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Abstract

Chinese economic development is accompanied by a series of problems. Under the massive background of global economic crisis, this paper concerns basic situations of the Chinese labor market in recent years and Chinese unemployment situations since reform and opening up. In China, assessment and prediction on situations of the labor market is becoming an important topic that scholars and governmental departments are concerned about. At present, although the total Chinese labor supply continues growing, the rate of increase is gradually getting lower; meanwhile, the pressure of employment tends to be relaxed. The major problem in the Chinese labor market does not lie in imbalance of the total figures, but in structural imbalances. Problems such as the emergence of a shortage of migrant workers and unemployment of college graduates (i.e. until they find employment) need urgently to be resolved. In addition, through stage analysis of Chinese employment situations, this paper introduces statistics of the unemployment rate in China in recent years, regional differences, and overall conditions such as existing problems of Chinese unemployment insurance system.

Key words: China; Labor Market; Unemployment; Unemployment Insurance System

Zusammenfassung

Chinesische wirtschaftliche Entwicklung geht einher mit einer Reihe von Problemen. Im Rahmen des massiven Hintergrunds des weltweiten wirtschaftlichen Krisen in diesem Papier betrifft Basis Situationen vom chinesischen Arbeitsmarkt in den letzten Jahren und chinesischen Arbeitslosigkeit Situationen seit Reform und Öffnung. In China, der Bewertung und Vorhersage über die Situationen der Arbeitsmarkt wird zu einem wichtigen Thema, das Wissenschaftler und regierungsstellen sind besorgt über. Gegenwärtig, obwohl die Summe der chinesischen Arbeitskräfteangebot noch wachsen, die Steigerungsrate wird immer geringer schrittweise; unterdessen, den Druck der Beschäftigung tendenziell entspannt. Problem, das in chinesischen Arbeitsmarkt liegt nicht in Unwucht der Gesamtbetrag, aber im strukturellen Ungleichgewicht. Probleme wie die Entstehung der Wanderarbeitnehmer Mangel und die Beschäftigung von Hochschulabsolventen und so weiter sind dringend zu lösen. Darüber hinaus wird durch Stufe Analyse der chinesischen Beschäftigung Situationen, in diesem Papier führt Statistiken der Arbeitslosigkeit in China in den letzten Jahren, regionale Unterschiede, und insgesamt Situationen und Probleme der chinesischen Arbeitslosenversicherung.

Schlagerwörter : China; Arbeitsmarkt; Arbeitslosigkeit ; Arbeitslosigkeit Versicherung System

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China is the most populous country in the world, and the total population keeps growing. The basic national conditions determine that successive governments always stress resolving three basic development problems as a priority: the first problem is nutrition, to provide food for 21% of the world's population and guarantee the food safety; the second problem is employment, to supply employment opportunities for 26% of the world's labor force, including various flexible employment opportunities such as formal and informal employment, fixed and temporary employment, full-time and part-time employment, etc.; the third problem is the support for the elderly, to provide a basic social guarantee for an aging population which amounts to more than one-fifth of the total population, ensuring that they can spend their remaining years comfortably and fully enjoy the fruits of economic development. How many inhabitants of Chinese cities have to find employment every year? This has been a controversial issue for many decades. Analysis shows that in 2009 the number of people who have to find employment in cities reached 25 to 26 million. In the next few years, the increase in the Chinese labor supply will slow down, annual newly increased labor will be fewer, so the pressure of employment tends to be relaxed. Rapid increase of labor demand brings about the change of basic situations on the current labor market. The coexistence of difficulties faced by college-graduates seeking employment and the migrant worker shortage show that current the Chinese employment problem is still structural. Steady growth of small and medium enterprises is the strong power behind future Chinese employment increases. In recent years, as the structural contradiction of the labor market gets sharper and sharper, assessment and prediction about the conditions of the labor market also gradually become an issue which Chinese government departments and scholars are concerned about. This text will analyze basic situations within the Chinese labor market, and discuss unemployment problems and employment policies of China on this basis.

1. Situations within the Chinese Labor Market

In recent years, as the structural contradictions of the labor market gets sharper and sharper, assessment and prediction about current situations within the labor market also gradually become an issue which governmental departments and scholars are concerned about. While studying today's situation of the labor market, one of the important matters lies in estimating both the supply and demand sides in the labor market, especially the changing trend of labor supply; and this is the key to formulate policies of promoting employment and settle the employment problem. Additionally, this is also an important reference for formulating macroeconomic policies with full employment as an ultimate goal under the conditions of low inflation.¹

Firstly we give an estimate of the total supply amount of labor that cities need to settle their employment needs, and point out that in the next few years, the total amount of supply shows a decreasing trend; the second part notes some problems existing in employment statistics, summarizes the main reason for a decrease of Chinese employment elasticity in recent years; the third part illustrates concretely the rapid growth of labor demands in recent years in China, as well as related fea-

¹ Compiled by National Bureau of Statistics: *Chinese Statistics Abstract (2009)*, Chinese Statistics Press 2009.

tures; The fourth part points out that the steady growth of small- and medium enterprises is the strong power behind Chinese future employment increases. The fifth part gives an explanation for the phenomenon of the coexistence of the difficulty of college graduates to find employment and the shortage of migrant workers stressing the urgency and importance of changing extensive operations within the Chinese economy.

Influenced by the structure of the Chinese population, the growth of its labor supply will probably decrease in the next few years, migration patterns of rural labor will be further diversified, and wages are likely to rise. Therefore, enterprises must change their operational strategy, break away from a production mode that solely relies on low labor costs, carry out technical innovation and industrial upgrading, which will be an effective way of confronting fierce future competition, and will also be the top priority to become adapted to the changes of the labor market.

1.1 Estimates on Supply of Newly Increased Urban Labor

Basic conditions and features of the labor market have to be found out before studying policies of employment promotion. In a general sense, the focus in solving employment problems lies in the cities and towns, so estimates about employment that cities and towns, need to provide annually has become a basic step when considering employment problems.

The urban populations who are looking for employment can be generally categorized into three parts: the first part is the annual newly-added labor, the second is the urban unemployed and laid-off workers who re-enter the labor market to look for jobs, the third is the rural surplus labor who transfer to cities to look for work opportunities.

1.1.1 Annual newly-added labor

Annual newly-added labor can be understood as the increment of working-age population; that is the balance of working-age population in the adjacent years. Viewed from the perspective of working-age and employment solutions, there are people who enter the labor market for the first time every year and people who withdraw from the labor market. Therefore, the annual margin of the working-age population is actually the amount of annual newly-added labor anticipated to enter the labor market per year.

There are different definitions when estimating the working-age population, two of them are used most frequently, 15~64 and 15~59. There are also those who use a standard range of 16~64; and those who calculate the male and female according to different age groups. Figure 1 shows the amount of newly-added labor estimated from several different standards. What needs to be noted is that, factors such as the annual death rate of every age group that can influence actual labor resources are not considered. However, because we are more concerned with the change of labor resources, we can assume that these influencing factors remain stable from year to year, and consequently can estimate the amount of the added population. Whichever statistics caliber we adopt, newly-added labor of Chinese were at a higher level all the years before 2006, however, increments of the working-age population have reduced significantly ever since 2007. This also means that Chi-

nese employment pressure tends to be relaxed. Synthesizing all kinds of standards of estimate, the newly-added working population was about 10 million in 2007. Influenced by factors such as age structure of the population, decrease of the labor participation rate, etc., in the next few years, the annual increment of working population is expected to decrease, although the total amount is still considerable.

1.1.2 Urban Unemployed and Laid-off Staff

Viewed after synthesizing existing research, an estimate about total amount of urban unemployed and laid-off staff that go to the labor department to look for jobs every year is about 10 million. This part is a dynamic and changing amount, because of adjustments to industrial structures and measures taken by enterprises to reduce personnel and increase efficiency, some workers may become unemployed or laid-off every year, added to those previously out of work, and these people will constitute an important part of all people who seek working opportunities in the labor market. According to the latest statistics data, the urban unemployed population is 8.47 million for 2006, and the unemployment rate is 4.1%. With these two numbers, we can calculate that people who undertake economic activities are about 206,585,400. As we all know, a big gap exists between registered unemployment rates and surveyed unemployment rates. According to the latest estimate of research, the surveyed unemployment rate of recent years is about 6.1%, the unemployment rate calculated from another algorithm is 2.7%; therefore, the estimated urban unemployed population is respectively 126,020,000 and 15,081,000. However, the surveyed unemployment rate estimated by small census statistics is about 5.2%, which means we can estimate that the urban unemployed population is about 10,742,000.²

1.1.3 Rural surplus labor transferring to Cities to Look for Working Opportunities

Ever since the reforms of 1978 and opening up, transfer of Chinese rural labor has undergone two periods of climax, one was from 1984 to 1988, with an annual average amount of labor transfer reaching 11 million, with an annual average growth rate at 23%; the other is from 1992 to 1996, with an annual average amount of labor transfer was more than 8 million, and the annual average growth rate was 8%. In the period from 1997 to 2003, the growth rate of the amount of rural transferred labor presented a trend of declining year by year. The annual average transfer amount was about 5 million, and the annual average growth rate was about 4%. According to materials from fixed observation place of the Ministry of Agriculture, the total amount of rural migrant labor is getting bigger year by year; however, the increasing amplitude tends to be stable. From 2001 to 2003, rapid economic growth brought about the increase in migrant labor, and the annual average was about 4.05 million. But since 2004, the amount of rural transfer labor presents a trend of rapid increase, from 2004 to 2006, the annual average transfer amount was about 5.58 million, and the annual increase was about 5.4%, especially in 2005 and 2006, the annual increase amount of rural migrant labor surpassed all increments during the past ten years.

² Compiled by National Bureau of Statistics: *Chinese Statistics Abstract (2009)*, Chinese Statistics

Labor supply of the above three parts actually duplicated, and it mainly occurs between annual newly-added labor and rural transfer labor. A latent assumption is that all annual newly-added labor should enter the city, constituting the supply in part of the urban labor market. However, some newly-added labor may also be a part of rural transferred labor. Suppose that the two parts do not duplicate at all, it will be compulsory to provide employment for 26 million people every year. Suppose the two parts duplicate completely, it will be compulsory to provide jobs for 21 million people, and the actual numerical value should be somewhere between these amounts.

Therefore, viewed after synthesizing various data, we can generally believe that the number of newly-added employment to be added this year is from 21 to 26 million. In the next few years, increase of Chinese labor supply tends to slow; annual newly increased labor will be fewer, so the pressure of employment tends to be eased.

Influenced by the age structure, Chinese new working-age population will decrease in the next few years. If we view the population who have reached 15 years of age as standard, the number of newly-added labor was more than 20 million in the past few years, but in the following few years, the amount is likely to fall. Research shows that the number of newly added labor was above 18 million in 2007, and the number was more than 24 million during the period from 2001 to 2005. We have noticed that the number of a younger population presents a decreasing trend, and this means that the amount of newly added labor in the next few years will decline. Considering that most 15-year-olds in the population are still within the period of studying, it will take several more years for them to form an effective labor supply. Those who enter the labor market actually have completed their academic study, and their ages have all surpassed 15 years at that time. Taking this difference into consideration, the amount of newly added labor in 2007 will probably increase to some extent, so we might estimate it as 20 million.

