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**Jutta Hebel, Günter Schucher**

**Recent Changes in the Chinese Labour System  
and New Approaches to Labour Market Policies**

**Zusammenfassung:** Diese Studie beschäftigt sich mit strukturellen Änderungen des chinesischen Arbeitssystems beim Übergang von der Planwirtschaft zu einem Arbeitsmarkt. Sie analysiert die wesentlichen Bestandteile des alten Systems wie starres Meldewesen, staatliche Arbeitsplatzzuteilung und dauerhafte Beschäftigung, die neuen Beschäftigungsverhältnisse im Privatsektor und die nachhinkenden Änderungen bei politischen Kadern, akademischen Spezialisten und Fachpersonal. Besondere Aufmerksamkeit erhalten das neue Arbeitsgesetz von 1994 mit seiner Verpflichtung zum Abschluss von Arbeitsverträgen für alle Verwaltungs- und Eigentumssektoren, neue Politiken zur Arbeitsbeschaffung und zur Absicherung des Risikos der Arbeitslosigkeit sowie neue Institutionen zum Schutz von Arbeitsplätzen.

**Schlagworte:** Arbeitskräftezuteilung, Arbeitsmarkt, Meldewesen, Beschäftigung, Arbeitsverträge, Arbeitsgesetz, Arbeitslosigkeit, regionaler Protektionismus, Arbeits- und Dienstleistungsgesellschaften

**Autor:** Jutta Hebel ist Akademische Rätin am Institut für Soziologie der Universität Göttingen. Günter Schucher ist Wissenschaftlicher Referent der Asien- und Südpazifik-Dokumentation am Deutschen Überseeinstitut, Hamburg.

**Abstract:** This study concentrates on structural changes of the Chinese labour system during the transition from labour planning to labour market. It analyses the constituent elements of the old system as represented by rigid household registration, state assignment of jobs and permanent employment, as well as the new labour relations in the private sector and the lagging changes for political cadres, academic specialists and skilled personnel. Special attention is given to the new labour law of 1994 with its obligation to sign labour contracts irrespective of administrative or property status, new policies for job creation and insuring the risk of unemployment, and new institutions for job protection.

**Key words:** Labour allocation, labour market, household registration, employment, labour contracts, labour law, unemployment, regional protectionism, labour service companies

**Author:** Jutta Hebel is senior sociologist at the Institute of Sociology, Göttingen University. Günter Schucher is research fellow with the Overseas Documentation, Asia and South Pacific Section, Hamburg.

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**Moderne China-Studien, Universität zu Köln**  
**Lehrstuhl für Neuere Geschichte /**  
**Politik, Wirtschaft und Gesellschaft Chinas**  
**Prof. Dr. Thomas Scharping**  
**Albertus-Magnus-Platz**  
**50923 Köln, Germany**  
**Tel.: +49- 221- 470 5401/02**  
**Fax: +49- 221- 470 5406**  
[www.china.uni-koeln.de](http://www.china.uni-koeln.de)

Jutta Hebel  
Günter Schucher

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# 1 Introduction

The transformation of Eastern and Central European economies turned out to be problematic since the structures of a planned economy rapidly disappeared and institutional change lags behind. Notwithstanding its numerous shortcomings, central planning provided for a considerable degree of job and income security and guarantees. The removal of these guarantees brought about fundamental risks in the transition process. Without guarantees for well paid work and special care for old age and other risks, social inequality has increased and widespread impoverishment is almost inevitable. As an outcome of uncoordinated economic and social changes, mafia-like structures have emerged at all levels of society. Such structures are not only apparent among criminals and nouveaux riches, but also among the degraded and badly paid officers in the civil service who turn to corruption, as well as among the large majority of an impoverished population which is engaging in illegal or semi-legal street trade.

Compared to Eastern and Central Europe, China's path of transition is distinct in at least two aspects: firstly, the reform is carried out piecemeal; secondly, it is not preceded by a dismantling of the institutions of Communist Party rule. On the contrary, the authoritarian party state was conceived of as a prerequisite for successful economic reforms. High economic growth may be taken as an indicator of success which, in turn, creates a more favourable environment for social change. In dealing with economic and social changes, the Chinese government is particularly concerned about social stability, and labour issues have become one of its focal points of action.

Since the beginning of the reform in 1978, when rusticated youths returned to the cities, employment problems emerged. The government had to find ways to create new jobs and to employ these youths. In the beginning of the 1980s, labour and employment were the objects of central and local planning and administration. As late as 1986, the focus shifted to the alteration of the planned allocation system into one with more, but still controlled, labour mobility. Both enterprises and workers were given more freedom in choosing their employees or their employers, respectively. Although more mobility was desired, ideological objections stood in the way of the establishment of a labour market.<sup>1</sup> Labour policies were still dominated by administrative measures. Authorities aimed at enlivening the old labour system without transforming it into a market. The leadership's notion of a 'labour market' referred mainly to jobcenters like 'labour service markets'.

Since the 1990s, the situation has changed to some extent. The 14th Congress of the Chinese Communist Party (CCP), held in October 1992, confirmed the establishment of a 'socialist market economy' as the final goal of the reforms and, later on, a series of institutional reforms was launched. The labour reforms focused on the promotion of more labour mobility and of new social security schemes. Today, more than three years after the party's plea for a socialist market economy, a viable and flexible labour market is not yet functioning. In recent years, however, intensive economic reforms have modified the old bureaucratic labour system. The reforms have done away with some of the basic features of the planned labour system. The most important points are, for example, the retreat from administrative allocation and reallocation of staff and workers; the emergence of a considerable non-socialist sector of employment as private and joint ownership flourishes; and the decollectivisation which has released farmers from collective obligations. The former rural-urban divide has lost its role as a boundary to migration and a considerable number of rural labourers have entered urban workplaces.

The dynamics of the economic reforms have converted the labour system into one with partial market features. The emergence and expansion of a profit-oriented economic sphere and the comprehensive reforms in the socialist sector are changing the organisation of social labour. Currently, labour is less directed by administrative means, and social welfare is no longer distributed for free by the work units. Present-day labour is confronted with a new situation: individual job-search is now required as jobs are no longer assigned by the administration; labour contracting with an employer is a new experience; individual risks, such as unemployment, sickness and old age, must be dealt with and insured in an appropriate fashion. These changes in the organisation of social labour have induced a process of institution building to confront the new problems. 'Market forces ... need to be contained both to address market

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<sup>1</sup> Labour plays a key role in ideology and ought not to be treated as a normal commodity. The transformation of the planned labour system into a labour market was, therefore, a matter of a politically controversial discussion and still is. See Howard, Pat and Roger, 'The Campaign to Eliminate Job Security in China', in: *Journal of Contemporary Asia*, 25 (1995) 3, pp. 338-355.

imperfections and to come to grips with important equity issues'.<sup>2</sup> This includes the introduction of new regulations of labour allocation and reallocation, of a policy to cope with rising unemployment, and of measures ensuring access to basic goods and services. Finally, it requires an administrative infrastructure capable of implementing further reforms.

We hold that the leadership of the Chinese Party-state acknowledges the above as urgent requirements. The Chinese labour policy is responsive to economic and social changes in order to prevent the risks of a totally unrestricted and anarchic labour market, as displayed by the desolate Russian example. Labour disputes and social unrest in different parts of the country are alarming signals, and any delay in institutional adaptation will act upon the CCP's political predominance. Thus, support is given to the institutionalisation of market-type ways of labour allocation and reallocation as well as to the establishment of a system of social security and a legal framework. In addition to that, the fear of political instability has led politicians to adopt active and passive labour market policies.

Nevertheless, the government has to find a new role in the emerging (labour) market, i.e. it has to transform its role from an omnipotent one required in a planned system to one more appropriate for a market system. The adjustment process, however, is constrained by structural and behavioural heritage as well as by the efforts of the CCP to retain power. In this paper, we describe the political issues and actions to co-ordinate economic and institutional change in the People's Republic of China by focusing on the Chinese labour system. We begin by outlining some of the main structures of the Chinese planned labour system and its recent changes. Subsequently, we turn to the present labour market policy. Information is included on the achievements of state activities in response to the changed labour conditions. Finally, we address the new role of the state in the labour market.

