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## HUMAN RESOURCES POLICIES

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In the Western Region, policymakers have concerned themselves with complex issues relating to the size of the population and labor force, education, training, labor mobility, earnings, and unemployment. This chapter explores the interrelationships between these policy areas in the contexts of the gradual progression toward a market economy and the overriding need to provide more jobs.

## Size, skills, and knowledge of the labor force

Apart from the impact of labor migration, the age structure of the present population will largely determine the size of the Western Region's labor force over the next 20 years. Similarly, the skill and knowledge levels are to some extent already fixed by the education level of those already in the workforce.

### GROWTH OF THE LABOR FORCE

Several studies have shown that the PRC's labor force is expanding faster than the population and will continue to do so until 2020.<sup>1</sup> In cities, towns, and counties alike, and in all regions, the population in the 15–64 years age bracket is well above the world average of 63 percent. The Western Region has a higher proportion of its population in the 0–14 age group, and, in the absence of net outward migration, its labor force will grow faster than that of the rest of the PRC (Table 11-1).

Figure 11-1 shows that while the PRC's age structure will lead to a rapid expansion of the labor force (entrants exceeding departures), that of Xinjiang is going to expand at an even faster rate. In 1999, the age 15–64 population of the PRC was 829 million, of which 234 million was in the Western Region; by 2020 these figures are likely to increase by about 120 million in the case of the PRC and 40 million in the case of the Western Region. In other words, without net outward migration the labor force of the Western Region could be nearly 20 percent higher by 2020.

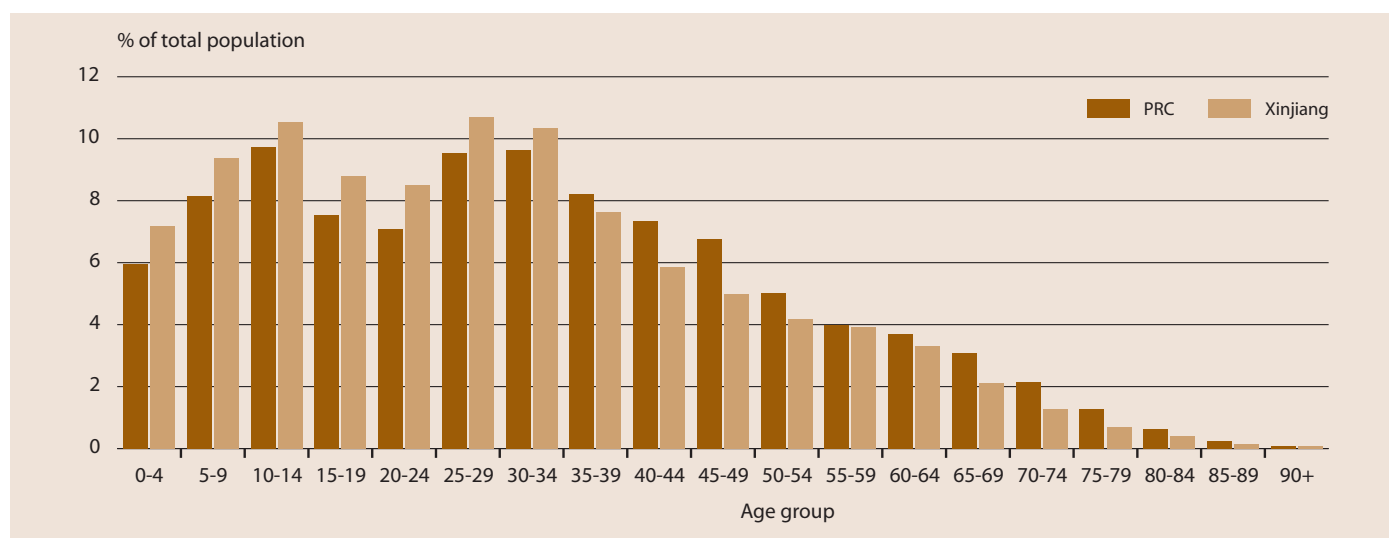
An age structure with very low proportions of dependent children and elderly is conducive to rapid economic growth.<sup>2</sup> Even if there is very substantial net migration to the Eastern Region over

**Table 11-1** Population, by Age Group, 1999

Population Group	Northwest (%)	Southwest (%)	Central (%)	Eastern (%)	PRC (%)
<b>Cities</b>					
Age 0–14	18.5	19.9	19.2	17.0	18.3
Age 15–64	73.9	70.4	73.2	73.4	72.9
Age 65 and over	7.6	9.7	7.6	9.6	8.8
	100.0	100.0	100.0	100.0	100.0
<b>Towns</b>					
Age 0–14	23.7	21.1	20.8	20.5	21.0
Age 15–64	70.2	68.5	72.3	71.7	71.1
Age 65 and over	6.0	10.5	7.0	7.8	7.9
	100.0	100.0	100.0	100.0	100.0
<b>Counties</b>					
Age 0–14	28.6	27.8	26.6	24.5	26.3
Age 15–64	66.0	65.4	66.6	67.2	66.5
Age 65 and over	5.4	6.7	6.8	8.3	7.2
	100.0	100.0	100.0	100.0	100.0

Source: Calculated from the *China Population Statistical Yearbook 2000*.

**Figure 11-1** Age Structure of Xinjiang's Population and the PRC's population, 1999



Source: Calculated by consultants from *Xinjiang Statistical Yearbook 2000*.

the next 20 years, the age structure of the residual population in the Western Region will still have a low ratio of children and the old to people of working age.

### LABOR FORCE MOBILITY

Labor mobility in the PRC at present consists of three components:

- Migration
- Temporary or seasonal change of place of work—the “floating” population
- Change of jobs without relocation

With economic reform, all three forms of mobility are on the increase.

#### Migration

With the decline in the birthrate and economic reforms (which greatly facilitate labor mobility), migration has become a much more important influence on the population distribution. The main migration flows have been from the counties to the cities, and from the Western and Central regions to the rapidly developing Eastern Region. These flows are very evident from the results of the Population Sample Survey of 1995 (Table 11-2 and Figure 11-2).

Xinjiang was a significant exception to this trend; it had a net gain of 416,800 people between 1990 and 1995; moreover, the counties registered most of the net gain (Table 11-3).

As the productivity of agricultural labor (Chapter 4) increases, there will be a large surplus rural labor force seeking to enter urban labor markets. At the same time, with the increasing demand for labor in advanced economic regions, higher earnings will attract labor from the Western Region. The remaining labor force will transfer from rural to urban, from less developed areas to developed areas. Economic and social reforms are increasing population mobility (as in many other countries).

Surveys indicate that the coastal provinces are the main destination of migrant labor from poverty counties in the Western Region (Table 11-4).

**Table 11-2 Net Population Gains Through Migration, 1990–1995**

Region	Cities	Towns	Counties	Total
<b>Eastern</b>	6,710,700	157,100	(2,731,200)	4,136,600
<b>Central</b>	1,741,300	(255,700)	(4,047,900)	(2,562,300)
<b>Western</b>				
<b>Southwest</b>	1,065,900	224,500	(3,063,700)	(1,773,300)
Sichuan <sup>a</sup>	484,400	87,400	(1,633,800)	(1,062,000)
Guizhou	129,100	46,300	(425,100)	(249,700)
Yunnan	163,700	11,700	(210,500)	(35,100)
Tibet	10,700	10,000	(13,200)	7,500
Guangxi	278,000	69,100	(781,100)	(434,000)
<b>Northwest</b>	626,500	96,100	(523,300)	199,300
Shaanxi	178,000	45,300	(325,100)	(101,200)
Gansu	107,400	34,700	(253,500)	(111,400)
Qinghai	(5,900)	(7,600)	(11,600)	(25,100)
Ningxia	18,700	11,900	(36,200)	(5,600)
Xinjiang	115,700	38,000	262,100	415,800
Inner Mongolia	212,000	(26,200)	(159,000)	26,800
<b>PRC</b>	<b>10,144,400</b>	<b>222,000</b>	<b>(10,366,100)</b>	<b>300</b>

Source: Calculated from tables in the *China Population Statistics Yearbook 2000*.

<sup>a</sup> Includes Chongqing.

**Figure 11-2 Grape Cuttings Raised for Local Planting, Awati County (Xinjiang)**



Villagers have been recruited from distant Sichuan province as labor to establish a vineyard.—Photo Dr. W. Forrest

**Table 11-3 Net Migration Flows to Xinjiang, 1990–1995**

Region	To Cities	To Towns	To Counties	Total Net Gain
<b>Eastern</b>	2,200	1,100	20,000	23,300
<b>Central</b>	1,400	1,600	141,200	144,200
<b>Western</b>				
Southwest	3,700	1,000	105,500	110,200
Northwest	12,600	5,100	121,400	139,100
<b>PRC</b>	<b>19,900</b>	<b>8,800</b>	<b>388,100</b>	<b>416,800</b>

Source: Calculated from tables in the *China Population Statistical Yearbook 2000*.

Note: At the time of writing, results from the 2000 Census were insufficient to provide a more up-to-date picture. However, the preliminary results indicate very high net migration gains by the Eastern Region, and very high urban growth rates there.

**Table 11-4 Place of Work Outside Poverty County, 1999**

Region	Southwest				Northwest			
	Sichuan (%)	Guizhou (%)	Yunnan (%)	Guangxi (%)	Ningxia (%)	Shaanxi (%)	Gansu (%)	Inner Mongolia (%)
Within county	32.3	18.9	20.5	23.1	38.9	29.9	14.0	29.6
Other county within province	12.4	20.3	59.0	19.4	44.4	15.6	28.7	29.6
Other inland province	11.8	16.2	17.9	2.5	5.6	9.1	41.1	33.3
Other coastal province	34.8	41.9	2.6	51.3		42.9	10.9	3.7
Other area	8.7	2.7		3.8	11.1	2.6	5.4	3.7
<b>PRC</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: National Bureau of Statistics and Leading Group for Poverty Reduction (2000).

### Floating population

The term “floating population” refers to people living outside their places of household registration. The floating population of the PRC was about 30 million in 1982, but researchers put its 1998 size at 100 million, of which nearly 80 percent was officially resident in rural areas.<sup>3</sup> There are reasons for believing that the proportion of the 100 million that is from the Western Region is disproportionately high.

- Surveys of poverty counties in the Western Region show that remittances account for about 5 percent of household incomes, that remittances sent by workers are about a third of earnings, and that many floaters from the poverty counties work in the Eastern Region (these points together indicating that the numbers must be large).
- Although the Western Region accounts for only 28 percent of the PRC’s labor force, it accounts for a larger proportion of those who are most typically floaters, i.e., young workers, workers in agriculture or with no local alternative to agriculture.
- Higher earnings and better economic opportunities provide strong incentives for labor to move from the Western Region to the Eastern Region.

### Mobility

The PRC’s labor market is segmented largely according to enterprise ownership types. However,

economic reforms have greatly reduced the balkanization of labor markets.<sup>4</sup> Turnover rates have increased, but are much lower in SOEs than in urban COEs, and these are in turn lower again than in other ownership categories. In the SOE sector, a majority of the turnover is in fact transfers within the sector including relocations. The increasing mobility of labor is a positive step toward a more efficient labor market, where the wage mechanism allocates labor resources to their most productive use. However, many rigidities and regulations hinder the effectiveness of the labor market. In many cases, people got jobs because they were children of employees or had connections with people able to influence appointments, not because they were the best candidates.

### LITERACY LEVELS IN THE WORKFORCE

The quality of the labor force is one of the important determinants of economic development. Literacy levels in the urban areas of the Western Region are much the same as the national average for urban areas. However, in the rural areas they are significantly lower than the national average for rural areas, especially among women (Table 11-5).

The PRC has long placed great emphasis on literacy, and in the country as a whole literacy rates are much higher than in other developing countries. Illiteracy and semiliteracy will be an increasingly severe disadvantage in the labor market.

**Table 11-5 Illiterate and Semilliterate Population Aged 15 and Over, by Sex, 1999**

Region	Cities		Towns		Counties	
	Male (%)	Female (%)	Male (%)	Female (%)	Male (%)	Female (%)
<b>Eastern</b>	3.7	13.4	3.4	13.3	9.4	25.6
<b>Central</b>	3.6	11.0	4.1	13.5	10.1	23.3
<b>Western</b>						
Southwest	5.8	14.8	5.6	16.0	13.5	31.1
Northwest	3.8	11.8	5.1	15.2	16.6	32.6
<b>PRC</b>	<b>4.0</b>	<b>12.7</b>	<b>4.2</b>	<b>14.1</b>	<b>11.1</b>	<b>26.5</b>

Source: Calculated from *China Population Statistical Yearbook 2000*.