What should be pointed out is, on the one hand, there is newly added labor every year, but on the other, there is also some withdrawing labor. Only by considering the comprehensive result of the above two processes, can we measure the actual labor accurately.

1.2 Employment Statistics and Decline of Employment Elasticity

Since the 1990s, the Chinese economy has kept increasing rapidly, but it did not bring about a corresponding employment increase, what's more, employment elasticity even took a downward turn. There are many employment-influencing factors except for economic growth. Therefore employment increase is actually the comprehensive result of all sorts of elements, which also proves that economic growth will not necessarily bring about obvious employment growth. When large amounts of latent unemployment exist in an economy, with economic development, the latent unemployment will gradually become dominant, even though economy grows rapidly, but because of the dominance of latent unemployment, employment increase also takes on a trend of slowing down on the whole. Technical progress and change of employment structure may all lead to the improvement of produc-

tivity and cause Chinese marginal employment elasticity to decrease continuously, while technical progress has particularly led to the drastic decline of Chinese marginal employment. Consequently, employment pressure gradually increases. Viewed from labor demand, enterprises have strong demand of effective labor, but not necessarily expressed in labor demand of statistics caliber. In addition, more and more irregular employment patterns come up, besides, migrant workers who enter the city and replace original urban employment opportunity are not contained in statistics caliber, thus it is difficult to reflect actual trend of employment increase merely from statistics data, consequently, employment elasticity declined. In another words, because of the transfer of rural labor into cities and towns, intensified laying off of staff and the existence of large quantities of latent employment, there are chances that employment elasticity has been underestimated.

For the present, there are some researches⁶ about the declining tendency of Chinese employment elasticity. First, because statistics data has only contained the employment increase of regular employment, not having considered irregular employment, it is understandable that economic growth has not produced a corresponding increase of employment. Secondly, because in recent years, Chinese enterprises have been in a transitional period of adjusting personnel and improving competitiveness, large quantities of spare or idle people are deprived of enterprises, which has caused rapid growth of non-employment or slow increase of employment.

Taking these two major elements into account, we may believe that the idea of motivating employment increase purely by improving the economic growth rate is considered inappropriate for the time being. It is true that there will be no employment growth without economic growth, but economic growth will not necessarily bring about a corresponding employment increase, which has been a normal phenomenon emerging in the Chinese economy in recent years. According to the estimate of some scholars⁷, the irregular employment scope in China in 2002 has reached 120 million, 136 million in 2004; and the average increase in recent years has been 8 million per year. What is noteworthy however, is with the rapid development of the Chinese economy, as the result of the attention of governmental sectors and society on irregular employment, particularly with the daily improvement of social security system, irregular employment tends to be transformed into regular employment, the increase of future irregular employment may decline based on this consideration.

1.3 Rapid Growth of the Labor Demand

For a long time, Chinese economic structure has been the typical dual economy. The supply of labor appears to be infinite. With the rapid growth of the Chinese economy, the labor demand is also increasing

⁶ Xiangya Li and Guo Jiqiang : “Analysis of rapid decline in Chinese employment elasticity”, Jing Ji Ti Zhi Gai Ge Issue 05(2003) in Chinese

⁷ Cai Fang: Reports on China’s population and labor , Social Siences Documentation Press (China), Issue02 (2005)

rapidly. When the demand growth far exceeds the growth of supply and this pattern continues for some time, it is possible to fundamentally change the ratio of suppliers and demanders in the labor market. Under the pretext that demand continues to grow rapidly, supply of labor might be insufficient or structural insufficiencies might arise. The most typical phenomenon is the appearance of migrant labor.

According to the statistics data of three industrial employment situations in 2005 and 2006, the total quantity of new employment of the secondary and tertiary industries in the past two years was 19,240,000 and 19,840,000 respectively. , Viewed from the perspective of cities and villages across the country, especially in the latter area in 2004, the total quantity of new employment of the secondary industry and tertiary industry was 20,450,000. If merely viewed from the perspective of new employment in cities and towns, according to the statistics of the labor and social security sector, the quantity of newly-increased employment in 2006 was 11,840,000. If the yearly 8 million irregular employment quantity in the past two years is added to the 11,840,000., it can be seen that the labor supply and demand is basically even, in accordance with the lower limit of new labor supply that was estimated previously. But in the event of calculating by the upper limit of new labor according to the previous estimation, oversupply will come up. The surplus labor is about 5 to 6 million.

In fact the rapid increase in the labor demand has resulted in the appearance of “Migrant Labor Shortage”. This demonstrates that the increase of enterprise labor use is extremely rapid. What the enterprises are worried about is the failure to recruit new workers, even ordinary workers. The appearance of a “Migrant Workers Shortage” occurs at the coastal areas in the form of a “Technical Workers’ Shortage”, which later spreads into the “Ordinary Workers’ Shortage” within the national scope, that is to say, at least on the layer of migrant labor, a short supply exists instead of oversupply.

The investigative data of spring labor use and social security sector demonstrate that, from 2003 to 2006, no matter whether in coastal areas or in inland cities, the demand of enterprise labor use had all increased quickly, till 2006, the demand increase rate was more than twice that of 2003, and the yearly growth rate rose from 7.26% to 17.56%. What should be stressed is that since 2004, the labor demand rate of enterprises in the inland cities had increased greatly compared with before and has been quite close to that of the coastal cities. The rapid growth of the labor demand of inland urban enterprises is a reflection of the quick growth of the labor demand in central and western regions.

Viewed from the enterprise labor demand, with the appearance of the migrant labor shortage, the enterprise demand for the recruits has to be adjusted accordingly. It is mainly expressed by the gradual decline of the request in the level of education.

1.3.1 Education -level Demand Tends to be Weakened

The investigative data shows that where the request that the education level of the staff is to be above

senior high school level declined rapidly in 2004, and increased again in 2006. However, the demand for the labor with junior high school or no education tended to grow. To a large degree, this reflects the powerlessness of enterprises to bring about changes to the labor market. Under the precondition that the staff with relatively higher **education-levels** cannot be recruited, it is only to further lower the demand for educational level even not to make any request for a higher level of education of the recruited staff. The most direct demonstration of this point is that the proportion of staff with no educational demand is increasing yearly. What is worth noticing is that the demand for a higher level of education of coastal cities for recruits is generally lower than that of inland cities. In 2003, the proportion of enterprises that requested that the cultural degree of the staff should be above senior high school was 29.35% in coastal cities, but 35.65% of the same standard in inland cities, in 2004. The situations changed in 2006, and the proportion of enterprises that requested that the cultural degree of the staff should be above senior high school was higher than that of inland cities.

The rapid decrease of the proportion of enterprises that request the cultural degree to be above senior high school in inland cities demonstrates that inland cities are confronted with the same labor shortage problems as coastal cities. Whereas viewed from the information that the proportion of enterprises in inland cities that demand no cultural degree on the recruits is far below that of coastal cities, the difficulty degree of recruitment in inland cities is lower than that of coastal cities. In 2007, 87.7% of positions requested the staff to have a junior high school education or above, among which 23.8% of positions requested the level of recruits at senior high school level and above, while 53.9% of positions requested only the level of junior high school. Compared with 2006, the proportion of positions that demanded a senior high school education or above decreased by 4.7 percent, and the proportion of jobs requiring no special level of education increased by 5.2 percent.

1.3.2 Standard of Technical Demand Decreases

Similar to the demand for change to the education-level requested by enterprises to the recruits and under the pressure of the situations of recruitment difficulty, the technical demand of enterprises is decreasing year by year. Generally speaking, among the request of all enterprises for increased labor, the proportion of no technical requirements for the recruits had already risen from 41.35% in 2003 up to 46.5%. firstly the education level of workers are divided as junior worker , middle-level worker and the advanced worker respectively which are identified by the examinations set by the Personnel Department of the Chinese Government. In 2006. On the contrary, the proportion of the technical demand above the middle rank had decreased from 16.7% in 2003 to 11.66%. If viewed respectively from coastal cities and inland cities, the contrast is more obvious. In inland cities, the proportion of enterprises which request that the technical rank of workers was to be above intermediate for all labor, the demand had decreased

rapidly from 39.27% in 2003 to 10.49% in 2006. The proportion of enterprises in coastal cities that requested the staff to be above the intermediate level (technical state examination) tended to decrease gradually year by year, but the amplitude of decrease was much smaller, decreasing from 15.27% in 2003 to 11.75% in 2006. Similar to the tendency for the level of education required by enterprises for the staff between coastal cities and inland cities, the technical demand on the staff in inland cities is generally higher than that in coastal cities. When comparing coastal cities with inland cities, it can be seen that the labor is more deficient in coastal cities than in inland cities, in other words, it is more difficult to recruit the needed staff in coastal cities.

The data shows, generally speaking, the request for the intermediate workers or the above in different cities takes on a trend that is decreasing by the year, whereas the demand for the recruits with no technical rank is increasing steadily. Also in coastal cities, we have emphasized that a difference exists between different regions, comparatively speaking, the proportion of no technical demand in the Yangtze River Delta is the lowest, reflecting that the phenomenon of labor shortage is not so severe. However, the phenomenon of a rather serious labor shortage appears in both Jing-Jin-Tang and the Pearl River Delta.

Viewed from different lines respectively, the situations are very similar. The rapid development of the construction industry gives rise to a rapid increase of the labor demand in this industry. Confronted with a limited labor supply, the demand of technical rank for the recruits has to be lowered. In 2004, the recruitment proportion of no demand for any technical rank is 18.1%; in 2006, it had risen expeditiously to 45.31%. Similarly, the recruitment proportion of no demand of technical rank in the mechanical manufacturing industry had risen from 21.91% of 2004 to 50.46% of 2006 rapidly. The tendency for the demand of a technical rank for the recruits in other industries also decreases to one degree or another.

The investigative data of enterprise labor use in 2007 demonstrates that 37.3 % of positions needed to reach the level above the junior worker. Among which, 9.2% of positions need to reach a professional qualification above the intermediate worker, 28.1% of positions request the junior workers. Compared with 2006, the proportion of no technical qualification demand on the recruits had risen by 15.3 percentage points and the proportion to request junior workers, intermediate workers or above had lowered by 13.1 and 2.2 percent, respectively.

1.3.3 Proficiency Demand Gradually Loosens

Similarly, with the relative lack of labor supply, enterprises loosen the proficiency demand for the recruits. All branches have to gradually loosen the demand of skilled workers, because of the failure to hire enough employees with a satisfactory proficiency level.

It is not difficult to see that the wish of enterprises for new members of staff to fill is very urgent. To some degree, it illustrates the productive expansion, requiring more people to accomplish the production.