## 2 Structural Changes in the Labour System and their Impact on the Organisation of Social Labour

The structures of the Chinese labour system<sup>3</sup> at the end of the 1970s can be expediently described by the institutionalist segmentation-theory approach.<sup>4</sup> The institutionalists diagnose a subdivision of the labour market into segments characterised by different job qualities, dissimilar job entries and career patterns, and with strict barriers to mobility between the various segments. This subdivision is not an aim in itself. It results from the market mechanism and reduces transaction costs. The rationality of economic behaviour is a matter of the given framework. As we have developed earlier, the segmentation approach can be usefully applied to the analysis of a state planned economy.<sup>5</sup>

As to the Chinese labour system, six basic elements determined its structure till the end of the 1980s: (1) the hukou-registration system and, linked to it, food rationing, (2) central planning with its aim of full employment, (3) the theory of superiority of state ownership, (4) employment security by lifelong tenure,

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<sup>2</sup> Barr, Nicholas, 'A Strategy for Reform', in: Nicolas Barr (ed.), *Labor Markets and Social Policy in Central and Eastern Europe. The Transition and Beyond*, Washington 1994, p. 116.

<sup>3</sup> In the common and narrow Chinese sense, the term 'labour system' refers to the allocation and reallocation of urban workers (and not staff and cadres); in addition to that, we use the term in a wider sense, covering all aspects of labour in a planned economy, and as the functional equivalent to the labour market in market economies.

<sup>4</sup> The institutionalists replaced and/or supplemented the neo-classicists' cardinal assumptions on economic behaviour by a sociological explanation and stressed the influence of social structures and factors on individual behaviour.

<sup>5</sup> In respect to the urban labour system we have argued that segmentation approach is applicable to the Chinese state-socialist economy and have elaborated segmentation of the Chinese labour system in detail. See Hebel, Jutta; Günter Schucher, *Zwischen Arbeitsplan und Arbeitsmarkt. Strukturen des Arbeitssystems in der VR China (Between Labour Plan and Labour Market. Structures of the Labour System in the PRC)*, Hamburg 1990; Hebel, Jutta; Günter Schucher, *Die Reform der 'Drei Eisernen': Strukturwandel im chinesischen Arbeitssystem (The Reform of the 'Three Irons'. Structural Change in the Chinese Labour system)*, Köln 1992 (Berichte des Biost; 44). See also Jackson Sukhan, *Chinese Enterprise Management. Reforms in Economic Perspective*, New York 1992, pp. 146-152.

(5) the state-cadre system to maintain a stratum of functionaries loyal to the party-state, and (6) the system of *danwei* as an intermediate social organisation between state and individual. These institutions were constituent for the structure of the Chinese labour system and for a distinct culture of economic activity.

The Chinese labour system was divided into a rural and an urban subsystem, mainly by a rigid household classification and registration system. This registration, the hukou-system, 'has effectively been imposed to create terms of trade between the rural and urban sectors, that enabled the state to accumulate funds for industrial development. It has given the urban residents a privileged position vis-à-vis the peasants and has prevented an open labour market to develop'.<sup>6</sup>

Under the given economic circumstances of a planned economy, in particular an overall resource scarcity, the outlined form of segmentation exerted a stabilising effect on the society and legitimated the manpower strategies of the various protagonists. In market economies, internal labour markets are brought into being by economic entities to lower transaction costs and to increase flexibility. The building of a permanent employment segment in China was primarily directed towards the political target of social stability, at the price of higher economic costs. Flexibility has been created by recourse to the non-permanent employment segment with an almost unrestricted possibility to hire and fire. Since the end of the 1970s, all of the six structuring elements were no longer considered to meet the requirements of economic efficiency. Various reform campaigns were initiated to adjust these structuring elements to the changing economic conditions. They underwent the following fundamental changes:

(1) Even though the hukou-system has, so far, not been abandoned, it has become significantly less important. From the very beginning of the reforms, by means of the household responsibility system, land was allotted to the peasants who were given responsibility for production. At the same time, the rural communes gave up their duty to arrange for employment for each member of the commune and, finally, the communes were abolished. In the mid-1980s, the government loosened its migration controls and encouraged peasants to develop industry and trade. In the meantime, 80 to 100 millions of rural migrants left the countryside and joined the urban labour force. Migration did not lead to a unified labour market and to an integration of urban and rural areas. In its 'State Employment Plan for the Period of the 9th Five Year Plan (1996-2000)', the Labour Ministry predicts that 3.55 millions of the urban workforce will lose their jobs each year and that the rate of rural transient labourers will increase. About 40 millions will migrate inter-regionally. Faced with these figures, the Ministry is compelled to adopt different employment strategies for rural and urban areas.<sup>7</sup> Even in the countryside, the development of inter-regional labour markets does not seem to be unconstrained.<sup>8</sup>

(2) The influence of labour planning on allocation (and reallocation) has diminished due to at least three reasons. First, state planners have reduced the scope of planning in general and, more and more, they are using indicative methods instead of directive ones. In labour planning, the state confined itself to overall labour and wage quotas based on a balance of supply and demand. Second, with the expansion of the non-state economic sphere, planners have lost their all-encompassing influence. Third, state interference in job placement procedures has been limited to certain groups of employees, the so-called strategic groups, in particular, college graduates and leading personnel. After decollectivisation in the early 1980s, the creation of jobs and job placement in the countryside no longer fell within the realm of the communes' responsibility. Rural labour markets have begun to emerge. In particular, non-farm job recruitment is now based on markets. But township governments still interfere. 'State and collective jobs are secured primarily through formal, administrative channels. Private (mostly self-employment) jobs are secured primarily through entering the market on one's own.'<sup>9</sup>

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<sup>6</sup> Christiansen, Flemming, 'Social Division and Peasant Mobility in Mainland China: The Implications of the *hu-k'ou* System', in: *Issues and Studies*, April 1990, pp. 23-42, p. 41. See also Wang Fengs contribution to this volume.

<sup>7</sup> *Gongren Ribao*, 1995.1.21.

<sup>8</sup> See Meng Xin, 'The Rural Labor Market', in: William A. Byrd, Lin Qingsong (eds.), *China's Rural Industry. Structure, Development, and Reform*, Washington: World Bank, 1990, pp. 299-322.

<sup>9</sup> Parish, William L.; Zhe Xiaoye and Li Fang, 'Nonfarm Work and Marketization of the Chinese Countryside', in: *The China Quarterly*, (September 1995) 143, pp. 696-730, p. 710; Meng Xin, op.cit.

In urban areas, the government has gradually given up its monopoly on jobs. In the early 1980s, the policies of decentralisation allowed for a gradual rise in self-employment and the use of individual job applications in the non-state sectors. In the state sector, direct state assignment of jobs, which had been the main method, was supplemented by indirect assignment (*dingti* and *neizhao*). Later on, in order to prevent mismatching jobs and applicants, the government pleaded for mutual choice for both the recruiting unit and the job candidates, respectively. Only in 1986, however, with the introduction of the labour contract system (LCS), were firms given the right to recruit workers independently. Since then, urban youth register with employment service centres or apply directly to the desired work unit. According to the labour contract law, direct individual application applies only to positions for workers, and college graduates are still placed by the bureaucracy. Today, graduates of colleges under central supervision may still rely on state assignment unless they prefer to find employment by themselves. In April 1994, the State Education Commission denied direct assignment to the large proportion of self-financed students (about 10% of total students<sup>10</sup>), who were no longer entitled to state assignment. State assignment is supposed to be phased out completely by the year 2000.<sup>11</sup>

(3) In the eyes of socialist ideologists, state property is the highest form of socialist ownership. Therefore, the admission of non-state enterprises after 1978 represented a dramatic policy turn-a-round. The major catalyst of this turn-a-round was rising unemployment. To rely solely on the state sector to absorb new entrants into the labour force was no longer a viable option. According to the political will of the (party-) leadership, state ownership should maintain its dominant position in the economy. The state-owned enterprises (SOE) should provide for the majority of jobs in urban areas, although the rapid expansion of the non-state entities has already fundamentally altered the labour system. The ease and pace of the changes should not be overstated. Labour markets are not as full-blown as the rapidly growing private sector may indicate. Ownership structure is still directly related to different levels of market development.<sup>12</sup>

Official employment statistics show a significant shift in favour of the non-state sectors (see table 1). For several reasons, however, the statistics understate the expansion of employment in the private sector. The most important reason, aside from methodical problems, is that statistics are based on enterprise registration and fail to distinguish the real nature of a firm's property.<sup>13</sup> The private sector's total work force in 1992 is supposed to have exceeded the official figure by four to seven times. The picture varies even more if part-time and informal employment is included. As to rural non-farm work, it is argued that 'in first jobs, only one-fifth of the non-farm sample was in the private sector. This is almost exactly the same as in the official statistics. However, in the second job ... three-fifths of the sample were in the private sector.'<sup>14</sup>

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<sup>10</sup> *Guangming Ribao*, 1994.4.30., in: *China aktuell*, 1994/4, pp. 378 f.; see also *China aktuell*, 1995/5, p. 273.