## LEVELS OF EDUCATION

### Differences between the northwest and the southwest

In considering the level of education of the workforce, there is a big difference between the northwest and the southwest. In the northwest, the rural areas are more backward in education terms, whereas in the southwest the urban areas are more backward. Put another way, the rural-urban divide is greater in the northwest (Table 11-6).

### Primary education

The PRC is well ahead of other developing countries in the development of primary education. The net enrollment rate of children of primary school age is over 99 percent nationally. However, in most of the Western Region net enrollment rates are much lower, e.g., 83.5 percent in Tibet, 93.5 percent in Qinghai, 95.5 percent in Sichuan, and 97.1 percent in Xinjiang. The main reason for the lower enrollment

rates is the inability of parents to afford the costs of school attendance. The cost to parents includes not just fees but travel expenses and boarding expenses.

Primary education is now largely the responsibility of county- (fourth-) level governments; enrollment rates in poor counties tend to be low. In much of the PRC, the fall in the birthrate will result in lower primary school populations, making it much easier for county governments to meet the cost of primary education. Unfortunately, while birthrates in the Western Region have fallen, they have not fallen to the same extent.

### Secondary education

The PRC has performed less well in expanding secondary education. In the case of primary education, the PRC's performance exceeds the average for lower middle-income countries; in the case of secondary education, its performance is merely comparable (Table 11-7).

**Table 11-6 Level of Education Reached (% of Total Population Aged 6 and Over), 1999**

Region	Males						Females					
	Illiterate	Primary	Junior	Senior	College	Total	Illiterate	Primary	Junior	Senior	College	Total
<b>Cities</b>												
<b>Eastern</b>	3.7	22.7	37.8	23.1	12.6	100.0	12.2	24.3	34.1	21.2	8.2	100.0
<b>Central</b>	3.7	21.6	39.0	24.7	11.0	100.0	10.1	22.8	36.9	23.4	6.8	100.0
<b>Western</b>												
Southwest	5.7	36.1	36.2	15.6	6.4	100.0	13.4	34.3	33.3	14.5	4.5	100.0
Northwest	3.8	21.0	33.9	27.6	13.7	100.0	10.7	21.8	31.0	26.7	9.8	100.0
<b>PRC</b>	<b>4.0</b>	<b>24.3</b>	<b>37.6</b>	<b>22.8</b>	<b>11.2</b>	<b>100.0</b>	<b>11.6</b>	<b>25.2</b>	<b>34.6</b>	<b>21.3</b>	<b>7.3</b>	<b>100.0</b>
<b>Towns</b>												
<b>Eastern</b>	3.6	24.0	37.2	25.3	9.9	100.0	11.8	26.4	35.6	20.7	5.5	100.0
<b>Central</b>	4.0	23.6	40.5	23.1	8.8	100.0	12.2	26.0	38.5	19.1	4.2	100.0
<b>Western</b>												
Southwest	5.4	30.5	37.0	20.4	6.7	100.0	14.5	29.6	35.1	17.6	3.2	100.0
Northwest	4.9	24.6	36.3	24.5	9.8	100.0	13.4	27.1	32.9	21.0	5.5	100.0
<b>PRC</b>	<b>4.2</b>	<b>25.2</b>	<b>38.1</b>	<b>23.6</b>	<b>8.9</b>	<b>100.0</b>	<b>12.6</b>	<b>27.0</b>	<b>36.1</b>	<b>19.6</b>	<b>4.6</b>	<b>100.0</b>
<b>Counties</b>												
<b>Eastern</b>	8.5	41.4	41.6	7.9	0.5	100.0	21.9	43.6	30.5	3.8	0.2	100.0
<b>Central</b>	8.7	42.6	41.5	6.8	0.4	100.0	19.4	46.7	30.4	3.3	0.2	100.0
<b>Western</b>												
Southwest	12.2	52.7	30.3	4.5	0.3	100.0	26.8	51.0	20.1	2.0	0.1	100.0
Northwest	14.4	43.0	34.0	7.6	1.0	100.0	27.3	43.1	24.8	4.3	0.6	100.0
<b>PRC</b>	<b>9.9</b>	<b>44.3</b>	<b>38.5</b>	<b>6.8</b>	<b>0.5</b>	<b>100.0</b>	<b>22.5</b>	<b>46.1</b>	<b>27.8</b>	<b>3.3</b>	<b>0.2</b>	<b>100.0</b>

Source: Calculated by consultants from tables in the *China Population Statistical Yearbook 2000*.

Note: Primary school entry is at 6 and lasts 6 years; secondary school comprises two stages, 3 years at junior middle school and 3 years at senior middle school. University education is normally for 4 years.

**Table 11-7 School Net Enrollment Ratios, 1980 and 1997**

Country Group	GNP per Capita in 1999 (\$ PPP)	Primary Enrollment Ratio		Secondary Enrollment Ratio	
		1980 (%)	1997 (%)	1980 (%)	1997 (%)
<b>PRC</b>	<b>3,291</b>	<b>84</b>	<b>100</b>	<b>63</b>	<b>70</b>
Lower middle income	3,960	85	98	64	70
Upper middle income	8,320	88	96	59	75

Source: World Bank (2001b).

Note: Net enrollment ratio is the ratio of the number of children of official school age who are enrolled in school to the population of the corresponding official school age. The numbers in the table are not directly comparable to others in this chapter.

Attendance at secondary schools is much lower in the Western Region than in the Eastern Region. Once again, the southwest is much worse than the northwest (Table 11-8).

**Table 11-8 Secondary School Attendance, 1999**

Region	Junior Secondary (%)	Senior Secondary (%)
<b>Eastern</b>	98.4	24.6
<b>Central</b>	88.3	17.3
<b>Western</b>		
Southwest	63.9	11.6
Northwest	74.4	19.4
<b>PRC</b>	<b>85.2</b>	<b>18.8</b>

Source: Calculated from the *China Population Statistical Yearbook 2000*.

Note: As percent of the population in the relevant age group.

In the PRC much criticism of education is about its character and quality rather than the level of provision:

Teachers [in the US] encourage students to doubt, refute and negate established theories and practices in a logical way and give students the highest score if their answers are reasonable and logical, whereas Chinese teachers emphasize “resolving doubts” and appraise students according to whether their answers are in conformity with the standard text books and memorize standard answers mechanically, not daring to go one step beyond the limit. Students trained in this way are narrow-minded. They may get high grades in examinations but are unable to handle complicated problems in their future career and lack a pioneering spirit.<sup>5</sup>

However, creativity and entrepreneurship are not simply products of the school system. For example, India, too, has a rote learning system, but its ICT software industry is booming because of the strong

sprit of innovation—the authoritarianism of the schools is bucked by the experience of daily life. In the PRC, however, traditional power structures still dominate over the career aspirations of students (Table 11-9).

Senior secondary schools comprise vocational schools (specialized secondary schools) and schools for children aiming at higher education. Since the scale of higher education is sufficient to absorb only 50 percent of the high school graduates, there has seemed to be a role for specialized schools. However, by 1999 the percentage of senior secondary school students attending specialized schools had reached only 7.1 percent (6.8 percent in the Western Region). Moreover, it is in the nature of specialized schools that they tend to concentrate in the cities where the pool of students is large enough to permit a range of special training. Students graduating from specialized secondary schools are finding it harder to find employment because their education does not meet the demand of the employer, who is often looking for particular qualities rather than particular skills.<sup>6</sup>

### Higher education

In comparison with other Asian countries, the PRC has few students receiving tertiary education. With nearly twice India’s GNP in PPP terms, the PRC has fewer tertiary students (Figure 11-3).

This is likely to become a serious constraint on the country’s economic development. In comparison with the rest of the PRC, the Western Region lacks higher education facilities relative to its population. Most of the elite tertiary institutions are in the Eastern Region. The deficiency is in the status and total capacity of these facilities as well as the number (Table 11-10).

Often, therefore, Government documents presume that the Western Region is short of higher

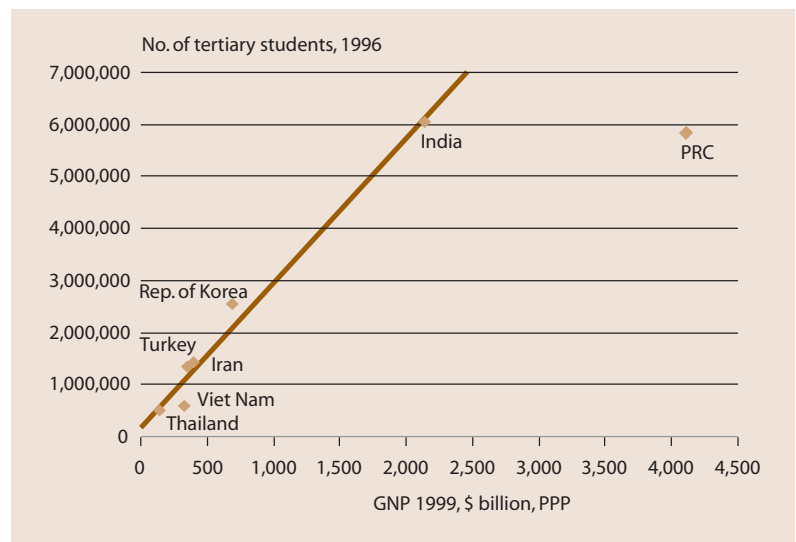
**Table 11-9 Job Preferences among Different Urban Education Groups, 1999**

Job Preference	Junior Middle School and Below	Senior Middle School/ Polytechnic School	Adult Higher Education	College and Above
First	Leading cadre in a Party or government body 11.8%	Leading cadre in a Party or government body 11.2%	Leading cadre in a Party or government body 13.6%	Leading cadre in a Party or government body 11.4%
Second	Industrial or commercial administrator/Tax officer 6.3%	Industrial or commercial administrator/Tax officer 6.8%	Computer engineer 7.7%	Computer engineer 10.1%
Third	Private entrepreneur 5.8%	Judge 5.8%	Lawyer 7.2%	Private entrepreneur 6.5%
Fourth	Judge 5.8	Computer engineer 5.8%	Industrial or commercial administrator/Tax officer 6.4%	Industrial or commercial administrator/Tax officer 6.3%
Fifth	Doctor 4.6%	Lawyer 5.5%	Judge 5.1%	University professor 5.5%
Sixth	Court prosecutor 4.6%	Private entrepreneur 5.3%	Private entrepreneur 5.1%	Natural scientist 5.1%
Seventh	Ordinary cadre in a Party or government body 4.4%	Doctor 4.6%	Doctor 4.8%	Lawyer 4.9%
Eighth	Lawyer 3.7%	Court prosecutor 4.0%	Court prosecutor 4.0%	Reporter 4.5%
Sample size	655	944	375	493

Source: Xu Xinxin (2001).

education graduates and that it will attract graduates from other regions.<sup>7</sup> As there is a national shortage of graduates, this seems implausible. Also, the statistics in Table 11-6, which gives percentages of city, town, and county populations with college education, suggest that the comparative scarcity of graduates in urban and rural labor markets is true only of the southwest, and not the northwest. Graduates are mostly seeking work in the large cities of the east. In 1997, of 64,990 students graduating from universities and higher education institutes directly under the State Education Commission, 53 percent found employment in Guangdong, Sichuan, Beijing, Shandong, Jiangsu, and Shanghai, while only 5 percent went to the remote border provinces and autonomous regions.<sup>8</sup> This pattern is only partly explained by more students graduating in the Eastern Region.

**Figure 11-3 Number of Tertiary Students and GNP in Various Asian Countries**



Source: UNESCO Statistical Yearbook (number of tertiary students); World Bank (2001b) (GNP).

