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THE MANAGEMENT OF HUMAN RESOURCES IN SHANGHAI: A CASE STUDY OF POLICY RESPONSES TO EMPLOYMENT AND UNEMPLOYMENT IN THE PEOPLE'S REPUBLIC OF CHINA

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The Management of Human Resources in Shanghai: A Case Study of Policy Responses to Employment and Unemployment in the People's Republic of China

Abstract

Unemployment, intertwined with poverty, now poses a huge threat to both social stability and the rule of the Chinese Communist Party (CCP) that demands an urgent human resources policy response. This paper begins with an examination of the issues of employment and unemployment in China, then moves on to explain the institutional changes that brought about the problem. Shanghai will be taken as a case study to explore the policy responses. A labour market model will be developed as a theoretical tool to discuss both active and passive labour market programmes in Shanghai. Despite the apparent success of the Shanghai model, its general applicability to other cities remains uncertain, particularly in view of China's entry to the World Trade Organization.

Keywords: China, Economic reform, Employment, Globalisation, Human Resources, Iron rice bowl, Labour market, Shanghai, Unemployment, WTO.

INTRODUCTION

The management of human resources – broadly conceived - in the People's Republic of China (henceforth to be referred to as China) had been associated with a Soviet-style command economy and lifetime employment from 1949, when Mao Zedong took power, until 1978 when Deng Xiaoping's economic reforms were initially launched.

The Chinese worker in the 1950s saw the implementation of a 'jobs for life' and 'cradle to the grave' welfare policy, for those working in the urban industrial state-owned enterprises (SOEs, for short). This system was widely known in Chinese parlance as the 'iron rice bowl' (*tie fan wan*) and became a widely used short-hand term for the management *status quo* amongst informed outsiders interested in what is happening in that country (see Child, 1994). The system was partly derived from earlier Chinese Communist experience in the so-called 'liberated zones' during the war with Japan, as well as later, Soviet practice, but in addition may have had roots in Japanese precedents in Occupied Manchuria. It is likely that there were a wide range of earlier influences that had shaped the evolution of the 'iron rice-bowl', but it had become definitively embedded in industrial life and fully institutionalised by the mid-1950s. Labour market imbalances were to be addressed at the company level rather than in the open market. Like the Japanese labour-market policy model, the emphasis was on the 'internal' labour market within the enterprise as opposed to the 'external' labour market outside the enterprise. It is an enterprise centred and industry driven form of labour market management. In this context, labour market policies may be considered as social protection, both in theory and in practice and intended as a form of employment protection (Abrahart and Verme, 2001:60). Several writers (Walder, 1986; Warner, 1995) have seen the 'iron rice-bowl' relationship as 'organizational dependency', and as an important theoretical support for their analysis, to which we will return later. The 'mind-sets' associated with this relationship became deep-rooted and difficult to modify or change. Even so, with the beginnings of the economic reforms, the guarantees of the 'iron rice-bowl' began to be eroded.

But this only came about gradually in the reform period. The policy of jobs for life lingered on in the 1980s but it was not until the 1990s that the 'iron rice bowl' began to be effectively replaced by a market-oriented set of labour and personnel reforms. The 'life-time' employment system was generally believed by economics and management scholars to be associated with weak people-management and to reinforce factor-immobility and inefficiency (see Warner 1995; 1999; 2000, on the background literature on this). Government acknowledged the existence of unemployment as a necessary temporary condition to facilitate and maximize allocation of labour. Government's role has become mainly to support the unemployed with income maintenance and training schemes so as to facilitate job seeking and placement. Managers were now allowed more autonomy, particularly in SOEs to hire and fire; decision-making was to become more decentralized in not only personnel but also marketing and purchasing domains. A reform-inspired workplace practice adopted from the mid 1980s onwards had been the implementation of 'labour contracts'. By defining the length of the contract, the period of employment became sharply defined and hence displaced the previously enshrined practice of permanent 'life-time employment'. In theory, workers in the People's Republic had since the 1950s been the 'masters of the country' (*guojia zhuren*), the bad old days of job insecurity a bygone feature and by definition unemployment could not exist. The key question of the day was the 'right to work' (*gongzuo quan*) and 'full employment' (*quanmin jiuye*).

Unemployment sanitized in the phrase 'waiting for work' (*daiye*), in turn intertwined with poverty, however now poses such a major threat to both social stability and the rule of the Chinese Communist Party (CCP) that it demands an urgent policy response. This article begins with an examination of the issue of employment and unemployment in China in the first section, then moves on to explain the *institutional* changes that brought about the problem in the second section. We then discuss our research methodology. Shanghai will be taken as a 'case study' to explore policy responses; then, a labour market model will be developed, in the next section, to discuss both active and passive labour market programmes in Shanghai. Despite the apparent success of the Shanghai model, its general applicability to other cities remains uncertain, particularly in view of China's entry to the World Trade Organization, the subject of the discussion section that follows. Finally, the last section presents some

conclusions.

