

# AN EMPLOYMENT AGENDA FOR CHINA

## Summary Paper

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## 1. The employment challenge

The ILO's Summary Paper<sup>1</sup> identifies the main employment and labour market challenges faced by China and proposes key elements on which a comprehensive policy response to these employment challenges should be based.

### Employment challenges

- *Low employment intensity of economic growth:* despite high economic growth of 8 per cent per annum, a 1 per cent growth of GDP contributed to only 0.1 per cent growth of employment in 2000;
- *Increasing excess of labour supply* as a result of shedding redundant workers in state-owned enterprises (SOEs), labour-saving structural changes and underemployment in rural areas. Total urban unemployment is estimated at some 10 per cent of the labour force in urban areas against the 3.9 per cent official rate of (registered) unemployment in September 2002 while estimations of rural underemployment go up to 35 per cent of the total rural workforce;
- *Segmentation of the national labour market* as a consequence of the legal constraints to labour migration. This leads to many workers being employed in precarious jobs since "floating" rural migrants cannot be recognized officially in the formal urban labour market;
- *Deteriorating position of women in the labour market in recent years.* Women are more exposed to layoffs and discrimination in recruitment,

compared with men, the income gap between men and women is widening, and women are increasingly concentrated in low-paid agriculture and traditional service jobs;

- *High unemployment of youth.* The unemployment rate of workers aged 16-24 is more than double and those aged 16-29 over 50 per cent higher than the national average. School leavers without work experience contribute almost one-third to urban registered unemployment;
- *A recent slowdown in poverty reduction combined with increasing income inequality.* According to the World Bank estimate, the share of people living below a US\$ 1-a-day consumption norm equalled 18.5 per cent of the total population in 1998. Regional differences in poverty incidence are large and increasing;
- *WTO accession brings about new challenges and opportunities:*
  - better access to international markets with possibility to supply products to international product and trade chains;
  - import competition expected to have a negative employment impact on agriculture and capital-intensive industries in the short run while increased internal and external demand will have a positive impact on labour-intensive industries and services.

### Policy response

Attaining decent work is at the heart of the Employment Agenda for China.<sup>2</sup>

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<sup>1</sup> This Summary Paper is an abridged version of the background paper "An Employment Agenda for China" prepared for the China Employment Forum.

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<sup>2</sup> The ILO concept of decent work incorporates four main pillars: the centrality of employment; the guarantee of basic rights, a floor for social protection; and the promotion of social

Raising the productivity of all workers through structural and technological change is the key condition for maintaining and strengthening the long-term competitiveness of the Chinese economy. If the whole society is to benefit from economic achievements, technological upgrading needs to be combined with (i) appropriate investment in skills and knowledge development; (ii) active labour market policies to ensure a well functioning labour market; (iii) policies promoting equal employment opportunity and treatment for men and women from all social groups; and (iv) a balanced social policy to prevent people from falling into extreme poverty. Such productivity growth will provide the conditions for long-term sustainable, non-inflationary economic growth and productive job creation and lay the basis for full employment and poverty alleviation.

Macroeconomic policy should not only stimulate high economic growth but also become more employment oriented and able to moderate regional imbalances in economic development. This requires, first of all, the establishment of a favourable environment for enterprise and job creation. Second, financial reform that improves access to credit for enterprises of all sizes and types in all regions and benefits female and male workers equally. Third, local governments to launch infrastructure construction projects in conjunction with private entrepreneurs and community associations, which will contribute, directly and indirectly, towards creating new jobs for the underemployed

workforce and raise levels of output. Finally, the tax system needs to be reviewed to improve income redistribution.

### **Seven key elements**

The key elements of the Employment Agenda for China are identified as follows:

1. Promotion of entrepreneurship and job creation;
2. Social dialogue and employment policy;
3. Improving knowledge and skills for employment;
4. Labour market policies for an integrated labour market;
5. Socially responsible enterprise restructuring;
6. Social security and employment promotion;
7. Safety at work, safe environment and employment.