**Table 11-10 Higher Education Facilities in the Western Region, 1999**

	Eastern (%)	Central (%)	Southwest (%)	Northwest (%)	PRC (%)
Comprehensive universities	45.9	31.1	9.5	13.5	100.0
Science and engineering	48.5	31.7	10.4	9.3	100.0
Agriculture and forestry	40.7	31.5	13.0	14.8	100.0
Medicine	42.4	33.1	13.6	11.0	100.0
Teacher training	34.4	32.6	20.3	12.8	100.0
Linguistics and literacy	86.7	0.0	6.7	6.7	100.0
Economics and finance	43.2	36.5	12.2	8.1	100.0
Politics and law	60.0	24.0	8.0	8.0	100.0
Physical culture	57.1	21.4	14.3	7.1	100.0
Art institutes	65.5	10.3	13.8	10.3	100.0
Minority academy	16.7	16.7	33.3	33.3	100.0
Short-term vocational training	49.7	36.0	8.1	6.2	100.0
<b>All facilities</b>	<b>45.1</b>	<b>31.5</b>	<b>13.0</b>	<b>10.5</b>	<b>100.0</b>
Full-time teachers	40.0	32.3	15.5	12.2	100.0
Student enrollment	47.6	31.1	12.2	9.1	100.0
Population	37.3	33.8	19.5	9.3	100.0

Source: Calculated from the *China Statistical Yearbook 2000*.

Since 1997 all university students have had to pay part of their tuition fees. Insufficient parent income could therefore be deterring students in the Western Region from proceeding to university. In 1998, the Government introduced a system of subsidized loans to help poor university students. However, the concept of student loans is not a familiar one in the PRC; there is a traditional mindset against debt.<sup>9</sup> The lack of a credit rating system also limits the interest of banks in the system.

As the economy matures, the demand for higher education graduates will increase. Investment in higher education also needs to redress imbalances in the Western Region. For example, over half the higher education institutions in Sichuan are in Chengdu, and over half of those in Xinjiang are in Urumqi. As the institutions in the capital cities are the larger ones, the concentrations of students in capital cities are even higher: over two-thirds of students in the case of Urumqi. This is part of a general investment bias toward provincial capitals that Chapter 15 discusses.

A high percentage of the workforce must have upper secondary and tertiary education for service

industries to develop. The gross enrollment rate for senior secondary school is only 44 percent and for the tertiary sector only 11 percent. By 2005, the upper secondary percentage will have increased to 60 percent but the college and university enrollments will be only 5 percent higher.<sup>10</sup> The latter is too low a figure if the PRC is to shift people to tertiary industries at speed. India's expenditure on education, in contrast, has been biased toward the upper end of schooling. This is now paying off by enabling India to play a leading role in the world's ICT software industry.

### Adult education

The PRC has an extensive and rapidly expanding adult education system. Most of the adult education students are in secondary schools for adults. However, the level of provision varies (Table 11-11).

With the improvement in literacy levels, the number of adult literacy students (i.e., attending primary schools for adults) has fallen. In 1992, the Government set a target of eliminating adult illiteracy by 2000. However, there are still a great many illiterate adults in the Western Region (Table 11-6).

**Table 11-11 Basic Statistics on Enrollment in Adult Education**

Level	No. of Students per Thousand Aged 15 to 64, 1999					Total New Students (PRC) (thousands)	
	PRC	Gansu	Sichuan	Xinjiang	Yunnan	1993	1997
Primary schools for adults <sup>a</sup>	<b>6.27</b>	22.24	9.29	4.89	1.17	7,371	5,581
Secondary schools for adults	<b>108.87</b>	114.03	0.57	85.21	0.60	51,521	90,288
<i>radio/TV universities</i>	<b>1.18</b>	0.83	n.a.				
Adult education schools	<b>1.40</b>	0.99	0.62	2.89	0.21	862	1,157

Source: Calculated from various statistical yearbooks.

<sup>a</sup> Mostly literacy courses.

## SKILLS OF THE LABOR FORCE

Government policy toward the Western Region assumes that one of the region's problems is a lack of "talent." Unfortunately, there is a paucity of data on skill levels in the labor force. One proxy measure is the number of "technical" personnel as a proportion of the total labor force in a particular industry (Table 11-12).

In the Western Region, the proportion of technical personnel in each industry is comparable to the rest of the PRC. However, because the percentages in Table 11-12 relate to a small total nonagricultural workforce, the pool of skilled labor is too small for a rapid growth of secondary or tertiary industry.

## VOCATIONAL TRAINING

The Labor Law of 1994 requires the Government to take steps to expand vocational training:

**Article 67** People's governments at various levels shall incorporate the development of vocational training into their plans of social and economic development, encourage and support enterprises, institutions, public organizations and

individuals, if conditions permit, to sponsor vocational training in various forms.

**Article 68** The employing unit shall establish a system of vocational training, retain and use vocational training funds in accordance with the provisions of the State, and provide laborers with vocational training in a planned way and in the light of the actual conditions of the unit.

However, enrollments in vocational training are often equivalent to only a tiny percentage of the urban workforce. Moreover, the training is of poor quality.<sup>11</sup> The impact of the traditional vocational training system on the labor market is therefore insignificant. The level of provision in the Western Region is equivalent to the low level in the country as a whole. At the county level of government, there does seem to be an awareness of the importance of vocational training, and the constraint is merely financial. However, structural adjustment and retrenchment by SOEs is changing the country's needs from training for a lifetime vocation to retraining (see "Unemployment Insurance and Assistance to Laid-Off Workers" below).

**Table 11-12 Technical Personnel in the Labor Force, 1999**

Industry	Northwest (%)	Southwest (%)	Central (%)	Eastern (%)	PRC (%)
Farming, forestry, etc.	0.7	0.2	0.2	0.2	<b>0.2</b>
Mining and quarrying	15.0	14.2	14.8	13.3	<b>14.3</b>
Manufacturing	9.3	7.6	6.2	5.4	<b>6.1</b>
Electricity, gas, water	21.6	21.0	19.9	21.7	<b>21.0</b>
Construction	5.9	3.6	3.7	4.2	<b>4.1</b>
Geological prospecting, water conservation	29.8	30.9	24.9	28.1	<b>27.6</b>
Transport, storage, post and telecommunications	5.8	5.3	3.9	5.9	<b>5.1</b>
Wholesale and retail trade	3.1	3.4	3.0	3.9	<b>3.5</b>
Banking and insurance	52.7	54.6	43.8	55.1	<b>51.3</b>
Real estate	17.9	26.5	20.0	25.3	<b>23.7</b>
Social services	4.7	5.0	4.9	8.3	<b>6.6</b>
Healthcare, sports, and social welfare	52.1	61.7	67.0	69.2	<b>65.8</b>
Education, culture, art, radio, film, and TV	68.4	69.8	69.2	73.2	<b>70.9</b>
Scientific research and polytechnic services	55.9	49.2	52.5	57.3	<b>54.8</b>
Government agencies, party agencies	6.4	8.3	7.4	7.6	<b>7.5</b>
Others	0.6	0.1	0.3	0.6	<b>0.4</b>
<b>All sectors</b>	<b>5.9</b>	<b>3.5</b>	<b>4.4</b>	<b>5.8</b>	<b>4.9</b>

Source: *China Statistical Yearbook 2000*.

Note: The term "technical personnel" is used to refer to professionals holding scientific and technical titles or taking such positions, or graduates from departments of science, engineering, agriculture, or medicine, and/or working on research, teaching, and production in the scientific and technological fields such as science, engineering, agriculture, and medicine, and professionals doing administrative work related to science and technology in government agencies, enterprises, and institutions.

## Employment

### EMPLOYMENT BY INDUSTRY

Agriculture and forestry dominate employment in the Western Region, accounting for 57.3 percent of employment in the northwest and 65.8 percent in the southwest. The varying growth rates for employment in each industry point to the changing demand for labor (Tables 11-13a and 11-13b).

Employment in the tertiary sector is small by international standards—value added in the services sector as a proportion of 1999 GDP was only 33 percent in the PRC compared with 46 percent in India and 51 percent in the Republic of Korea. However, services employment is growing strongly, while employment in manufacturing is shrinking. Across most of the region, agriculture accounts for less than 25 percent of GDP and a declining proportion of employment.

Industrial employment is concentrated in Sichuan, Shaanxi, Gansu, and Chongqing, and in the cities rather than the towns. There are two related aspects to this distribution of industrial employment in the PRC:

- Apart from industries processing raw materials to make intermediate products, most industry will locate in cities that offer a diversity of labor skills and technical services, and access to markets.
- In the PRC, agglomeration diseconomies in the largest cities (in particular, Shanghai) have not yet encouraged industry to prefer secondary cities—a legacy of the planned economy and SOE dominance.

In Shanghai, for example, the secondary sector still accounted for 44.3 percent of total employment in 1999. There are thus some possibilities for the four main industrial areas of the Western Region to expand manufacturing employment at the expense of the megacities of the Eastern Region. In a developed market economy, direct employment in manufacturing may be low yet have a strong local multiplier effect on demand for products and services.

### URBAN EMPLOYMENT, BY OWNERSHIP SECTOR

In comparison with the Eastern Region, a larger proportion of Western Region employment is in SOEs and the self-employed sector (Table 11-14).

**Table 11-13a** Industry Distribution of Employment in the Western Region, 2000—Share of Total Employment, %

Industry	Northwest	Southwest	Central	Eastern	PRC
Farming, forestry, etc.	57.0	63.6	56.8	42.9	<b>53.0</b>
Mining and quarrying	1.5	0.5	1.4	0.7	<b>0.9</b>
<b>Primary industry</b>	<b>58.5</b>	<b>64.1</b>	<b>58.1</b>	<b>43.6</b>	<b>53.9</b>
Manufacturing	8.5	6.5	10.5	19.2	<b>12.8</b>
Electricity, gas, water	0.6	0.3	0.5	0.5	<b>0.5</b>
Construction	4.9	4.6	5.2	6.8	<b>5.6</b>
<b>Secondary industry</b>	<b>14.0</b>	<b>11.4</b>	<b>16.1</b>	<b>26.5</b>	<b>18.9</b>
Transport, storage, post and telecommunications	3.6	2.1	3.2	3.8	<b>3.2</b>
Wholesale and retail trade	7.8	4.7	7.2	9.1	<b>7.4</b>
Banking and insurance	0.6	0.3	0.5	0.6	<b>0.5</b>
Real estate	0.1	0.1	0.1	0.3	<b>0.2</b>
Social services	1.6	0.8	1.2	2.0	<b>1.5</b>
Healthcare, sports, and social welfare	0.9	0.6	0.7	0.9	<b>0.8</b>
Education, culture, art, radio, film, and television	3.2	2.0	2.4	2.7	<b>2.5</b>
Scientific research and polytechnic services <sup>a</sup>	0.8	0.3	0.4	0.5	<b>0.5</b>
Government agencies, Party agencies, social organizations	2.5	1.4	1.8	1.8	<b>1.8</b>
Others	6.5	12.2	8.3	8.3	<b>9.0</b>
<b>Tertiary industry</b>	<b>27.5</b>	<b>24.5</b>	<b>25.8</b>	<b>30.0</b>	<b>27.2</b>
<b>All sectors</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Calculated from *China Statistical Yearbook 1994* and *2001*.

<sup>a</sup>Includes geological prospecting, water conservation.

**Table 11-13b Industry Distribution of Employment in the Western Region, 2000—Average Annual % Increase, 1993–2000**

Industry	Northwest	Southwest	Central	Eastern	PRC
Farming, forestry, etc.	0.1	-0.9	0.6	-0.8	<b>-0.3</b>
Mining and quarrying	6.2	-5.7	-6.1	-6.1	<b>-6.1</b>
<b>Primary industry</b>	<b>-0.1</b>	<b>-0.9</b>	<b>0.4</b>	<b>-0.9</b>	<b>-0.4</b>
Manufacturing	-3.4	-2.3	-2.3	-1.3	<b>-1.8</b>
Electricity, gas, water	3.6	3.7	2.8	2.5	<b>2.9</b>
Construction	1.4	4.3	3.3	1.0	<b>2.2</b>
<b>Secondary industry</b>	<b>-1.7</b>	<b>0.1</b>	<b>-0.6</b>	<b>-0.7</b>	<b>-0.6</b>
Transport, storage, post and telecommunications	3.6	3.9	4.1	2.4	<b>3.2</b>
Wholesale and retail trade	9.2	8.0	7.5	8.0	<b>7.9</b>
Banking and insurance	1.7	2.1	2.3	3.5	<b>2.7</b>
Real estate	10.5	10.4	4.7	6.1	<b>6.3</b>
Social services	13.3	14.5	12.4	10.7	<b>11.8</b>
Healthcare, sports, and social welfare	1.8	2.3	2.1	2.6	<b>2.3</b>
Education, culture, art, radio, film, and television	4.0	3.6	4.4	3.5	<b>3.8</b>
Scientific research and polytechnic services <sup>a</sup>	-1.4	-0.6	-0.8	-1.4	<b>-1.1</b>
Government agencies, Party agencies, social organizations	1.8	0.9	1.2	0.6	<b>1.0</b>
Others	7.0	10.5	5.7	3.5	<b>6.1</b>
<b>Tertiary industry</b>	<b>5.8</b>	<b>7.5</b>	<b>5.4</b>	<b>4.6</b>	<b>5.5</b>
<b>All sectors</b>	<b>1.0</b>	<b>0.8</b>	<b>1.3</b>	<b>0.6</b>	<b>0.9</b>

Source: Calculated from *China Statistical Yearbook 1994 and 2001*.