<sup>11</sup> Henze, Jürgen, *Das Bildungssystem der VR China zu Beginn der neunziger Jahre (The Education System of the PRC at the Beginning of the 90s)*, Köln 1995 (Berichte des Biost; 12), p. 23.

<sup>12</sup> See Meng Xin, op.cit.; Oi, Jean C., 'The Role of the Local State in China's Transitional Economy', in: *The China Quarterly*, (December 1995) 144, pp. 1132-1149.

<sup>13</sup> See Sabin, Lora, 'New Bosses in the Workers' State: The Growth of Non-State Sector Employment in China', in: *The China Quarterly*, (December 1994) 140, pp. 944-970. Private firms register as a state or collective enterprise to disguise private business and to reach mutually beneficial arrangements with state agencies. On the other side, under the *hong maozi* ('red cap') of state-owned enterprises, non-state firms mushroomed as they are the new type of collective firms known as labour service companies or several forms of joint ownership. Furthermore, small-scale state units were leased out to private individuals or businesses, whereas large-scale ones were transformed into shareholding companies.

As to South China, Su Si-jin argues 'a typical firm is now a hybrid', that means 'one firm, two (or more) systems' (*yichang duozhi*). 'Within many firms today, the market and planning coexist: Some subunits are operated according to the principles of a market economy, while others are still state- or collectively-owned and operated according to principles of a planned economy.' Su Si-jin: 'Hybrid organizational forms in South China: 'one firm, two systems'', in: Thomas P. Lyons, Victor Nee (eds.), *The Economic Transformation of South China. Reform and Development in the Post-Mao Era*, Ithaca, New York 1994, pp. 199-213, p. 199.

<sup>14</sup> Parish, op.cit., p. 709.

(4) Until the nation-wide introduction of the LCS in the state sector in 1986, direct and indirect state assignment into a state or collective unit led to lifelong employment as a permanent worker (*gudinggong*). Assignment created a non-contractual relationship which did not end with the retirement of the worker. Permanent workers were not allowed to be dismissed. To enable the units to meet their economic targets more efficiently, the LCS paved the way for the abolishment of lifelong affiliation. New employment was effected by a labour contract and only on a temporary basis. LCS-workers had the same general conditions as the permanent workforce, with the decisive difference of only temporary membership in the unit. Labour contracts would need to be renewed after expiration and were not necessarily extended. Permanent workers, however, remained almost untouched by the LCS. The same holds true for skilled job seekers with high school diplomas.

Table 2: **Contractual Staff and Workers in Percent to Urban Staff and Workers by Ownership, 1984-1995**

	Contractual Staff and Workers (in Mio.)				in % to Total Staff and Workers			
	Total	State- Owned Units	Collectiv e Units	Other Units	Total	State- Owned Units	Collectiv e Units	Other Units
1984	2.09	1.74	0.32	0.03	1.8	2.0	1.0	8.1
1985	4.09	3.32	0.72	0.05	3.3	3.7	2.2	11.4
1986	6.24	5.24	0.92	0.08	4.9	5.6	2.7	14.5
1987	8.73	7.35	1.25	0.13	6.6	7.6	3.6	18.1
1988	12.34	10.08	2.06	0.20	9.1	10.1	5.8	20.7
1989	14.68	11.90	2.45	0.33	10.7	11.8	7.0	25.1
1990	17.02	13.72	2.87	0.43	12.1	13.3	8.1	26.3
1991	19.72	15.89	3.23	0.60	13.6	14.9	8.9	28.0
1992	25.41	20.58	3.99	0.84	17.2	18.9	11.0	29.8
1993	31.23	23.96	5.26	2.00	21.0	21.9	15.5	37.4
1994	38.39	28.53	6.45	3.41	25.9	26.2	20.1	45.6
6.1995	40.14				27.4			
7.1995	61.63				42.0			
10.1995	73.85							

Sources: *Zhongguo tongji nianjian 1995*, p.99; June 1995 = *Jingji Ribao*, 1995.9.24; July 1995 = *Xinhua*, 1995.9.13; October 1995 = *Xinhua*, 1995.12.19, in: *SWB FE*, 1995.12.20.

The co-existence of both permanent and contract employment has been difficult for managers. On the one hand, contract workers started acting like permanent ones (*gudinghua*, that means they 'became fixed') and could not easily be dismissed, on the other hand, qualified workers left the units without permission and could no longer be kept by administrative means. For this reason, since 1992, the government has been promoting the 'labour contract system for all employees' (*qianyuan laodong hetong zhidu*). To stress its implementation, the regions were forced to adopt the full LCS in at least 80 percent of their enterprises by the end of 1995. Only the regions with 'poor conditions' were allowed an extension until 1996.<sup>15</sup> The system aims to tear down the barriers between different kinds of employment status and to develop a homogeneous group of 'enterprise labour force' (*qiye zhigong*). Thus, the diffusion of the LCS is an indicator of an expanding labour market (see table 2). At the end of 1994, 26%

<sup>15</sup> *Zhongguo laodong bao* (China Labour News), 1994.9.8.; Zhang Jixun, 'Labor Reforms and New Labor-Management Relations', in: *JETRO China Newsletter*, (1995) 115, pp. 8-17, 24, p. 9. *Zhongguo laodong bao*, 1995.8.3. Early in 1995, of the 29 provinces which released programmes to enforce full LCS, 13 set the target of 100 percent.



of the total 'staff and workers' (the term does not refer to individual and private employment) have signed contracts, with a number of provinces far above these rates.<sup>16</sup> Figures for 1995 are, so far, only randomly released. In October, 74 million signed contracts were reported, that means an incorporation of almost 50% of the urban staff and workers into the LCS.<sup>17</sup>

(5) To develop a homogeneous group of workers implies reforming the cadre system. This seems to be one of the hardest nuts to crack, because the party holds on to the principle of the 'Party's control of cadres' and the nomenclature system.<sup>18</sup> Until recently, the cadre system has been over-centralised under the Party's direct control. Restrictions on cadre recruitment enforced the rural-urban split: rural residents (without state grain rations) were not entitled to be cadre candidates.

Since the mid-1980s, universities have experimented with allowing graduates to find their own jobs. As to enterprise cadres, in 1991, the party and the government set up new labour contract regulations for employment of staff members in order to put an end to lifelong cadre employment. None of these reform measures effectively altered the cadre system. There is still a distinction between the labour system (in the narrow sense of the term) and the personnel system, which is clearly indicated by the coexistence of the Ministries of Labour and of Personnel. Furthermore, the state is still operating according to the state personnel plan which includes all aspects of personnel management. Faced with a shortage of skilled personnel in areas outside of the coastal regions, the State Education Commission has enforced the state plans in cadre assignment.<sup>19</sup> Nevertheless, the boundary between staff and workers positions has become permeable. While the so-called 'workers-cadres' (*yi gong dai gan*) still function within the boundaries of workers-cadres-segmentation -- workers can be promoted to a cadre position keeping their worker status -- with the implementation of the full contract system, companies will possibly stop distinguishing between cadres and workers.<sup>20</sup>

The implementation of the full LCS will also promote a new civil service.<sup>21</sup> As the state is required to become a regulator of macro-conditions, a civil service with skilled and capable officers is needed. The reforms include institution building, improving the regulatory framework, and implementing new processes of recruitment and remuneration.<sup>22</sup> Today, low-ranking leadership positions are open to election. Civil servants are employed by public job advertisements, application, and screening. Even top managers in SOE who are selected, appointed, rewarded, and removed by officials in industrial bureaus, 'were hired, fired, and paid increasingly over the decade of the 1980s in accordance with market-dominated criteria.'<sup>23</sup> The cadre reform implies the possibility of dismissal. Cadres have been able to leave their jobs for positions in the collective and private sectors since the late 1980s. With the Party's declining influence

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<sup>16</sup> Zhongguo tongjiju (China State Statistical Bureau), ed., *Zhongguo tongji nianjian 1995* (China Statistical Yearbook 1995) (in the following *ZTN*), Beijing 1995, p. 101. Manufacturing has been the sector with highest proportion of LCS workers in state-owned units (40.8%).