EMPLOYMENT AND UNEMPLOYMENT IN CHINA

At the present time, China's billion and a quarter population and vast labour-force, the largest in the world (see Warner, 1995) puts human resources high on the agenda as far as the recent WTO entry in late December 2001, is concerned. Much of the labour force of over 700 million are country-dwellers and still live in townships and villages. There has been until lately a strict 'one-child policy' in most of the People's Republic to restrain population numbers, as new citizens as well as existing ones have to be fed, housed and employed, no easy challenge. Half the labour-force work on the land but it is estimated over 200 million of these are surplus to economic requirements and already over 100 million are already on the move making their way into the towns, as part of the 'floating' migrant population known as the *mingong*. Over one-third of China's population live in urban areas. Those out of work in the towns were in the late 1990s officially calculated at 3.5 percent of the urban workforce but in reality this could be much higher as we shall shortly see.

Shanghai, which is China's largest city, was no exception. Unemployment was officially unknown throughout the Maoist years. Jobs for life were *de rigueur*. The unemployment-rate in Shanghai even by 2001was officially seen as low as 4.3 per cent in spite of the industrial restructuring that had taken place in that conurbation (Shanghai Statistical Yearbook, 2002). It is more than likely to be an underestimate. As Solinger has rightly pointed out, "accurate data are hard to come by, since government statistics are murky and often presented in a way that suggest that the numbers are not all that large" (Solinger, 2002: 304). The State Council's Development Research Centre issued a report that contradicts official figures for the current unemployment rate. In contrast to the very recent official rate of 4.5 per cent in China, the report indicates that the urban unemployment rate is already 10 per cent, and will rise to 15 per cent under the impact of World Trade Organization entry.[i] Politics has plagued the use of statistics from the beginning of the People's Republic. So long as high GDP growth rates and low unemployment are treated as political targets, and are

used to bolster the careers of provincial officials, then these problems will remain. One phrase that is commonly heard among Chinese economists is that 'statistics make the officials and officials make up the statistics' (*shuju chengjiu guanyuan, guanyuan chengjiu shuju*).

Euphemisms abound in this sphere; here are a few examples (See Kynge, 2003).

- *daiye*, waiting for work;
- *fenliu*, attached to one unit but working or another;
- *neitui*, retired early but getting a stipend;
- *tingxin liuzhi*, keeping a job but without pay;
- *liangbuzhao*, similar but with more emphasis;
- *fang changjia*, on a long vacation;
- *tiqian tuixui*, early retirement;
- *fuyu renyuan*, no work but a token wage.

Indeed, caution has to be paid to differences in definitions. China defines the jobless in a highly distinctive way. According to the State Statistical Bureau, unemployment refers to the urban registered unemployed who (a) possess non-agricultural residence; (b) are within a certain age range (16 to 50 for male and 16 to 45 for female); (c) are able and willing to work; and (d) have registered with the local labour bureau for employment (Chinese Labour Statistical Yearbook, 1997: 588). Only the openly unemployed are eligible for what are known in the PRC officially as 'unemployment benefits'. In fact, another form of joblessness is perhaps more pervasive - 'hidden' unemployment' - referring to workers, often in the State sector, who have been 'laid-off' (*xiagang*). The State Statistical Bureau defines 'laid-off' workers to be 'workers who have left their posts and are not engaged in other types of work in the same unit, but still maintain a relationship with the unit that they have worked' (Chinese Labour Statistics Yearbook, 1997: 588). Workers who have been 'laid-off' are only given very basic living subsidies (*shenghuofei*) at subsistence levels, instead of unemployment benefits, and are not included in the registered unemployment-rate. This convention has led to confusion by overseas observers and account for the allegedly low rate of joblessness in the PRC.

A White Paper on Employment and Social Welfare issued by the State Council stated that from 1998 to 2001, more than 25.5 million people were laid off from state-owned enterprises, and of which 16.8 million managed to have rearranged employment (as cited in O'Neill, 2002: A01). These figures would suggest that 8.7 million are still in the *xiagang* condition. Wang Dongjin, Vice-Minister of Labour and Social Security, pointed out that many of the jobless and those laid off from state-owned enterprises were low-skilled and middle-aged who had had a poor education and had been employed in traditional sectors such as coal, textiles and machinery (as cited in O'Neill, 2002: A01). Wang's observation is supported by Maurer-Fazio's (2002) empirical analysis that demonstrates that education has become a key determinant of labour market outcomes in China's rapidly changing work environment. Educational attainment is now an important factor in the 'lay-off decision' – the more education a worker has, the better his/her protection from lay off. Similarly, the more education a worker has, the better his/her chances of finding new employment.

Wang openly acknowledged that China was facing a severe condition of employment, and the number that newly joined the labour force was at an unprecedented peak. In the coming few years, 12 to 13 million will enter the labour market per year. Even if China retains its current 7 per cent economic growth per year, only 8 million jobs will be created. This means the annual newly added unemployed will be 4 to 5 million. By the end of 2005, a 20 million new unemployed force will appear. Whereas the precise total aggregates may be in doubt, this description seems plausible. Unemployment, intertwined with poverty, now poses a huge threat to both social stability and the rule of the Chinese Communist Party (CCP) that demands an urgent policy response. Labour-market programmes have emerged as an important employment-policy tool since the reform era. The following section examines the institutional changes in the Chinese labour market in the pre and post-reform era.