<sup>a</sup> Includes geological prospecting, water conservation.

**Table 11-14 Urban Employment, by Ownership Sector**

Region	SOEs (%)	COEs (%)	Other Ownership Units <sup>a</sup> (%)	Private (%)	Individuals <sup>b</sup> (%)	Total (%)
<b>Eastern</b>	50.5	11.7	16.3	8.5	13.0	100.0
<b>Central</b>	56.1	11.5	8.5	5.0	19.0	100.0
<b>Western</b>						
Southwest	60.9	10.0	9.0	6.0	14.1	100.0
Northwest	63.2	7.6	6.8	5.8	16.6	100.0
<b>PRC</b>	<b>55.0</b>	<b>11.0</b>	<b>11.8</b>	<b>6.7</b>	<b>15.5</b>	<b>100.0</b>

Source: Calculated from the *China Labor Statistical Yearbook 2000*.

<sup>a</sup> Includes shareholding units, jointly owned units, limited-liability corporations, and shareholding corporations.

<sup>b</sup> Actually includes enterprises of eight persons or less.

The large proportion still working for SOEs suggests that the progress of SOE reform has been rather slower in the Western Region, as has the development of a market-oriented labor market. In 1997, the CCP's Fifteenth Congress endorsed the corporatization of SOEs, that is, their conversion into legal entities responsible for their profits and losses. This is likely to greatly speed up the development of

the labor market. However, the larger proportion of employment in SOEs in the Western Region implies slower growth in employment opportunities, and hidden unemployment.

### RURAL EMPLOYMENT, BY SECTOR

The rural labor force is mostly engaged in agriculture and simple manufacturing (Table 11-15).

**Table 11-15 Rural Labor Force, by Sector, 1999**

Region	Farming, Forestry, etc. (%)	Industry (%)	Construction (%)	Transportation and Storage (%)	Wholesale, Retail and Catering Trades (%)	Other Nonagricultural Trades (%)	Total (%)
<b>Eastern</b>	57.7	15.3	7.6	3.4	4.8	11.1	100.0
<b>Central</b>	73.8	6.5	4.9	2.2	3.1	9.5	100.0
<b>Western</b>							
Southwest	77.2	3.7	3.9	1.4	2.2	11.6	100.0
Northwest	79.1	3.7	4.2	2.3	2.7	8.1	100.0
<b>PRC</b>	<b>69.5</b>	<b>8.6</b>	<b>5.5</b>	<b>2.4</b>	<b>3.5</b>	<b>10.5</b>	<b>100.0</b>

Source: Calculated from the *China Statistical Yearbook 2000*.

**Table 11-16 Rural Employment in the Western Region, by Type of Enterprise, 1999**

Region	Agricultural Labor (%)	TVEs (%)	Private Enterprises (%)	Self-employed (%)	Total (%)
<b>Eastern</b>	47.6	37.4	4.0	11.1	100.0
<b>Central</b>	65.5	25.3	1.1	8.2	100.0
<b>Western</b>					
Southwest	82.4	13.1	0.6	3.9	100.0
Northwest	60.9	30.0	1.7	7.4	100.0
Excluding Inner Mongolia, Shaanxi	75.4	18.2	1.0	5.4	100.0

Source: Calculated from the *China Statistical Yearbook 2000*.

In contrast to the Eastern Region, there is little nonagricultural employment in rural areas. Excluding Inner Mongolia and Shaanxi, the proportion of rural employment in TVEs is less than half that in the Eastern Region (Table 11-16).

There are several reasons for the comparative absence of TVEs in the Western Region:<sup>12</sup>

- Higher agricultural productivity in the Eastern Region has enabled rural communities to apply surpluses of product, capital, and labor to the establishment of nonfarm economic activities.
- Rural communities in the Eastern Region are close to cities that provide technologies, expertise, and markets.
- The townships and villages owning TVEs naturally do not consider investing in factories in other areas unless and until they have fully utilized local labor resources.
- The ABC and the credit cooperatives balance loans and deposits within their branch areas, and a branch in township A cannot take deposits from or lend money to people in township B, thus restricting the development of interregional capital markets.

Local governments will be less eager to control enterprises in a competitive market environment.<sup>13</sup> While rising labor costs in the Eastern Region may create opportunities for labor-intensive industries in the Western Region, the next few years are likely to reveal TVEs as a transitory phenomenon. Many will gradually metamorphose into various forms of private SMEs.

## The labor market

An efficient labor market is essential to the development of the Western Region, that is, it will promote effective and efficient allocation of labor resources to their most productive use.

### EARNINGS IN THE URBAN SECTOR

Earnings differentials between regions are an indicator of the likely directions of labor migration. Earnings in the urban sector of the economy are much lower than in the Eastern Region, but higher than those in the Central Region (Table 11-17).

These aggregate figures hide much bigger differentials between individual cities in the Western Region and those in the Eastern Region (Table 11-18).

Average wages for higher education graduates are also much higher than for those with only secondary education. These differentials are indicative of a need to continue increasing the supply of higher education graduates (Table 11-19).

While expanding higher education may restrain the escalation in wages for graduates, education-linked income differentials are increasingly common in all sectors.<sup>14</sup> Reforms have strengthened profit incentives and the enterprises' discretion over wage and employment determination in the PRC's state sector.<sup>15</sup> Corporatized enterprises obtain various rights to operate firms including output, hiring, wage, and asset management.

It is evident that there has been considerable penetration of market forces into SOE operations:<sup>16</sup>

**Table 11-17 Average Earnings, by Ownership of Enterprise, 1999**

Region	All Industries			Manufacturing		
	SOEs	Urban COEs	Other Ownership	SOEs	Urban COEs	Other Ownership
<b>Eastern</b>	10,190	6,552	11,632	8,795	6,061	11,032
<b>Central</b>	7,011	4,629	7,148	6,319	4,319	7,113
<b>Western</b>						
Southwest	7,438	5,201	7,621	7,214	5,212	7,633
Northwest	7,394	5,096	7,146	6,537	4,774	7,176
<b>PRC</b>	<b>8,443</b>	<b>5,758</b>	<b>10,142</b>	<b>7,578</b>	<b>5,326</b>	<b>9,592</b>

Source: *China Labor Statistical Yearbook 2000*.

- Insecurity has risen with the effective abolition of employee tenure.
- Employee turnover has risen, especially among young workers with high levels of education.
- Earnings are increasingly linked to group (if not individual effort).
- Reforms have progressively reduced employee benefits, simplifying employment relations to the exchange of labor services for money wages.

These changes pose considerable challenges for the Western Region, which has few higher education graduates in the total (even less so, the urban) population and a high proportion of urban employment in SOEs.

### EARNINGS IN THE RURAL SECTOR

Average rural per capita incomes were 38 percent of average urban per capita incomes in 1999 compared with 45 percent in 1990 (Figure 5-4). Urban incomes have been improving faster than rural incomes. Moreover, the differential between urban and rural is wider in the Western Region. In the southwest, rural incomes are only 27 percent of those in the Eastern Region (Table 11-20), but average incomes in urban SOEs are 72.5 percent of those in the Eastern Region (Table 11-17).

Measures to increase rural earnings from agriculture necessarily involve improving output and productivity (Chapter 4). This in turn implies a large surplus rural population seeking jobs in the urban sector because the prospects for SMEs in rural areas of the Western Region are generally not very bright ("Rural Employment, by Sector" above).

### EARNINGS OF MIGRANT LABOR

Remittances from migrant labor are less than 10 percent of rural incomes in the Western Region (Table 11-20). However, surveys of poverty counties show that migrant labor has the capacity to remit about a third of their gross earnings, even if the earnings are quite low. As urban populations swell and rural ones shrink, labor remittances are likely to become a larger source of rural incomes (Table 11-21).

**Table 11-18 Employee Wage Levels in Western and Eastern Region Cities, 1998–1999**

City	1998 (yuan)	1999 (yuan)	Region	1999/1998 (% increase)
Xining	5,563	5,589	Western	0.5
Xi'an	5,993	6,236	Western	4.1
Huhehaote	5,667	6,455	Western	13.9
Guiyang	6,555	7,001	Western	6.8
Nanning	7,187	7,533	Western	4.8
Chengdu	7,453	7,747	Western	3.9
Chongqing	7,873	7,885	Western	0.2
Yingchuan	7,510	8,281	Western	10.3
Shijiazhuang	7,994	8,645	Eastern	8.1
Shenyang	8,299	8,689	Eastern	4.7
Haikou	9,291	9,224	Eastern	-0.7
Nanjing	10,375	10,987	Eastern	5.9
Qingdao	10,436	11,869	Eastern	13.7
Hangzhou	11,644	12,351	Eastern	6.1
Ningbo	12,340	12,839	Eastern	4.0
Tianjin	12,794	12,946	Eastern	1.2
Dalian	13,240	14,067	Eastern	6.2
Beijing	14,445	15,541	Eastern	7.6
Xiamen	16,588	17,215	Eastern	3.8
Guangzhou	17,482	18,449	Eastern	5.5
Shanghai	17,812	19,201	Eastern	7.8
Shenzhen	23,735	25,527	Eastern	7.6

Source: *China Labor Statistical Yearbook 2000*.

**Table 11-19 Employee Wage Levels in 30 Cities, by Level of Education, 1998–1999**

Level of Education	1998 (yuan)	1999 (yuan)	1999/1998 (%)
Doctor and above	15,671	19,563	24.1
Master	22,547	29,736	31.9
Bachelor	14,610	17,123	17.2
College	11,702	13,676	16.9
Senior secondary school	9,676	10,916	12.8
Junior secondary and below	8,593	9,554	11.2

Source: *China Labor Statistical Yearbook 2000*.

**Table 11-20 Per Capita Net Income of Rural Households, by Source and Region, 1999**

Region	Household				Total (yuan)
	Remuneration (yuan)	Business (yuan)	Transfer (yuan)	Property (yuan)	
<b>Eastern</b>	1,219	1,741	150	60	3,171
<b>Central</b>	508	1,433	75	19	2,034
<b>Western'</b>					
Southwest	394	1,204	104	16	1,718
Northwest	328	1,137	60	18	1,544
<b>PRC</b>	<b>710</b>	<b>1,460</b>	<b>106</b>	<b>32</b>	<b>2,309</b>

Source: Calculated from the *China Labor Statistical Yearbook 2000*.

**Table 11-21 Income and Expenditure of Labor Working Outside Home County, 1999**

Item	Southwest				Northwest			
	Sichuan (yuan/person)	Guizhou (yuan/person)	Yunnan (yuan/person)	Guangxi (yuan/person)	Ningxia (yuan/person)	Shaanxi (yuan/person)	Gansu (yuan/person)	Inner Mongolia (yuan/person)
Gross income	4,112	3,617	3,821	3,331	2,109	3,298	2,886	3,284
Living expenses	1,720	1,614	1,902	1,773	605	1,470	1,129	1,472
Gift to others	270	540	325	318	200	161	80	37
Remittance	1,819	1,397	1,022	1,409	1,566	1,707	1,643	1,667

Source: National Bureau of Statistics and Leading Group for Poverty Reduction (2000).

**Table 11-22 Method of Finding Job Outside Own Poverty County, 1999**

Item	Southwest				Northwest			
	Sichuan (%)	Guizhou (%)	Yunnan (%)	Guangxi (%)	Ningxia (%)	Shaanxi (%)	Gansu (%)	Inner Mongolia (%)
Friends/Relatives	56.5	52.7	33.3	33.1	38.9	46.8	23.3	37.0
Self	42.9	44.6	61.5	64.4	61.1	50.6	69.8	51.9
Employer	0.6	2.7	5.1	1.3		2.6	3.1	5.6
Labor bureau				0.6			2.3	1.9
Others				0.6			1.6	3.7
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: National Bureau of Statistics and Leading Group for Poverty Reduction (2000).

