movements took place not only at Daqing in Heilingjiang Province, Wushun in Liaoning Province but also in Beijing City, Xinjiang, Henan and Anhuei Provinces. The movement of labor dispute will not likely to quiet down for a while at regions like Northeast China, with many state enterprises and no prospect of recovery from current stagnation. It is because such regions have no functional social welfare

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25 Zhongguo Laodong he Shehui Baozhang Nianjian (China Labor and Social Security Yearbook), 2001, p.691
26 Yazhou Zhoukan (Asia Weekly) May 20, 2001; May 26, 2002; Business Week, April 8, 2002; TIME, June 17, 2002 had similar articles.
system and have greater uncertainty of livelihood. The system of social welfare is not uniform throughout the nation.

( Table5 ) Labor Disputes and Their Reasons. (Number of Incidence)

<table>
<thead>
<tr>
<th></th>
<th>1997</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plaintiff (em-&gt;ployer)</td>
<td>2751</td>
<td>4446</td>
<td>6039</td>
<td>5985</td>
</tr>
<tr>
<td>Plaintiff (employee)</td>
<td>68773</td>
<td>84829</td>
<td>114152</td>
<td>120043</td>
</tr>
<tr>
<td>Concerning Treaty Payment</td>
<td>44690</td>
<td>41671</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Welfare Insurance</td>
<td>28832</td>
<td>31350</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Safety Guard</td>
<td>7820</td>
<td>13008</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Labour Training</td>
<td>615</td>
<td>834</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change of Treaty</td>
<td>3469</td>
<td>3829</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dissolve of Treaty</td>
<td>18108</td>
<td>21149</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Suspense of Treaty</td>
<td>8031</td>
<td>10816</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td>8626</td>
<td>12549</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

State-owned Enterprises 17347 20701 24671 29613
Foreign Funded Enterprises 22906 22025 27173 20326
Share Holding Enterprises 1979 4385 6303 13655


Note) Number of enterprises is only plaintiff of employee


There are words, both modified with “disguised,” with exact opposite meanings, which make difficult to understand the real nature of Chinese labor problems. The “disguised” here means a potential, submerged or hidden and that situation exist in both unemployment and employment.

Disguised unemployment means surplus or redundant employees in the enterprises. It has been said that in state enterprises “five people do three persons’ work” and thus included a large number of surplus workers. In 1998, when the gross output value of state enterprises was only 28 percent of total industrial gross output value, the number of labor employed in state enterprises comprised more than 50 percent of total labor force. As the reform in state enterprises proceeded in earnest since 1998, many of “disguised” unemployment became apparent unemployment, namely xiagang workers.

At what level is the real rate of disguised unemployment? The rate of disguised unemployment can be estimated as the following.
The rate of disguised unemployment = (unproductive labor hours/total labor hours) x 100 %

According to study of 1995, the rate of disguised unemployment measured by above method was 18.8 percent, about the middle of the rates of studies by other agencies, 25 percent by State Planning Commission and System Reform Commission, 20 percent by Statistical Bureau and 10 to 20 percent by Ministry of Labor. Whereas, the rate of disguised unemployment for manual workers was between 5 to 15 percent, management sectors had reached a high rate of about 25 percent. There is a study that claims the rate reached 27 percent. The fact that the rate of disguised unemployment is about 20 percent means that if the enterprises attempt to raise the management efficiency, apparent or explicit unemployment rate will be greater than current actual rate of 7 percent including xiagang workers. The problem here is how to estimate “unproductive or ineffective labor hours.”

Yuan Zhigang estimates the rate of disguised unemployment mainly from labor productivity (2002, pp.228-230). According to his study, the disguised unemployment rate was 10 percent level in mid-1980s, jumped to 20 percent level in 1990s, reaching peak of 27.8 percent in 1994 and 1995 and then declined to 20 percent in 1997.