However, faced with a relatively insufficient labor supply, the enterprise has only to lower the demand, even to make no demand, meanwhile, under the improved level of treatment it could be possible to absorb sufficient labor. Enterprises in the eastern seaboard have been challenged seriously by the Midwest enterprises. If the labor wages in the eastern areas remain unimproved, then the flow pattern of labor might be changed, that is, the eastern areas are no longer attractive for rural labor, they might be inclined to move to the Midwest areas to look for more suitable employment opportunities.

1.4 Growing Environments of Medium and Small Enterprises are to be Improved

With regard to the aspect of policy, in case of intending to enlarge the employment capacity, it is necessary to pay more attention to medium and small enterprises, particularly concerning growth in this sector, as they have the potential to provide a positive momentum to the increase in the demand for future employment. A fundamental fact is that with the same amount of capital, the employment amount that medium and small enterprises can absorb is in fact, far above that of the large enterprises. The investigation result of the Beijing Municipal Labor and Social Security bureau on the employment demand of Beijing urban units in 2004 and 2005 demonstrates that, if the original value of fixed assets of the investigated enterprises is added up and divided by 5, one point will be noticed, with the increase of the original value of fixed assets of enterprises, the employment amount that every 10,000 Yuan can absorb take on a phenomenon of decreasing yearly. Specifically speaking, when the original value of an enterprise's fixed assets is above 922,620,000 Yuan, the employment amount formed by every 10,000 Yuan of capital will decrease rapidly by 0.04 per person. This demonstrates that, the same amount of capital can obviously absorb more employment if used for the development of small enterprises.

However, if the enterprise employment amount is added up and divided by 5, we will also realize such a phenomenon. That is, the smaller the scale of the enterprise is, the slower the employment increase, even the negative increase. That is to say, when estimating by the employment scale of enterprises, the smaller the scale of the enterprise is, the more obvious the negative employment net growth is, or the effect of employment net members of staff decrease. On the contrary, the enterprise with a larger scale of employment will show a trend of rather rapid employment net growth and it is in this way no matter whether viewed from the perspective of all levels of qualification or viewed from the just from the perspective of manufacturing industry. For example, when considering the data for the year 2004 as an example, the enterprises with staff numbers of less than 32 employees have actually experienced a net member reduction of 6.56% over the past year. However, the enterprises with the staff numbers between 167.2 and 358 have experienced a net member increase by 2.16%, Therefore, with the gradual increase in the employment numbers, the actual employment increase of enterprises turns from negative to positive, that is from net member decrease to a net member increase. If the total value of enterprises is added up and di-

vided equally by 5. We notice a similar phenomenon, i.e. the enterprise with a smaller scale of qualified staff has a more obvious effect of net member decrease, but the effect of net member decrease in bigger scale enterprise is not obvious.

Viewed from the employment net change amount of every enterprise in 2005, there is the same trend, i.e. more net member decrease in the number of employees phenomena occur in the small scale enterprise, whereas in the big-scale enterprises only a few net member decrease phenomena occur, but more phenomena of net member increase occur. In another word, the employment increase is more attributed to relatively big-scale enterprises instead of relatively small-scale enterprises.

Considering that the majority of the all Chinese enterprises have become the backbone of absorbing employment, but according to the investigative data of enterprises for 2004 and 2005, we have noticed that the smaller the scale of enterprises is, the worse their actual ability to absorb employment is, while larger scale enterprises have an outstanding ability of absorbing employment. To some degree, this kind of phenomenon is closely related to the comparatively unfavorable existing conditions of small enterprises. That is to say, because the existing environment is not favorable, the small enterprises have a less strong basis as well as insufficient credit; it is difficult to obtain capital and loans.

From the government and the banks, so it is difficult to achieve better development. Some firms can even only continue the business reluctantly, and they are powerless to absorb new labor. In contrast, the larger scale enterprises can easily obtain the support from government and banks. As a result they have a stronger basis and can obtain better credit, so they can have better development prospects. Labor demand will also increase accordingly together with a corresponding self development awareness of the larger scale enterprises.

If the enterprise obtains the information of enterprises of different scales by the evaluation of self business situations which is indicated by profits or the cash flow. Then we can notice that those with better business situations are usually ones of a larger scale, but with smaller businesses the conditions are usually unfavorable for the present. According to this investigation, we see the same results in our evaluation smaller enterprises during 2005. That is, the larger the enterprise, the more promising the future prospects for the year will be. This illustrates that the existing general conditions of small enterprises are really not optimistic.

In fact, some other statistical data also indicates that the existing conditions for smaller enterprises are very harsh. According to the data of Chinese State Administration for Industry and Commerce: in 1999, there were 31,600,000 individual industrial and commercial households across the country and the number was lowered to 25,057,000 at the end of June in 2006, and 870,000 households are reduced per year on average. According to the data of the National Association of Industry and Commerce, the number of individual industrial and commercial households had increased to 25,762,000 by the end of 2006; but

compared with the figure in 1999, there was still a reduction of 5,838,000. The decrease of the number of individual commercial and industrial households and the harsh existing conditions of micro and small enterprises indicate that the existing environment faced by smaller enterprises are much harsher than those of large scale enterprises. Consequently, it is hard for them to strengthen and some even have to withdraw from the market.

Therefore, we can draw a basic conclusion, that is, although the smaller enterprises have a relatively strong ability to absorb employment, because of their difficult environments, they have not played their role in absorbing employment. In the present labor market, it is actually those larger enterprises that play the dominant role in absorbing employment, although their employment elasticity is comparatively small. In other words, if the micro, medium and small enterprises can develop smoothly, then their increasing amplitude of labor demand will be prominently greater than that of large enterprises under similarly favorable developing conditions. Because the capital, technology and labor requested by micro and small enterprises are relatively small, it is easy for them to enter the market. Thus, when the policy is actively in support of the construction and development of these micro and small enterprises, then not only some more new micro and small enterprises will emerge, but are also sure to have a better developing pace, thus their labor demand will increase greatly, resulting in a positive and significantly meaningful easing of employment pressure.

1.5 Coexistence of Employment difficulty of College Students and Migrant Labor Shortage

Another noteworthy phenomenon is the coexistence of the difficulty for college graduates to find employment as well as the migrant labor shortage, which shows the loss of structural balance of Chinese labor market, and also reflects the characteristics of general low technology of enterprises existing in China now and expansiveness of national economic growth, showing that the technical and creative components in the process of Chinese economic growth are too few. The enterprise can achieve the productive expansion merely by capital and simple labor. Techniques and educational background cannot play the dominant part in many enterprises, particularly in private enterprises. What the enterprises are more urgently in need of are the young adult workers who can work after a simple training. What's more, compared with college students, the migrant workers are easier to manage, and the labor costs are more economical, besides, there is no need to give too much thought to such realistic problems as registered permanent residence and corresponding social welfare, etc. At the same time, the production and labor requested by the enterprise can be accomplished smoothly. The results of this kind of comparison have combined many realistic situations of enterprise production and operation. Evidently, the enterprise will be more inclined to choose migrant workers rather than college students, although the demand for the latter actually exists to certain degree.

It can be said that the problem of migrant labor shortage is related with university expansion. On one hand, the college expansion enables more and more senior high school students to enter the college easily to continue with their study, increasing the employment pressure of these future college students; on the other hand, it makes the number of high school graduates among the migrant workers decrease year by year, resulting in the fact that the growth amplitude of labor supply tends to slow down, under the conditions that the demand of migrant workers increases expeditiously whereas the supply of rural labor grows slowly, the result of supply and demand imbalance is the migrant worker shortage. What's to be pointed out is, the main cause of slow growth of rural labor is that years of transference has completely digested the surplus rural labor, the reduction of the number of migrant workers graduated from senior high school only further decreases the outward transferred supply of rural labor.

There is a common point between migrant labor shortage and employment difficulty of college students, that is, both phenomena occur in the enterprise. The enterprise is more willing to improve the wages to expand the recruitment of migrant labor, but unwilling to accept the college students. This demonstrates that the enterprise is more attentive on the practicality of labor, stressing to save the labor input in the process of production. The education and training accepted by college students and migrant workers are different, and their expectation for the future obviously differs from each other. The college graduates expect to be fully incorporated into all aspects of city life, whereas the migrant workers expect more in the growth of salary. They expect to be capable of increasing the income through their own efforts so as to improve their own living standards and those of their own and the families. According to the present household registration system and the difference between cities and villages, the migrant workers cannot afford to cherish the idea of becoming incorporated into city life.

The phenomenon that migrant labor shortage and the difficulty of those college students who remain unemployed coexist demonstrates that the household registration system and rural and urban isolation system still affect the development of the labor market. It is therefore not hard to imagine that, if the household registration system is opened and the integration of both urban and rural labor markets is realized, then, the problem of the employment difficulties faced by college students will, to a large degree, be eased. Furthermore, the phenomenon of the migrant labor shortage might also no longer exist.

Although the total amount of Chinese labor supply still continues to increase, the growth rate is declining gradually, which means that in future years, the shift of the supply and demand imbalance of the Chinese labor market will be changed, developing towards the direction of supply and demand balance little by little. The employment pressure will tend to be eased correspondingly. For the present, the major problem in the Chinese labor market does not lie in the imbalance of the total amount, but in the structural imbalance. The appearance of migrant worker shortage illustrates that many enterprises still rely on the cheap labor to form their own competitive advantage to some degree, especially in the international mar-

ket. With a salary increase, the enterprise is placed in a very passive position. To change this situation, it is important to speed up the technical reforms and innovation, to improve the technical percentage of products and services, to gradually remove the reliance on cheap labor and reconstruct the comparative advantage suitable with the market competition.

From the perspective of promoting employment policy, the Chinese government is faced with the challenges from following aspects: First, how to pay more attention to irregular employment and to actively improve the social security system; second, how to construct a favorable environment for the growth of small and micro enterprises, expediting their growth, so as to expand the labor demand effectively; Third how to take measures to resolve the social welfare system attached to the household registration system, accomplish the integration of the urban and rural labor market and actively promote the transference of rural labor and the employment of college students.

2. Stage Analysis of Chinese Employment Situations

Hu Angang, a scholar of Chinese State Council Development and Research Centre, wrote a paper in 2002, making a phased analysis of Chinese employment areas and describing these employment situations in 6 different categories. The data cited in the text demonstrates the fundamental situations of Chinese labor market and the unemployment problem.

2.1 The amount of the Chinese practical labor supply is growing larger and larger, forming an increasingly growing overlapping and creating conflicting employment pressure.