INSTITUTIONAL CHANGES IN THE CHINESE LABOUR MARKET

Hussain, Stern and Stiglitz (2000) argued most persuasively, in their theoretical analysis of the recent economic reform process, that China's more successful transformation has been based on 'a process of institutional change that preserved and built on its basic codes and practices of behaviour' (p.4). Table 1 shows a comparison of the institutional changes in the pre and post-reform era.

Table 1: Institutional Changes in Chinese Labour Market

Pre-reform Era	***Post-reform Era***
Role of the state ▪ Socialist ideology ▪ Direct allocation of jobs ▪ Provisions from 'cradle-to-grave'	 ▪ Market principles ▪ Facilitate job search ▪ Individual self-reliant
State-owned enterprises ▪ Centralization ▪ Life-long employment ▪ Tool for full employment ▪ Workers as 'masters'	 ▪ Decentralization ▪ Contract terms ▪ Layoffs for efficiency ▪ Workers as 'proletarians'

China's pre-reform labour system was the antithesis of the free market. The state claimed ownership of labour services and bureaucratically assigned workers to enterprises for life (*tongyi fenpei*). Workers' preferences concerning occupation or location mattered little. On the enterprise side, managers for the most part had to accept any and all workers allocated to them. Job mobility was minimal and would occur mostly as the result of workers' reassignments or transfers to satisfy the need of state-run organizations (Walder, 1986:8). Under these circumstances, where individuals are discouraged from searching for jobs, information about jobs is unimportant and meaningless.

Around 1992 and 1993, the policy of state job assignment was largely abolished. By the mid-1990s, the *tongyi fenpei* system remained only in a residual manner in large cities such as Shanghai (Davis, 1999:22-43). School graduates still have access to state-sponsored channels for employment, but they now have the option of using market channels such as

advertisements, job fairs, and employment agencies. The number of private enterprises, foreign-funded firms, and other non-state controlled businesses has significantly increased. Seen positively, the operation of labour markets made it legitimate for individuals to use all kinds of channels to search for jobs. Bian's (2002) study of job mobility in five Chinese cities indicated that from the pre-reform period to the 1980-92 and the post-1992 period, job mobility through hierarchical channels[ii] declined sharply from 76 per cent to 52 per cent to 10 per cent respectively. Meanwhile, job mobility through market channels increased from 15 per cent to 32 per cent to 60 per cent respectively. These changes point to the decline of job assignments and the growth of labour markets in Chinese cities from 1980 to 1999 (Bian, 2002:4-7).

On the other hand, the abolition of the state allocation system also means that concerns about state-sector inefficiency began to override concerns about dismissals and layoffs. Enterprise reforms replaced the 'iron rice bowl' with performance-based hiring, firing, and compensation. State-owned enterprises have begun to use labour contracts, adopt wage reform, and decentralize labour management. The policy of putting workers on *xiagang* was first experimented with and then applied nation-wide in 1997. The effects were profound. The security once enjoyed by urban workers rapidly eroded. Chinese urban workers are no longer shielded from market forces. They bear the brunt of the adjustment costs as enterprises shed redundant workers in their attempts to become more efficient and profitable. Laid-off workers experience substantial periods of unemployment with minimal stipends. To address this issue, various localities have devised their own 're-employment projects' (*zaijiuye gongcheng*). Shanghai was chosen for our study because it was the pioneer in establishing the Re-employment Service Centre. Combining welfare provision, employment service and re-training programme, the Shanghai Re-employment Service Centre was recognized by the central government as a 'learning model' for other local governments. These changes exemplify the notion that state institutions constantly readjust and revise themselves in response to new demands and circumstances – an important feature of the transitional economy (Solinger, 1999 cited in Fan, 2002:107). We now turn to briefly sketch out the research approach we used in the case study.

RESEARCH METHODOLOGY

The main research methods we used, in the citywide case study presented here, draw on evidence gleaned mainly from both primary and secondary documents, media reports and official statistics; these we consistently approached with caution, for an analysis and evaluation of the Shanghai re-employment model. Empirical field research in Shanghai in the form of over fifty open-ended, qualitative interviews with policy-makers, managers, trade union representatives, workers and unemployed persons in the late 1990s and with recent further contacts, up to the end of the year 2001, also provided supplementary valuable data in the writing of this article. Visits were made to government departments such as the Labour and Social Security Bureau in Shanghai, as well as the Re-employment Service Centres. The operation of the placement service, re-training services and social security insurance was observed at first-hand.[iii] The evidence we present below, we believe, has therefore robust empirical underpinnings.