On the other hand, disguised employment has following two examples. One is that, due to a large number of surplus workers in Chinese enterprises, their marginal productivity is lower than their wage level. Therefore, many capable workers, who are not able to work effectively in accordance with their ability, will have a second position or other side job. This is called disguised employment. In this case, wages in disguised employment is in gray zone and there are some who make more than twice the wage of regular job, and yet government tax agency is not able to get grasp of it.

The other example is xiagang workers. There are those who do not enter training centers for reemployment and have no time to receive training because they are engaged in some sort of work. There are also those who belong to training centers and yet hold some other jobs while receiving the training. In most cases, their jobs tend to be very low wage type, like door-to-door sales, and never receive enough to maintain their livelihood.

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27 Xia Jiechang, “Xiaochu Guoyou Qiye Yinxing Shiye yu Wanshan Shiye Baozhang Zhidu” (Eliminate Disguised Unemployment and Perfect Unemployment Compensation System), Guanli Shijie (Management World), Vol.2
7. Increase of Informal Employment

At the time when state enterprises occupied main stream of China’s economy, a normal form of employment was to be employed either at state enterprises or at collective enterprises. In developing countries in general, at an earlier stage of development, there are increasing migration of rural labor into cities looking for job opportunity. Since surplus farm workers migrate to cities without enough information about job opportunity in the cities, they are unable to find regular jobs in formal sector and have no choice but to work at informal sector in the cities. Thus, at a certain stage of development the employment in informal sector of cities increase.

In China, during the period of planned economy migration of rural workers into cities was not possible because of strict separation of registration for city residents and for rural residents. Since the reform and open door policy had been implemented the food grain was sold in the cities’ market, and by middle of 1980s it became possible to live in the cities without resident registration and, therefore, without food ration coupon that comes with official registration. Consequently, migration of rural workers into cities began to increase and labor in informal sector began to emerge in China also. Not only informal sector, but also within enterprises in formal sector the form of employment underwent a change to those other than the traditional full time regular employment. In other words, as market economy progress in China, changes took place not only the form of enterprises but also in the form of employment as well. Since 1986 began a system of “contract workers” and thus changed lifelong employment system practiced thus far. At the same time, in the formal sector of state enterprises and collective enterprises began to emerge such irregular form of employment as temporary employees, dispatch workers and part time employees. Moreover, such informal sectors as family enterprises, small-scale service business began to emerge. As state ownership of enterprises decline informal form of employment began to increase in labor market.

According to definition of International Labor Organization, informal employment refers to those in production or distribution of small-scale merchandise and in service sector. In other words, informal employees are those engaged in ultra small enterprise, family style production and service and individual laborers. In China, informal employee refers to 1.an individual, family, or two or three individuals managing ultra small-scale private business or family handcraft business; 2. employees in organization, which is entrusted by community, enterprises or non-government organizations, for the purpose of pursuing public benefit or to create job and income opportunity for the public; and 3.the workers who are responsible for their own profit or loss.

How much was an increase in informal employment is China? The proportion of employees in the formal sector of cities was 78.1 percent in 1995 but declined to 56.0 percent in 1999. Proportion of employment in such informal sectors as private enterprises and individual owned enterprises was 11.97 percent in 1995 and increased to 22.73 percent in 1999. The increase in employees during the 9th five-year plan period was 10.1 percent of 19.21 million, of which employees in informal sector
was 14.22 million, an increase of 69.5 percent. In 1999, 48.7 percent of those reemployed xiagang workers went into self-owned business, and it appears that at least 88.9 percent of reemployed xiagang workers were in informal sectors.\textsuperscript{31}

With regard to proportion of informal sector by provinces, Hu Angang, et al proposes four different models. First, provinces that are playing a role of “Leading Creator” of informal sector, and these are Guangdong, Zhejiang and Hainan Provinces where market economy is relatively well developed. Second, provinces that have “Passive Acceptance” of informal sectors and these are where unemployment and xiagang pose serious problems as in three northeast provinces, Hunan and Hubei Provinces. Third is where informal sector has “Limited Development” as in Beijing where transformation to market economy is difficult or has a very strict resident registration policy. Fourth, are provinces in western regions where informal sectors are “Stagnated” and have slow structural adjustments.\textsuperscript{32}