<sup>17</sup> In Guangdong province more than 95 p.c. of total staff members are said to have signed contracts with their respective state- or collective-owned and joint-venture units. *Xinhua* (New China News Agency), 1996.1.26 [*SWB FE* 1996.1.30].

<sup>18</sup> For the following see Dong, L.S., 'The Recruitment of Cadres and Civil Servants in Mainland China', in: *Issues and Studies*, October 1993, 63-93.

<sup>19</sup> *Neue Zuercher Zeitung*, 1996.1.18.

<sup>20</sup> For the meantime, this seems doubtful. Personal interviewees in a large state-owned industrial unit in Nanjing said, they would rely to different kind of contracts to discriminately deal with workers, cadres, and seasonal workers (September 1995).

<sup>21</sup> Around 5.5 million cadres are employed by governments; the full LCS is tested since 1992.

<sup>22</sup> See Burns, John P., 'Civil Service Reform in China', in: *Asian Journal of Political Science*, 2 (December 1994) 2, pp. 44-72.

<sup>23</sup> Groves, Theodore; Hong Yongmiao, John McMillan and Barry Naughton, 'China's Evolving Managerial Labor Market', in: *Journal of Political Economy*, 103 (1995) 4, pp. 873-892, p. 875.

over white collar workers, tens of thousands of cadres have left government functions for employment in non-state organisations.<sup>24</sup>

(6) In the danwei-system, economic entities were dependent on the state and combined several functions at the grassroots level: economic, administrative, political, and social functions, which especially holds true for state-owned units. Units were called 'small societies' (*xiao shehui*). The comprehensive provisions for existence, the civil administration, and political mobilisation of the danwei members, all occurred within the danwei and were dissociated from the society at large. Different reforms (such as the enterprise, labour and social security reform) aimed at transforming the units into autonomous entities, which employ workers according to their needs and act according to profitability. Government interference should be eliminated. These reforms, but especially the reform of the social security system, affected the constitutive elements of the danwei, in particular its non-economic functions. On the one hand, SOE feel the social obligations to become a burden, on the other hand, they fail increasingly to integrate staff and workers by traditional means of administrative and political control. State property, as the most advanced form of socialist ownership, was not a mere question of ideology. SOE ranked highest in the administrative hierarchy and had the best access to resources. For the workforce, entering a state unit meant better housing, wages, benefits and working conditions. For this reason, jobs in state units were ranked highest, at least till the beginning of the 1990s. Many jobless youths would rather stay idle than to accept placement in a collective unit. Currently, the situation is changing. To compensate for the lack of housing and other social benefits, non-state firms pay far higher salaries, particularly to attract skilled employees. Changes in the composition of its work force reveal the higher status attained by the private sector: 'by the mid-1980s, school graduates entering the work force for the first time comprised one-quarter of all urban individual workers.'<sup>25</sup> The result seems somehow paradoxical: not only do units think of ways to give up social obligations to the society at large, but they also seek to enlarge social services to better compete with non-state entities.

To sum up, the fundamental changes of the six elements brought about a labour system with partial market features. Some of its basic characteristics originate from the bureaucratic system but are increasingly overshadowed by new structures stemming from the market economy. Within the market, enterprises and private entrepreneurs are faced with having to reduce transaction costs. The ways in which they remunerate labour have created certain privileges while taking away others. Newly established disparities in income, job security, and career patterns, no longer the outcome of administrative regulations, will decisively structure the emerging labour market. Under the central planning system, both the allocation of labour and the provision of individual security were handled by political and bureaucratic fiats. Allocation was executed by government offices and employment was based on an administrative act. Labour agencies followed politically set targets. Workers in the state-owned enterprises and in large collective enterprises constituted a social class with privileged access to state controlled resource-transfers. The socialist labour inclusion covered job, income and social security. People were only concerned with their unit of employment, not with their particular work function. Allocating an individual to a state-owned unit meant incorporating him or her into an institutionalised pattern of life. The standard of living was determined by the ability of the danwei to provide for goods and services. Benefits were administered through the units which, according to their respective status, had different access to government allotted resources. Social opportunities were thus unequally distributed and hardly changeable by the individual. Socialist egalitarianism did not intend to equalise the position of different segments within the society, but to upgrade the consistency in state workers' living conditions.

The economic reforms reduced the bureaucratic and political influences on the organisation of social labour. Labour is currently breaking away from administrative constraints. In the countryside, a labour market has emerged to a considerable extent; in urban areas, a significant and increasing proportion of people find jobs through individual search and sign labour contracts. This holds true not only for first job entries, but also for re-entries and job mobility, which no longer need administrative approval. Even though labour mobility is still not common for state workers, opportunities are increasing, particularly in the private sector. The affiliation of workers to privileged state units is losing its decisive role in determining social status. Instead, the individual's social status is increasingly determined by his/her

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<sup>24</sup> Burns, op.cit., pp. 53,71. To handle this situation, the state issued 'Provisional Regulations for State Civil Servants to Quit Jobs or Be Dismissed' to be set in charge at July 24, 1995, in: *Renmin Ribao* (People's Daily), 1995.7.24.

<sup>25</sup> Sabin, op.cit., p. 963.

occupation and level of income as well as educational level. That is to say, the social status of people is increasingly based on economic activities, and the social stratification diverts from the existing occupational categories and the distribution mode. Workers transmute from a 'transfer class' into dependent labour, a process which will grow stronger with the extension of market activities and the further devaluation of the socialist labour inclusion in work units.

### 3 Transitional Labour Market Policies

A more competitive market society needs to reinstitutionalise labour relations: Labour planning and labour market are two different systems of regulation. Currently, the two systems overlap but, more and more, the market mechanism is replacing planning. Institution building in the labour market means to handle information problems (search, screening and examination procedures) and to create effective ways of matching labour and jobs (instead of administrative allocation); it also means to give support to the weaker contracting party, i.e. to enact a labour law (instead of administrative regulations); the changing industrial relations have given rise to a new system of control, to negotiate work realities and to participate in power (instead of bureaucratic prescriptions and democratic centralism); to secure individual risks, institutionalisation means to implement a social security system (instead of the collective and individual welfare distributed by the units).

Inappropriate market restrictions and old ways of thinking have to be overcome when private rights for job search and career mobility as well as enterprises' needs for an appropriate labour force are fully recognised. Administrative and organisational barriers erected by systems of enterprise subordination and work-unit ownership have to be torn down. Furthermore, there are problems with training and upgrading of personnel, promotion of employment and placement services. Although responsible autonomy is governing the state sector, it has to take care of those who are laid off or of the retired and handicapped, especially since, under central planning, none of them had the opportunity and necessity to make provisions. Confronted with these requirements the Chinese government has laid down the motto: 'Creating labour market, disclosing unemployment, protecting workers, providing security for jobless'.<sup>26</sup>

Each of the named dimensions - market institutions, law, trade unions and participation rules within and outside the enterprise as well as a system of social security for unemployment, old age and sickness -- has its own internal logic. We will confine ourselves to some remarks on just three dimensions: firstly, to the new legal framework and, in particular, the new Labour Law of 1994; secondly, to a number of short term active and passive labour market policies to cope with the immediate risks of the workforce; and lastly, to new labour market institutions. The Labour Law and different policies will be described, not their implementation.

#### 3.1 The Labour Law

The most important approach to regulating labour is the new Labour Law, enacted in 1994, 'the first basic law to standardise the labour relationship in all aspects in 45 years since the New China was founded in 1949'.<sup>27</sup> The law abridges earlier legislation and accords with the present labour market situation.<sup>28</sup> The

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<sup>26</sup> Guojia jiwei shehui fazhan yanjiusuo ketizu (Research Group for Social Development of the State Planning Commission), 'Jiuwu' qijian jiuye xingshi zongti fenxi yu duice' (General Analysis and Policy of the Labour Market for the Period of the 9th Five-Year Plan, in: *Jingji Gaige yu Fazhan* (Economic Reform and Development), 1995.7, pp. 31-35 [*Fuyin baokan ziliao. Laodong jingji yu renshi ziyuan guanli*. F 102] (in the following F 102), 1995.9, pp. 30-34, p. 30).

<sup>27</sup> Guo Jun, 'The Legal Adjustment on the Labor Relationship in China Under the Market Economy', in: *China Law*, 1995.1, pp. 91-94, p. 91.