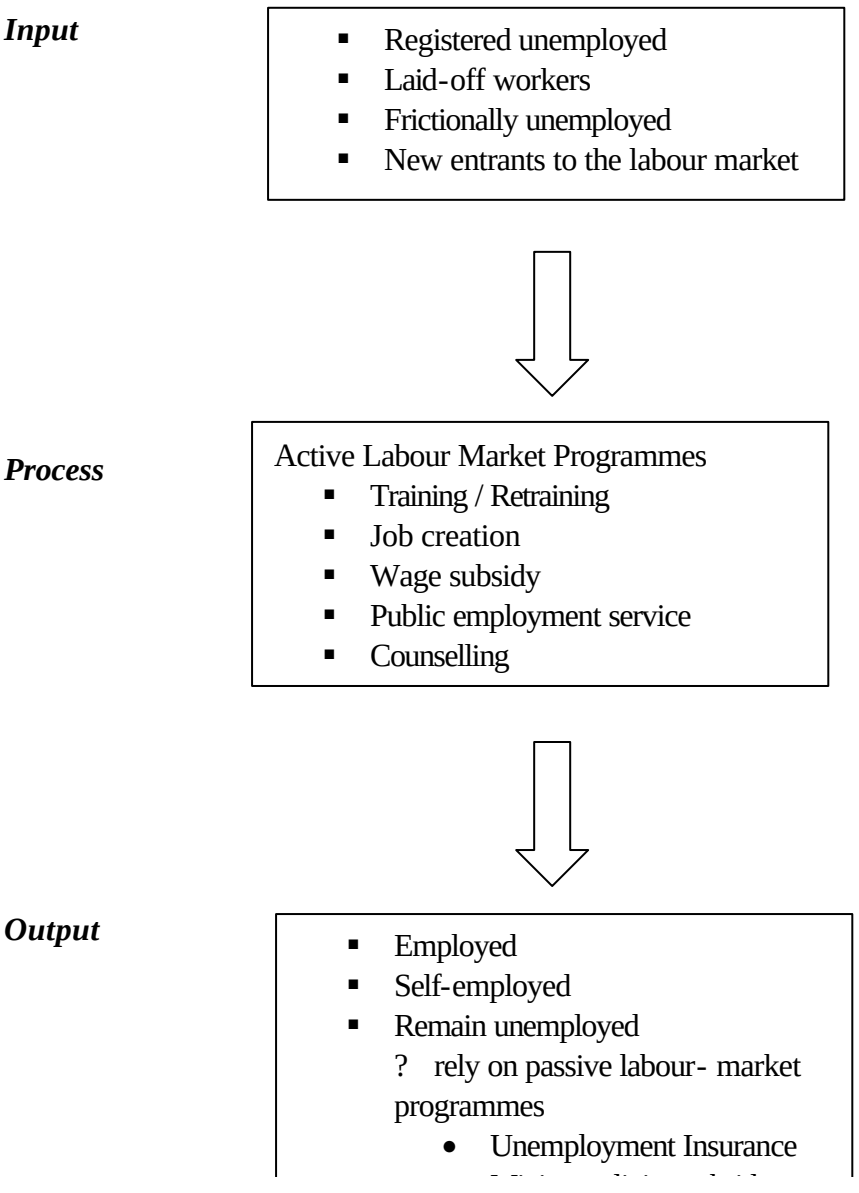
THE SHANGHAI LABOUR MARKET MODEL

Figure 1 depicts a labour market model that summarizes the operation of the system in Shanghai. Over the past 40 years, 'active' labour-market programmes have emerged as an important employment-policy tool, particularly in developed countries. This policy envelope includes a wide range of activities, intended to increase the quality of labour-supply (for example, re-training); to increase labour demand (for example, direct job-creation); or to improve the matching of workers and jobs (for example, job-search assistance). The objective of these measures is primarily economic - to increase the probability that the unemployed will find jobs or that the underemployed will increase their productivity and earnings. However, more recently the case for active labour-market policies has also emphasised the potential social benefits in the form of the inclusion and participation that comes from productive employment (Betcherman, Dar, Luinstra, Ogawa, 2000: 1). In the analysis we develop here, we use the labour market theoretical framework we have referred

to above, albeit with minor modifications and a number of caveats.

Labour supply (school leavers, job changers and laid-off workers) is the primary input to the systems model. It is hopeful that this supply of labour will be transformed by the active labour market programmes of the government leading to positive output of employment. This policy envelope includes a wide range of activities, intended to increase the quality of labour-supply (for example, re-training); to increase labour demand (for example, direct job-creation); or to improve the matching of workers and jobs (for example, job-search assistance). The objective of these measures is primarily economic - to increase the probability that the unemployed will find jobs or that the underemployed will increase their productivity and earnings. Shanghai has also established a 'passive' labour market policy of unemployment insurance.

Figure 1: Chinese Labour Market Model



Re-Training

Public support can come in the form of direct provision of training (for example, through public training institutes), financial support for trainees (for example, funding training costs and/or subsidising trainees), or providing 'infrastructure' services (for example, labour-market information, licensing, monitoring and credential services). Governments have a range of potential roles: direct provision, regulation, providing information and standards, and financing. Many governments are moving away from the role of direct provider and focusing more on addressing market failures in information and financing, while leaving more of the delivery to private providers (Betcherman, Dar, Luinstra, Ogawa, 2000: 5), but the role of the state is prominent in Shanghai. The training programmes are designed, financed and delivered by the government. The training-centres are attached to the placement centres, widely known in Shanghai as *tsiendian hou gongchang* (employment-service provided in the shop, training in the backyard). Each class will have about 40 trainees. The length of training differs from job to job: domestic helpers will be trained for three weeks, six hours a day; cooks and technicians will receive training for half a year, but three days a week. According to the head of the training-centre visited, the success-rate in job placement is often boosted from the normal rate of below 30 per cent to as high as 70 per cent for domestic helpers (Field interviews, June 1999). In Shanghai, re-training is free of charge for job seekers certified to be *xiagang* workers and unemployed. Some laid-off workers do benefit from various training programmes, ranging from cooking and hairdressing to public relations, law and marketing (*China Daily*, 30 January 2001). However, if training is for self-development purpose, each trainee will have to pay 300 yuan for joining the course.