They are elaborated in subsequent sections.

The described Employment Agenda for China reinforces the conclusions of the recent high-level *National Re-employment Conference*, held in Beijing in mid-September 2002. The new active employment policy stipulated there will also combine employment-oriented macroeconomic policy with policies promoting upgrading of skills and re-employment of laid-off workers and other unemployed persons, and improvements in the social security system.

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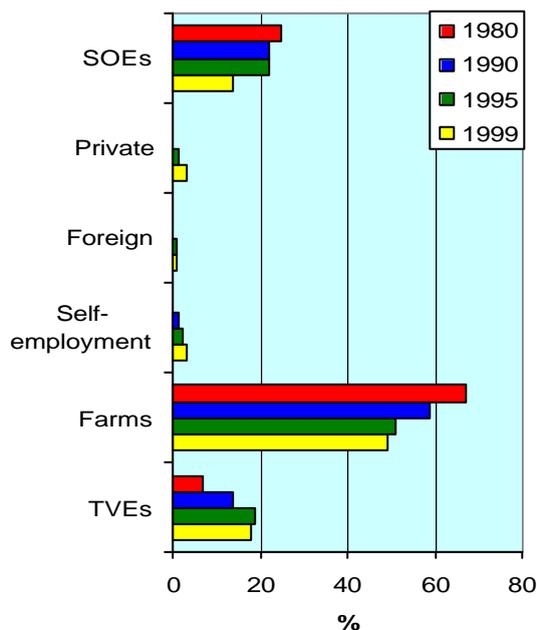
dialogue. These elements are part of the ILO Declaration on Fundamental Principles and Rights at Work and of the ILO's core Conventions that China is studying and gradually ratifying.

## 2. Promotion of entrepreneurship and job creation

### Recent developments

- Decline in state-owned (SOEs) and collectively owned enterprises (COEs) and emerging private sector, with many ownership forms and increasing proportion of SMEs;
- Greater official emphasis on privately owned small and medium-sized enterprises to absorb vast numbers of laid-off workers, carry forward technological innovation, and create employment in rural communities and smaller cities;
- Movement out of farming into non-farm work located in the countryside (township and village enterprises TVEs) and migration to cities to take up precarious jobs in construction and in informal activities.

*Employment by enterprise type (%),  
People's Republic of China, 1980-1999*



The SOE figure covers employment in state and collectively owned enterprises.

Source: China labour statistical yearbook 2000.

### Government response

- Innovation Fund to support technology-based small and medium-sized enterprises through loans, interest-free financial assistance, grants and capital input;
- Reduction of the income tax on small enterprises (with annual profits less than Y 30,000) from 33 per cent to 18 per cent and lower VAT rates.

### Partnerships with the ILO

- Credit Guarantee Funds: In 1998 the ILO in partnership with the All China Federation of Trade Unions (ACFTU) helped to create a credit guarantee fund for small and micro enterprises in Zhenjiang after which around 200 guarantee funds have been established in the country;
- The ILO/Japan Inter-Country Project on Strategic Approaches towards Employment Promotion, conducted in partnership with MOLSS since 1997 on employment promotion in rural and urban areas, to stimulate income generating activities.

## **Key question**

*How to promote better small enterprise development and its job creation capacity nationally, provincially and locally to respond properly to the employment challenges?*

## **Policy directions**

- Supporting local implementation of national policies to promote SME development through:
  - local-based financial and training services;
  - improving access and quality of business and entrepreneurship training;
  - supporting returnee rural migrants in establishing rural SMEs;
  - raising the productivity of TVEs and cooperatives;
- fostering technological upgrading and knowledge transfer in cost-effective ways;
- identifying and removing barriers to regional, national and even international markets for products that require small-scale start-up capital;
- finding effective ways to help small enterprises meet basic labour standards, maintain safe and healthy workplaces and ensure access to basic social security services for their own families and for their employees.