<sup>28</sup> The 'Labor Law of the People's Republic of China' has been adopted at the 8th meeting of the Standing Committee of the 8th National People's Congress of the PRC on July 5, 1994, and entered into force as of January 1, 1995. It consists of 107 articles, grouped into 13 chapters: General Provisions; Promotion of Employment; Labor Contracts and Collective Contracts; Working Hours, Rest and Vacations; Wages; Occupational Safety and Health; Special Protection for Female and Juvenile

deputy labour minister, Zhang Zuoyi, pointed out that the main issue of the new labour legislation is the protection of the rights of employees in foreign and private enterprises in order to promote labour market reforms.

As can be seen, the law's fundamental principle is to overcome the multiple categories of employment, defined by administrative and property regulations. 'As to the purview of the 'labour law', in China workers, farmers, intellectuals, and state civil servants all are labourers whose legal rights are all to be protected. (...) First of all, the 'labour law' breaks the traditional form under plan economy of different rules modelled after different types of ownership...'<sup>29</sup> The aim is to establish a common legal basis for all kinds of industrial relations and to organise labour by general norms. 'This law applies to all enterprises and individual economic organisations ... and labourers who form a labour relationship therewith' (Art. 2). 'Labourers shall have the right to be employed on an equal basis...' (Art. 3).

Former labour reforms, in particular the LCS, aimed at smashing the iron rice bowl and at restricting its implicit employment security. The shift towards the Labour Law is explicitly aimed toward better protection of employees' rights.<sup>30</sup> Workers are seen to be weak relative to the units, particularly because of high employment pressure. Furthermore, labour relationship has become varied and complicated since non-state enterprises have mushroomed and foreign-funded firms have been established.<sup>31</sup> The increase in the number of exploitative employers may affect social stability. 'So such a reality requires that the 'labor law' should give prominence to the protection of the legal rights and interests of the laborers'.<sup>32</sup> Apart from a general banning of discrimination (Art.12), the law protects against discrimination on account of sex, race, etc. and prohibits the work of juveniles (Art.13-15). For the first time, a law stipulates that the state should establish the social security system (Chap. 9).

Units are obliged to sign labour contracts with all of their employees. Chapter 3 gives details on the labour contract. 'A labour contract shall be concluded where a labour relationship is to be established' (Art.16). The Labour Law does not any longer apply only to newly employed workers. Prescriptions are given on the content of the labour contract (worktime, work content, labour remuneration, termination, etc.) and its correct form (i.e. written form). 'A labour contract once concluded in accordance with the law shall possess legal binding force. The parties involved must fulfil the obligations as stipulated in the labour contract' (Art.17).

Besides individual work contracts, staff and workers of an enterprise and the enterprise management may sign a collective contract (Art.33-35). Collective contracts set minimum standards on labour remuneration, working hours, insurance and welfare benefits etc. 'Labour conditions and labour remuneration in labour contracts concluded between individual workers and an enterprise shall not be lower than the standards prescribed in a collective labour contract' (Art.35). These prescriptions bring to mind some of Germany's company agreements or wage settlements which set negotiated conditions and do not allow individual contracts to fall short. The Labour Ministry sees collective contracts to be the future common method of

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Workers; Vocational Training; Social Insurance and Welfare; Labor Disputes; Supervision and Inspection; Legal Responsibility; Supplementary Provisions. Labour Law of the People's Republic of China, Beijing: Ministry of Labor, 1994.

<sup>29</sup> *Zhongguo laodong bao*, 1994.7.7 [F 102, (1994) 8, pp. 13-15].

<sup>30</sup> For the following see Hebel, Jutta, 'Personalpolitik als Konfliktmanagement in chinesischen Staatsunternehmen', in: *Osteuropa Wirtschaft* (forthcoming).

<sup>31</sup> Chan, Anita, 'The Emerging Patterns of Industrial Relations in China and the Rise of Two New Labor Movements', in: *China Information*, 9 (1995) 4, pp. 36-59.

<sup>32</sup> Guo Jun, op.cit., p. 92.

regulating labour relationships in the market economy.<sup>33</sup> The implementation of collective negotiations would certainly bring into play the role of trade unions.<sup>34</sup>

The Chinese Labour Law contains several paragraphs which, from a German perspective, would not be part of a state legislation. They would be subject to collective negotiation and agreements between employers and unions. So far, Chinese unions have not acted on behalf of workers' interests because of the declared non-antagonistic industrial relations. The law promulgates that 'trade unions shall represent and safeguard legitimate rights and interests of labourers' (Art.7). Yet, a form of a tripartite bargaining framework persists in which the government, managers, and workers jointly try to find a balance of profit, wages, and employment. Due to the lack of a procedure for collective negotiation of work conditions by the two sides of industry, the state fixes working hours (Ch. 4), salaries and minimum wages (Art.37, 44, 46-51), and decrees details on labour agencies' legal responsibility to correct misbehaviour of enterprises (Art.89-101), faults of labourers (Art.102) or government officials (Art.103-1 04).

In Article 49, the Labour Law calls for a system of minimum wages. The National People's Congress was reacting to the situation in which foreign-funded companies were paying exploitative wages and SOEs were unable to remunerate workers because of stricter budget constraints.<sup>35</sup> Already in 1994, the Labour Ministry asked municipal and provincial governments to set a standard for minimum wages in order to improve working conditions for rural migrants. The intention of the regulations was to set the minimum wage above the poverty line.<sup>36</sup> Authorities, however, were also keen to control higher incomes to stop the widening disparity of wages. The State Council instructed the relevant departments to study the establishment of an income system and set up a maximum level of annual income earned by management personnel of enterprises.<sup>37</sup>

The Labour Law is supposed to be the basic law to regulate labour relations. More laws, regulations, and rules are being drafted to supplement the Labour Law, such as the 'social insurance law', 'production security law', 'labour contract law', 'enterprise staff vacation regulations', 'labour supervision regulations', 'unemployment insurance regulations', 'employment promotion regulations', 'enterprise staff qualification regulation', and so on.<sup>38</sup> At the same time, the range of unsettled questions illustrates the great responsibility that firms still have to secure the interests of their employees.

### 3.2 Labour Market Policies

The transformation process in Eastern and Central Europe resulted in the destruction of the incompetent and over-staffed industrial base. Industrial job holders are faced with late or no payment; others have lost their jobs. Employees in the civil service, schools or universities are living a hand-to-mouth existence. Thus far, China has avoided the same kind of disaster, although some of these problems have become visible. To enforce economic transformation and to maintain social stability, the Chinese leadership is implementing both active and passive labour market policies. Even though the policies cannot create competitive jobs, they may promote an entrepreneurial climate and contribute to the creation of job

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<sup>33</sup> *Zhongguo laodong bao*, 1994.7.7. The Ministry selected five cities and three provinces to make experiments with. *Zhongguo laodong bao*, 1995.8.3.

<sup>34</sup> 'The staff and workers of an enterprise as one party may conclude a collective contract with the enterprise on matters relating to labor remuneration, working hours, rest and vacations, occupational safety and health, and insurance and welfare... A collective contract shall be concluded by the trade union on behalf of the staff and workers with the enterprise' (Art. 33).

<sup>35</sup> See *Zhongguo laodong bao*, 1994.7.7. Urgent measures to solve salary and welfare problems have been set by several ministries and provincial governments. See *Zhongguo xinwen she* (China News Agency), 1996.2.16 [SWB FE 1996.2.20] and 1996.3.1. [SWB FE 1996.3.5].

<sup>36</sup> See *Gongren ribao* (Workers Daily), 1995.2.20.

<sup>37</sup> *Zhongguo xinwen she*, 1996.2.22 [SWB FE 1996.2.24]; see 'Wages: After the Labour Law', in: *China News Analysis*, 1 October 1995, 1544, pp.1-10.