Creation of Employment

In general, job-creation programmes across the world are designed to support the creation of new jobs or the maintenance of existing ones. Three broad types of programmes fall under this category. First, there are subsidies to encourage employers to hire new workers or to keep employees who might otherwise have been 'laid-off' for business reasons. These can take the form of direct wage-subsidies (for either the employer or worker) or social security payment offsets. These types of subsidies are always targeted to a particular category of worker or employer. The second category involves direct job-creation in the public or

non-profit sector through public works or related programmes. Typically, government funds used for these programmes cover compensation costs to hire previously unemployed workers, usually on a temporary basis. Third, support is sometimes offered to unemployed workers to start their own enterprises (Betcherman, Dar, Luinstra, Ogawa, 2000: 6).

Direct public employment-creation policies are set up to lessen unemployment by creating jobs and hiring the unemployed directly. It targets the displaced and the long-term unemployed, with a view to help they regain contact with the labour market, thereby minimising the probability of stigmatisation, skills obsolescence, and marginalisation. A major Chinese expert in the economics of employment, Professor Hu Angang, Director of Centre for Asian Studies in the Chinese Academy of Sciences (CASS), argued that employment should be given top priority among the various development objectives because it 'entails central and local governments making job creation and reduction in the high unemployment rates the key objectives of economic growth and social stability. Since the 1990s, the relationship between economic growth and job creation has been severely weakened…This reflects a model of growth without employment…Based on the above, China decides to choose an economic growth model which is centred on employment. The creation of more employment opportunities and expansion of the newly employed population are prime tasks of government at all levels' (http://www.asian-affairs.com/China/huangang.html).

In devising solutions to the employment problem, the Shanghai government has created more employment opportunities, by any accounts. The Shanghai Labour Bureau has, for instance, invested in minor improvement programmes at the district level, and has 'allegedly' created over 20,000 vacancies. These vacancies concentrate on public hygiene (*baojien*), public security (*baoan*), environmental protection (*baolui*), and the maintenance of public facilities (*baoyang*).[iv] Street committees also help in providing employment programmes. These committees re-train laid-off workers to do work such as maintenance of buildings and 'green' areas, sanitation, domestic services and security. Funding for some of the programmes comes from individual households, each paying about 36 cents (in Chinese currency denomination) a month for committee services, including window-cleaning, garbage-disposal, maintaining recreational facilities and activities, maid-services and even providing haircuts (Erickson &

Hsieh, 1998: 52). These services have clearly become 'affordable' as urban dwellers in China become wealthier.[v]

Another analytical type of job-creation, that is important to cite, is the Self-Employment Creation Measure or Micro-Enterprise Development Assistance. Technical assistance, credit, and other support can contribute to the creation and promotion of small-scale new businesses and self-employment. China has taken some novel initiatives we can mention here. In Shanghai, the Baibang Community Service Company and the Baibang Industrial Centre are examples of self-employment creation (Field interviews, June 1999). The former will take care of the aged and the less-educated redundant workers, while the latter will cater for the needs of semi-skilled workers. The Baibang Community Service Company was set up in 1994 to match between the employment needs of workers 'laid-off' and the need for family service in the community. Officials who run the company are seconded from the Ministry of Social Welfare. They rely on the District Committees to identify *xiagang* workers and their appropriate skills. Government training institutes provide free training and accreditation of the worker's skills. Promotion of the service is through street-posters, free local media such as newspapers, television and radio broadcasts, and word-of-mouth. Services are developed according to the needs of the neighbourhood, such as, childcare, elderly care, cleaning and preparation of meals. (Field interviews, June 1999). The company charges a commission ranging from 20 to 50 yuan from the workers, and 10 per cent or 50 yuan per job from the family-service recipient. As of June 1999, the company claimed it was successful in finding jobs for over 200,000 workers (ibid).

Private banks are often unable to conduct comprehensive risk assessments required to offer credit to unemployed workers who want to create their own business. Public programmes to support small business loans can contribute to the removal of this distortion arising from credit rationing. Another example of a self-employment creation agency found in Shanghai is the Baibang Industrial Centre established in May 1998 (Field interviews, June 1999). A bankrupt State-owned coal-products factory was re-structured into 18 units leased to redundant worker-entrepreneurs. The government provides start-off loans each ranging from 50,000 to 150,000 yuan. Employees working in the industrial centre should either be

workers 'laid-off' or retired from State enterprises (the ratio is about 70 to 30).

Job Referral and Counselling

Market economies are imperfect because of information asymmetry. For example, job seekers have insufficient information about the distribution and specification of job openings, and employers have insufficient and inaccurate information about the distribution of qualified job candidates (Devine and Kiefer, 1991 cited in Bian, 2002:3). Employment services fulfil such brokerage-functions. These may include for example, matching jobs with job seekers.