Each region encourages employment in informal sector in city communities in order to increase employment opportunities. Guangzhou announced an experimental method that pay community service organizations from 50 to 100 yuan per each unemployed or xiagang workers hired, and pay subsidies for old age care insurance fund. The similar method or idea was proposed in Shaanxi and Yunnan Provinces and Kunming City. According to 2001 study by Zhejina Province, there were 100, 000 job opportunity provided by communities and Hangzhou, Ningpo and Wenzhou alone had 53,000 jobs.\textsuperscript{33} The ratio of informal employment to total employment reached 20 percent during the 9\textsuperscript{th} five-year plan period and expected to reach 50 percent in 10 to 15 years.

8. Phenomena of Labor Mismatch

While unemployment problem already poses a serious social problem in the cities, endless rural to urban migration of farm workers continue. One of the reasons for the mismatch may lie in city workers. It is said that in the cities, especially those in state enterprises, workers are accustomed to idea that “workers are masters” and “there is no exploitation in socialism,” therefore, they want to choose jobs “close to their home, with high wages, short work hours and easy work.” For these reasons, city workers tend to dislike jobs that require hard work, under unclean working condition and strenuous. As phenomena of job mismatch, one notes the fact that in Beijing there are 170, 000 xiagang workers with no jobs, while there are more than one million workers migrant workers from countryside with some sort of jobs. In Tianjin, there are 710, 000 rural migrant workers working

\textsuperscript{32} ibid, p.74
Table 6 lists want ad information by selected job classification in Shanghai and the ratio of job openings (persons wanted) to job seekers are estimated. One can notice that the demand for service workers is low, but workers “with skills in hand” as in assembly, lathe, and drivers are in high demand.

<table>
<thead>
<tr>
<th>Job-seeker</th>
<th>Job-market</th>
<th>Amplification</th>
</tr>
</thead>
<tbody>
<tr>
<td>sellers</td>
<td>2939</td>
<td>292</td>
</tr>
<tr>
<td>service</td>
<td>1484</td>
<td>280</td>
</tr>
<tr>
<td>driver</td>
<td>812</td>
<td>1669</td>
</tr>
<tr>
<td>security gard</td>
<td>689</td>
<td>133</td>
</tr>
<tr>
<td>electrician</td>
<td>350</td>
<td>570</td>
</tr>
<tr>
<td>needle worker</td>
<td>235</td>
<td>170</td>
</tr>
<tr>
<td>management of commerce</td>
<td>212</td>
<td>63</td>
</tr>
<tr>
<td>quality control</td>
<td>165</td>
<td>112</td>
</tr>
<tr>
<td>turner</td>
<td>144</td>
<td>266</td>
</tr>
<tr>
<td>assembler</td>
<td>113</td>
<td>403</td>
</tr>
<tr>
<td>machine maintenance</td>
<td>147</td>
<td>254</td>
</tr>
</tbody>
</table>

Source: Jiang Yue, Shehui Baozheng Fa Gailun, p.153

9. Integration of Unemployment and Xiagang

The Statistical Yearbook also treated unemployment and xiagang as separate entity until year 2000. There were three stages of safety net for unemployed workers. There is compensation paid by reemployment retraining centers for xiagang workers and will be paid for three years of not reemployed. If workers cannot find employment in three years while in retraining centers, they will be classified as unemployed and will receive unemployment compensation for maximum of two years. If no job is found in two years, then subsidies for living expenses will be paid. The amount of various compensations is different depending upon the region. State Council of China on July 6, 2001, however, adopted a Liaoning Province law to “Integrate Basic Living Expenses Subsidy of Xiagang Workers and Unemployment Insurance in State Enterprises”, which was an experimental law to perfect social welfare system in Liaoning Province. Since 2001, no new retraining centers were set up, and in next three years the welfare system for unemployed and xiagang workers and their treatment will be integrated. One of reasons for integration may be that the expense for

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34 Chinese Academy of Science National Status Analysis Study Team, 1998, pp. 268-269. The time of information obtained was not listed, but it appears either 1996 or 1997 judging from the publication date.
retraining centers once established are extremely difficult to reduce and thus increases burden of state enterprises.  

