

Reform and Challenges in China's Labor Market

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Abstract

China's labor market has undergone significant change in the past 30 years and a more market-oriented labor market has emerged. This paper studies China's labor market before reform and points out its character of direct allocation of jobs and the administrative control of wages. After that, this paper analyzes the present situation of China's labor market and studies the current problems. Based on the above analysis, this paper draws some policy conclusions, such as enforcing the macro-control of the employment, speeding up the gradual reform of the household registry system, breaking up sectoral ownership of talented persons, and setting up the service system in labor market.

Key words: Labor market; Employment; Reform

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INTRODUCTION

The goal of China's economic reform is to establish a socialist market economy system. Labor is an essential part of a market system, therefore the market system should play the most important role in adjusting the supply and demand for labor and in allocating human resources. China's labor market has undergone significant change in the past 30 years and a more market-oriented

labor market has emerged. In this process, more and more laborers are allocated via the market system with the growing importance of the urban private sector, the mobility of human resources is increased, and market wage rates is in formation. However, a sizable surplus of labor still exists in the rural sector and state-owned enterprises. The main challenge of China's labor market in coming years is to absorb the surplus labor into quality jobs with structural transformation. These pressures would be limited by stronger economic growth, especially in the private sector and the more labor-intensive service industries which have generated the most jobs in recent years.

The paper first discusses characters of labor market before reform. It then presents an analysis of current situation of China's labor market. Based on which, it points out some problems in China's current labor market and draws some policy conclusions.

1. CHINA'S LABOR MARKET BEFORE REFORM

The labor market has undergone significant changes since the opening up of the economy in the late 1970s. In the planned economy preceding reform, the unified government controlled the distribution of both production materials and human resources through administered means. The pre-reform allocation of labor was characterized by the direct allocation of jobs and the administrative control of wages. Employers had very little control over their workforce or the wage bill, and employees had little say in where they work. Moreover, the government denied the market economy. They believed the market economy to be the product of capitalism, so there should be no a market economy in socialism. From this idea, the labor market should certainly be denied.

1.1 Household Registry System Restricted Labor Transfer

A rigid household registry system was set up in mid-1950s to control the movement of population, and effectively constrained the development of a national labor market. It demanded that people could only be employed where they were born. As a result, the employment opportunities in the cities and towns were closed to those in rural areas. Generally, the workforce couldn't transfer freely between the cities and the rural areas. The youth in rural areas was able to be employed in the cities only on the condition that they obtain city household registry through narrow channels such as government recruiting, entering a higher school or joining the army.

1.2 Full Employment Policy

Chinese government regarded employment in the socialist system as both rights and duties of the public before reform. The government could realize full employment by the power of centralized planning, eliminating the unemployment phenomenon. To expand the employment opportunities, the government took the philosophy of full employment. The government was given the principle status of assigning jobs to new entrants in the workforce. New workers were assigned to enterprises and other units. Under this policy, workers could not select an enterprise, nor could enterprises choose its workers. Once a worker was assigned to an enterprise, benefits and social insurance were provided by the enterprise. It was called the "iron rice bowl" system, and had greatly reduced the mutual choice of both enterprises and worker.

1.3 Highly Centralized Wage System

In the planned economy, China practiced a highly unified and centralized system of economic administration. Not only were wage scales and wage rates set by the government, but also the conditions of promotion and timing of wage increases. An enterprise had no power to decide wage distribution. Under this type of wage

administration, many problems appeared, such as: Separation of pay from work, egalitarianism in wage distribution, long periods of wage level stagnation, and a unitary form of wage distribution. These problems caused the enterprises' low economic profits over the long run.

2. PRESENT SITUATION OF CHINA'S LABOR MARKET

The reform of China's economic system has provided the opportunity for the development of a labor market. In early 1994, the Ministry of Labor proposed that the ultimate goal of reform in the labor system: China will wholly promote the reform of the labor system in order to cultivate and develop a labor market, and gradually establish a new labor system suitable to the demand of a market economy. A more market-oriented labor market has emerged after 30 years of reforms.

2.1 More and More Laborers Are Distributed Via the Market System

The market system is influencing the allocation and adjustment of labor after nearly thirty years of reforming the economic system. For example, worker selection and wage distribution in rural enterprises, joint ventures and private enterprises are mainly adjusted by the market system. Additionally, state-owned enterprises and institutions are expanding their autonomy in recruiting new workers and distributing wages. We can see this trend in Table 1. In 1984, there were 370,000 staff and workers working in other owner-ship units accounting for only 0.3%. But in 2012, there were 78,080,000 staffs and workers working in other owner-ship units accounting for 51.2%. That means the number of staffs and workers working in other owner-ship units has exceeded that in state-owned units and collective-owned units. More and more laborers choose to work in other owner-ship units via the market system.