### JOB SEARCH BY RURAL MIGRANTS

Another indicator that rural-urban migration is in its early stages is that most migrants found their jobs without assistance (Table 11-22).

Normally in developing countries, migrants are highly dependent on friends and relatives for finding jobs. Large-scale migration to the cities is a recent phenomenon, and there are few well-developed social networks among migrants;<sup>17</sup> most migrants can get little assistance with finding a job. The apparatus of local government does not recognize the migrant as having rights and entitlements. As with women and minorities, there is a need for affirmative action to help migrants.

### URBAN UNEMPLOYMENT

Unemployment in urban centers comprises three main categories: the registered unemployed, laid-off workers, and rural migrants not eligible for the first two categories.

#### Registered unemployed

The registered unemployed are about 3 percent of the workforce. A summary of official data on urban unemployment appears in Table 11-23. These figures suggest that rural-to-urban migration is adding 1.77 million workers a year to the urban labor force. This excludes the floating population, but nevertheless also points to the scale and effects of labor mobility.

**Table 11-23 Official Urban Unemployment and New Entrants to Labor Force, 1999**

Category	PRC Total (million)	Geographical Distribution				PRC (%)
		Eastern (%)	Central (%)	Southwest (%)	Northwest (%)	
Unemployed at the end of 1998	5.21	41.3	33.0	16.5	9.2	100.0
Graduates from universities, secondary technical schools, and vocational schools	2.42	44.1	32.7	14.7	8.4	100.0
Demobilized and transferred military personnel	0.43	35.3	40.7	13.1	10.9	100.0
School leavers not proceeding to higher education	3.24	35.5	37.0	15.6	11.9	100.0
Labor force from rural to urban	1.77	52.4	24.7	10.9	12.0	100.0
Lost job during year	1.82	53.5	25.7	12.0	8.7	100.0
Others	0.37	40.6	25.9	11.7	21.9	100.0
Total seeking urban employment during year	15.25	42.2	33.4	13.8	10.7	100.0
Total labor force at end of 1999 <sup>a</sup>	163.5	44.0	34.6	11.7	9.8	100.0
Unemployment rate at end of 1999 <sup>b</sup>	3.0%		2.8%	3.0%	3.5%	3.0%

Source: Calculated from *China Labor Statistical Yearbook 2000*.

<sup>a</sup> These numbers are not consistent with urban employment statistics in the *China Statistical Yearbook 2000* or, therefore, with other statistics on urban employment in this report.

<sup>b</sup> Calculated by consultants: Urban unemployed ÷ [urban employed + urban unemployed].

### Laid-off workers

Laid-off workers, a second category of unemployment, account for an additional 5.5 percent of the workforce. They are mainly employees of SOEs, but also include employees of other enterprises. Laid-off workers may join Reemployment Service Centers for up to three years, after which they must register as unemployed (unless their employer reemploys them, which is quite frequently the case).

### Migrant workers

A third category of unemployment is migrant workers who lose their job and are not entitled to the benefits of "laid-off" or registered unemployed people. Workers from rural areas who lose their jobs in urban enterprises receive assistance under very restricted circumstances, and do not otherwise appear in the statistics for laid-off or unemployed persons. If an enterprise has paid insurance contributions for a year, the migrant is entitled to receive cost-of-living assistance. Rural migrants are not allowed to pay individual contributions; this has the effect of limiting the period for which they can draw benefits if they lose their job. Workers without urban residence permits (*hukou*) are not entitled to any assistance unless their employer has paid insurance fund contributions for a year. There are no statistics for migrant workers who choose to stay in urban centers after losing their job but who are not receiving unemployment benefit. However, it is

unreasonable to assume that the total urban unemployment (registered plus laid-off plus nonreturn migrants) exceeds 10 percent.

### Prospects for unemployment in the Western Region

The PRC's entry into the WTO will add structural unemployment to the prospective unemployment from the laid-off workers of SOEs, COEs, and other Government enterprises. Employment in capital-intensive industries in which the PRC lacks comparative advantage will contract. New jobs in labor-intensive industries are likely to more than offset this structural unemployment. However, the new jobs are likely to be mostly in the southeast, where export industries and FDI are concentrated. The coastal provinces will also find it cheaper to import many agricultural commodities than to buy domestic produce. Thus the prospects for an expansion of employment in the Western Region are poor.

### UNEMPLOYMENT INSURANCE AND ASSISTANCE TO LAID-OFF WORKERS

#### Coverage

The Government plans to expand the coverage of unemployment insurance,<sup>18</sup> which at the end of 1999 was about 63 percent of the total urban employment. The coverage is lowest in the Western Region, 60 percent, compared with 66 percent in the Eastern Region (Table 11-24).

**Table 11-24 Unemployment Insurance Cover, by Region, 1999**

Region	Urban Residents Employed (millions)	Insured Employees, as Proportion of Urban Residents Employed <sup>a</sup>			
		All Enterprises (%)	SOEs (%)	Urban COEs (%)	Other Enterprises (%)
<b>Eastern</b>	68.9	66	76	104	42
<b>Central</b>	51.0	61	74	74	36
<b>Western</b>					
Southwest	20.0	60	62	68	52
Northwest	15.9	59	68	56	41
<b>PRC</b>	<b>156.0</b>	<b>63</b>	<b>72</b>	<b>86</b>	<b>41</b>

Source: *China Labour and Social Security Yearbook 2000*.

Note: Because the provincial figures for urban residents employed do not add up to the national figure, they have been adjusted pro rata such that they are consistent with the national total.

<sup>a</sup> As some rural residents work for urban enterprises, it is possible for the number of insured employees to exceed the number of urban resident employees.

In 2000 there was a 6 percent increase in coverage, with the biggest percentage increase in the “other enterprises” category.<sup>19</sup> The insured employees include some rural residents working for urban enterprises. Apart from this, unemployment insurance does not extend to rural residents.

### Unemployment insurance funds

Each city government has an unemployment insurance fund. The Unemployment Insurance Rules of 1998 specify a combination of individual contributions (1 percent of wages) and employer contributions (2 percent of wages). The Rules do not permit individual contributions by rural residents. In total, the funds are generating surpluses (Table 11-25), but the funds of some cities are in deficit.

A combination of higher coverage rates and higher wages (see Table 11-18) means that the Eastern Region accounts for 59 percent of the PRC’s unemployment fund income even though it has only 44 percent of the country’s urban employment and 46.4 percent of employees with unemployment insurance.

### Payment of unemployment benefits

The Unemployment Insurance Rules of 1998 allow city governments considerable discretion in the administration of funds. They can fix the benefit rates, provided they comply with the requirement (Article 18 of the Unemployment Insurance Rules) that the benefit should be below the local minimum wage

and above the urban minimum cost of living. The benefit thus preserves the incentive to work.

There are wide variations in the composition of fund expenditures (Table 11-26).

The Eastern Region funds account for 63.9 percent of all fund expenditure, and moreover pay out a much higher percentage of funds in the form of unemployment benefit. By no means do the city funds constitute a national scheme under which all fund members contribute on the same basis, enjoy equal benefits, and share the risks. There is no portability.

### Reemployment Service Centers

Unemployment funds make payments both to the registered unemployed and to the laid-off in Reemployment Service Centers. While in Reemployment Service Centres, the laid-off receive a Basic Living Subsidy that is above the unemployment benefit. This entitlement lasts three years, after which the laid-off can become formally unemployed and entitled to receive unemployment benefit for up to two years. Especially in the Western Region, the Government meets the major part of the cost of the Reemployment Service Centers (Table 11-27).

### RETIREMENT

The age at which people retire affects the size of the labor force. The Government has set the retirement age at 60 for men, 55 for women in nonmanual work, and 50 for women in manual work.<sup>20</sup> The tendency for people in the Eastern Region to retire earlier than

**Table 11-25** Income and Expenditure of Unemployment Funds, by Region, 1999

Region	Employer Contributions (million yuan)	Employee Contributions (million yuan)	Interest (million yuan)	Local Government Contribution (million yuan)	Other Income (million yuan)	Total Income (million yuan)	Total Expenditure (million yuan)
<b>Eastern</b>	5,123	1,836	275	28	99	7,362	5,851
<b>Central</b>	1,671	704	181	18	159	2,733	1,891
<b>Western</b>							
Southwest	862	397	77	2	15	1,354	818
Northwest	682	273	63	21	36	1,075	602
<b>PRC</b>	<b>8,339</b>	<b>3,211</b>	<b>596</b>	<b>69</b>	<b>310</b>	<b>12,524</b>	<b>9,161</b>

Source: Calculated from the *China Labor and Social Security Yearbook 2000*.

**Table 11-26 Payment of Unemployment Benefits, by Region, 1999**

Region	Surplus at Year End (million yuan)	Total Expenditure (million yuan)	Breakdown of Provincial Fund Expenditures						Total (%)
			Unemployment Benefit (%)	Medical Expenses (%)	Training (%)	Labor Exchange Expenses (%)	Reemployment Service Centres (%)	Other (%)	
<b>Eastern</b>	7,725.2	5,851	42.4	1.9	4.6	4.3	39.2	7.6	100.0
<b>Central</b>	4,411.5	1,891	18.0	0.5	7.0	1.2	54.2	19.1	100.0
<b>Western</b>									
Southwest	2,163.7	818	28.6	2.0	4.5	0.8	48.5	15.6	100.0
Northwest	1,685.2	602	21.8	0.6	3.6	0.5	62.1	11.4	100.0
<b>PRC</b>	<b>15,985.5</b>	<b>9,161</b>	<b>34.8</b>	<b>1.5</b>	<b>5.0</b>	<b>3.1</b>	<b>44.6</b>	<b>10.9</b>	<b>100.0</b>

Source: Calculated from *China Labor and Social Security Yearbook 2000*.

**Table 11-27 Expenditure on Reemployment Service Centers and Source of Funds, 1999**

Region	Total (million yuan)	Source of Funds				Total (%)
		Enterprises (%)	Unemployment Insurance Fund (%)	Government (%)	Other (%)	
<b>Eastern</b>	6,698	37.1	19.7	37.6	5.6	100.0
<b>Central</b>	6,892	25.8	13.2	55.8	5.2	100.0
<b>Western</b>						
Southwest	2,192	26.5	12.3	58.2	2.9	100.0
Northwest	2,192	19.4	17.8	61.7	1.1	100.0
<b>PRC</b>	<b>17,974</b>	<b>29.3</b>	<b>16.1</b>	<b>50.0</b>	<b>4.6</b>	<b>100.0</b>

Source: Calculated from *China Labor Statistical Yearbook 2000*.

these ages increases the employment opportunities for the Western Region workforce, which is younger (Table 11-1).

Only a small proportion of the Western Region population is in the retirement age groups. However, in the cities the proportion of the population of retirement age is similar to that in PRC cities as a whole. In 1999, it appears that in the Eastern Region about 25 percent of special fiscal transfers were made to unemployment funds (Table 11-28).

Government subsidies accounted for about 8 percent of retirement pension payments in 1999. The funds will find it harder to replace retirees with

new members for two reasons: the retirement age population is increasing, and opportunities for gaining new members by expanding the coverage will progressively decline. The Eastern Region accounted for 50 percent of the PRC's pension payments in 1999, and there is a risk that Government subsidies could reduce the capacity of the Government to make other forms of financial transfer to the Western Region.

#### **ROLE OF LABOR EXCHANGES**

The PRC has both Government and private sector labor exchanges. The private ones are very much a

**Table 11-28 Government Subsidies to Insurance Funds, 1999**

Region	For Laid-off Workers (million yuan)	For Lowest Cost-of-living Allowance (million yuan)	For Retirement Funds (million yuan)	For Veterans, Martyrs' Families, etc (million yuan)	Total (million yuan)
<b>Eastern</b>	1,690	84	4,169	122	6,065
<b>Central</b>	3,285	148	7,507	111	11,050
<b>Western</b>					
Southwest	1,113	103	2,379	66	3,661
Northwest	1,217	65	2,259	27	3,568
<b>PRC</b>	<b>7,306</b>	<b>400</b>	<b>16,314</b>	<b>325</b>	<b>24,345</b>

Source: Calculated from *China Labor and Social Security Yearbook 2000*.

minority and their geographic distribution is uneven, with some cities having many and others almost none. The government exchanges are hopelessly understaffed and under-equipped, often lacking even computers.<sup>21</sup> However, although the official statistics ignore temporary and long-term migrants from rural areas, and migrants appear to make little use of labor exchanges (Table 11-22), the Government Labor Bureaus and exchanges do seem to be paying serious attention to the problem. For example, the following data from the Yunnan Labor Employment Service Bureau gives a picture of the floating labor<sup>22</sup> (percentages overlap):

- Organized floaters account for about 20 percent of floaters.
- Floaters visiting families or returning to previous employment accounted for 59 percent.
- Floaters getting help from family or friends accounted for 30 percent.
- Independent floaters getting jobs through employment exchanges accounted for 16 percent.
- Independent floaters getting jobs through their own initiative accounted for 12 percent;

however, they dominate out-of-province floaters. Out-of-province migrants are dominant in Yunnan, which unlike Sichuan and Guizhou suffers net income loss through migrant remittances. It seems that the less-educated population of Yunnan's rural areas have difficulty competing in the urban labor markets against better-educated migrants from other provinces.