10. Unemployment Insurance.

As number of unemployed and xiagang increase, along with an increase in non-state owned enterprises as results of reform in state enterprises, the enterprises no longer became responsible for social welfare of workers and, therefore, adequacy of China’s social welfare system became a serious problem. In China’s social welfare system, there are five kinds of insurances funds, and these are old age care, unemployment, medical, work related injury and child raise insurances. This paper will discuss a brief outline of unemployment insurance, which is related to unemployment problems.

Unemployment insurance started in 1950 soon after the Peoples Republic of China was established. In June 1950, when unemployment rate reached 23.6 percent, the government issued a “Directive Concerning Rescue of Unemployed Workers” followed by establishment of “Temporary Law to Rescue Unemployed Workers” in July of the same year. The law decided that enterprises, both state and collective, and the workers contribute one percent of wages to the insurance fund. As socialist restructuring continue, however, unemployment insurance also disappeared because of the idea that there was no unemployment in socialist country. Although a vocabulary “unemployment” disappeared, the words “waiting for job” existed to describe the workers with no current job but waiting for job.

The similar situation continued after the reform and open door policy was adopted until 1986 when “Enterprise Bankruptcy Law (Experimental)” was implemented and unemployment became inevitable in China. In the same year, the State Council announced “ Temporary Regulation Concerning Insurance for Workers Waiting for Work in State Enterprise”, which was revised in 1993 and became no longer temporary. Nonetheless, coverage of the law confined only to employees of state enterprises, referred then as enterprises owned by entire people.

Even during the time when state law confined the insurance coverage only to state enterprises, in the provinces the laws have been set up to cover employees of non-state enterprises. By the end of 1994, 26 provinces, cities and autonomous districts announced laws, following the regulation of the State Council, to be implemented in their regions. Out of these of 26 regions, 25 of them included the coverage of insurance not only to employees of state enterprises but also to all unemployed workers of cities.

35 Lu Ming, Chen Jian, “Jiuye Tizhi Zhuanguizhong de Jianjin Gaige Cuoshi” (Gradual Reform Measure at Time of Employment System Transformation) Jingji Yanjiu (Economic Research Journal), November 1998, p. 47. From 1998, it has been pointed out that the expenses provided were very inflexible from top down.
“Regulation on Unemployment Insurance” of December 1998 required all enterprises in the cities, namely state, collective, foreign and private enterprises to have insurance coverage for all of their employees. However, out of 110,000 enterprises, only less than 60,000 enterprises have actually participated in the insurance program. In particular, most of private enterprises did not participated. In Zhengzhou City, no more than 3,800 workers received unemployment insurance payment in 1999, but in first quarter of 2000 alone had an increase of 2,400 new insurance recipients, thus resulting deficit of 40 million yuan during two-year period of 2000 and 2001. In Shenyang City, 53,000 workers received unemployment insurance payment in 1999, 78,000 workers in 2000 and 88,000 workers in 2001 and had average deficit of 80 million yuan per year. It is due to the fact that while emphasis had been placed on importance and problems of old age care insurance, unemployment insurance thus far has been slighted. Although a balance of 15 billion yuan remained in the insurance fund in 2000, a shortage of fund will become a problem in the future. There is a report that the rate of insurance participation is 78 percent.37

11. Fund for Unemployment Insurance

There are five revenue sources for contribution to fund.

1. Enterprises and business establishments in the cities contribute two percent of total wage.
2. Workers of enterprises and business establishments in the cities contribute one percent of their wage. However, contract workers from rural area do not contribute the premium.
3. Interest income from the accumulated insurance fund.
4. Fiscal subsidies.
5. Other sources of fund contributed to the insurance fund by law.