China too has taken up new ways of finding work for the unemployed but in Shanghai, private agencies are restricted and public employment service operates under near-monopoly conditions. There have been 452 registered employment agencies in all to provide employment services in Shanghai - 338 are established under the Labour Administration Division, and 110 are operated by industries and social organizations like the All-China Federation of Trade Unions (ACFTU), Association for the Handicapped and All China Women's Federation (ACWF). Enterprises register their vacancies with the placement centres, and then select workers through open recruitment. Vacancies received from employers will be advertised through the on-line inter-linked net. All the state established agencies are linked vertically and horizontally, as well as with nine employment agencies set up by the industries. Since 1 July 1997, state-operated employment agencies in Shanghai have been inter-connected electronically to provide 'real-time' information on the job market to job seekers.

Apart from displaying job vacancies, information on re-training is also available on the Internet, not necessarily of much use to the poor, except at official agency centres. Re-training courses are designed, financed and delivered by the government. According to the Deputy Head of the Shanghai Re-employment Service Centre, the contents of these training programmes are intended to link to the needs of the market. Among the ten positions advertised to be in greatest demand for workers every week in the local newspapers, training programmes will be offered for the first four ranks. Examples of such vacancies include cashiers, computer technicians, cooks, domestic helpers, and electrical technicians. The

training centres are attached to the placement centres. Upon completion of training, the trainees will be referred to jobs.

Active labour market measures are now in place in many new directions. Placement officers, for example, provide counselling to job seekers on labour-market information, and re-educate those who possess the 'iron rice-bowl' mentality to change. To establish rapport between the counsellor and his or her client, individual counsellors will follow through cases. All counsellors are trained and are required to pass a professional examination annually. Overseas training in Germany has been arranged for outstanding counsellors. The State closely monitors the situation of workers who have been 'disassociated' from the State enterprises. The hardship cases are entitled to a subsistence allowance *(zuidi shenghui butei)* of 297 yuan per month when repeated referrals, counselling, and re-training do not work. Unlike the European model that provides generous unemployment support meant for adequate income maintenance, the Chinese government is extremely careful to balance between stringent procedures and social stability. In any case, subsistence allowance is only payable for two years, after which the unemployed will only be entitled to a maximum unemployment insurance of 432 yuan per month depending on various factors like age, and years of contribution to unemployment insurance (see Table 2).

Table 2: Monthly rate of unemployment insurance in Shanghai 2003

Cumulative contribution in years	***Age of the unemployed***	***Monthly payment for first 12 months (yuan)***	***Monthly payment for next 12 months (yuan)***
1 to less than 10	Less than 35	297	280
	35 and above	324	280
10 to less than 15	Less than 35		
	35 and above	351	281
15 to less than 20	Less than 40		
	40 and above	378	303
20 to less than 25	Less than 45		
	45 and above	405	324
25 to less than 30	Less than 50		
	50 and above	432	346
30 and above	All		

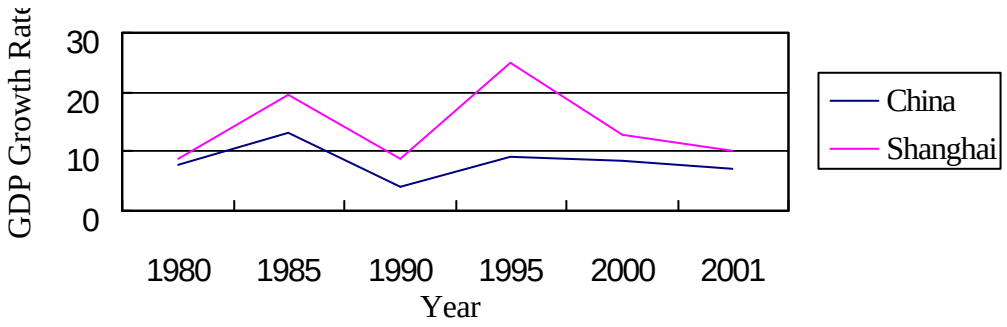
Source: Shanghai Laodong Baozhang Fuwu Wang (Shanghai Labour Protection Services Net) http://www.sh.lss.gov.cn/zcwd/detail.jsp?mes_oid=129276

DISCUSSION AND EVALUATION

As a 'transitional' mechanism to manage unemployment in industrial China, particularly as it manifests in the phenomenon of laid-off workers, the Re-employment Service Centre may be seen as a possibly viable *institutional* bridge between work-unit and society relating to the wider societal management of human resources, both in theoretical as well as empirical terms. It is clearly, in our view, a *compromise* between the protection of the work unit (*danwei)* system and the harsh course of simply pushing the responsibility for the unemployed onto the wider society. This mechanism is different from both the past practice of the Communist planned economy, where surplus workers were resettled by the enterprises, on the one hand and from the American liberal, market-driven labour market management system practice of just 'dumping' such workers onto society, on the other.

However, the more or less relative success of this programme in Shanghai does not necessarily mean that it would also succeed if implemented nationwide. It is because the rapid growth of the Shanghai economy helps to create jobs and ease pressure on employment.[vi] Indeed, Shanghai has been one of the fastest growing areas in China. Its economy outgrew the national average in the last decade or so (see Figure 2).