First, the population of newly-added labor enters a summit period, having reached 10 million in number. According to the information provided by the State Development and Planning Commission, the number of the newly-added population at labor age was 11 million in 2001, 14 million in 2002; estimated with a 70% labor participation rate, the number of the newly-added labor in 2001 was 8 million, nearly 10 million in 2002. During the category of “15-year-olds”, the total supply of Chinese new labor is to come to the peak, reaching 46,500,000 in number. During the period from 1998 to 2000, the net employment number of Chinese increased labor (the number after newly-added labor and was reduced by those withdrawing from the labor force) was 11,930,000, leaving only 4 million per year on average. It is estimated that the successful employment rate of newly-added labor in the following years was only between 40%--50%.³

Secondly, the number of the newly-added labor force in the cities and towns of China has exceeded 5.4 million, and the achieved employment rate is very low, of which there are about 1.3 million above the

³ Source of Materials: *Chinese Labor and Statistics Yearbook (2009)* compiled by Chinese National Bureau of Statistics, Chinese Statistics Press 2009.

level of special school and junior college, 2 million employed people of senior high school graduates, 1.8 million employed people changed from rural residents to urban residents, but the employed people that the cities and towns actually absorb is 3 million or so, accounting for 56% of the newly-added labor supply, the others are transferred into the group of unemployment registration. During the period from 1996 to 2000, the newly-added employed people in the cities and towns of China were about 14,590,000, only 3,650,000 per year on average, and the capacity of achieving employment had been reduced by 26% compared with “the 8th Five Year” period.

Thirdly, there are more and more urban registered unemployed, laid-off workers and other unemployed, having reached 19 million in number. According to the data of the relevant department, there were 12 million urban unemployed people registered across the country (6.8 million people) and laid-off employees of state-owned enterprises (over 5 million people) in 2001, expected to reach 1.4 million in 2002; if according to the unemployment definition of the International Labor Organization, together with the unemployment people of state-owned institutions, collective enterprises and institutions of the cities and towns, college graduates, vocational school graduates and migrant workers, we estimate that the number of actually unemployed people of the cities and towns in 2001 was approximately 19 million, and there were also about 19 million in 2002 (See Figure 1). The reemployment ability of laid-off workers becomes lower and lower, having become the special marginal group daily exclude labeled as “Have nothing to hang on to above (professionals market with high income) and no solid ground to rest one’s feet on below (and who can’t compete with the migrant workers)”. According to the data of the labor and social security sector, the reemployment rate of laid-off workers will change from 50% of 1998 to 19% of the third quarter of 2001. Even calculated by 30% reemployment rate, among which only 5.4 to 5.7 million can be re-employed.

Fourthly, large amounts of rural labor (i.e., migrant workers) enter the city to work, and the yearly-added number of people, i.e. the annual increase of this type of labor supply is 8 to 10 million. According to the investigative statistics of the Ministry of Agriculture, the number of rural migrant workers around the country in 2001 was 78 million, having increased by 15% compared with the previous year. We estimate that this is the lower limit of the number of rural migrant workers, and the upper limit is possibly above 100 million. The supply amount of the rural labor that enters the city (including the county, the province and other provinces) and needs work might be between 8 and 10 million. When the “15”-year-olds enter the workforce, it is estimated that 5-6 million migrant workers will increase the amount of employed people annually. The task of transferring the rural surplus labor is very arduous.

Fifthly, new problems appear in the employment and unemployment of college students. According to the data provided by the Ministry of Education, the initial employment rate of university graduates across the country was 70% and the unemployment rate was 30%, about 340,000 people remain unem-

ployed; it is predicted that 370,000 people were unemployed in 2002; 520,000 in 2003; 690,000 in 2004; 790,000 in 2005. The initial employment rate of college and vocational graduates in 2001 was 40% and the unemployment rate was 60%, in 2002, it was predicted that 430,000 people were unemployed. It is estimated that 800,000 people are unemployed in total in 2002.

In the first half of 80's and 90's of the 20th century, the yearly employment pressure mainly came from the newly-added population, that is at the age of entering the labor market, 2 to 3 million registered unemployed workers, several million migrant workers that entered the city, and the amount of employment supply was 10 million or so. However, in the latter half of the 90's, the employment pressure on all three sides increased. None of the former employment contradictions had been resolved, and new employment contradictions came up. If the part of repeated calculation was deleted, the above five newly-added labor supply was over 20 million people, at least double than five years ago, and this trend will continue to grow in the future, meanwhile the employment pressure is also increasing. The newly-added employment goal proposed by the government was 8 million people, and the actual possible employment capacity might be between 4 million and 5 million people. When the demand amount of labor is limited, the continuous growth of labor in the towns and cities makes the contradiction between employments more outstanding.

2.2 Chinese Employment-Creative Ability and Actual Employment Demand Decrease Evidently, Intensifying the Supply and Demand Contradiction

Firstly, the increase in the growth rate of employment and the employment increase elasticity decrease obviously, during the years 1980-1989)of the 20th century, Chinese yearly GDP average growth was 9.3%, the employment increase rate was 3.0%, the employment elastic coefficient is 0.322. During the period of “the 8th Five Year” (1991—1995), the average GDP growth rate was 12.0%, the employment increase rate was reduced to 1.2%, and the elastic coefficient of employment increase was 0.1. During the period of “the 9th Five Year Plan (1996-2000), GDP grew by 8.3% per year on average, employment increase rate was reduced to 0.9%, and elastic coefficient of employment growth was 0.1. This demonstrates that the economic growth model in China is more and more like the low employment increase and no employment increase.

Secondly, the scope of the newly-added employed people decreased by 44%. In the 1980's there was a net growth of 12,970,000 of employed people per year on average, which was reduced to 8,080,000 during the period of “the 8th Five Year Plan” and to 5,750,000 during the period of “the 9th Five Year Plan”, merely equivalent to the 44% of the newly-added positions per year on average in the 1980's.

Thirdly, the employed people in the formal sectors of employment departments decreased by a large amount, namely, 48,000,000 people have left the job market. During the period from 1978 to 1995, the number of employees in the Chinese formal sectors (referring to the state-owned units and collective units

of the towns and cities) took on a trend of increasing, the accumulated net increased number of employed people was 45,600,000. However, then a large-scale decrease in this sector began. In 2000, the number of employees in the state-owned enterprises across the country was reduced by 31,590,000 than 1995, which is, lowered by 28.1%. 16480000 people were laid off in the urban collective units, thus the numbers were lowered by 52.4%. The total of these two is 48,070,000, lowered by one third, equivalent to the total population of Korea. If the number of normally retired employees, is 7,820,000 people and this number is deducted (among which, 6,120,000 from the aforementioned enterprises), the actual accumulation of the laid-off employees was above 40 million in number.

Fourthly, newly-added employment capacity of all sectors decreases, and negative increase even occurs. For instance: during the period of the “8th Five Year Plan, 5,920,000 employed people were laid off in the agricultural industry, whereas during the period of “the 9th Five Year Plan, 2,020,000 people were newly added to the labor force yearly . For the growth rate of agricultural sector, the figures were further reduced from 4.2% to 3.5%, the agricultural labor productivity further decreased, and this is also one of major causes leading to the decrease of a peasant’s agricultural income. The newly-added persons in the secondary industry during the period of “the 8th Five Year Plan” were 3,950,000 in number, whereas negative increase came up during the period of “the 9th Five Year Plan”, in which 17,200,000 persons were laid off during the period in the manufacturing industry.

The number of employed persons in manufacturing and mining industries began to decrease from 1995 onwards. During the period of “the 8th Five Year Plan”, yearly newly-added employed persons in the tertiary industry were 10,050,000 in number, whereas the number was reduced to 4,160,000 during the period of “the 9th Five Year Plan”, and the capacity of creating new positions decreased by 60% (See Figure 2). During “the 9th Five Year Plan”, the elastic coefficient of employment increase of three industries were all inclined to decrease, in which there was almost no elastic growth in the secondary industry, and was only 0.05; the elastic coefficient of the 3rd industry was 0.37, and decreased by half compared with the period of “the 8th Five Year Plan” (See Figure 3). This shows that employment should not be increased in the first industry during the period of “the 9th Five Year”, the secondary industry should not create new jobs and the ability of creating jobs of the 3rd industry decreased largely, which have greatly changed the pattern of creating jobs in China. In 16 industries around China, only 5 major industries (the manufacturing industry, wholesale and retail, catering industry, construction industry, mining industry and agriculture) laid off 38,570,000 persons., accounting for 106% of the total number of persons laid off during the “the 9th Five Year Plan”.

Fifthly, the capacity of producing employment of all urban and rural units declined.. During “the 9th Five Year” period, the increasing scale of rural and urban employment per year on average decreased compared with “the 8th Five Year” period (See Figure 2). For example, the number of employed persons

in township enterprises as major employment loading machine in rural non-agricultural industry began to decrease in 1996, and 6,880,000 persons were unemployed in 2000. The number of employed people in the private economy of cities and villages began to decrease in 1999, and 2,780,000 and 8,930,000 and these numbers were reduced respectively reduced in 2000, and 11,710,000 persons were laid off reduced in total.

2.3 Prominent regional employment and unemployment problems, negative employment growth in some regions.

First, during the period of “the 9th Five Year Plan”, the employment absorbing capacity of all regions decreased evidently. Out of 21 regions, negative increases occurred in 14. The largest decrease occurred in Liaoning province, where 2,180,000 people were laid off. In Jiangsu province 1,890,000 were made redundant, ranking in second place. A further 1,840,000 persons lost their jobs in Hubei province, while 1,790,000 were retrenched in Jilin province with 1,290,000 in Jiangxi province, 910,000 in Shanghai, 780,000 in Tianjin, 540,000 in Chongqing and 390,000 in Beijing (See Figure 4).

Secondly, from 1996 to 2000, the number of employees in all regions the numbers also generally decreased. The biggest decreasing amplitude occurred in Liaoning province, 4,110,000 people were made redundant, and the decreasing amplitude was 41.2%. There were 4 regions where the decreasing number of employees exceeded 2 million, including Heilongjiang (2,830,000), Sichuan (including Chongqing 2,634,000), Jiangsu (2,325,000), Hubei (2,090,000); 1 million to 2 million were unemployed in 14 provinces and regions; there were 16 provinces and regions in total where the number of reduced people exceeded 1 million (See figure 5), the scope was unprecedented in all regions (See figure 1).

Thirdly, the biggest decreasing amplitude of state-owned employees of all regions still occurred in Liaoning province (2,594,300), then Heilongjiang (2,284,000), Sichuan(including Chongqing, 2,154,000), and there were 12 provinces and regions where 1-2million persons were laid off (See Figure 5).

Fourthly, there are 14 provinces and regions where the number of retrenched employees of collective units exceeded 50% (See Figure 5), and the scope is the largest since the foundation of the Republic.

This structural adjustment involves almost all regions, but the evolution of the central region of the three northeastern provinces was particularly noteworthy. According to the investigation of the Policy Research Center of CPC Central Committee and other units, the number of people that were unemployed in Liaoning province was 3,120,000. By the end of 2000, the total of people who left their posts and registered as unemployed across the province (newly-added labor) numbered 3,119,000, in which the employees who had left the post numbered 2,449,000 (not including retired employees), the registered unemployed people numbered 412,000 (the number of actual unemployed doubled), the unemployed persons for the year was 240,000 in number. The re-employment rate of laid-off workers of state-owned

enterprises is very low. In 2000, only 399,000 laid-off workers of state-owned enterprises were re-employed, the rate of re-employment was only 38%.