### **LABOR STANDARDS**

The Labor Law of 1994 lays down minimum labor standards in relation to working hours, holidays, and other matters. As with so many other laws in the PRC and other developing countries, the weakness is less with the law itself than with its enforcement. Enforcing labor standards could improve labor productivity through better working conditions, and would not threaten the comparative advantage of the PRC's labor-intensive industries.<sup>23</sup>

### **LABOR DEMAND IN THE WESTERN REGION IN THE NEXT 20 YEARS**

On the basis of the macroeconomic prospects for the Western Region (Chapter 1) and the likely development of agriculture (Chapter 4), it is possible to make some tentative predictions of the future structure of labor demand in the Western Region.

#### **Implications of entry into the WTO**

The Stolper-Samuelson theorem suggests that PRC workers will benefit from trade liberalization because labor is the abundant factor in the PRC; however, some labor will lose and some will gain.<sup>24</sup> Those workers likely to lose are those in industries where the PRC does not have a comparative advantage, such as capital-intensive heavy industries and agriculture, and inefficient SOEs. One industry that will benefit is textiles, which is well established in Xinjiang, Shaanxi, and Sichuan. Import quotas under the Multi-Fiber Agreement currently restrict the PRC's textile exports, but are due to go by 2005.

#### **Agriculture and natural resources**

Most PRC analysts stress the natural resources of the Western Region when analyzing its economic development potential. However, forecasts that it could create 5–6 million jobs along with 8–10 million in desert reclamation are impossible for lack of water. Employment in both agriculture and mining is in fact likely to continue to decline as productivity in these sectors improves. Measures that this report advocates in relation to labor-intensive production, tree planting (Chapter 4), and ecological protection will, however, slow this decline.

#### **Manufacturing**

Low labor costs in the Western Region are unlikely to attract manufacturers. The Central Region is much closer to major markets and has equally low labor costs. Only in those parts of the Western Region where there are other comparative advantages, for example, plentiful water or energy, are low labor costs likely to be important. On this basis, demand for

factory labor is likely to expand fastest in the southwest, and only slowly in the northwest.

However, distance can also work to the advantage of the Western Region. SMEs could serve local markets without bearing the full brunt of competition that SMEs face in the Eastern Region. Also, parts of the Western Region have access to markets across the PRC's borders that are not as accessible to the Eastern Region or the Central Region (Chapter 14). There are, therefore, certainly opportunities for manufacturing in the Western Region, and these have a significant employment multiplier effect.

### **Tourism**

The Western Region is rich in tourism resources and the tourism industry has considerable growth potential ("Industrial Policies of Japan," in Chapter 10). Direct employment in the tourism industry amounted to only about 250,000 in 1999, or 13 percent of the total for the PRC.<sup>25</sup> However, the multiplier effect of tourism expenditure means that it contributes much more to employment than this figure indicates.

### **Trade and commerce**

Trade and commerce are already the fastest-growing sectors of the labor force (Table 11-13). With the international trade set to grow at a faster rate than GNP, and with opportunities for expanding cross-border trade in the Western Region (Chapter 14), further rapid employment growth is likely.

### **Education, health, and social services**

In the next 20 years, the education and health industries could develop very quickly in the Western Region. In 1999, they accounted for 6.1 percent of employment in the northwest and 5.0 percent in the southwest. The scale of expansion in services that is necessary could therefore absorb a significant part of the labor force.

### **INTERNATIONAL LABOR MARKET**

The PRC has a long history of international migration, dating back to the Qin dynasty.<sup>26</sup> The outflow is no

longer just from Fujian, Guangdong, and other coastal provinces but instead comes from a broad range of urban centers. Also, it now comprises better-qualified people. However, there remain major opportunities in international contract engineering and construction, fields in which the PRC will remain highly competitive for many years. The Government strongly supports overseas contracting and labor supply.<sup>27</sup> However, the Western Region's share in the PRC's \$2,623 million labor exports in 1999 was small and, apart from Sichuan, the numbers were very low (Table 11-29).

The PRC currently accounts for only about 0.3 percent of the global labor market.<sup>28</sup> Labor service exports make up only about 1.3 percent of the PRC's exports, far lower than the figures for India, Pakistan, and Bangladesh. The governments of these three countries have left the business to the private sector, limiting their own role to regulation and facilitation. This suggests that the main impediment in the PRC is the process of licensing enterprises to enter the market.

### **OBSTACLES TO MIGRATION**

There are many obstacles to migration besides finding a job. They include language (see Chapter 13), the *hukou* (household registration) system, the lack of secure and tradable land rights in rural areas, and accommodation.

#### ***Hukou system***

Most analysts have paid particular attention to the *hukou* system. Unlike population registration systems in many other countries, the purpose of the *hukou* system is not merely to provide statistics and identify personal status, but also to regulate population distribution and facilitate the application of the various tools of State social control.<sup>29</sup> In fact, under the Regulations Concerning Resident Identity Cards of 1985, the procedure for obtaining an identity card is separate from (and must follow) that for registering permanent residence.

**Table 11-29 Contract Engineering and Labor Supply, 1999**

Region	Contracts (\$ million)	Turnover (\$ million)	Workers Sent (no.)	Workers Overseas (no.)	Countries
<b>Southwest</b>					
Chongqing	45.9	38.4	1,509	3,006	Republic of Korea, Malaysia, Singapore, Indonesia, Tanzania, US
Sichuan	382.4	216.9	10,074	n.a.	
Guizhou	17.4	n.a.	277	110	Macau, Viet Nam, Cambodia, Philippines, Sri Lanka, Singapore
Yunnan	339.2	166.9	1,450	1,442	Laos, Burma, Thailand, Pakistan
Tibet	n.a.	n.a.	n.a.	n.a.	
Guangxi	22.9	45.7	639	1,006	Viet Nam, Cambodia, Bangladesh, Polynesia, Hong Kong, China
<b>Northwest</b>					
Shaanxi	80.1	86.1	1,390	n.a.	Japan, Singapore, Saudi Arabia, Sudan, Papua New Guinea
Gansu	60.3	56.9	n.a.	1,000	Zimbabwe, Côte d'Ivoire, Ghana, Guinea, Singapore
Qinghai	n.a.	n.a.	n.a.	n.a.	
Ningxia	34.0	n.a.	149	n.a.	Saudi Arabia, Rwanda, Uganda
Xinjiang	6.7	8.0	389	n.a.	Tajikistan, Kazakhstan, Saudi Arabia
Inner Mongolia	53.0	31.7	3,200	1,917	Russia, Mongolia, Japan

Source: *Almanac of China's Foreign Economic Relations and Trade 2000*.

**Box 11-1 Advice about Solving Present Problems for Residential Status, Beijing Municipal Public Security Bureau, 5 February 2001**

**1 Infant's residential status follows father's**

- 1.1 Women from other provinces who marry local residents, and whose infants were born after 22 July 1998 can request residence status according to their father's. Children can obtain this when they are five years old, according to the principle of preference for preschool children.
- 1.2 Women from other provinces who marry local residents and whose infants were born before 22 July 1998 can request residence status according to their father's, in batches. Children who are over five but not yet six can register according to their father's residence; children who are six can apply for registration when both father and mother have residential status.
- 1.3 Women from other provinces who marry local residents and violate local family planning policies cannot obtain *hukou* in Beijing.

**2 Spouse's residential status**

If a man or woman has been married for over 10 years he or she can register according to the *hukou* status of the spouse in Beijing.

**3 Old parents following children's registration status**

Males over 65 years and females over 60 years who have no children in other cities or near where they live can follow their children's *hukou* status in Beijing.

**4 Citizens who invest and run enterprises in Beijing**

If citizens invest and run enterprises in Beijing apply for Beijing *hukou*, they can settle in pilot urban areas in the outskirts of the city according to the ways of residential registration in pilot urban areas for small urban construction in Beijing outskirts.

**5 Other problems**

- 5.1 For items 1, 2, 3, and 4, the issue of Beijing *hukou* is subject to stipulated maximum numbers.
- 5.2 *Hukou* for professional or technical staff is treated separately.
- 5.3 The policies for transfer from agricultural *hukou* to nonagricultural *hukou* will be adjusted according to this advice.

The Municipal Public Security Bureau is responsible for explaining this Advice. The Advice takes effect from 1 January 2001.

Reforms have opened urban residency to rural people and relaxed to some extent the policy control of *nongzhuangfei* (changing the place of *hukou* registration and converting the *hukou* status from agricultural to nonagricultural). In particular, the Government has substantially reformed the system in small towns in a manner that will facilitate registration of residence. The Ministry of Public Security issued a notice in March 2001, *Advice for Residency Registration Management in Small Cities and Towns*, which sets out the new procedures. However, there has been little relaxation in the case of provincial capitals and the megacities of Beijing, Tianjin, and Shanghai. Local governments in these cities continue to discourage rural migrants. The Central Government and local governments seem to think that they can influence migrants to migrate to small towns instead of to the megacities. However, wage differentials will continue to attract many migrants to the megacities, and data on migrants from the Western Region do not indicate any preference for migration to nearby small cities or towns instead of more distant large cities. The increasing phenomenon of the "floating population" is a consequence of a rapidly expanding market economy in the context of controls on *nongzhuangfei*. Even after significant reductions in urban *hukou* benefits, there are still substantial benefits like subsidized housing, medical care, and education that only people with local *hukou* can enjoy. The procedures for registering residence in the megacities remain immensely complex (Box 11.1).

### Regulations on floating population

Migrants who work without *hukou* for the city in which they work are subject to local government regulations for the floating population. The Beijing Regulations for Nonresident Hukou Management, for example, include the following provisions, among many others:

- Nonresidents must obtain a residence permit from the police within three days of arrival.
- The police control the size of the floating population within the approved ceiling.
- To obtain a residence permit, nonresidents or their landlord must present the landlord's *hukou*.
- To work legally, nonresidents must first obtain a residence permit and a work permit.
- The residence permit is valid for one year and must be renewed yearly, and the prescribed fees must be paid.

Nevertheless, many migrants work in Beijing and other large cities without the proper permits.

### Orderly migration (*youxu liudong*)

Orderly migration (*youxu liudong*) is a concept without precise definition that has featured in Government planning since the early 1990s.<sup>30</sup> *Youxu liudong* encourages Labor Bureaus in both labor-importing and labor-exporting areas to develop joint plans for recruitment. Urban Labor Bureaus issue work permits to migrants for a fee. The Tenth FYP advocates *youxu liudong* in conjunction with reform of the *hukou* system.

### Land rights in rural areas

Land in rural areas is owned by peasant collectives. Individuals occupy land under 30-year contracts; they do not have any legal right to sell or otherwise transfer their contract rights. Furthermore, absence leads to the risk that the village committee will reassign the land to others; the law permits this. In cases where people move to towns, Government policy emphasizes the obligation of peasant collectives to enforce use contracts and ensure the proper cultivation of land.<sup>31</sup>

### PROBABLE SCALE AND DIRECTION OF RURAL-URBAN MIGRATION

According to Todaro's classic migration model, rural-urban migration depends on *expected* rural-urban income differentials. Under the model, migration continues until the size of the urban informal sector is large enough (and the rural population small enough) to equalize the rural wage and the expected wage in the city.<sup>32</sup> Seeborg, Jin, and Zhu have developed a version of Todaro's model to suit conditions in the PRC.<sup>33</sup> This version envisages potential migrants facing four basic outcomes:

- Employment in SOE sector
- Employment in the non-SOE contract wage sector
- Employment in the informal or urban traditional sector
- Unemployment

The conclusion is that rural migrants will mainly compete in the contract labor and informal sectors, driving down wages and increasing urban unemployment. Todaro's model implies that (i) migration will nevertheless continue in these circumstances; and (ii) without a reduction in the urban-rural earnings differential, the migration rate will increase along with the size of the informal sector.