### 3. Social dialogue and employment policy

#### Recent developments

- A recent increase in labour disputes is an indication of a growing divergence of interests between workers and employers in the labour market;
- Government and the social partners recognize the need to develop a new institutional framework for industrial relations as an important tool for the prevention of labour disputes;
- Despite considerable efforts by the China Enterprise Confederation (CEC) and ACFTU, collective institutions of industrial relations remain underdeveloped in the non-state sector.

#### Responses of the government and social partners

- The Labour Law of 1994 has laid down a legal framework for individual and collective employment relations;
- The Trade Union Act of October 2001 has created a minimal legal basis for tripartite consultation at various levels of the economy;
- The National Tripartite Consultative Committee was established in August 2001. Regional tripartite consultative committees (TCCs) were set up in 30 provinces by October 2002;

#### Key question

*How can China improve the industrial relations framework to provide greater space for representative social partners and the expression of divergent interests so that the relevant institutions may play the vital role of resolving conflicts and fostering the promotion of employment and productivity growth effectively?*

#### Policy directions

- Strengthening the capacity of employers' and workers' organizations to represent their

- Primary roles of TCCs are to study and analyze the impact of economic reform policies and social and economic development programmes on labour relations; to make proposals on laws, regulations and policies; and to provide advice and guidance at local level for creating tripartite mechanisms and concluding collective contracts;
- 130 million individual labour contracts and 270,000 collective contracts covering over 70 million workers were signed by the end of 2001.

#### Partnerships with the ILO

- Advocacy and skills in social dialogue at enterprise level and in tripartite discussions at provincial and national levels have been the focus of the training activities carried out by the ILO jointly with ACFTU;
- A National Workshop on Social Dialogue was held in August 2002 to train ACFTU representatives who were selected to serve on tripartite committees.

members' separate and sometimes divergent interests and to develop sound industrial relations;

- Developing procedures and rules to ensure the effectiveness of the

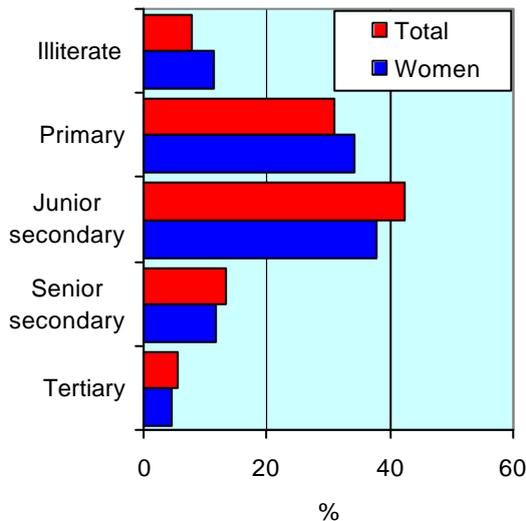
- regular work of the tripartite mechanism;
- Recognizing that tripartite social dialogue at national level can be instrumental in developing economic and social policies promoting employment;
  - At the local level, tripartite social dialogue can contribute towards successful implementation of employment promotion strategies and actions at the local level with the involvement of all stakeholders;
- Improving the interaction of legislation and industrial relations: labour relations at the workplace and tripartite social dialogue should be both a means of amplifying or modifying the application of rights already guaranteed by law and a direct source of regulation on topics that are not completely addressed by legislation.

## 4. Improving knowledge and skills for employment

### Recent developments

- Increasing use of more efficient technologies and modes of production stimulates the demand for higher skills;
- Acute shortage of skilled labour at management and technician level, especially felt by those operating in international markets;
- Insufficient capacity to train large numbers of workers, including laid-off workers even in large cities and special economic zones.

Workers by level of education (%), People's Republic of China, 2001



Source: China labour statistical yearbook 2002.