2.4 “Female Redundancy Age” Emerges in the Urban Chinese Population

Since 1995, with the large-scale adjustment of industry and ownership structure, the female employees in cities and towns, becoming a new of socially marginalized part of the population. From 1995 to 2000, the number of female employees in cities and towns decreased from 58,890,000 to 44,113,000. The net decrease is 14,777,000 in number (See Figure 6), a decrease of 25.1% (1/4), that is, 1 in 4 employed females in the past 5 years was laid off or shunted, equal to 40.5% of decreased number (36,490,000) of unit employees across the country.

The majority of industries are made up of “Female Redundancy” workers. Out of 16 industries, 9 are made up of workers who had persons previously been laid off. “laid-off Type”, and the rates of decrease range between 5% and 44%; other industries are of “employment improved Type”; except for education field, the absolute number of new female employees absorbed by other lines is rather small (See Figure 6), generally viewed as “laid-off Type”, or of “Destructive Type” in senior positions. It is very difficult for women to “break the glass ceiling,” and get these higher-paid jobs.

Large-scale female redundancies mainly occur in 4 traditional industries, where a total of 16 million people were laid off. In the past 5 years, 10,568,000 female employees were retrenched in the manufacturing industry, 861,000 females were laid off in the mining industry, and 631,000 females were made redundant in the construction industry, while 3,971,000 females lost their jobs in the wholesale and retail trade and catering industry.

Large redundancies of female workers have also negatively affected family relationships and their stability as well as a strong negative external influence on society. If the number of normally retired females is deducted, it is estimated that there are 11 million unemployed females, this means over 10 million families are affected, taking into account that there are an average of 3.2 members in every family, thus affecting a total of approximately 32 million members of the urban population. The female unemployment will not only influence individual incomes, but will also bring great insecurity and psychological pressure on individuals and their families. Especially for those females who are laid off because of the deficit and bankruptcy of enterprises, they are of “involuntarily unemployed”, i.e. they can work and are ready to work. This kind of obligatory unemployment is unfair for them.

According to the information provided by the labor and social security sector, the female laid-off workers of 1999 account for 44.6% of all laid-off workers of state-owned enterprises. Although the percentage of females in formal sectors is far below the percentage of males, the chances to be re-employed in formal sectors gets smaller and smaller; on the other hand, the “” position is far more than in the “crea-

tive” positions. Females become the group with the largest employment pressure and competition pressure.

2.5 Underemployment of rural labor gets more and more outstanding, directly affecting the peasants income.

Open unemployment doesn't exist in rural China, but large amounts of underemployment exist, that is: these unemployed people refer to those workers whose actual working time is less than the time they are able and willing to work. For example, a worker is able and willing to work for 8 hours per day, but because of the lack of working opportunity, the actual working time is only 6 hours. We call them agricultural surplus labor. Estimated according to the labor and land proportion law, Chinese agricultural surplus labor was 166 million in 1991, then began to decrease, after 1995, because the speed at which the agricultural labor transferred to non-agricultural industry slowed down, thus the agricultural surplus sector labor did not change much. We estimate that there were 142 million agriculture surplus workers in 2000, accounting for 42.45% of the total of Chinese agricultural labor. This means that the efficient labor time in Chinese agricultural labor is less than 3/5, the surplus labor time accounting for above 2/5. We estimate that large amounts of agricultural surplus labor gives rise to the idleness of the most important economic materials, viewed from the perspective of general output, which is equivalent to the loss of 20%-30% GDP; from the viewpoint of consumption, which is equivalent to the loss of 2% to 10% GDP of residential spending. Although Chinese the growth rate of potential output (GDP long-term growth ratio) was 9.5 % over the past two decades, the actual GDP growth rate is only between 7% and 8%. The domestic demand is not sufficient, and the consumer demand of rural residents is particularly insufficient. This is because that the actual income level of peasants is too low, and the productivity level is also too low, while the surplus labor time ratio remains high.

For the present, Chinese rural labor accounts for 50% of the total of all employment across the country, but the agricultural added value only accounts for 16% of the total GDP. Under these circumstances, it is almost impossible to improve the peasant's productivity and agricultural income. According to the sampling survey of National Bureau of Statistics about rural families, the cash income of every peasant by selling agricultural products in 1997 was 1092 Yuan, and it was reduced to 601 Yuan in 2000, but the salary income was improved from 512 Yuan to 700 Yuan (See Figure 7). This demonstrates that the service income of peasants exceeded the agricultural cash income. Only by transferring peasants elsewhere, so that the remaining numbers decrease, can their livelihood be enriched. Therefore, in the following 5-10 years, the transference of peasants into the city will become a basic developmental trend.

The above-mentioned demonstrates, that the discrepancy between labor supply and demand in China is rather serious; both the total and the structure are unbalanced; not only national employment contradictions are rather violent, but also the situations in some regions are quite serious; the employment competi-

tion not only exists between urban and rural population, but also between new and old labor, skilled and unskilled labor, among people with different cultural degree and people at different age. According to the national labor market investigation, the proportion of applicants with bachelor degree, vocational and senior high school cultural degree was only between 71%-73% in 2001 (See figure 2); the proportion of applicants without job opportunity at the age between 35 and 44 was 37% and the proportion of applicants above the age of 45 was 46% (See figure 3). With the further staff reduction of governmental and public institutions, reform of personnel system, public recruitment and post competing engagement, more public servants in government sectors and institutional units will be disengaged or shunted.

2.6 China is experiencing the largest-scale structural adjustment.

The Premier of the State Council in China pointed out clearly in the *Outline of the 10th Five Year Plan about National Economy and Social Development* presented to the National People's Congress in March, 2001 that China was within a critical period of economic structural adjustment and that the Chinese economy was within a period during which it would remain static without adjustments being made. Thus during "the 10th Five Year Plan", the structural adjustment was stressed as a major focus and it was necessary to adjust the structure in the development and to maintain a rapid development in the process of structural adjustment. However, the structural adjustment is not a "free lunch", but a process combining creation and destruction and requires great efforts and costs, so it is imperative to realize the meaning of structural adjustment and policy anew.

The essence of structural adjustment is creative destruction. Employment creation is not simply equal to an employment increase, which is related to structural type of employment and stage of structural adjustment. The meaning of the so-called creative employment refers to Net Job "Creation", and it equals to Gross Job "Creation" minus Gross Job "Destruction". Gross job creation usually exists in the new economic sector, in the fields adopting new technology, new enterprises, new origin of expanding employment; gross job destruction often occurs in the old economic sector, i.e., in "old" fields adopting old technology, old enterprises using old styles of production, old cities, etc. Usually during the early period of economic structural adjustment, the growth rate of old posts is very low or only a negative increase occurs, accounting for a large proportion of all posts; whereas the growth rate of new posts is very high, but accounting for a small proportion of all posts, consequently, gross job destruction will exceed gross job creation, negative net job creation comes up and the number of unemployed is rising; the higher the proportion of old posts during the early period is, the larger the scope of gross job destruction, the reverse is the case; the slower the speed of early structural adjustment, the longer the time the subsequent adjustment will take; the faster the speed of early structural adjustment, the greater the throws and costs of adjustment are, and the reverse is also the case. During the middle period of economic structural adjust-

ment, gross job destruction is generally equivalent to gross job creation, no net job creation has ever appeared and the number of actually unemployed persons will reach a peak. If gross job creation exceeds gross job destruction, net job creation will emerge; consequently the number of actual employed persons will decrease.

Since 1996, excessive supply has emerged in Chinese economic market pattern, serious productivity surplus has occurred, deflation has come up, meanwhile the market has been opened up, the tariff rate has been lowered radically, the degree of global economic integration deepens gradually, and the deflation caused by global productivity surplus and international competitive system have been introduced, making China experience an unprecedented structural adjustment on a large scale. For the present, China is in the initial stage of structural adjustment, and what has occurred in the formal sector, traditional industry and unskilled labor is largely job destruction. The percentage of skilled labor, job creating industry and sector is rather low, negative net employment creation appears and the number of actually unemployed people is increasing.

Viewed globally, unemployment is one of the biggest difficulties in global development. In the 1990's, the unemployment rate in developed countries stayed stubbornly high and had become a long-term unemployment challenge; large quantities of open and latent unemployed population exist in developing countries; the unemployment rate in southeastern Asian countries rose drastically under the conflict of financial crisis; "sudden unemployment increase" occurred in the former Soviet Union and economic transitional countries of eastern Europe. Globally speaking, capital demand is much higher than labor demand; capital flows are much higher than labor flows; high-tech labor demand is much higher than low-tech labor demand, besides, high-tech labor requires a long-term investment of human capital at large costs. Global economic competition is employment competition. Global structural adjustment is a process combining job creation and job destruction.

Viewed from the international point of view, Chinese employment and unemployment is characterized by considerable heterogeneity. First, in the traditionally formal sector (such as state-owned and urban collective units) and local areas (such as northeastern area which is an regional area of heavy industry), sudden "transitional unemployment" emerged, that is, the unemployment rate rose suddenly and a new impoverished population increased rapidly; Secondly, the urban labor market has been characterized by the high employment rate of a developed market economy. The difference is not for an overly high welfare level of unemployment security, but for an over large labor supply capacity, the actual coverage of unemployment security is rather low and the welfare level is also very low. Besides, there are a great number of agricultural surplus workers due to the serious employment shortage in rural areas in many developing countries. The difference in China is that the transference of rural labor to urban and developed areas has been limited and unfavored for a long time in China. At last, both the number of actually

unemployed urban persons (equivalent to the total of EU unemployed) and the number of underemployed rural persons is very large in numbers and is on the increase. At least within the short and medium term, Chinese towns and cities may be in a stage of high employment level, 7%-8% or even higher. However, realistically speaking, under the condition that Chinese labor supply is much higher than the demand, the labor market gets increasingly more flexible, labor fluidity also increases and employment competition will, in turn, get more intense. Employment and unemployment issues have already become the greatest challenge of economic development since the beginning of the 21st century.