<sup>38</sup> 'Laodongbu fabu: 1995 nian laodong gongzuo yaodian' (Main Points of Labour Administration in 1995, Issued by the Ministry of Labour), in: *Zhongguo laodong kexue* (China Labour Science), 1995.2, pp. 18-21.

opportunities. Furthermore, they can adjust the labour market by reducing manpower bottlenecks or surplus. The labour market situation may be improved by a regulation of the volume and structure of overall labour supply and demand. Finally, the policies can lead to the implementation of a system of social security to improve the situation of the unemployed and the retired. Labour market policies can be categorised, according to their level and duration, into four different functions. Special policies, however, may cover several functions.<sup>39</sup> The main functions are outlined below:

<b>Functions of labour market policy</b>			
level			
		individual worker	labour market
duration	short-term improvement	(1) compensation for loss of wages (e.g., unemployment benefits)	(2) prevention of redundancy
	long-term improvement	(3) improvement of individual job prospects	(4) creation of new job opportunities

(1) Until the mid 80s, China officially did not experience unemployment, and therefore did not enact an unemployment insurance scheme. Unemployment became evident only when the LCS was introduced in 1986. When LCS-workers became vulnerable to dismissal, efforts were made to establish an unemployment insurance.<sup>40</sup> In April 1993, the 'Rules for unemployment insurance of state enterprise employees' were issued.<sup>41</sup> According to Art. 2 of these rules, employees of state enterprises are now entitled to unemployment benefits in the following cases: bankruptcy, dismissal because of closure or reorganisation, dismissal for disciplinary reasons, expiration of labour contracts. Unemployment insurance funds are to be managed by the labour administration (Art. 17, 18). They are to be used, among other things, for medical benefits and allowances for the unemployed, re-training programmes, or subsidies for establishing businesses by the unemployed (Art. 10-16). Unemployment benefits will be paid for up to 24 months according to the number of years of employment. The unemployed are entitled to 120 to 150 % of the local amount of social assistance. The scope of unemployment insurance, though still rather small, seems to be expanding. This is expressed by figures of coverage and total number of recipients. At the end of 1995, 26 provinces implemented an unemployment insurance system, which covered more than 95% of the state-owned units.<sup>42</sup> From 1987 up to 1992, about 650,000 unemployed persons received benefits. This number rose to 1.03 million in 1993 and to 1.8 million in 1994.<sup>43</sup>

Like the 1986 regulations, the new rules of 1993 are restricted to urban areas and, within the urban areas, to the regular state enterprise employees. This means that temporary workers, by far the most in need of a helping hand, are still excluded. But with the spread of labour contracts, increasing numbers of employees in all kinds of units are faced with the possibility of unemployment. Since 1994, the labour administration has been drawing up new regulations on the basis of the Labour Law to cope with these developments. New regulations ought to include the full range of urban workers into the unemployment insurance scheme. Regulations in most of the provinces already include regular contract workers in all kinds of enterprises. To redress constraints on labour turnover, unemployment compensation is

<sup>39</sup> For the matrix see Brinkmann, Christian, 'Arbeitsmarktpolitik in Ostdeutschland: eine Zwischenbilanz nach fünf Jahren Transformation', in: *Beschäftigungsobservatorium Ostdeutschland*, (November 1995) 16/17, pp. 4-9, p. 6.

<sup>40</sup> For the following see Schädler, Monika; Günter Schucher, 'Unemployment and Provisions for Unemployment in a Phase of Transition: the Chinese Case', in: Renate Krieg, Monika Schaedler (eds.), *Social Security in the People's Republic of China*, Hamburg 1994, pp. 217-253, p. 242 ff.

<sup>41</sup> *Jingji ribao* (Economic Daily), 1993.4.21.

<sup>42</sup> *Xinhua*, 1995.12.28.

<sup>43</sup> *Jingji ribao*, 1995.3.13.

calculated according to the length of a persons entire work history and not only according to the length of time of affiliation with the last enterprise. Specific aid is given to women. The new regulations take into account the problem of reemployment. Unemployed youth will get financial incentives to take part in (re-) training courses. They are entitled to wages and assistance up to the level of the local minimum wage, if they take up self-supporting production (*shengchan zijiu*). Alternatively, they will receive a lump sum payment in the event they decide to become self-employed.<sup>44</sup> Aged workers receive support for two more years, if they reach the age of retirement within this timeframe.

(2) A crucial inheritance of central planning is its orientation towards growth and full employment rather than profitability. The labour administration planned its labour quotas according to supply rather than demand. Simultaneously, shortages and unpredictable deliveries of material inputs made it rational for firms to hoard labour in order to fulfil their plan targets. The well known soft budget constraints allowed for it. As in other socialist countries, this mode of allocation led to a 'full employment-cum-vacancies system', i.e. full employment together with redundant labour.<sup>45</sup> In early 1995, the International Labour Organisation and the Chinese Labour Ministry surveyed 300 enterprises in five municipalities. The results revealed an average of 18.8% of surplus labour, SOE as well as labour service firms ranked highest.<sup>46</sup>

Indirect labour market policies strive for keeping redundant workers within the state-owned units. State regulations of April 1993 require SOEs to provide redundant workers with new jobs or to subsidise their living expenses if the workers wish to become self-employed, retire earlier, or take maternity leave. The same is true if a worker is temporarily exempted from work because of reasons beyond his control. 'The resettlement of surplus workers from state-owned enterprises ... shall follow the principles of relying mainly on those enterprises' own resettlement programmes, of relying on society-assisted resettlement as the secondary choice and of ensuring the basic livelihood of surplus staff and workers' (Art. 2).<sup>47</sup>

Several measures have been introduced to accommodate the huge supply of labour, the most important being a reduction of the number of work hours per week. Starting May 1, 1995, the work week has been cut down to 40 hours, to be implemented immediately in government offices, while institutional units and enterprises were given until December 31, 1995, or May 1, 1997, respectively, to implement the 40-hour work week.<sup>48</sup>

(3) In an effort to improve the individual's prospect for finding a job, state agencies are focusing on developing labour market information systems and improving vocational training. For example, in the beginning of 1996, three regional labour market networks (South, East, and North China) have been connected by computer to the Labour Market Network Centre of the Ministry of Labour which now covers 21 provinces.<sup>49</sup> Modern technology, however, is not sufficient to overcome institutional constraints. The establishment of a national labour market is impeded by regional protectionism and administrative fragmentarism.

Another obstacle in the emerging labour market is the extremely low qualification of Chinese workers. The labour administration, therefore, attempted to expand education and job training opportunities both for new job seekers and for the unemployed. Up to 40 % of new job seekers have, reportedly, attended vocational training.<sup>50</sup> In 1993, 3.05 million students graduated from employment training centres. Of

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<sup>44</sup> *Jingji ribao*, 1995.3.13.

<sup>45</sup> See Svejnar, Jan, *Labor Market Adjustment in Transitional Economies*, CERGE, Charles University, Prague 1994 (Working paper; 22), p. 2.

<sup>46</sup> The figure is within the range of previous estimations made by planning departments (25%), labour departments (10-12%), and statistical departments (20%). *Jingji ribao*, 1995.9.21.

<sup>47</sup> *Renmin Ribao*, 1993.4.28.

<sup>48</sup> *Xinhua*, 1995.3.25 [*SWB FE* 1995.3.30]. The reduced work week is estimated to result in the creation of around 1 million positions.

<sup>49</sup> *Xinhua*, 1996.2.8 (*SWB FE* 1996.2.10).

<sup>50</sup> Cui Jianhua, 'Shilun woguo jingji fazhan zhong de laodongzhe suzhi' (About the Quality of Labour Force Within the Economic Development in China), in: *Jingji Wenti Tansuo* (Economic Problems Research), 1994.12, pp. 15-17.

these graduates, 276,455 participated in retraining courses.<sup>51</sup> In 1993, 2,525 employment training centres were established nation-wide, an increase of 106 from 1992.<sup>52</sup>

The government's emphasis on improving occupational training is demonstrated in the above-mentioned draft of unemployment insurance regulations, as well as in the 're-employment project' (*zaijiuye gongcheng*) which was implemented on an experimental basis since 1992 and subsequently officially launched in 12 cities and provinces at the beginning of 1994. At this time, about 20 % of the unemployed have been out of work for more than six months. Laid off workers are particularly hard to place.<sup>53</sup> The situation is bound to become further aggravated if enterprise reforms speed up. The project, which was implemented jointly by several government departments (economy, finance, social security, industry and trade) together with the Labour Ministry and trade unions, was expanded to all areas of China in 1995. The regulations call for improving the qualifications of the long-term unemployed and paying subsidies to enterprises (wage allowances or other kinds of financial benefits) willing to give work experience to hard-to-place unemployed persons. Workers who have been unemployed between 6 and 12 months are obliged to take part both in meetings on occupational information and in retraining courses. Those who have been unemployed for more than 12 months are obliged to receive special occupational guidance and to be employed on a trial basis. If they refuse, unemployment relief will be discontinued. Labour bureaus have to assist the unemployed in their job search or their efforts to become self-employed. Those who manage to find a job by themselves will be rewarded.<sup>54</sup>

In 1994, the Ministry of Labour initiated the formulation of professional norms for more than 4,000 jobs in 42 trades in accordance with the international standards in order to establish a qualification system. The National Work Committee, established in May 1995, plans to compile a Professional Classification Canon within three years. The Vice-Minister of Labour, Lin Yongsan, said that this would be beneficial to other areas of work, including economic statistics, vocational training, employment consulting and guiding services, and labour forecasting. It would 'pave the way for the country to establish a job market where labourers can move freely and enjoy equal opportunities in the fast changing society'.<sup>55</sup>