### Government response

- Local governments have been given the main responsibility for developing vocational education and training (VET), with the involvement of the social partners;

- The retraining of workers laid off through the restructuring of SOEs has been given high priority by the Government, with many innovative approaches being tested across the country;
- The first term of the *Re-employment Training Project "Ten Million in Three Years"* yielded impressive results, with a total of 65 per cent of those trained finding employment. The second term of this project is currently running;
- The State Council's target is to offer access to VET to a total of 50 million urban workers, 150 million rural workers and 3 million laid-off workers every year.

### Partnerships with the ILO

- The ILO has introduced its Community Based Training (CBT) model for a trial period;
- The ILO, together with the Centre of Labour Market Studies, University of Leicester, has conducted a survey on 465 organisations to determine employers' views on the quality and relevance of the education and training system to enterprises in China;
- The ILO has undertaken a review of retraining activities in Chengdu and Shenyang with the Government and the social partners.

## **Key question**

*How to ensure effective implementation of the recent vocational education and training policy decisions and build the partnerships needed to facilitate the development of workers' skills through lifelong learning?*

### **Policy directions**

- Systematic data collection and analysis of labour market changes for assessing the emerging skill needs and developing relevant training programmes;
- Linking the national labour market information system (LMIS) with VET to provide enhanced vocational guidance and placement;
- Reforming the training system to meet the knowledge and skill demands of enterprises, including the emerging small private sector;
- Making greater use of distance learning and training. The schools in eastern areas and big cities could assist and support those in western and in rural areas;
- Providing migrant rural workers with greater access to high-quality training and making VET institutions in rural and western areas into centres for human resource development and training for migrant workers;
- Developing workplace learning systems through encouraging diverse forms of partnerships between the State, the social partners, individuals and other stakeholders;
- Developing national qualification frameworks so that skills from non-traditional sources would be recognized;
- Involving the social partners more closely in discussions on training policy and skills development.

## 5. Labour market policies for an integrated labour market

### Recent developments

- Redundant labour in SOEs has increased and laid-off workers have not been evenly distributed across industries and regions;
- Large numbers of rural workers remain underemployed. Many of them have moved to the cities and become part of the “floating population” working in precarious jobs;
- Older jobseekers, youth and disabled persons are overrepresented in urban unemployment and face particular difficulties in re-employment;
- The situation of women in employment has deteriorated;
- Current regulatory mechanisms are insufficient or even counterproductive for achieving a unified national labour market.

### Government response

- Active labour market policies are mainly targeted at laid-off workers from SOEs and include, besides reemployment service centres in SOEs, programmes promoting re-employment training, self-employment and community services employment;
- The *Re-employment and Social Security Assistance Programme* combines re-employment promotion, social insurance and social assistance;
- Public employment services reach from central and provincial levels to grass-root structures like district or even street level. They are accountable to the corresponding

level of government while MOLSS exercises only indirect authority through guidelines and recommendations;

- The *Rural Labour Force Development Pilot Programme* supports business start-ups for migrant workers who return to their home towns;
- In May 2001 the State Council issued a *Programme on Women’s Development in China (2001-2010)* to ensure economic equality, eliminate sex discrimination, improve social security, provide labour protection and alleviate women’s poverty.

### Partnerships with the ILO

- As part of a project on social security in China the ILO analyzed the relationship between employment services and unemployment insurance;
- MOLSS will be working with the ILO to develop appropriate labour market indicators for China;
- The ILO in partnership with ACFTU and UNDP set up a research facility for trade unions in Xiamen City to enhance capacity in conducting analysis and formulating policies for the labour market focusing on the private sector and migrant workers.