Table 1
Staff and Workers and Composition by Registration Status (Unit: 10,000 persons)

Year	Total	State-owned units	Collective-owned units	Other owner-ship units	Composition (total=100)		
					State-owned units	Collective-owned units	Other owner-ship units
1984	11,890	8,637	3,216	37	72.6	27.0	0.3
1985	12358	8,990	3,324	44	72.7	26.9	0.4
1986	12,809	9,333	3,421	55	72.9	26.7	0.4
1987	13,214	9,654	3,488	72	73.1	26.4	0.5
1988	13608	9,984	3,527	97	73.4	25.9	0.7
1989	13,742	10,108	3,502	132	73.5	25.5	1.0
1990	14059	10,346	3,549	164	73.6	25.2	1.2
1991	14,508	10,664	3,628	216	73.5	25.0	1.5
1992	14,792	10,889	3,621	282	73.6	24.5	1.9
1993	14,849	10,920	3,393	536	73.5	22.9	3.6
1994	14,849	10,890	3,211	747	73.3	21.6	5.0
1995	15,301	11,261	3,147	894	73.6	20.6	5.8
1996	15,221	11,244	3,016	962	73.9	19.8	6.3

To be continued

Continued

Year	Total	State-owned units	Collective-owned units	Other owner-ship units	Composition (total=100)		
					State-owned units	Collective-owned units	Other owner-ship units
1997	15,036	1,044	2,883	1,109	73.5	19.2	7.4
1998	12,696	9,058	1,963	1,675	71.3	15.5	13.2
1999	12,130	,572	1,712	1,846	70.7	14.1	15.2
2000	11,612	8,102	1,499	2,011	69.8	12.9	17.3
2001	11,166	7,640	1,291	2,235	68.4	11.6	20.0
2002	10,985	7,163	1,122	2,700	65.2	10.2	24.6
2003	1,970	,876	1,000	3,094	62.7	9.1	28.2
2004	11,099	6,710	897	3,492	60.5	8.1	31.5
2005	11,404	6,488	810	4,106	56.9	7.1	36.0
2006	11,713	6,430	764	4,519	54.9	6.5	38.6
2007	12,024	6,424	718	4,882	53.4	6.0	40.6
2008	12,193	6,447	662	5,084	52.9	5.4	41.7
2009	12,573	6,420	618	5,535	51.1	4.9	44.0
2010	13,052	6,516	597	5,938	49.9	4.6	45.5
2011	14,413	6,704	603	7,106	46.5	4.2	49.3
2012	15,236	6,839	590	7,808	44.9	3.9	51.2

Note. Source: China Labour Statistical Yearbook 2013

2.2 Increasing Mobility of Human Resources

In the last 30 years, the mobility of human resources has increased. Firstly, the dual track policy of combining the market with the planning and guidance in allocating human resources and employment has been put into practice. Secondly, the distribution of college graduates is now being regulated by the market system. Since 1999, policy requires graduates to find jobs for themselves in the market without the government assigning them as before. Thirdly, the demobilized soldiers are now in the labor market. Finally, a labor contracting system has been introduced. This signaled a marked shift away from the system of lifetime tenures with its potentially distorted work incentives. After Labor Contract Law was promulgated and implemented, almost all employees sign the contract with employers. That means employers and employees can sign and dissolve labor contract freely, which increases mobility of human resources. At present, an enterprise can openly recruit new managers in the labor market, and the manager can freely migrate across sectors and regions.

2.3 Market Wage Rates in Formation

Along with the reform of the economic system, China gradually abolished the command-directed policy of allocating enterprises' wages. Some enterprises have begun to use the market wage rate method called "enterprise autonomous allocation" combined with the government's macroeconomic control. Market wage rates are being regulated by the market pricing system, competition, and supply and demand according to different occupations and work in both sino-foreign joint ventures and private enterprises.

However, in state-owned enterprises and institutions, wage rates are still under the influence of both the government's decision and the market's rates. Employees

of state-owned enterprises are moving into foreign companies by the attraction of high salaries. State-owned enterprises are accepting the market's wage rates, and raising the salaries of its senior employees; some state-owned enterprises have accepted the system of foreign and private enterprises, allowing the market to decide wages. To aid state-owned enterprises in the change to a market-oriented system, some labor departments regularly publish market wage rates. They research the market in order to provide references to state-owned enterprises.

2.4 Intermediate Organizations of the Labor Market and Service Outlets Have Been Established

Intermediate organizations of the labor market have developed rapidly and service outlets have taken shape for the first time. Intermediate organizations are part of the labor market and an essential element of the labor market's smooth operation. In the past 30 years, intermediate organizations of China's labor market such as occupation introduction, employment guidance, and labor arbitration, have developed quickly. For instance, China had 31,322 various employment guidance organizations by the end of 1996, providing service to about 89 million people. In 1998, the figure reached 34,000 in urban areas alone. Public Employment Service organization, which is represented by employment agencies and talent exchange centers, is the most important part of Chinese employment service system. These intermediate organizations enlarge their functions from simple job introduction to the mixture of career instruction, employment training, social insurance and personnel service. Service outlets for the guidance of employment have formed. Labor dispute arbitration organizations are also in the course of development.