(4) As shown above, allowing people to become self-employed and private enterprises to expand has helped to create several new jobs. Although there are still only few of them, the number of wholly foreign-owned enterprises and Chinese/foreign joint-ventures is on the rise. According to official figures, in 1994, the named sectors (individual, private, foreign) absorbed 34 % of the new urban labour force (compared to 17 % in 1991).<sup>56</sup> Structural changes, especially the expansion of labour-intensive light industrial sectors and of the tertiary sector, have been very helpful to overcome the unemployment peak at the beginning of the reform period in the early 80s. Even today, the tertiary sector, which was for a long time neglected as 'non-productive', has not been sufficiently developed. In this sector, however, new jobs can be established on a much lower capital basis than in the industrial and particularly in the heavy industrial sectors. For this reason, since 1992, the state has extended much energy to promote the development of the service industries.<sup>57</sup> State-owned industrial enterprises are also required to diversify and create new jobs in the service sectors, so as to try to re-allocate their own surplus workers at the very least. The above mentioned expansion of hybrid ownership forms can be seen in this context.

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<sup>51</sup> Zhongguo tongjiju renkou yu jiuye tongjisi (China State Statistical Bureau, Department of Population and Labour Statistics), Laodongbu zongje jihua yu gongzisi (Department of General Planning and Wages of the Ministry of Labour), eds., *Zhongguo Laodong Tongji Nianjian 1994* (China Yearbook of Labour Statistics) (in the following *ZLTN*), Beijing 1994, pp. 102-105.

<sup>52</sup> *ZLTN*, op.cit., 1994, p. 97; *ZLTN* 1993.

<sup>53</sup> See 'Zhuahao 'zaijiuye gongcheng' wei gaige fazhan fuwu' (Emphasise the 'Re-Employment Project' to Support Reform and Development), in: *Dangzheng luntan*, 1995.7, pp. 10-12 [F 102, (1995) 8, pp. 42-44].

<sup>54</sup> *Jingji ribao*, 15.1.1994.

<sup>55</sup> *Xinhua*, 1995.5.26 [SWB FE 1995.5.30]; *Zhongguo laodong bao*, 1995.8.3

<sup>56</sup> *ZTN* 1995, p.106.

<sup>57</sup> 'Zhonggong Zhongyang, Guowuyuan: Guanyu jiakuai fazhan disan chanye de jueding (1992.6.16)' (China State Council: Decision About Speeding up the Development of the Third Sector), in: *Jingji ribao*, 1992.6.30.



In view of the great amount of rural underemployment (estimates are at more than 150 million) and the limited ability of the cities to offer job opportunities, the rural employment problem has to be resolved locally. The most important strategy is the promotion of rural non-farm activities and the development of rural towns. As table 1 shows, non-farm employment already rose to a considerable amount. In 1994, almost 150 million persons, i.e. 33.3 % of the rural labour force, are employed by township and village enterprises, or individual and private units. In 1993, the Ministry of Agriculture developed a programme to enable about 20 million rural enterprises to keep at least 200 million rural surplus workers employed until the year 2000.<sup>58</sup>

### 3.3 Administrative Capacities

Labour market policy can only be successfully implemented by a powerful state disposing of (financial) resources and by an effective administration guiding and monitoring the situation. In addition to the law, Chinese policy makers have established a number of labour market institutions. The number of such institutions soared with the shift from planned job assignment to individual applications.

At the end of the 1970s, enterprises, as well as labour bureaus, created the so-called 'labour service companies' (*laodong fuwu gongsi*) to employ unemployed youth and, in case of the former, to employ the descendants of unit members. Later on, as it became clear that these companies would no longer be able to meet the needs of the developing labour market, various new kinds of job centres have been developed to help jobseekers (including those from the countryside) to find jobs and to help employers meet their manpower needs. The most well known are the so-called 'labour service markets' (*laowu shichang*), the main function of which are to register jobseekers, to display job vacancies, and to refer suitable applicants to the firms. These service companies (or markets) have also expanded their function to train the unemployed and to temporarily place them in small firms established by themselves.<sup>59</sup>

The importance of placement services and employment centres grew rapidly, especially after the implementation of the re-employment project. At the end of 1994, a total of 24,560 centres had been established throughout China, in almost all of the provinces and cities. Most of these (19,657) were set up by labour authorities.<sup>60</sup> Each year, through this network of employment services, about 9 million jobseekers are given the opportunity to find or change jobs. Because of the complete lack of private job agencies, employment introduction offices had been essential to job seekers. In 1993, however, the government allowed private agencies to operate for the first time.

However, the fact that the state is no longer directly involved in assigning jobs by no means implies the retreat of government agencies from employment activities. Employment agencies have opened up new job channels by establishing the so-called 'labour service enterprises' (*laodong jiuye fuwu qiye*). In 1993, 192,072 of these enterprises employed 8.7 million people, of which 4.8 million had previously been laid off. Figures for 1994 show a further increase.<sup>61</sup> So-called 'talent exchange centres' (*rencai jiaoliu zhongxin*) have been established to promote labour turnover, especially of skilled workers, and 'labour exchange fairs' are organised from time to time. At the end of 1994, 3,786 'personnel mobility service agencies' at all levels were in service, and of these 2,660 were set up by the government. 'Specialised markets for personnel' registered 10 million applicants for job transfer and were successful in finding jobs for 1 million applicants.<sup>62</sup>

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<sup>58</sup> *China Daily Business Weekly*, 1993.5.16.-22.

<sup>59</sup> 'To improve and strengthen management over employment agencies, in 1994 the Ministry of Labor issued a notification standardizing the nomenclature of newly established employment agencies in the future to shiye jieshao fuwu jigou...' *Zhongguo Laodong Kexue*, 1994.3, p. 23, following Zhang 1995, p. 11.

<sup>60</sup> *ZTN* 1995, p. 127.

<sup>61</sup> *ZLTN* 1994, p. 93; *Xinhua*, 14.10.1995.

<sup>62</sup> *Xinhua*, 1995.10.30. Official figures for total labour force exchanges for 1994 are as follows: 59.3 million persons totally registered, 13.3 million successfully placed of which are 3.8 million exported persons and 9 million rural labour force. *ZTN* 1995, p. 128.

Increased autonomy enabled enterprise managers to decide on wage distribution. After the promulgation of the Labour Law, labour bureaus set up a nation-wide supervisory network with central, provincial and municipal committees. In 1995, these committees recovered arrears of wages amounting to Renminbi 300 million, and outstanding social insurance premiums amounting to Renminbi 288.5 million. They further urged employers to sign a 9.4 million contracts, retroactively, in line with the Law.<sup>63</sup>

As to rural-urban migration, the labour bureaus of the concerned provinces (sending provinces as well as receiving provinces), agreed to cooperate in regulating migration, assisted by the concerned Ministries of Labour and Agriculture.<sup>64</sup> They exchange information on job opportunities, open placement service offices, registrate persons willing to migrate, and arrange for transportation.<sup>65</sup> In November 1994, the Chinese government started a 'project of orderly trans-regional migration of rural labourers' (*youxuhua gongcheng*). People who wish to migrate must apply for a work licence without which they can neither buy tickets nor get a job. Urban enterprises were advised not to employ rural labourers who did not possess a residence permit and a work license. The success of this project, however, is questionable. Half of the hiring units are non-state enterprises and unlikely to adhere to the guidelines. Even state units may have good reasons (such as low wages and the reluctance of urbanites to do heavy work) for dodging the state administrative controls. Thus, the Gongren Ribao predicted a sharpening dichotomy between the regular and the illegal labour market, instead of better controls.<sup>66</sup> Nevertheless, various mediation institutions are spreading, both government induced and privately organised.<sup>67</sup>

In combination with the project to 'regulate migration', measures will be introduced to protect the urban labour force from rural competitors. The Shanghai labour bureau classifies jobs into three categories. Jobs of category C consist, among others, of those in the finance and insurance sectors, of management and executive positions, and of warehouse shop assistants. *Mingong*, i.e. rural migrants, cannot be hired for these positions.<sup>68</sup>

To summarise, the Labour Law constitutes a turning point in both labour legislation and the state's attitude towards labour issues. Firstly, thus far, enterprise and labour reforms focused mainly on enlarging enterprises' autonomy in personnel matters. They explicitly strived at smashing the 'iron rice bowl'. For the first time, the 1994 law aims at protecting the individual worker. This is in response to changes in industrial relations caused by the economic reforms. Secondly, by decreeing regulations covering all kinds of enterprises and employees, the state reacts to new requirements of the emerging labour market. The 'unit ownership of the workmen', moreover, is no longer in accord with the increasing division of labour, mobility, and market-directed labour allocation, training, remuneration and protection, i.e. with the new type of labour inclusion.