The rate of premium can be revised in accordance with real situation of city, province and autonomous district with approval of the State Council.

The expenditure of insurance fund is limited to the following five and no other expenditure is permitted.

1. Unemployment insurance fund.
2. Medical subsidy while receiving unemployment insurance.
3. In case death of a worker while receiving insurance, payment of funeral expenses and death benefits to spouse or direct dependents.
4. Subsidies for retraining and for job search to workers while receiving the insurance.
5. Other expenses in accordance with regulation and approval of the State Council concerning unemployment insurance.

12. Eligibility for Insurance Receipt

Workers are eligible to receive insurance payment in the following cases.

1. In accordance with regulation, participate in insurance program and both enterprise and
   the worker paid premium for more than a year.
2. Employment is terminated not by wish of the worker.
3. Registered for unemployment and in search of job.

In the following cases the insurance payment will be terminated.

1. Worker finds a new job.
2. Worker joins military.
3. Worker moves out of district boundary.
4. Worker becomes eligible for old age care insurance payment.
5. Worker is incarcerated in prison or youth rehabilitation center.
6. Worker refuses to accept a job recommended by Peoples Government or by employment
   agencies without justifiable reason.
7. Other conditions determined by law or other administrative directives.

The relationship between the length of premium payment and eligibility period

<table>
<thead>
<tr>
<th>Length Premium Payment</th>
<th>Eligibility Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. More than 1 but less than 5 years.</td>
<td>Maximum of 12 months</td>
</tr>
<tr>
<td>2. More than 5 but less than 10 years.</td>
<td>Maximum of 18 months</td>
</tr>
<tr>
<td>3. More than 10 years.</td>
<td>Maximum of 24 months</td>
</tr>
</tbody>
</table>

13. Actual Problems

When one examines the revenue and expenditure situation of unemployment insurance fund in
Labor Statistical Year Book there are a large surplus every year. However, reality is that the
unemployment insurance has not been paid to workers who actually need to be paid. Table 7 and 8
lists the revenue and expenditure of unemployment insurance and unemployment insurance
payments.

While the number of unemployed workers rapidly increases, the proportion of unemployed
workers who actually receive the insurance benefit are only 47.2 percent of total unemployed in the
nation despite the regulations set by law. The followings are some example of number of
unemployed workers who did not receive the insurance benefits. In 14 counties in Zhejiang
Province in 1998, 1.8 million; Jujian Province in1999, 165 million; Tianjin City, 35 million in 1999;
Guiyang City, 6.8 million in 1999; and Qingdao City in 1999, one million unemployed workers did not receive unemployment insurance payment.\textsuperscript{38}

\begin{table}[h]
\centering
\begin{tabular}{|c|c|c|}
\hline
\textbf{Year} & \textbf{Revenue} & \textbf{Expenditure} & \textbf{Remain} \\
\hline
1996 & 4524.9 & 2729 & 8638 \\
1997 & 4693.9 & 3632.9 & 9699 \\
1998 & 7261.1 & 5607.3 & 13344.6 \\
1999 & 12524.0 & 9164.6 & 15985.5 \\
2000 & 16044.0 & 12343.2 & 19593.3 \\
\hline
\end{tabular}
\caption{Unemployment Insurance Revenue and Expenditure (unit: million yuan)}
\end{table}

\textsuperscript{1}Source) China Labor and Social Security Yearbook 2000 p.659

\begin{table}[h]
\centering
\begin{tabular}{|c|c|c|c|}
\hline
\textbf{Year} & \textbf{Enlister} & \textbf{Beneficiary (a)} & \textbf{Payment (b)} & \textbf{Per Capita Payment (yuan) b/a} \\
\hline
1994 & 9500 & 196 & 50755 & 259.0 \\
1995 & 9500 & 261 & 81964 & 314.0 \\
1996 & 8333 & 331 & 138704 & 419.0 \\
1997 & 7961 & 319 & 186780 & 585.5 \\
1998 & 7928 & 158 & 203907 & 1290.6 \\
1999 & 9852 & 271 & 318722 & 1176.1 \\
\hline
\end{tabular}
\caption{Unemployment Insurance Payment (unit: ten thousand people, ten thousand yuan)}
\end{table}