## Implications for labor and social security policies

In the *Circular of the State Council on Policies and Measures Pertaining to the Development of the Western Region*, the Government set out policies for attracting skilled manpower and exploiting human resources in science and technology and education.<sup>34</sup> However, the Government should consider several other important measures and policy refinements. The core argument of this chapter is that only if there is continuing and expanding labor mobility is there any hope of providing full employment for the labor force of the Western Region.

### **STRENGTHENING THE MARKET MECHANISM**

The PRC has only recently accepted the principle of labor markets. It was the 14th Conference of the CCP in 1992 that put forward the concept of the labor market. In exploiting human resources, there should be a balance between what the Government does and what the market does. On the one hand, the labor market should ultimately have full play in allocating human resources effectively and efficiently. On the other hand, the intervention by governments will be essential both during the transition to a market economy and in the longer term in a regulatory capacity. In further strengthening the functioning of the labor market, the Government needs to pay particular attention to several areas including SOE recruitment (filling fewer positions by transfer), labor law, labor exchanges, employment agencies, gender equity (Chapter 12), minorities' equity (Chapter 13), and SOE corporatization. Because there has already been considerable liberalization of labor markets, these measures will not by themselves lead to the absorption of all surplus labor. However, in conjunction with measures to improve capital allocation (Chapter 1), and to facilitate growth of SMEs (Chapter 10) in the Western Region, they will be effective.

Policymakers cannot, however, treat the market for labor in exactly the same way as the market for grain. If the equilibrium price of labor drops too low, the Government may have to expand welfare programs for those with very low incomes. Similarly, the Government should do more to enforce minimum labor standards by giving unions more support in this important area. Entry into the WTO both facilitates and necessitates this.

### **REFORMING THE HOUSEHOLD REGISTRATION SYSTEM**

Distinctions associated with residential status remain important in discouraging rural-urban migration. Recent reforms have freed urban registration in towns at the prefecture level and below, but not in provincial cities.<sup>35</sup>

### **Social costs**

There is widespread concern that further relaxation of the system could lead to the large floating populations becoming a serious social problem in the cities, with increasing unemployment, criminal activities, overcrowding, and pressures on social and health services. However, the correct policy response is to adjust urban and rural taxes to reduce the urban-rural net income differential.

Insofar as there are social costs to migration, they would accrue mainly to the rich Eastern Region cities, while the Western Region would gain through higher remittances by migrant labor and higher agricultural productivity. Moreover, determining social benefits according to residential status discriminates against the Western Region. The receiving cities get the benefit of low-cost labor while the areas of origin bear the social costs (when sickness or redundancy forces migrant workers to return home). It is for the receiving cities to develop programs to support migrants and minimize social costs.

### **Economic benefits**

There are several economic benefits of a more mobile labor force. Agglomeration in the megacities will lead to diseconomies that will discourage industrial activities in these cities and encourage industrial growth in the secondary cities, including perhaps some cities in the Western Region. At present, Shanghai, for example, is still a major industrial center. Labor remittances will directly benefit the Western Region, and migration to cities in the Eastern Region will absorb some of the otherwise underemployed labor of the Western Region.

### **Social benefits**

Local regulations on *hukou* that give advantages to migrants with educational, professional, or business qualifications over migrants without these advantages threaten to exacerbate the urban-rural social divide. Rural-urban migration has the potential to greatly reduce the social and economic gaps between urban and rural populations. These gaps are

especially great between the rural populations of the Western Region and the large cities of the Eastern Region, to which many peasants already migrate.

### **Method of reform**

For the Government, probably the simplest path of reform is to separate the registration system and the systems of entitlement to social security and other benefits.<sup>36</sup> The Government should discourage the local governments of large cities from discriminating against rural migrants. In particular, the Government should take action to eliminate those discriminatory practices toward rural migrants by local governments that offend the rights of citizens under the Constitution. A long-term strategy should be to progressively eliminate the separate status of rural and urban residents under various laws.

### **REFORMING UNEMPLOYMENT INSURANCE**

The Government should remove the restriction that keeps rural migrants to cities from paying personal contributions to unemployment insurance funds. It is hard to see what purpose this restriction on the labor market serves apart from possibly forcing some rural migrants who become unemployed back to the countryside. A long-term objective should be the establishment of a national unemployment insurance scheme. The system of funds for each large city and province is very much to the disadvantage of the Western Region. A social security tax could substantially benefit the Western Region by ensuring that the system has adequate funds.

Increasing labor migration to the cities could drive down minimum (market) wages below the Basic Living Subsidy and unemployment benefit levels. There will be a need to preserve incentives to work by making appropriate adjustments in the benefit levels.

### **CONTINUING LAND REFORM IN RURAL AREAS**

Further development of the Land Administration Law could support migration to cities and surrender of landholding rights. The present system encourages absentee or part-year farming and is not consistent

with maximizing agricultural productivity. The Land Administration Law already recognizes the principle of compensation for compulsory acquisition of land use rights in rural areas, so extending the principle to cover voluntary sale of land use rights to the collective should not be difficult.

### **SUPPORTING AND MONITORING THE INFORMAL SECTOR**

The Government should change its discriminatory attitude toward the informal sector and play a supportive role.<sup>37</sup> The development of the informal sector will certainly give rise to external diseconomies such as congestion of sidewalks, traffic intersections, and refuse in the streets and drains. However, the choice will be between accepting these diseconomies and accepting higher unemployment. Monitoring provides a means of assessing which diseconomies are tolerable and which are not. The key policy initiative is to relax the procedures for business licenses and, wherever practicable, substituting a registration system for a licensing system (licensing implies approval, which provides opportunities for petty corruption).

### **EXPLOITING THE INTERNATIONAL LABOR MARKETS**

While government policies support labor working overseas, the results are far below those that South Asian countries and the Republic of Korea have achieved. The Western Region has been particularly slow in tapping the international market. With globalization, international labor markets will become more open and competitive and more opportunities will correspondingly open up for the PRC. The main actions that local governments can take are to simplify procedures and encourage and facilitate applications by businesses (irrespective of ownership) for rights to engage in overseas contracting and labor cooperation. If more businesses participate, the likelihood is that new markets, such as ICT for software professionals, will take off in the PRC as they have in India. The potential benefits are not

just the business profits and labor earnings, but include the acquisition of valuable work experience, technical expertise, and language skills.

**RAISING THE SKILL LEVEL OF THE LABOR FORCE**

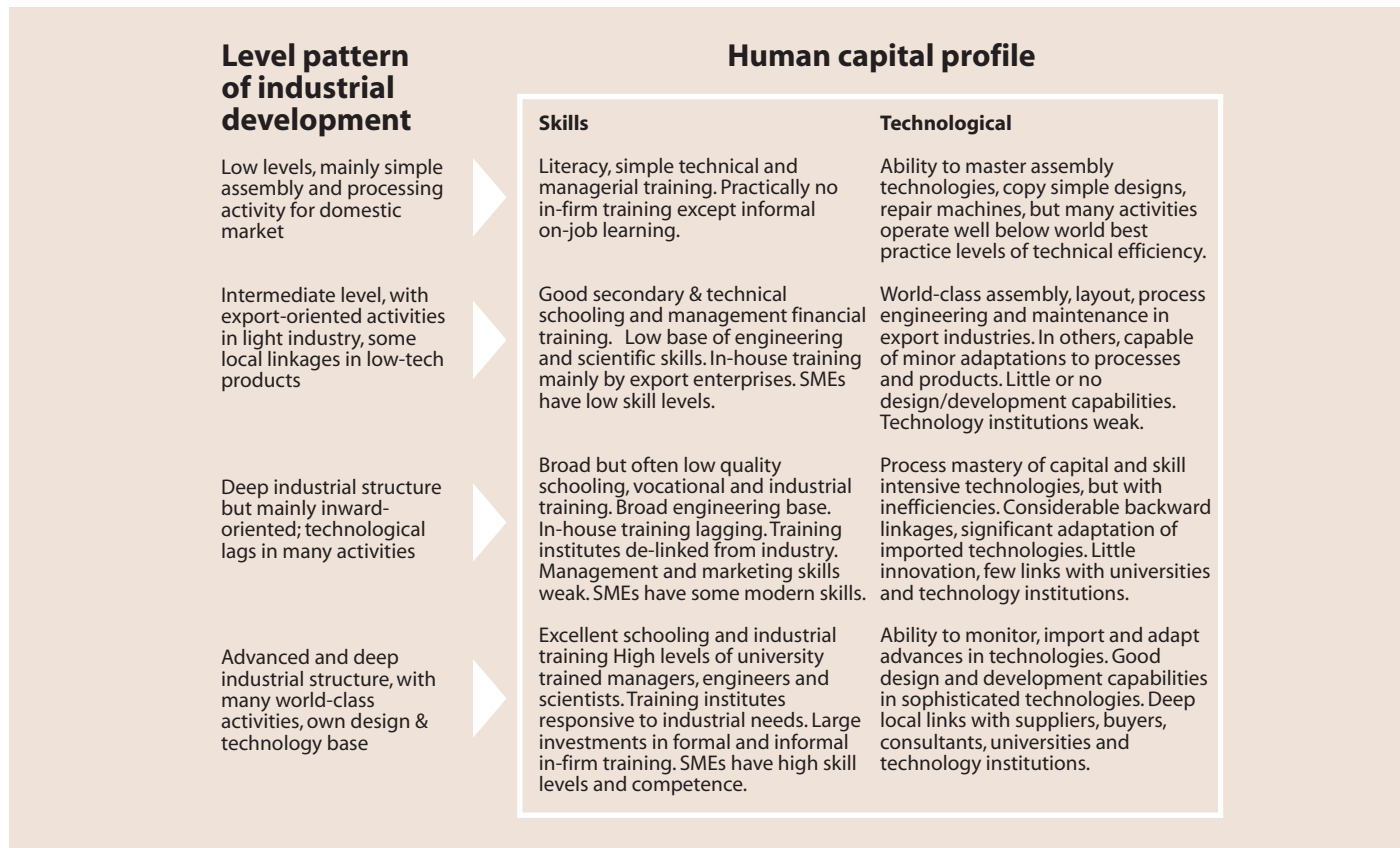
Building human resources involves two distinct processes: skill development through formal education and training and capability formation through specific technology-based experience.<sup>38</sup> The requirements of both differ according to level of development. Moreover, each level and strategy reflects and produces specific kinds of skills and capabilities (Figure 11-4).

In general, as an economy matures, the greater and more diverse its human capital needs become. The PRC's great achievements in literacy have been at the expense of higher education. The needs of the economy will increasingly demand more higher education graduates.

**STRENGTHENING THE EDUCATION SYSTEM**

The need for more higher education graduates and the persistent deficiencies in basic education and literacy in the Western Region imply that the Government should attach a higher priority to investment in education at the expense of major

**Figure 11-4 Human capital and industrial development patterns**



Source: Lall (1999).

infrastructure projects. At 2.3 percent of GNP, public expenditure on education is very low even by the standards of most developing countries.<sup>39</sup> Public education spending mainly comes from the Government's budget, and though the share of education spending in government expenditure has risen, it has fallen in proportion to GNP because of the drop in the share of fiscal revenue in GNP.<sup>40</sup>

### **Primary education**

The PRC's progress in raising primary school enrollments gives hope that universal primary school education in the Western Region is achievable within 10 years. As a means of dealing with the obstacle of parental inability to afford school costs, international best practice favors demand-side subsidies through vouchers, grants, scholarships, or stipends.<sup>41</sup> There remains much scope for the Hope Project, Spring Bud Planning, Happiness Project,<sup>42</sup> and so on.

### **Secondary education**

In the Western Region, secondary education will need early and massive investment if attendance is to reach levels prevailing in the Eastern Region. It will not be possible to reduce the economic differentials between the Western Region and the Eastern Region without this investment. The expansion of secondary education facilities will especially benefit smaller urban centers now without such facilities, and their rural catchments. It will also lay the foundations for expanding higher education. These conclusions are consistent with the Education Strategy of the Tenth Five-Year Plan,<sup>43</sup> which emphasizes improving the quality of secondary education in poverty counties.