Figure 1 Estimate of Chinese Urban Unemployed and Unemployment Rate (1995-2002)

Year	1995	1996	1997	1998	1999	2000	2001	2002
Registered Unemployed Figure(0,000 Persons)	520	550	570	570	575	595	681b	850b
Registered Unemployment Rate (0,000 People)	2.9	3	3.1	3.3	3.1	3.1	3. 6b	4. 5 or so
Laid-off Workers of State-owned Enterprise (0,000 Persons)	368	542	634	595	653	657	515b	
Re-employment Rate (%)				50	40	35.4	18. 8e	
Laid-off Unemployed (0,000 Persons)	226-338	356-535	815	877	937	1000	1000	
B		564	815	877	937	911		
Unemployment Figure of Migrant Workers (0,000 Persons)	55	60	88	93	106	0.1	120~150	
D								
Unemployment Figure of Graduates above Vocational School(0,000 Persons)							70	80
Actual Unemployment Figure(0,000 Persons)	800--913	966--1145	1473	1540	1618	1695	1871-1900	1900 or so
Actual Unemployment Rate(%)	4. 0-4. 7	4. 9-5. 9	7.5	7.9	8.2	8.3	8.5	
H			8.5	8.5	8.2	8.2		

Source of Materials: a: *Chinese Statistics Yearbook (2001)*, page 39; b: Mo Rong estimate of labor and social security sector, from Yao Yuqun, Morong: "Chinese urban unemployment rate has entered the risk region", *Hot Research* issue10 (2002); *The People's Daily* Feb., 12, 2002; c: Asian Development Bank: *Analysis and Prospect of Chinese Economic Situation in 2001*, published in *Economic Management Abstract*, issue1 (2001). Figure 5; d: Author's estimate from past *Chinese Labor Statistics Almanac*, including laid-off workers of state-owned enterprises, state-owned institutions, collective and other units; e: The data of the 3rd quarter of 2001, from labor and social security sector; f: calculating by 30% unem-

ployment rate of regular college graduates, 60% unemployment rate of junior college and vocational college and statistics of the Ministry of Education, from *The People's Daily*, Mar. 31, 2002; g: Author's estimate, refers to non-agricultural population; h: Estimate of Asian Development Bank, *Analysis and Prospect of Chinese Economic Situation in 2001*.

Figure 2 New Employment in All Industries (1996—2000) (0,000 people)

	1996~2000			1990-1995	
	Total	Average Per Year	Contribution Rate	Total	Average Per Year
Total	2300	575	100	4038	808
Urban	1459	365	63.4	2477	495
Rural	841	210	36.6	1561	312
State-owned Unit	-3142	-786	-136.6	915	183
Urban Collective Unit	1517	-379	-66	-402	-80
First Industry	806	202	35	-2960	-592
Second Industry	-171	-43	-7	1974	395
Manufacture Industry	-1720	-430	-74.8	964	193
Construction Industry	144	36	6.3	840	168
Third Industry	1665	416	72.4	5023	1005

Source of Materials: *Chinese Statistics Abstract (1997)*, Page 28; *Chinese Statistics Abstract (2001)*, page 40 and page 41; (*Chinese Statistics Yearbook*), Page 112.

Figure 3 Elastic Coefficient of All Industry Employment Increase

Year	First Industry	Second Industry	Third Industry
1952~1978	0.93	0.54	0.68
1978~1989	0.27	0.49	0.56
1990-1995	-0.38	0.16	0.74
1995~2000	0.02	0.05	0.37

Source of Materials: *Chinese Statistics Yearbook (2001)* Electronic Version, Chinese Statistics Press, 2001

Figure 4 All Regional Employment Quantity and Increase (“the 9th Five Year” Period)

Region	1996(0,000people)	2000 (0,000 people)	Increase & Decrease (0,000people)	Average Yearly Increase
Total	68850	71150	2300	0.9
Beijing	661	622	-39	-1.5
Tianjin	485	407	-78	-3.7

Hebei	3391	3441	50	0.4
Shanxi	1478	1419	-59	-0.6
Inner Mongolia	1043	1017	-26	-0.2
Liaoning	2031	1813	-218	-2.3
Jilin	1258	1079	-179	-3
Heilongjiang	1567	1635	68	1
Shanghai	764	673	-91	2.6
Jiangsu	3748	3559	-189	-1.1
Zhejiang	2702	2700	-2	0
Anhui	3246	3373	127	1
Fujian	1594	1660	66	1.2
Jiangxi	2064	1935	-129	-1.2
Shandong	4650	4662	12	0.2
Henan	4829	5572	743	3.5
Hubei	2692	2508	-184	-1.5
Hunan	3548	3462	-86	-3
Guangdong	3691	3861	170	1.1
Guangxi	2417	2530	113	1.2
Hainan	335	334	-1	-0.1
Chongqing		1636	-54	-1.1
Sichuan	6295	4436	-182	-6.9
Guizhou	1892	2046	154	2
Yunnan	2214	2295	81	1
Tibet	118	123	5	1.6
Shanxi	1798	1813	15	0.4
Gansu	1175	1182	7	0.4
Qinghai	232	239	7	1.1
Ningxia	250	274	24	2.4
Xinjiang	672	672		0.3

Source of Materials: *Chinese Statistics Abstract (2001)*, page 45

Figure 5 Employment Variation and Variation Rate (1996—2000) Note: Sichuan statistics include Chongqing.

Region	Employee Variation (0,000)			Employee Growth Rate (%)		
	Employee Total	State-owned Unit	Collective Unit	Employee Figure	State-owned Unit	Collective Unit
Beijing	-62.6	-93	-22.7	-13.6	-26.6	-35.1
Tianjin	-91	-89.3	-36.6	-32	-46	-61.4
Hebei	-157.2	-118.4	-68.8	-22.6	-22	-54.3
Shanxi	-94.9	-95.5	-38.7	-20.4	-25.6	-44.6
Inner Mongolia	-133.7	-105.1	-41.8	-33.6	-34.8	-62.6
Liaoning	-410.7	-259.4	-183	-41.2	-38.8	-66.8
Jilin	-183.3	-138.8	-66	-35.7	36	-61.1
Heilongjiang	-282.6	-228.4	-91.6	-34.7	-36.9	-55
Shanghai	-149.8	-131.5	-49.9	-32.8	-42.1	-64.9
Jiangsu	-232.5	-164.5	-141.9	-25.7	-28.6	-55.2
Zhejiang	-122.3	-93.2	-103.2	-24.7	-32.1	-66.1
Anhui	-109.5	-97.8	-54.2	-21.8	-26.7	-45.1
Fujian	-32.5	-50.6	-24.2	-9.3	-23.3	-42.3
Jiangxi	-120	-104	-35.8	-29.1	-31	-52
Shandong	-140.7	-119.2	-94.6	-15.1	-18	-47.6
Henan	-124.1	-184.7	-24.2	-14.7	-28.9	-15
Hubei	-209	-160.1	-69.3	-28.3	-28.3	-52
Hunan	-155.8	-110.5	-60.5	-26.1	-23.4	-52.8
Guangdong	-156.1	-133.8	-86.8	-17.3	-24.2	-45.3
Guangxi	-61.5	-59.5	-19.5	-17.9	-20.9	-42.9
Hainan	-24.8	-22.7	-4.4	-24.1	-25.9	-52.4
Sichuan	-263.4	-215.4	-100.9	-26.7	-29.3	-50.2
Guizhou	-37.6	-42.6	-11.5	-16.2	-21.7	-37.7
Yunnan	-42.4	-46	-17.3	-13.4	-17.2	-41.9
Tibet	-0.7	-0.5	-0.1	-4.2	-3.2	-9.1
Shanxi	-70.0	-71.1	-25.2	-17.6	-21.2	-46.5
Gansu	-50.6	-44.8	-13.7	-20.1	-21.4	-35.4
Qinghai	-18.6	-16.2	-3	-28.4	-28.3	-37.5
Ningxia	-9.7	-11.6	-3.7	-13.3	-18.8	-42.5
Xinjiang	-57.6	-61.8	-13.1	-18.4	-22	-46.6
Chinese	-3586.3	-3071.4	-1507.2	-24.2	-28.1	-51

Source of Materials: *Chinese Statistics Abstract*(1996), Page 30; *Chinese Statistics Abstract* (2001), Page 46.

Figure 6 Female Urban Employment Variation Statistics (1995-2000)

Item	Increase and Decrease Number (0,000 People)	Increase Index
Total	-1477.1	74.9
Farming, Forestry, Husbandry and Fishery	-57	77.4
Mining Industry	-86.1	64
Manufacture Industry	-1056.8	57.4

Electric Gas & Water Production and Supply Industry	9.9	112.2
Construction Industry	-63.1	69.5
Geological Survey & Water Management Industry	-4	88.1
Transportation Storage and Post & Communication Industry	-28.2	87.3
Wholesale & Retail Trade and Catering Industry	-397.1	53.7
Financial Insurance Industry	29.2	126.9
Real Estate Industry	7.6	128.6
Social Service Industry	-4.8	97.8
Hygiene & Sports and Social Welfare Industry	30.7	112.4
Education, Culture, Art and Broadcast, Movie, Television	101.3	117.2
Scientific Research and Comprehensive Technical Service Industry	-3.5	94.3
State Organs and Political & Social Organizations	30.5	112.8
Others	12.9	150.4

Source of Materials: *Chinese Statistics Abstract (2001)*, Page 123

Figure 7 Agricultural Product Income per Peasant and Agricultural Production Costs

Year	1997	1998	1999	2000	Former Half of 2001
Sold Grain (kg)	228	227.5	243.3	260.9	103.8
Cash Income of Agricultural Products	1092.3	1011.1	970.2	600.6	224.4
Cash Expenses of Agricultural Production (Yuan)	437.1	451.6	417.6	286.5	147.9
Agricultural Product Surplus (Yuan)	655.2	559.5	552.6	314.1	76.5
Cash Income (Yuan)	2516.4	2528.3	2556.4	2381.6	
Salary Income (Yuan)	512.4	573.4	628.4	700.4	
Tax Charges (Yuan)	108	106.7	89.9	89.9	
Cash Expenses (Yuan)	2297.3	2316.4	2338.1	2140.4	
Proportion of Tax Charges in Total Expenses (%)	4.7	4.6	3.84	4.2	

Note: Agricultural productive expenses include costs for crop production and purchasing agricultural produce fixed assets reducing the cash expenses of agricultural expenses.

Source of Materials: National Bureau of Statistics *Monthly Bulletin of Chinese Economic Prospect*, issue12 (2001), Page 71, 72, 74.

3. Re-estimate of Chinese Urban Unemployment Rate and Regional Comparison

The most prominent development problem across the world is employment and unemployment. the 9th annual report of International Labor Organization of June 2005 holds the view that the present shortage of unemployment and employment has influenced more than half the employed population across the world, and that over 1 billion unemployment or underemployment exist globally; 500 million new employment opportunities are required to be created in the next 10 years. This is the global background of Chinese unemployment and employment. Observed Chinese unemployment situations from the international perspective: the radical decrease of labor participation and the employment growth rate has come up in an economically transitional country, so it is with the “transitional unemployment” situations of drastic rise of unemployment rate. According to the information provided by the World Bank, during the period from 1989 to 1997, such situations emerged in mid-Asia, Eastern Europe and Russia (See Figure 1)⁴. But since the beginning of reform in China, such “transitional unemployment” has been avoided, the labor participation rate has risen dramatically, employment has increased positively and unemployment rate is comparatively low; only after 1995, “transitional unemployment” occurred in state-owned and urban collective enterprises. According to the data of State Economic and Trade Commission (Mar, 2002) during the period from 1998 to 2001, there were 22,500,000 laid-off employees from state-owned enterprises in total. 17,000,000 have been re-employed, accounting for 2/3 of the total. According to the statistics analysis of *Chinese Statistics Abstract* (2002), during the period from 1995 to 2001, if normal retirement persons were deducted from the total of laid-off urban workers was approx. 45 million. About 30 to 35 million people have achieved reemployment or flexible employment, accounting for 2/3 to 3/4 of total unemployed⁸ employees.⁵

In China, the percentage of urban irregular employment in total employment might reach 45.5%. Viewed according to statistical classification, irregular employment is composed of 3 parts: first, urban private enterprise, the number increased from 6.2 million in 1996 to 12,680,000 in 2000, multiplied by 2; secondly, private economy, the number increased from 17,090,000 in 1996 to 24,100,000 of 1999, later decreased to 21,360,000 in 2000; thirdly, refers to the number after urban total number deducts the number of employees from state-owned, urban, collective and other units together with private and individual units, composed of migrant workers, laid-off employees, re-employed workers and other flexibly-employed staff. We estimate that there were around 37,330,000 persons in 1996; 62,860,000 in 2000. Then in 1996, there were about 60,620,000 urban employees, re-employed workers, other flexibly-employed staff and irregularly-employed workers, accounting for 28.5% of the total employment figures.