With this in mind, we argue that the state is acknowledging its role and responsibility in establishing a political and legal framework and to provide services for the economy as well as for the workforce. The state has begun to adapt its active and passive labour policies to the needs of an emerging labour market. At least, until the labour market is in function and the new risks of the workforce (unemployment, sickness and old age) are under control through institution building, the government remains responsible to compensate. It decided on income transfers (unemployment insurance, old age pension, social help) to substitute for the previously enterprise based security schemes. There are even indications that the previously strict urban-rural split is pervaded by an increasing inter-local and inter-regional labour turnover. Under the pressure of the continual stream of migrants, employment policy can no longer be

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<sup>63</sup> *Zhongguo xinwen she*, 1996.2.2 [SWB FE 1996.7.2].

<sup>64</sup> See, e.g., *Zhongguo laodong bao*, 1992.9.26.

<sup>65</sup> *Xinhua*, 1994.2.5 [SWB FE 1994.2.23]; *Renmin Ribao*, 1994.1.17 [SWB FE 1994.1.25].

<sup>66</sup> *Zhongguo Tongxun She* (China Information Agency), 1994.12.25 [SWB FE 1994.12.31]; *Gongren Ribao*, 1995.1.14.

<sup>67</sup> See *Jingji ribao*, 1996.1.26 for the 'development of a network of mediation institutions' (*wangluohua de zuzhi jianshe*) in an Anhui province district.

<sup>68</sup> *Zhongguo Tongxun She*, 1995.2.22 [SWB FE 1995.3.1].

restricted to urbanites.<sup>69</sup> Nevertheless, labour market strategies are still different for urban and rural areas, and the urban privileged segment remains under the state's particular consideration.

#### 4 The Emerging Chinese Labour Market and the Role of the State

We conclude with a few remarks on the state's role in the process of rearranging social labour. Today, economic reforms affect the basic institutions of the socialist society and require a coherence between economic and social development. The private sector in urban and rural areas is increasingly guided by market forces, whereas the socialist sector is still monitored by the state. Nevertheless, the former planned labour system is currently being transformed into a labour market. The socialist mode of labour inclusion into the work units slowly erodes under the eyes of a still vigilant state. In order to maintain social and political stability, the authorities have worked to introduce a new set of labour-market policies, including a combination of active and passive measures, and are developing a mechanism for delivering these policies. Until now, the social consequences of the economic reform are kept under control in order to strengthen the economic reform and to prevent political change. Nevertheless, the state has to redefine its role in the process of transition. As markets emerge and the non-socialist economic sector develops dynamically, the state loses ground. New risks and inequalities for the labour force arise.

The social organisation of labour within the old administratively and politically segmented structure has undergone marked changes. Markets for products and labour have opened up, and opportunities for gainful occupation outside the socialist sector and for consumption have developed. Private household incomes are gaining enormously in importance in the lives of individuals: money can pay for housing, consumer durables and social security. Thus, the work unit loses its role as an exclusive provider of employment and security and as a determinator of the living conditions and social status of the individual. Furthermore, as a consequence of rising market activities, unequal income distribution and imbalances in different fields grew enormously, both of these developments being inconsistent with the former political idea of an egalitarian society.

The process of economic changes reduces the state's monopoly over resources and resource distribution by political criteria and decreases its ability (and perhaps its political will) to lower inequalities. As the traditional rural-urban divide is diminishing, vested privileges of urban residents are in danger of being dismantled. The state will no longer be legitimised and able to accumulate rural funds to invest in urban industrial development. Furthermore, the state-run sector loses its role as a backbone of the socialist society, not only because of growing losses and debts, but also because people become less dependent on the state's resources, either by reduced transfers or fewer needs. Due to the rise of sectoral interests, to increasing local as well as entrepreneurial autonomy, and to the emergence of a labour market, the industrial relations changed and the state's encroachment on personal space diminished.

As a consequence of the division of industry into state and non-state sectors, different groups of workers are entering into different kinds of relationships with the state, and the management. To point only to one feature: state units still try to protect their workers' interests in an all-encompassing way, whereas many Asian joint-ventures and small private enterprises treat workers in a way reminiscent of pre-capitalist times. To regulate labour relationships, particularly to ease the working conditions of the exploited workers, the labour administration acts as an arbitrator between management and labour, as long as there are no organisations to represent the interests of workers and entrepreneurs.<sup>70</sup>

The recent changes in the Chinese labour system may call to mind Marx's idea of setting labour free in a double sense: free, i.e. in the Chinese case, from administrative dependence and free to contract. This can be interpreted as the beginning of a new type of labour inclusion, based on economic activity and not on political decisions and administrative acts. Staff and workers are less dependent on state transfers, and detach themselves from traditional ties, social ties as well as material, temporal, or spatial ones. As they depend on earned income, they enlarge their individual room to act - and they have to. Qualifications will be reappraised. Instead of ascriptive attributes, such as place of birth, family or class origin, or

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<sup>69</sup> *Zhongguo laodong bao*, 1992.10.1.

<sup>70</sup> See Chan, *op.cit.*.

political views and party loyalty, the value of variables which can be influenced by the individual, such as training and work performance, ability to take decisions, flexibility or risk-taking, is rising. The pursuit of self-interest has been legitimised. In short, with the transmutation of workers from a 'transfer class' into a class of dependent workers, a meritocratic dynamic is beginning to reshape the social structure.

The changes in the economic sphere are increasingly impacting on the social structure, as new groups come into being: private entrepreneurs and employers as well as a workforce depending on their own and individual labour. Up to now, the emerging social groups neither engage in public matters, as long as the state guarantees a stable environment for entrepreneurial activities, nor do they organise to make themselves heard in public. In the past, conflicts between interest groups were resolved in a centralised fashion. Now, autonomy has been passed down to lower levels of governments, to enterprises and households, resulting in a new set of conflicts. In Chinese society, there is a movement away from interaction between administrative units towards interaction between groups. Shared or conflicting economic and/or political interests of, e.g., rural and urban residents, employers and employees, self-employed and dependent workers, are in need of institution building. Regional and/or industrial conflicts have to be handled by law, by collective bargaining or industrial democracy. However, an institutional environment to deal with all of these conflicting interests and various interest groups has not yet erected.<sup>71</sup>

Reforms, although initiated from above, erode the power of the party-state. They have pushed forward a new role of the state which can no longer persist in a role of total dominance nor, diametrically opposed, in a role of complete insignificance vis-à-vis the economic sphere. It has to be a mix of both, that means it has to be concerned responsibility. Even in the market economies of the Western type, there is a role to play for the state in order to compensate for market imperfections, all the more in transition economies. East Germany is an example of a state-monitored and subsidised process of market adaptation and labour transition. The political and economic spheres have to work out a new coherence, with their own political and economic rationality, respectively. On the one hand, the state has to withdraw as an economic actor using political means for economic decision and distribution. On the other hand, macroeconomic interference and conflict prevention is necessary in order to avoid disaster. Labour policy is just one aspect of political decision-making, which cannot be isolated from social policy, law making, etc.

As we have outlined at the beginning, the Chinese transformation differs from that in European socialist economies in that there has been no rush to get the party or the government out of the economy. The party leadership is not willing to diminish its political power and to give way to the emergence of a civil society. The CCP still claims the monopoly in establishing values and defining the correctness of political and moral values of the socialist society. The recent changes in the Chinese labour system reveal a misfit between the economical, political and social sectors, which the Chinese party-state tries to get out of by means of administration and institution building. Both traditional instruments of socialism, such as taking care of surplus workers by the units, and new instruments, such as the Labour Law, unemployment insurance and different social security schemes, are intended to stabilise the status quo. Nevertheless, in the long run the economic dynamic is going to change the fundamental socialist institutions on which the system partially rests.

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<sup>71</sup> See Findlay, Christopher and Jiang Shu, 'Interest Group Conflicts in a Reforming Economy', in: Andrew Watson (ed.), *Economic Reform and Social Change in China*, London 1992, pp. 17-38.