\textsuperscript{2}Source) China Labor Statistical Yearbook 2000 p.480

As sources for fund to supplement shortage of insurance fund, to help employment agencies expenses, and to subsidize fund for starting new businesses, Hu Angang suggests the followings. 1. Subsidies for loss of state enterprises; 2. Fiscal expenditure by local government from the fund, that was set up to reform and develop potential of state enterprises; 3. Various price subsidies; 4. Individual income tax; 5. Fee for stock trade of 0.3 percent sales tax on stock, bond, foreign exchange and future’s trade; 6. Revenue from some state enterprises auction of assets; 7. Increased portion of consumption tax for cigarettes and alcohol beverage; 8. A portion of profit by such monopoly business as, communication, electric power, petrochemical, banking and insurances.

In July of 2001 “Temporary Law Concerning Raising of Social Insurance Fund by Decrease of Stocks Held by State” was announced. In Article 5 of the law states that “when a joint stock company, whose stock is owned by the state, issues new stock or additional stock to the public that, the company must sell state owned stock equivalent to 10 percent of value of issued stock to the public presumably to guarantee the source of social welfare fund. In October, however, an announcement was made to stop the implementation of the Article 5, claiming that a “detailed

\textsuperscript{38} op.cit. in footnote 11, p.109
method need to be studied further.\textsuperscript{39} Although further study of method was stated as reason, perhaps real reason could be fear of decreasing stock prices by sale of a large quantity of state held stocks to market. Nonetheless, problems of shortage of fund must be solved soon and, therefore, stock must be sold while adjusting the amount of sale of state held stocks. In June of 2002, despite such need, the portion of the Temporary Law that deals with regulation concerning sales of state held stocks through stock market was eliminated.\textsuperscript{40}

Chen Jinmei considers the following additional sources of fund for social welfare.\textsuperscript{41}

1. Issue of government bond. At present China’s government debt ratio (ratio of government bond outstanding to GDP) is 10 to 12 percent, and it is substantially below the warning level of 60 percent set by European Union’s Maastricht Treaty. China, therefore, has room for additional issue of bond worth 60 to 100 billion yuan as special social welfare fund, and 10-year bond and not current 3-year bond is more appropriate. 2. Sale of lottery for social welfare. In 1999, amount of social welfare lottery issued was 39.52 billion yuan and was greater than total contribution to the social welfare fund of 11.87 billion yuan. Because lottery is purchased by individuals voluntarily and not by coercion there is no side effects. 3. Decrease fiscal subsidies to state enterprises for their loss (currently 60 billion yuan) and allocate money instead to social welfare fund. For example, about 5 percent of the subsidies are comparable to total social welfare fund of early 1990s. 4. Although absolute sum of fiscal expenditure for social welfare have been increasing in the past 20 years since the reform, its share in total fiscal expenditure have decreased from 1.6 percent in 1997 to 1.3 percent in 1999. The ratios of social welfare expenditure to GDP in 1993 were 29 percent in France, 26 percent in Great Britain, 24 percent in Italy. In China the same ratio was no more than 0.19 percent and will be able to increase at least up to 20 percent. 5. Charge the user for land use. If government charges 0.1 yuan per 1 square meter of land for its use, revenue from the lease will be 140 to 170 billion yuan.


During the period of “Zhu Rongji State Enterprise Reform” from 1998 to 2000, large-scale downsizing were carried out especially in textile and coal mining industries. From the prospect of disguised unemployment point of view, it does not necessarily mean that entire surplus labor was eliminated. As a result of Zhu reform the xiagang problem is over the hump and from now on the policy must undergo a rather sudden change to deal with problems of unemployed workers instead of xiagang. While, pressure from new workers will decrease, reemployment of present xiagang workers will become major problem in the future.