### **Higher education**

Increasing investment in higher education may not benefit the Western Region as much as the PRC as a whole. This is because of the tendency for graduates to seek better-paid jobs in the Eastern Region or pursue further education overseas. Nevertheless, investment in higher education must increase substantially, as indeed the Education

Strategy of the Tenth Five-Year Plan envisages.<sup>44</sup> It should focus on correcting the imbalances in provision between the Western Region and the rest of the PRC, and between provincial capitals and other cities. It should be possible to partly finance the expansion of higher education by simultaneously increasing tuition fees and expanding the scope of the loan scheme for students. With more promotion, the loan scheme will increase the number of poor students entering university and reduce the regressive character of higher education expenditure.

### **Adult education**

The focus of adult education services by governments should be to give people of working age the prerequisites for participating in the labor market. These prerequisites today center on functional literacy and language skills (especially for minority groups, see Chapter 13); tomorrow, they will include a wider range of skills that secondary education normally provides. The needs are very great among the surplus rural populations of the Western Region. The urban bias of adult education means that there is a risk that governments will fail to deliver on this core responsibility. Meanwhile, many of the urban adult education services are suitable for private sector delivery.

There is great scope for distance education relying on modern communications technology, especially as many villages in the Western Region still do not have television, let alone a computer.

### **ESTABLISHING A COMPREHENSIVE AND MULTILEVEL VOCATIONAL EDUCATION SYSTEM**

The *Circular of the State Council on Policies and Measures Pertaining to the Development of the Western Region* is silent on vocational training. Instead it stresses measures to "attract and retain talent." With the increasing mobility of all sectors of the labor force, a better strategy would be to focus on vocational training. One of the main objectives should be to equip young people from rural areas to

compete for jobs in the cities, whether in the Western Region or elsewhere in the PRC.

### Case for government intervention

In the coming years, much of the rural labor force will be seeking nonagricultural jobs. Efficient intervention by the Government can accelerate the process of skill and knowledge upgrading. Planning should recognize the market failures in vocational training (Table 11-30).

### Choice of system

According to the International Labor Organization (ILO), there is no ideal training system that is applicable everywhere; various types of vocational training are in widespread use around the world. The PRC's Labor Law prescribes both a State system and an enterprise-based system. Probably, the Government will need to consider adapting the enterprise system to a more cooperative system (Table 11-31).

**Table 11-30 Market Failures in Vocational Training**

Type of Market Failure	Component of Training System			Policy Implications for Western Region
	Trainee	Education and Training System	Enterprise	
Indivisibilities		Many types of training facility not feasible in smaller urban centers	Training not feasible for SMEs	Need for specific arrangements for smaller towns and SMEs
Externalities	Only some of the benefits of training accrue to the trainee		Bias toward providing training that has no value to other firms	Need for training standards Need for incentives for trainees and providers to achieve training objectives
Information gaps	Lack of knowledge as to market value of particular skills	Lack of knowledge as to industry needs	Many SOEs are sheltered from competition and undervalue labor skills	Need for research on training needs  Need for trainee loan scheme
	May be unable to finance costs because capital markets lack information and monitoring capacity			

Source: Compiled by consultants.

**Table 11-31 Main Types of Vocational Training Systems**

System	Examples	Main features
<b>Cooperative</b>	Austria, Germany, many Latin American countries	Pressures to train from cooperation between employers' organizations, Government, and trade unions
<b>Enterprise-based</b>		
Low labor turnover	Japan	Low labor mobility, lifetime employment, absence of stock market pressures
Voluntarist	UK, US	Few institutional pressures to train
<b>State-driven</b>		
Demand-driven	Hong Kong, China, Korea, Singapore, Taiwan	State plays leading role in coordinating demand for and supply of skills, in open competitive environment.
Supply-led	Economies in transition in Asia and Africa	Government takes prime responsibility for training in institutions. Little pressure for employers to train.

Source: International Labor Organization (1998b), Table 3.2.

## ESTABLISHING FAIRNESS IN SOCIAL SECURITY

Progressive reforms in the social security system will be necessary to extend its coverage in the Western Region and make it fairer.

Social safety nets focus almost exclusively on the welfare of people with urban household registration.<sup>45</sup> This will magnify the push factor in migration to the cities, and is unfair to the Western Region with its predominantly rural population. There is therefore a need to improve workfare programs (Chapter 5).

## Notes

- 1 Zhai Zhenwu (2000).
- 2 Rawski (1999).
- 3 I Sun Changmin (2000).
- 4 Seeboorg et al. (2000), p. 39.
- 5 Wang Yongzhi (1999).
- 6 Inquiries by international team member during visit to Gansu, March 2001.
- 7 Wang Yongzhi (1999).
- 8 Such as Wang Yongzhi (1999).
- 9 Guo Xiaohong, [www.china.org.cn/english/2001](http://www.china.org.cn/english/2001), accessed 1 October 2001.
- 10 State Development Planning Commission (2001), p. 33.
- 11 Wang Yongzhi (1999).
- 12 Shujie Yao and Jirui Liu (1998), p. 735.
- 13 Rawski (1999).
- 14 Rawski (1999).
- 15 Young Lee (1999).
- 16 Rawski (1999).
- 17 Yue, Victor Yuan, and Xin Wang (2000).
- 18 Ministry of Labor and Social Security (2001a).
- 19 Ministry of Labor and Social Security (2001b).
- 20 State Council (1999).
- 21 Field inquiries in Kunming and Lanzhou by team member, March 2001.
- 22 Yunnan Employment Service Bureau (2000).
- 23 Liew (2001).
- 24 Liew (2001).
- 25 *China Tourism Statistics Yearbook 2000*. Employment in tourism comprises employment in hotels, travel agencies, coach companies, tourism administration, etc.
- 26 Ye Wenzhen (2000).
- 27 Ministry of Foreign Trade and Economic Cooperation (2001).
- 28 Yuan Shouqi (1999).
- 29 Kam Wing Chan and Li Zhang (1999).
- 30 Lei Guang (2001).
- 31 Ministry of Public Security (2001).
- 32 Todaro (1969). Todaro's model is as follows:
$$E^* = \frac{\gamma - \beta}{\gamma F(\alpha) + \gamma - \beta}$$

where:  $E^*$  is employment in the modern sector;  
 $\gamma$  is the growth rate of employment in the modern sector (the rate of industrial output growth less the rate of labor productivity growth);  
 $\beta$  is the natural rate of increase of the urban labor force;  
 $\alpha$  is the urban-rural real earnings differential.

Todaro gives the following example:

Suppose the growth rate of modern sector employment is 4 per cent ( $g = .04$ ), the natural rate of urban labor force growth is 2 per cent ( $b = .02$ ), the urban-rural real earnings differential is 100 per cent ( $a = 1.0$ ), and, for simplicity  $F(a) = a$ . Given these parameters [the] equation...says that, in equilibrium, modern sector employment would absorb only one-third of the urban labor force. Now suppose that the earnings differential between modern urban jobs and traditional agricultural work increases by an additional 20 per cent, i.e.,  $da = dF(a) = 0.20$ . ...Our model says that the rate of modern sector job creation must grow by an additional 1.9 per cent (i.e.  $dg = .019$ ) just to prevent the equilibrium employment rate from falling below its original level. Moreover, when it recalled that  $g = 1-r$  and we recognize the fact that in order to increase employment growth ( $g$ ) by 2 per cent, the growth rate of modern sector output ( $l$ ) will probably have to increase by at least an

additional 6 per cent due to the positive correlation between output expansion and productivity growth, we begin to appreciate the great difficulty of absorbing larger proportions of the urban labor force without a concentrated effort designed to prevent the further widening of urban-rural wage differentials.

33 Seeboorg et al. (2000).

34 1. *Attracting talents and making good use of them.*

Specific policies should be formulated to attract and retain talents and encourage them to set up businesses in the Western Region. Along with salary reform, hardship allowances should be provided to people working in harsh, remote, or frontier areas. The salaries for personnel of Government agencies and nongovernment institutions in the Western Region should be gradually raised to reach the national average level or even a higher level. In the implementation of key development tasks, major development projects, and important studies in the Western Region, good working and living conditions should be provided to attract and retain talents from both home and abroad. The system of permanent residence registration will be revised to allow people to retain their original residence registration when they come to the Western Region to invest, trade, or otherwise participate in Western Region development. Any person who owns a permanent residence and has a stable job or other reliable sources of income in a city at or below the prefecture level in the Western Region may apply for local urban residence permit if that person so wishes. This policy is intended to stimulate an appropriate shift of the rural surplus labor force and a reasonable flow of population between regions. The exchange of government officials between the Eastern and Western regions should be expanded. Relevant Central Government agencies as well as universities and research institutions in the Eastern Region should

provide more information services and human resource support to the Western Region. Efforts should be made to bring in more foreign experts and technologies. With assistance from the Central Government and coastal developed regions, more vigorous efforts should be made to nurture leaders and ethnic minority officials and train civil servants, professional and technical personnel, and business managers for the Western Region.

2. *Taking advantage of the leading role of science and technology.* More support will be given to the Western Region in the allocation of funds included in various science and technology plans, gradually increasing the overall amount of funding for science and technology. With the focus on the key tasks of Western Region development, the scientific and technological capacity of the Western Region should be built and enhanced, and arrangements should be made to tackle key general technical problems and to disseminate and industrialize major technological advances. The transfer of military technology to civilian use and production should be supported. Research institutions and institutions of higher learning in the region should be supported in their efforts to strengthen relevant applied research and basic research. The reform of the science and technology development system should be deepened, speeding up the transformation of applied research institutions into enterprises, consolidating cooperation between schools, enterprises, and research institutes, and integrating scientific development and economic growth. A proportion of the sales income of enterprises in the Western Region may be used for technological development and the allowed amount may be raised as necessary. Innovation funds for small and medium-sized technology-oriented enterprises should intensify their support for qualified projects in the Western Region. The registration with local bureaus of

industry and commerce should be simplified for scientists and technicians who wish to set up technology-oriented companies in the Western Region, and they should be allowed to hold an increased proportion of shares, stock options, or intellectual property equity.

3. *Increasing investment in education.* The compulsory education program should continue to be implemented throughout poverty-stricken areas in the Western Region, and the State will render more support for this program by increasing funding as part of a vigorous effort to make nine-year compulsory education available throughout the region. More support should be given to the development of institutions of higher learning in the Western Region, and universities and colleges based in the Eastern and Central regions should enroll more students from the Western Region. The counterpart aid program that matches eastern schools with schools based in poverty-stricken areas in the Western Region should be expanded along with the program that arranges for schools in large and medium-sized cities of the Western Region to assist schools in rural poverty-stricken areas. A system of distance education should be established in the Western Region. The training of rural grassroots officials and farmers should be stepped up to improve their scientific and general knowledge.

4. *Stepping up the development of culture and public health.* The Western Region should be favored in receiving state subsidies for building local cultural facilities and broadcasting facilities and preserving cultural relics. Economic policies for state-run cultural and mass media entities should be further implemented to facilitate literary and artistic production. The Connecting Every Village project should be carried out to make radio and television broadcasting available to every village so as to further expand effective radio and television coverage

in the Western Region. The culture of frontier areas and areas inhabited by ethnic minorities should be developed actively. Support should be provided for the development of culture and spiritual civilization in the Western Region. Stronger support should be given to the development of public health and family planning in the Western Region, with the focus on establishing and improving a primary healthcare system in rural areas.

35 Ministry of Public Security (2001).

36 Kam Wing Chan and Li Zhang (1999).

37 Zhang Xinghua (2000). For a recent similar argument for Indonesia, see Rice (2000).

38 Lall (1999).

39 See statistics in World Bank (2001b).

40 Wang Yongzhi (1999).

41 World Bank (2001b).

42 *Hope Project* is a welfare project established in 1989 by the China Youth Development Foundation that raises donations from society to help the backward build Hope Primary Schools, and it aids the children who are unable to go to school to continue their education.

*Spring Bud Planning* is a social welfare project of the All China Women's Federation that targets the two thirds of dropout students who are female. It raises funds from domestic and international sources to set up girl students' classes so that girls in backward areas continue their schooling.

*Happiness Project* aims at mothers in backward areas. While carrying through scientific knowledge education, reproductive health and family planning, it helps them improve the level of knowledge and health qualities, boost their social and economic status, lets them realize little breeding, eugenic breeding, fine child care, breaking through poverty into richness, building their civilized and happy little families.

43 State Development Planning Commission (2001a).

44 State Development Planning Commission (2001a).

45 Rawski (1999).