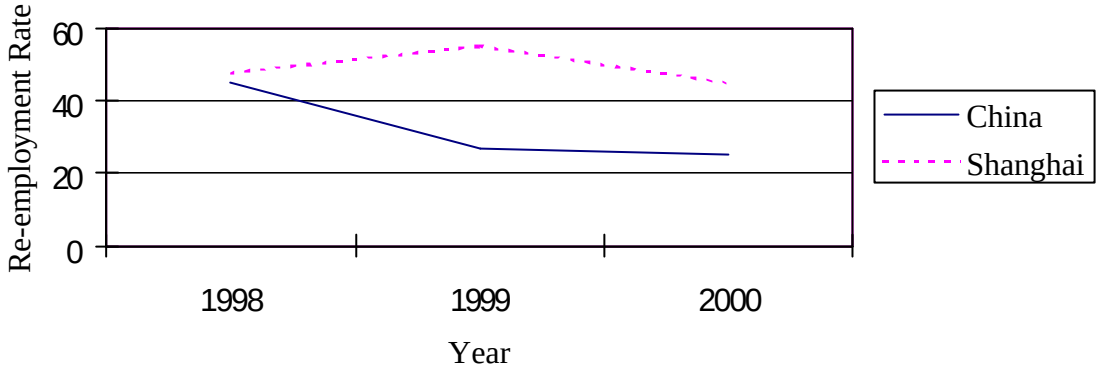
Figure 2: GDP Growth of China and Shanghai, 1980-2001



Sources:
State Statistical Bureau, *Zhongguo Tongji Nianjian 2002* (*China Statistical Yearbook 2002*) (Beijing: Zhongguo Tongji Chubanshe), pp. 51-53; Shanghai Statistical Bureau, *Shanghai Tongji Nianjian 2002* (*Shanghai Statistical Yearbook 2002*) (Shanghai: Shanghai Tongji Chubanshe).

Provided that the pace of economic development is different among various regions, it is not surprising that the establishment of Re-employment Service Centres in some cities does not have the same achievements as that of Shanghai or other affluent coastal cities. One indication is that the re-employment rate of Shanghai is much higher than that of the figure in the whole country (see Figure 3).

Figure 3: Re-employment of Laid-off Workers in China and Shanghai, 1998-2000



Sources:
State Statistical Bureau, Zhongguo Laodong Tongji Nianjian 1999 (China Labour Statistical Yearbook 1999) (Beijing: Zhongguo Tongji Chubanshe), pp.445-447; China Labour Statistical Yearbook 2000, pp.413-415; China Labour Statistical Yearbook 2001, pp.403-405.

A recent survey by the All-China Women's Federation (ACWF) indicates that over one-fourth of laid-of women who have landed jobs again, are working in the service sector of their communities, or are privately hired or self-employed.[vii] This can only happen in prosperous economies. In the first half of 2002, a record high of 30,000 private enterprises were registered in Shanghai[viii], which is deemed China's economic 'power-house'. The city now has nearly 210,000 private enterprises, employing 2.3 million people, or one in every three Shanghai workers. Local analysts attribute the fast growth to the policy adopted by local authorities at the end of last year to open more sectors to private investors[ix].

There have been many instances of self-employment or starting of small enterprises with training of skills and funding in terms of loans from government.[x] To give some examples, a

textile *xiagang* worker started a four-person sweater-knitting workshop with a loan of 4,000 *yuan* from her local women's federation; another worker studied massage and opened a small massage clinic at a residential square with two other classmates.

To facilitate entrepreneurship, the Shanghai Re-employment Centres successfully recruited around 500 professionals to volunteer in giving advice on starting businesses (*Renmin Ribao*, 26 September 2002). Talents were reported to include university professors, engineers, industrialists, and heads of social and public organizations. Consultation sessions are held on Saturdays on the basis of appointments. It was reported that 15,500 consultation sessions have been offered in the last two years; around 2,000 entrepreneurs have started their own businesses and created thousands of job opportunities; and around 380 entrepreneurs successfully applied for loans up to 40 million RMB. Another new employment scheme set up by the Shanghai government, the 40-50 Project, seeks to tackle the problem with the government providing tax breaks, financial rewards and loan guarantees to new, labour-intensive private businesses, as long as they hire laid-off workers (*BBC News*, 19 March 2002).

CONCLUDING REMARKS

In relatively well-off Shanghai, the re-employment centres do provide a 'safety-net' for the *xiagang* workers as the minimum living protection of laid-off workers provided by the Re-employment Service Centres has been merged gradually with the unemployment insurance system. However, the types and quality of services provided by the centres in different localities do vary considerably. In some centres, on the other hand, there are also cases where the centres fail to provide any assistance. For instance, some centres in Wuhan merely provide a form for the entrants to fill out but have virtually nothing more to offer. A desperate worker thus received no money, no training, no placement, and heard nothing from his centre after he had signed a contract with the centre for 18 months, it was reported (Solinger, 2001: 683). Such problems often provoke protests and demonstrations: for example, 30, 000 workers from 20 bankrupt factories marched in the streets in Liaoyang in the north-eastern

'rust-belt', in March 2002 (see Becker, 2003). The regime gravely fears a cloning of the Polish-style 'Solidarity' movement – a reason why Deng had earlier tried to increase worker involvement in enterprise decision making at the beginning of the reform process in the early 1980s.