\textsuperscript{39} http://www.peopledaily.co.jp/GB/jinji/35/159/20011022/587746.html  
\textsuperscript{40} http://www.peopledaily.com.cn.2002/06/24/jp20020624_18424.html  
The target for registered unemployment rate in 2002 is to limit to 4.5 percent.\textsuperscript{42} According to 10\textsuperscript{th} five-year plan, the objective is to have 5 percent registered unemployment rate, and control rural to urban migration of farm labor to 40 million.\textsuperscript{43} However, if xiagang status is eliminated as described earlier and integrate unemployed and xiagang workers, it will be inevitable to have a higher rate of unemployment that the target rate.

Since becoming a member of WTO in December of 2001, China will face much stiffer competition from imports and products and service of foreign enterprises. It is foreseeable that those Chinese enterprises that have ignored technical improvement thus far will be difficult to survive in the future, and therefore bankruptcy of some of them will cause an increase in unemployment. No doubt, flow of foreign investments into China will also increase causing an increase in employment in China as well.\textsuperscript{44} Foreigner invested enterprises are either very labor-intensive industry employing mostly rural migrant workers, or production and service industry that generally requires employees with high degree of technical ability and knowledge, thus expected to intensify the phenomena of labor mismatch.

Problem of unemployment was mostly problem of youth at the time when reform and open door policy initiated. From now on, however, the center of problem shifted to middle to old age generation, the Cultural Revolution generation, that had little opportunity to receive education then, and yet now form a large majority in term of their number.

As a consequence of one-child policy, while proportion of younger labor force became relatively smaller compared to older generation, and as more baby-boomers reach mandatory retirement age, such maladies of old age society as problem of old age annuity will became apparent. In order to contain the burden of old age annuity, an extension of mandatory retirement age must be considered. But, that will create an increased employment pressure and thus China is confronted with a big dilemma. Because China’s employment pressure will reach the peak of 64.72 percent in 2010 according to Jiang Yue (1999, p.242)\textsuperscript{45}, an extension of mandatory retirement age will become possible after 2020.

There are two sides to labor problems as constraining factors to China’s economy. First question is how to handle the problems of enterprise efficiency versus surplus labor in time of fierce competition. Second is problem of unemployment insurance. Probably, mishandling of first question will invite a serious social unrest. At present, already there are problems of excess production and excess investment in many areas. In the event China’s export decrease due to

\textsuperscript{42} http://j.peopledaily.com.cn/2001/12/12/p20011213-12287.html
\textsuperscript{43} http://j.peopledaily.com.cn/2001/04/30/p20010430-5202.html
\textsuperscript{44} According to Jingji Ribao (Economic Daily), July 10, 2001, in five years after joining WTO, there will be creation of employment for 12 million people, including 2.825 million in textile industry, 2.61 million in clothing industry and 2.664 million in service industry.
\textsuperscript{45} Proportion of total employees to population was 56.1 percent in 1999.
worldwide recession, or a worse consumer recession takes place after Beijing Olympic, enterprises must decrease surplus labor further. Service sector will not be possible to absorb a large number of unemployed workers. Related to the second question, if there are a large number of people not able to receive unemployment insurance, there will be an increased social instability. Some of rural migrants already transferred their farming right to others before their migration into cities, and have no land to return to any more. Such migrant workers may face a decreased job opportunity in cities because of decrease in demand for construction work, for instance. Yet, since they no longer have any land to return to, they will most likely to end up in creating more slums in the cities.

The challenge facing unemployment insurance is, as described earlier, how to accumulate fund, and how fairly able to provide insurance coverage to the people who need it.

Until 2020, China will be continue to run on two edged sword of; employment pressure versus reform of state enterprise, policy of unemployment and old age care insurance versus guaranteed source of fund, and policies counter social instability in general.

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