2.5 Social Insurance System Formation and Development

After more than 30 years of reforms and opening to the outside, China's social insurance system has been established. It has expanded its coverage from state-owned and big collective enterprises, to all types of employees along with various ownership systems. Regarding sources of the fund, it has developed from the state or the enterprise concerned being the sole provider to tripartite contributions by the state, enterprises, and individuals. Also, the insurance pool has increased to the level of the province, so the social risk is being shared in a larger pool.

Pension schemes have developed from the basic pension by the government, to a basic pension provided by enterprises and by depository pension insurance from employees themselves. With the condition that retired employees can reach a basic standard of living, employees in enterprises with different economic profit should enjoy different social insurance treatment.

Regarding social insurance practices, China has creatively combined a social pool with individual pension accounts. The social pool embodies the principle of equality, safeguarding and mutual help; the individual accounts represent the principle of efficiency, motivation and self-protection. Social insurance is a safety net for nations' social development. The establishment and maturity of China's social insurance system are very important for the protection and smooth operation in an intensely competitive labor market.

3. CURRENT PROBLEMS OF CHINA'S LABOR MARKET

3.1 Barriers Influencing Transfer of Workforce Still Exist

Barriers between town and country such as the household registry system still block the normal transfer of the workforce. Because the household registry system exists in China, many enterprises require the potential employees to have local household registry especially in some big cities, such as Beijing, Shanghai, etc. However, small towns and cities are not as attractive to rural migrants as large and medium cities, because the latter provide better services. Classifications of employees limit the rational transfer of the workforce between workplaces. For example, employees can be classified into state-owned and non state-owned or cadre, worker and teacher. Employees in different workplaces can hardly transfer between workplaces.

3.2 Employment Is a Very Sensitive Issue

China's employment regime has conducted into a market track since the reform and opening to the outside world. According to the State Council Information Office, China

has a labor force of more than 1 billion people, and the number of people in employment is almost 780 million. The employment pressure is very great in China during the process of economic transition, and it has become a strenuous, arduous and urgent task to resolve. As state-owned enterprises have downsized, many workers become unemployed. However, labor productivity of state-owned enterprises still lags behind the non-state sector, which means surplus labor remains in state-owned enterprises. If state-owned enterprises push these laborers into labor market, the employment pressure will increase.

With China's continued industrialization and modernization, rural workers are increasingly finding employment in urban areas. Estimates of the migrant population vary, ranging from 80-150 million. Despite increased migration, considerable surplus labor persists in rural areas. The OECD estimates that if the average GDP contribution per worker in non-agricultural jobs is used as a benchmark, rural hidden unemployment can be estimated at around 275 million. If these surplus laborers migrate from rural areas to urban areas, unemployment problem in urban areas will exacerbate .

3.3 Employment Service Agencies Needs Improvement

Employment service agencies are public utilities, but most agencies practice the management of enterprises, with the goal of making profit. The service charges of various employment service agencies contribute to goal of making profit. Some problems have developed though. Firstly, units rush into the employment service field which can bring economic results; but employment services are reluctant to receive low economic results and offer high social benefits. Secondly, various employment service agencies monopolize and lock information with each other. Finally, some agencies or people issue false information or advertising in order to get more benefits. These unethical actions hinder the formation of a unified labor market system.

4. COUNTERMEASURES TO DEVELOP CHINA'S LABOR MARKET

The cultivation of a labor market is a system which is complex with its various policies and interrelationships. It is more complex than other types of markets. It needs multifaceted cooperation.

Firstly, the macro-control of the employment should be enforced. The statistic system and inspecting system on the unemployment should be set up. The inspection of unemployment should be based on the improvement of the unemployment registering system in cities and towns and the control of the condition on the transfer of surplus rural labor force and laid-off workers. Especially the inspection of key areas and key trades should be enforced. The statistic system of unemployment should be improved.

There should be more statistic index in the system. The unemployment warning system should be perfected. It will provide exact information on the unemployment condition. So the concerted departments can take timely measures to keep the social stability.

Secondly, the gradual reform of the household registry system which causes the division of town and country should speed up to establish one labor market which can unify town and country. At the same time, sectoral ownership of talented persons needs to be broken up. Abolish the classification differences between state-owned enterprise' workers and non state-owned enterprises' workers and between cadre and worker. Cancel various limitations to transfers across sectors.

Finally, the service system in the labor market should be set up. The government of the labor market should be enforced and the employment system under market system should be perfected. The reform of the employment system should be deepened to form a unified open competitive and ordered labor market. The development of rural labor resource should be enforced to reduce the pressure to the unemployment in cities and towns. The two-way choice systems between employers and employees should be taken shape and the rational transfer of labor force should be realized. Regulations on the recruitment training and dismiss should also be perfected to form an ordered employment environment. In a word, all these measures aim at providing a good employment environment for unemployed personnel.

At the same time, a good service mechanism in favor of undertaking enterprises should be set up.

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