Moreover, officials from the Ministry of Labour and Social Security had warned that the chances for the *xiagang* workers to get re-employment might deteriorate in the years to come. Statistics from the Ministry show that about 23 million labourers will be seeking jobs in urban areas in the next three to four years since 2002, but there are only expected to be about 8 million job opportunities available (*China Daily*, 24 September 2002). In the first half of the year 2001, among those 7.69 million *xiagang* state workers, the official statistics concede that only 11.1 percent of the total had succeeded in finding new jobs. This proportion was 4.9 percentage points lower than that of the same period in the previous year (*China Daily*, 28 July 2001; *People's Daily*, 30 July 2001). This record is not very encouraging in the face of the mass redundancy China faces as a result of further 'deepening' of the reforms and the consequences of now ongoing trade liberalization.

China's entry to the World Trade Organization (WTO) in late 2001 and the speeding up of the structural readjustment of industries will put an even more serious strain on the management of human resources broadly envisaged and increase employment pressures in the coming years, as globalisation advances (see Warner, 2002a). The Green paper 'Report on China's Population and Labour Problems' published by the Chinese Academy of Social Sciences pointed out the impact of China's accession to the WTO on China's employment situation: in the short term, urban unemployment is likely to increase by 3 to 4 million, and the unemployment rate to rise by 2 per cent. The impact on agriculture may be most severe, and it is estimated that employment could decrease by 10 million. The impact of the WTO on agriculture has important implications for workers laid-off from state-owned enterprises. Increased rural-urban migration may not only raise urban unemployment but place downward pressure on wages, especially in labour-intensive industries. Even though China aims to contain the 'official' unemployment rate within 5 percent during the Tenth Five-year Plan (2001-2005) (*China Daily*, 7 August 2001), it is clear that the problem of unemployment

will still be vexing the Chinese government in the foreseeable future (see Becker, 2003) and may likely still constitute a potential threat to social stability.

The system can probably only maintain its status quo if there are more 'winners' than 'losers' (see Warner, 2002). The rate of economic growth must keep growing at a rate above eight percent per annum just to absorb the redundant old and job-seeking youth. If China can continue its almost unprecedented rapid economic expansion, it might just keep matters under control. Otherwise the system will prove to be unstable and the future unpredictable.

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[i] The report was published in *Zhongguo Jingji Kuaixun* (China Economic News Bulletin), 5 April, 2002.

[ii] Bian merged job change into different channels: 'Hierarchy' refers to various methods of job assignments, including replacement of parents or relatives (*dingti*), internal hiring of employees' spouses or children (*neizhao*), assignments by the state at job entry (*guojia fenpei*), and reallocation and transfer by the organization where one works (*zuzhi diaodong*); 'market' refers to various methods of open application and hiring processes in which no assignments by either state or any organisation is involved. This includes self-employment, direct application, use of employment services, and use of any ads and media methods.

[iii] Our earlier research in this area appeared in the following articles: Lee and Warner, 2001; 2002, a.; 2002, b.

[iv] Interview, CEO, Shanghai Baibang Shiye Limited, Shanghai, May 1999.

[v] China's first survey of assets of urban families revealed that urban dwellers are becoming wealthier, with an average of 228,300 yuan (US$27,600) in total assets for every family. See *China Daily* 28 September 2002.

[vi] Interview, Economist and Vice Director, Shanghai Changning District Labour Bureau, Shanghai, June 1999.

[vii] *China Daily*, 25 September 2002. In the survey conducted by the All-China Women's Federation covering 3,633 women from across the country, working for private enterprises providing community services and self-employment follow working for state-owned enterprises on the list of "most favoured places to look for work".

[viii] *China Daily*, 8 October 2002. In the first half of this year, the output of private industrial enterprises and the business turnover of private retail enterprises totaled 157 billion yuan (US$18.92 billion) with 7.3 billion yuan (US$880 million) in taxes paid. In the domain of foreign trade, more than 140 private enterprises have been granted foreign trade rights and have exported commodities worth US$54 million in the first half of this year, a significant year-on-year increase of 200 per cent. Currently, the registered capital of private enterprises in Shanghai has reached 210 billion yuan (US$25.3 billion), with 121 corporations contributing more than 100 million yuan (US$12 million) each in registered capital.

[ix] Urban construction, education and hospital operations, once 'forbidden areas' for private investment, have now been opened to private entrepreneurs. To assist private companies, mainly small and medium-sized enterprises, to find sources of funding, Shanghai has set up a credit guarantee system and has allocated special loans for private enterprises. According to the news reported by *Xinhua*, local banks provided 5.2 billion yuan (US$627 million) in loans for 3,177 projects from 1995 to 2001, taking the leading position in China in this area.

[x] Interview, Vice Director, Nanshi Baibang Zhengshi Gongye Zhongxin, Shabghai, September 2001.