⁴ World Bank, 2001, *World Development Indicators*, pp.51, 56-57 . ⁵ Compiled by the Chinese National Bureau of Statistics: *Chinese Statistics Abstract 2002*, Chinese Statistics Press 2002, Page 40.

In 2000, irregular employment reached 96,900,000 people, increasing to 36,280,000 more than 1996, accounting for 45.5% of total employment, improved by 17% than 1996. This demonstrates that major posts newly-added workers in urban China are irregular or flexible and there is only tiny amount of regular employment, mainly including large amounts of migrant workers, laid off and employees shifted elsewhere from the regular sector, and large amounts of graduates from junior college and specially skilled persons school and also professionals with special skills.

Figure 1 Employment and Unemployment Situations in Economic Transitional Country

	1989-1997 Labor Participation Rate	1989-1997 Employment Growth Rate	1996-98	1996-98 Long-term Unemployment Ratio
Estonia	—21	—27	9.6	
Hungary	—27	—33	7.8	51.3
Latvia	—22	—34	13.8	63.0
Poland	—10	—10	10.5	38.0
Russia			13.3	32.8

Most scholars believe that bias and errors exist in Chinese official unemployment statistics standard (“urban registered unemployment” and “urban registered unemployment rate”), resulting in the underestimate of unemployment; thus it cannot very well reflect the genuine situation and degree of seriousness of unemployment. Similarly, there is no doubt that relevant policy and suggestions made to unemployed people designated by officials will be misleading to some degree, which has been pointed out by many scholars and indeed, also realized by statistics department. If the “urban registered unemployment rate” is insisted to judge unemployment situations, people might mistake about the re-employment policy of present governmental sector, because about 4% registered unemployment rate is equivalent to “natural employment rate” of normal market economic country. With regard to economic theory, the employment or re-employment policy targeting at natural unemployment is not only useless in eliminating natural unemployment, but will bring out many a negative function in the country’s macro-economics. In 2004, Li Shi and Deng Quheng, scholars of the Chinese Academy of Social Sciences estimated several different urban unemployment rates for that year combining some special situations of the Chinese economy, according to statistics which are equivalent to prevailing international unemployment definitions and relevant information of sample survey data of urban residents for 2002 and made a further analysis of the constitution and relevant characteristics of unemployed persons on this basis.⁶

⁶ Li Shi, Deng Quheng: “Reassessment on Chinese Urban Unemployment Rate”, *Jing Ji Xue Dong Tai*, Issue 04 (2004) (22-28) in Chinese

3.1 Four Definitions of Unemployment Rates

Li Shi and Deng Quheng have adopted 4 different definitions of the unemployment rate and made an estimation of Chinese unemployment rate. They point out that in theory, the urban labor supply is composed of urban employed and unemployed, and the total of the two is called “the economically active population”. If only the labor supply with a certificate of residence in urban areas is taken into account, then the unemployment rate calculated correspondingly can be only the unemployment rate of personnel with particular status instead of the unemployment rate of particular region, but the urban unemployment rate is no doubt the unemployment rate of a particular region. Under the condition of considering the rural labor employment and unemployment in towns and cities, urban unemployment rate (U) shall be expressed by following formula:

$$U = (U_{unem} + R_{unem}) / [(U_{unem} + R_{unem}) + (U_{em} + R_{em})] \quad (1)$$

In the formula, U_{unem} refers to the unemployed people with certificate of residence in urban areas; R_{unem} refers to the unemployed persons with a certificate of residence in rural areas; U_{em} refers to the employed persons with a certificate of residence in urban areas, and R_{em} refers to the employed persons with a certificate of residence in rural areas.

The formula for the of above calculation to arrive at the urban unemployment rate does not mean that it is easy to estimate the exact urban unemployment rate. This is because different understandings exist as to how to define the unemployed. On the one hand, urban enterprises have created different unemployment styles in recent years, also endowed with Chinese characteristics. This not only includes the unemployment type with the significance of international criteria, but also some converted unemployment type, such as lay-offs, those out of work on,. Long-term “absence without pay”, internal retirement and employment-pending, etc. It should be seen that these unemployment types in different styles and presented in different ways have some common unemployment characteristics, that is to say, these people have been in a long-term jobless state and the income they obtain is far below the living expenses of their former salary level or off-duty allowances, while some people are even without any source of income. Among our following estimates, lay-offs, out of work, on long vacation, internal retirement and employment-pending are all thought of as an unemployment state, at least defined in a state of losing a formal job.

On the other hand, under the system of traditionally arranged employment (through the labor department), whereby the belief of an “iron bowl” (An old Chinese expression meaning a fixed employment) has been formed among people and they naturally believe that employment means undertaking a stable and formal job. So too, odd jobs, short-term jobs, temporary work, vendors and housewifery (household service) are not considered as employment, but understood as unemployment. However, according to the employment standards of the International Labor Organization, anyone involved in economic activity

more than 1 hour in the previous week before the investigation time point shall be regarded as employed persons. Economic activity includes all previous informal work mentioned before. Under the rules, some unemployed people in our cities and towns are also undertaking some informal work when seeking a formal job. There is no doubt that they shall not be thought of as employed persons. However, under the present national background, great difference exists between a stable, formal job and a temporary job. The two are not only different in the aspect of stability but also in the aspect of salary level, welfare treatment and social security. As a result, we have to take these differences into account at the time of evaluating the urban unemployment rate. The resulting consideration is that the unemployment rates in these two senses are both rational, but they have different meanings with regard to macro-economic policy and social security policy.

After taking employment and unemployment issues of migrant workers and also recognizing the problem of the nature of informal jobs into account, two Chinese scholars have obtained four urban unemployment rates. The first unemployment rate is the one worked out (U1) under the assumption that an informal job is regarded as employment at the time of considering employment and unemployment of migrant workers. It can be expressed by the following formula:

$$U1 = (U_{unem1} + R_{unem}) / [(U_{unem1} + R_{unem}) + (U_{em1} + R_{em})] \quad (2)$$

In the formula, U_{unem1} refers to the jobless persons with a certificate of residence in urban areas, U_{em1} refers to the employed persons with a certificate of residence in urban areas corresponding with the unemployment concept, where labor supply with a certificate of residence in urban areas shall be equal to the total of the two, that is $U_{unem1} + U_{em1}$.

The second unemployment rate refers to the unemployment rate (U2) worked out under the condition that employment and unemployment of migrant workers are not taken into account but informal work is regarded as employment. Its formula is expressed as:

$$U2 = U_{unem1} / (U_{unem1} + U_{em1}) \quad (3)$$

The assumption of the third unemployment rate is opposite to that of the second unemployment rate, that is the unemployment rate (U3) calculated under the condition of assuming the situations of employment and unemployment of migrant workers but refusing to regard an informal job as employment. The formula of this employment rate can be expressed as:

$$U3 = (U_{unem2} + R_{unem}) / [(U_{unem2} + R_{unem}) + (U_{em2} + R_{em})] \quad (4)$$

In the formula, U_{unem2} refers to the jobless personnel not formally employed, but with a certificate of residence for urban areas, U_{em2} refers to the employed persons with a certificate of residence for urban areas corresponding with the U2 unemployment concept, which excludes the employees with an informal job in the definition of the 1st and 2nd unemployment rate. The labor supply with a certificate of residence in urban areas is $U_{unem2} + U_{em2}$. The assumption of the 4th unemployment rate (U4) neither

considers employment and unemployment situations of migrant workers nor regards an informal job as employment. It can be expressed by the following formula:

$$U4 = \text{Unem2} / (\text{Unem2} + \text{Uem2})(5)$$

3.2 Estimation of Four Unemployment Rates

Estimation of four urban unemployment rates in China is made on the basis of data on urban residents in 2002. The survey was organized and accomplished by an income distribution research team of the Institute of Economics of the Chinese Academy of Social Sciences, having obtained the active coordination of urban survey team of the National Bureau of Statistics and with the financial support of the American Ford Foundation and the Swedish Agency of International Development. The survey samples cover 12 provinces, cities and autonomous regions including Beijing, Shanxi, Liaoning, Jiangsu, Anhui, Henan, Hubei, Guangdong, Chongqing, Sichuan, Yunnan, Gansu, etc., having collected 7000 residential samples with certificates of residence for urban areas and 2000 samples of certificates for flowing populations in rural areas. According to the national population census data in 2000, rural labor accounts for approximately 18% of urban employment. In view of the further increase in the quantity of migrant workers in 2002, Chinese scholars set the weight of migrant workers in urban employment at 20%. Their survey samples demonstrate that the unemployment rate of migrant workers at the time was 2.79%.⁷

3.3 Structural Analysis of Unemployed People

Besides, Chinese scholars have made further description and analysis of urban unemployment rate according to individual characteristics, relevant enterprise and regional features, contributing more specifically to the diverse situations of unemployed individuals.

Viewed from the individual characteristics of unemployed persons, the male unemployment rate is very low and male unemployment rate is also lower than female unemployment rate by 4.20(U1), that is 4.97(U4) percent. Marital status is related to unemployment rate to some degree. Employment status of married people are obviously better than persons in other marital status and unemployment rate is lower than people in other marital status by 8.76(U1), 8.79(U4) percent. There is no doubt that low state of health will easily lead to unemployment. Unemployment rate of the healthy is lower than the unhealthy by 9.87(U1), 13.36(U4) percent.

