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The PRC Labour Market – Segmentation and Unification Implications for India

Bibek Debroy
ICRIER

**The Dragon and the Elephant:
Emerging Lessons from the
People's Republic of China and India
3 May 2008, Madrid**



The simplistic PRC-India comparison

- India's Economic Survey 2005-06
- “Perhaps there are lessons to be learnt from PRC in the area of labour reforms. PRC, with a history of extreme employment security, has drastically reformed its labour relations and created a new labour market, in which workers are highly mobile. Although there have been mass layoffs and open unemployment, high rates of industrial growth especially in the coastal regions helped their redeployment. In spite of hardship, workers in PRC seem to have benefited from wage growth, additional job creation and new opportunities for self employment.”

The Indian labour market segmentation

- Organized versus unorganized, 3 definitions of organized
- Factories Act, Excise, SSI
- Around 7% of labour force, 93% without protective cover
- Making markets move closer together
- Federal Structure of Constitution and 7th Schedule
- 50 Central Acts, Rules

The Indian Labour Market Reform Agenda

- Statutory law reform - Statutes on industrial relations, wages, social security, safety
- Harmonization issue
- Elimination of dysfunctional State intervention
- Administrative law & procedural costs – the inspector raj
- Reforms aren't the Industrial Disputes Act alone
- 2nd National Labour Commission
- Unbundling of reforms

PRC, Pre-reform labour markets - urban

- The iron rice bowl metaphor
- “From each according to his ability and to each in accordance with his need”
- Military services, civil services, SOEs
- Administrative determination of wages & benefits
- For industry, through work units
- 20-30% over-manning in SOEs
- Reduce labour rights

PRC, Pre-reform labour markets - rural

- Only 20% of labour market urban
- The household registration system (hukou) in rural PRC
- Iron rice bowl benefits didn't exist in rural PRC
- 30% of labour force surplus
- Between 1960 & 1978, this segmentation led to between 20 and 60% GDP loss
- Increase labour rights

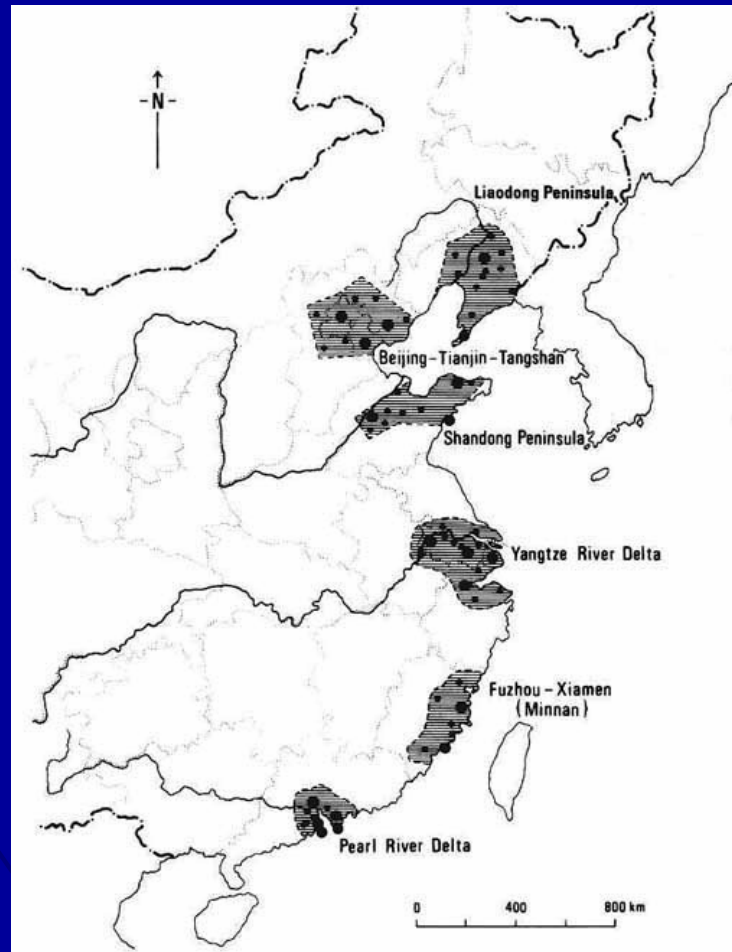
Segmented reform – urban PRC

- Grant SOEs autonomy in determining wages, bonuses, over-time – labour contract system
- Allow SOE conversion to joint stock companies with workers holding shares
- Retrench, retrain and redeploy xiagang workers
- Unemployment insurance and social security
- 1983, 1986, 1994/1995, 1996, 1997, 1998, 1999, 2003, 2005, 2008 legislation
- Collective bargaining

Segmented reform – rural PRC

- Household responsibility system
- Collective and share-holder based cooperative enterprises
- Loosening hukou
- Allowing rural workers to work in urban enterprises
- 1981, 1984, 1986, 1991, 2001, 2008 legislation

The growth map



Points for flagging

- One should not equate SOE reform with labour market reform
- Social security coverage low
- De jure rural hukou rights different from de facto rural hukou rights
- % of signed contracts low, deviations from minimum wage & overtime norms
- Low levels of unionization, skills

A slightly different lesson

- Off-farm employment opportunities, entrepreneurship in rural areas
- Human capital investments
- Reform of SOEs contrasted with PSEs
- The manufacturing success story, physical infrastructure
- Lower transaction and compliance costs, not so much the hire and fire provisions

Thank you