## **Key question**

*How to design and implement labour market policies and strengthen delivery institutions (especially public employment services) in order to allocate efficiently and equitably labour from surplus areas to growth areas and establish a unified labour market, combat social exclusion and promote decent work?*

## **Policy directions**

- Reviewing and reforming legislation and practices that exclude persons of rural origin from receiving equal treatment with those of urban origin in conformity with the Discrimination (Employment and Occupation) Convention, 1958 (No. 111), which China is now examining for ratification;
- Developing new migration policies focusing on efficiency and equity rather than on control and regulation;
- Reducing imbalances in the provision of employment services and labour market programmes among regions and across provinces by pooling financial resources and enhancing staff capacity;
- Improving cooperation and coordination between the employment services and the network of other public and private service providers at central, regional and local level;
- Strengthening the collection, analysis and dissemination of labour market information, including monitoring and evaluation of labour market programmes;
- Improving the access to and the quality of active labour market programmes. These should be better targeted at vulnerable groups of workers.

## 6. Socially responsible enterprise restructuring

### Recent developments

- Between 1998 and mid-2002, 26 million workers were laid off from SOEs;
- Obsolete production capacity and technology in many enterprises still persist as well as fragmentation of the domestic market and poor infrastructure in many regions;
- Rural industrialization has expanded while the share of agriculture in total rural employment declined from 90 per cent in 1978 to 66 per cent in 2000;
- WTO accession will further accelerate enterprise restructuring by exposing so far protected industries to international competition;
- China has become a major location for multinational enterprises and attracted large sums of foreign direct investment.

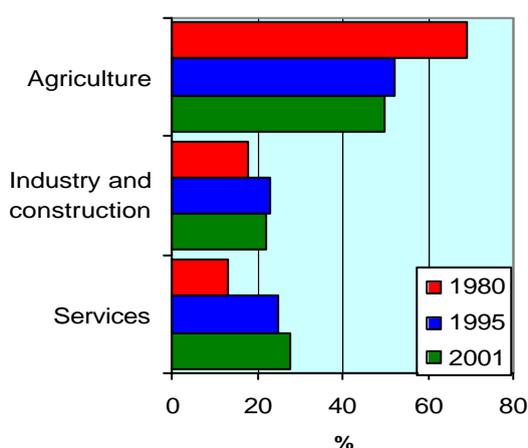
### Government response

- Restructuring of SOEs and COEs has been forcefully put forward by deregulation, state withdrawal, and privatization and de-officialization of cooperatives in rural areas;
- International competitiveness has been accepted as official policy in many sectors.

### Partnerships with the ILO

- A Supply and Marketing Cooperatives Act has been drafted by the All China Federation of Supply and Marketing Cooperatives (ACFSMC) with inputs from the ILO;
- The ILO is currently conducting a project aimed at the development of people-oriented human resource development policies in state-owned enterprises in Export Processing Zones, concentrating on how to attract and retain a high-quality workforce.

*Employment by sector (%), People's Republic of China, 1980-2001*



Source: China labour statistical yearbook 2002.

## **Key question**

*How to facilitate sound enterprise restructuring and productivity upgrading in a smooth and socially acceptable way?*

## **Policy directions**

- Facilitating the creation of viable business entities to allow economies of scale, based on a reduction of regional protectionism, using mergers and acquisitions and foreign capital;
- Improving the business infrastructure and streamlining the responsibilities between central, provincial, and local state authorities;
- Strengthening the tripartite approach to restructuring to ensure and maximize the interests of all stakeholders and minimize social costs;
- Encouraging trade unions to contribute to enterprise survival, and consider International Labour Standards as important sources of strategic guidance;
- Encouraging enterprises to seek new markets and upgrade products, and support necessary retraining.

## 7. Social security and employment promotion

### Recent developments

- Many laid-off workers from SOEs who found work in the private or informal sector have been unable to secure, entirely or partially, their accumulated entitlement to social insurance benefits;
- Absence of efficient and effective arrangements to ensure preservation and continuity in the case of the private sector or the unavailability of social security schemes in the case of those who have found work in the uncovered informal sector;
- At the end of July 2002, more than 100 million persons were covered by the unemployment insurance schemes with 3.69 million beneficiaries.

### Government response

- In 1999, the State Council issued the Regulation on Unemployment Insurance that reinforced and improved the unemployment insurance system;
- In November 2002, decision was adopted to introduce a social security system for the rural population. Within the framework of the social security system, old-age insurance, health insurance and a minimum living standards

programme have been identified as the priority areas;

- Action plan for unemployment protection and employment promotion set up by the Government for 2003 to reinforce the role of the unemployment insurance system in employment promotion.

### Partnerships with the ILO

- The ILO has been closely involved in the restructuring and development of the social security system in China, namely through capacity building and the drafting of social security legislation and policies;
- A number of projects have been carried out including surveys on unemployment, studies on the new role of communities in social security and on the feasibility of introducing social budgeting in Guangdong province;
- The ILO undertook a comprehensive review of the social security reforms in early 2002.

### Key question

*With limited financial capacity, how can social security better address these issues related to coverage and employment promotion in the changing environment?*

### Policy directions

- Extending personal coverage under each social insurance programme throughout the country;
- Designing the provision of cash benefits to the unemployed so that they protect the unemployed and their families from poverty and do not create dependency on social transfers or barriers to employment;

- Coordinating active labour market policies with income support in unemployment to promote early re-employment of the unemployed;
- Improving the level of benefits through reforms relating to qualifying conditions and the benefit formulae; improving the financing of benefits and the overall long-term viability of the system;
- Strengthening and increasing the uniformity of administrative procedures and rules for social security schemes and strengthening the capacity of social security management;
- Establishing social dialogue and tripartite mechanisms to promote awareness among employers and workers of the scheme and its objectives and obligations.

## 8. Safety at work, safe environment and employment

### Recent developments

- The number of workers employed in hazardous industries such as construction has increased;
- Dangerous occupations include those in mining and manufacturing, using hazardous chemicals or dangerous machines without sufficient protective measures;
- In 2001, 11,402 fatal accidents and 12,554 workers' deaths as well as 13,218 cases of occupational diseases were reported but many accidents and diseases remained unreported.

### Government response

- The Law on Prevention and Control of Occupational Diseases came into force in May 2002 and the Law on Work Safety in November 2002;
- Several new regulations on coalmine safety have been issued;
- The Regulation on Safety Management of Hazardous Chemical Substances was revised in 2002;
- The State Administration of Work Safety (SAWS) and the State Administration of Coalmine Safety were created formally in 2001 to coordinate the work of different authorities and to consolidate national policy on safety and health;

### Key question

*How to strengthen the national policy, institutional framework and programmes to ensure the protection of all workers' health and safety and the environment, responding to the rapid changes to a market economy and as an integral part of national policy for economic development and employment creation?*

### Policy directions

- Developing comprehensive OSH laws and regulations based on the relevant international labour standards, particularly the

- A National Safety Week campaign has recently been reorganized into a National Safety Month with more extensive programmes focusing on education and publicity on work safety.

### Partnership with the ILO

- The ILO has implemented a number of technical cooperation projects with various authorities covering the subject areas of mining safety, chemical safety, construction safety, OSH training and information;
- The ILO has carried out extensive activities in support of full implementation of the ILO Chemicals Convention (No. 170) after its ratification by China in 1995. These included the development of new legislation, training programmes and promotional campaigns;
- The ILO has carried out two comprehensive reviews in close collaboration with the national authorities and the social partners.

- Occupational Safety and Health Convention, 1981 (No.155) and the Occupational Health Services Convention, 1985 (No.161);
- Strengthening mechanisms for the implementation of legal

- requirements throughout the country, including inspection systems, OSH training, technical advisory and support services, information exchange and awareness campaign;
- Accelerating full implementation of the Chemicals Convention, 1990 (No.170) reflecting the internationally agreed Globally Harmonized System for Hazard Communication with a view to improving protection of workers and the environment;
  - Developing a national policy on safe and healthy jobs with due regard to the environment. This should be supported by a high level national commitment based on the tripartite consensus of the government and employers and workers;
  - Creating a common understanding among leaders of the government, business and trade unions that occupational safety and health and environmental protection should be a priority in business operation.