Figure 3 Unemployment Rate Categorized by Individual Characteristics

	U1 (%)	U4 (%)		U1 (%)	U4 (%)
Male	6.67	10.07	36-40	5.49	8.22
Female	10.87	15.04	41-45	6.4	10.63
Married	7.44	11.08	46-50	9.06	14.13

⁷ Source of Materials (1) Sample Survey Data of Urban Residents in 2002; (2) Sample Survey Data of Temporary Residents Entering City in 2002

Unmarried or others	16.2	19.87	51—55	8.42	12.76
Healthy	8.2	11.79	56-60	10.57	15.03
Unhealthy	18.07	25.15	Education Degree		
Age Group			University and Above	1.18	1.67
16-20	37.68	44.85	Junior College	4.15	5.14
21-25	17.21	21.23	Special School	7.45	9.34
26-30	9.76	14.21	Senior High School (Vocational High School, Technical School)	10.18	14.74
Age Group			Junior High School	13.31	111.91
31-35	5.6	8.55	Primary School and Below	13.2	19.46

Age and level of education are the important elements affecting employment status. Viewed from the different age groups, unemployed age group from 16 to 20 years is the highest, because the population of this age group have just entered the market, a rather large proportion among them cannot find jobs immediately. The proportion of unemployed youth in this category is 43.03%; whereas the proportion of unemployed people in the age group from 21 to 25 is 15.08%, making unemployment rate for this age group still remain at a rather higher level. However, the age group from 31 to 35 and from 36 to 40 are within a strong and powerful period. In addition, as the many are parents, being employed is an important factor for the family, the burden they have to bear is also very heavy. The unemployment rate of these two age groups is the lowest, which seems to demonstrate that labor resources have been efficiently distributed in some sense. Education has promoted human capital and it could improve people's employment chances. It can easily be seen that the unemployment rate basically decreases with the improvement of the level of education, although nonlinear change is mixed within. Unemployment rate of population with bachelor degree or above is the lowest, and U1 and U4 are respectively 1.18% and 1.67%. It is interesting that the group with the highest unemployment rate is not those with the primary education, but those with a junior high school education. The unemployment rate of those with a junior high school certificate is 13.31% (U1), 19.91% (U4), 10 times higher than the unemployment rate of those with ... a college degree or above. The unemployment rate for persons with a primary school education and below is slightly lower than junior high school level, but has reached 13.20(U1), 19.46%(U4).

Marketization degrees of various sectors differ, so it is with the impact of reform measures, the unemployment rate will also be varied. The unemployment rate of the manufacturing industry is the highest, and unemployment rates of U4 and U1 are respectively 18.76% and 11.73%. Unemployment rates of the construction industry, wholesale and retail trade and catering industry follow.. The industries with relatively lower unemployment rate are the state-run organs, political organs and social unions; education, cultural art and broadcasting, movie and television industry; hygiene, sports and social welfare industry, among which, unemployment rates of stat-rune organs, political organs and social unions are only 0.58% (U1), 0.89%(U4).

Figure 4 Unemployment Rate Categorized by Industry and Ownership

	U1 (%)	U4 (%)
Industry		
Farming, Forestry, Husbandry and Fishery	6.95	8.76
Mining Industry	4.65	8.14
Manufacturing Industry	11.73	18.76
Power, Gas and Water Production & Supply Industry	3.4	5.95
Construction Industry	10.26	14.36
Geological Exploration and Water Management Industry	2.7	6.74
Transportation, Storage and Post & Telecommunication Industry	5.3	7.42
Wholesale and Retail Trade	9.68	14.75
Financial Insurance Industry	3.86	5.52
Real Estate Industry	5.72	6.11
Social Services Industry	3.89	6
Hygiene, Sports and Social Welfare Industry	1.46	2.07
Education, Cultural Art and Broadcast Movie & Television Industry	0.78	1.19
Scientific Research and Comprehensive Technology Service Industry	2.59	3.78
State-run Organs, Political Organs and Social Unions	0.58	0.89
Other Industries	7.02	12.4
Unit Ownership Characteristic		
(Central, Provincial) Wholly State-owned	7.45	11.32
(Regional) Wholly State-owned	12.38	18.68
Urban Collective Ownership	17.65	30.37
Urban Private (including Joint Enterprise)	4.06	6.87
Urban Individual (Enterprise)	3.1	4.74
Sino-foreign Joint Enterprise	3.96	6.59
Foreign Enterprise	10.54	9.68
State Holdings Enterprise	6.31	10.26

Different ownership property leads to different enterprise unemployment status. It can be seen from Figure 4 that unemployment rate of urban collective ownership enterprise is the highest; U4 unemployment rate is as high as 30.37% and U1 unemployment rate has reached 17.65%. The next highest unemployment rate is regional wholly state-owned enterprise, 18.68% (U4) and 12.38% what is noteworthy is that U4 and U1 unemployment rates of (central, provincial) wholly state-owned enterprises are respectively 11.32% and 7.45%, lower than general urban unemployment rates 12.35% (U4) and 8.59% (U1). This has reflected to some degree that large -scale state-owned enterprises has not received excessive conflict of reform measures and market competition, and business status can maintain on a relatively higher employment level. Unemployment rate of urban individuals and private enterprises are relatively lower, which demonstrates that employment flexibility of urban individuals and private enterprises is relatively higher. Unemployment rate of urban individual enterprise and self-employed is the lowest, and U4 and U1 are only 4.74% and 3.18%.

Regional differences in industry structure, ownership constitution and economic development level will naturally give rise to differences of the unemployment rate. If the country is divided into three areas:

east, central and west, then we can find that the unemployment rate in central areas is the highest, U4 and U1 are respectively 13.92% and 9.22%. Unemployment rate in the western areas is close to the national average level. The unemployment rate in the eastern areas is the lowest, and U4 and U1 are respectively 10.88% and 7.81%. Meanwhile, employment opportunity in cities of different sizes also differs. Unemployment rate of big cities is higher than medium and small cities, although no great differences exist. Unemployment rate of big cities are 12.46% (U4) and 8.95% (U1), and unemployment rate of small and medium cities are 12.28%(U4) and 8.45%(U1).

Figure 5 Unemployment Rate Categorized by Regions

	U1 (%)	U4 (%)		U1 (%)	U4 (%)
Eastern Areas	7.81	10.88			
Middle Areas	9.22	13.92	Big Cities	8.95	12.46
Western Areas	8.85	12.34	Medium and Small Cities	8.45	12.28

4. Chinese Unemployment Insurance System

The Chinese Unemployment Insurance System is a kind of social security system legislated and accomplished forcibly by the country, as formal systematical arrangement under Chinese Unemployment Insurance System. The Chinese unemployment Insurance System was originally established in 1986 and had been gradually improved since the promulgation of *Unemployment Insurance Ordinances* in 1991.

4.1 Establishment of Chinese Unemployment Insurance System

In July, 1986, Chinese State Council promulgated *Temporary Regulations of Unemployment Insurance of State-owned Enterprise Employees* (Later called *Temporary Regulations*), marking the initial establishment of Chinese Unemployment Insurance System. *Temporary Regulations* has constructed the systematic frame for initial unemployment insurance, stipulating some fundamental contents constituting the system. *Temporary Regulations* limits the scope of unemployment insurance in 4 “Four Kinds of People” and establishes to collect insurance fees in the style of fund system, defining that enterprises shall pay insurance fee by 1% of the total of standard salary of all employees (Insurance fees are paid before enterprises have paid income taxes). Insurance treatment is defined as “Unemployment Relief Fund”, meanwhile defining qualification condition and treatment standard of receiving relief fund.⁸

It's not difficult to see from these fundamental contents that the unemployment system established in 1986 is an unemployment relief system only applicable to state-owned enterprises, besides the security

⁸ Qiao Zhen :“Legalization construction of the unemployment insurance institution in China” , Xue Xi Yu Tan Suo, Issue 3(2001)(55-57) in Chinese

⁹ Cheng Siwei: *Reform and Improvement of Chinese Social Security System*, Min Zhu Yu Jian She 2000. in Chinese

level is very low. The unemployed people don't undertake any paying obligation, and unemployment relief fund is only to resolve the most fundamental difficulties in life. If the standard of the unemployment relief fund of the time is calculated in terms of practical salary, replacement rate is about 40%, and unemployment relief fund per person is about 40 Yuan, only equivalent to 25% of an average salary of state-owned enterprises, lower than 50 Yuan financial difficulty allowance stipulated by the state. Viewed from the insured person, the problem that risk and insurance don't match exists, thus structural deficiency of unemployment insured object was formed. On the one hand, many real unemployed persons (i.e. those with long-term absence without pay, etc.) can not be secured; on the other hand, the unemployment relief fund cannot be released. Therefore, under the condition that the source of unemployment insurance relief fund was not abundant at the time, the accumulating speed of the fund was rather fast. At the end of 1989, the total of the national unemployment insurance fund was 1.8 billion Yuan, but only 12,200,000 Yuan unemployment relief fund was released.

In 1986, unemployment insurance system was initially established, but because of its own systematical deficiency, it was just a system symbol and to a large degree, not having played its role.⁹ In May, 1993, aiming at deficiencies of *Temporary Regulations* of 1986, which can only be accomplished within a narrow scope, besides, security level is rather low and fund capacity is inadequate, the State Council issued *Unemployment Insurance Regulations of State-owned Enterprise Employees* (Later called *Regulations*). *Regulations* continues within the design frame of *Temporary Regulations* in the aspect of organization and management model, capital accumulation, etc, but has enlarged the applicable scope, expanding the applicable scope of *Temporary Regulations* from "Four Kinds of Persons" to seven categories, but is still limited within the internal state-owned enterprise. In addition, with regard to qualification stipulation, the newly-established regulations does not abide by the principle that only persons whose unemployment is triggered by causes other than their own is entitled to enjoy unemployment insurance treatment. Furthermore, *Regulations* has adjusted the reference criteria of unemployment insurance treatment, changing from original reference to one's own standard salary to reference to social relief level, and the change enables all unemployed people within a legally applicable scope to enjoy equal unemployment relief benefits.

4.2 Improvement of Chinese Unemployment Insurance System

Although the Regulations of 1993 has improved the original unemployment insurance system in many aspects, it has not changed the system framework from grass root levels. With the establishment of a socialist market economic system and a modern enterprise system, it is obvious that unemployment insurance system with unemployment relief as a fundamental characteristic cannot satisfy the demand of establishing unified a labor market, realizing reasonable allocation of labor resource and socialization of

social security. *Unemployment Insurance Rules* (Later called *Rules*) was released by the Chinese State Council in January, 1999, which was a significant landmark event in the history of Chinese unemployment insurance. From then on, the Chinese unemployment insurance system stepped into a new development era. Based upon the *Regulations* of 1993, several key points in the original system framework were revised, which are mainly expressed by the following aspects:

4.2.1 The system is officially named as “unemployment insurance”, correspondingly “unemployment relief fund” is formally changed to “unemployment insurance payments”. It indicates that China has accepted the fact that unemployment is the objective economic phenomenon in a socialist market economy and will continue to exist for a long time, which has to be administrated in accordance with a perfect system.

4.2.2 The scope of unemployment insurance expands to all urban enterprises and institutions.

The expansion of the scope of insurance under unemployment insurance, on the one hand, can make all labor of all urban enterprises and institutions enjoy equal rights to participate in unemployment insurance, so that their fundamental living standard can be secured and they can receive re-employment service; on the other hand, favorable external conditions are provided for all enterprises and institutions to reform the personnel system, to further promote the labor flow and establish a united labor market.

4.2.3 It has adjusted payment proportions of unemployment insurance premium, established payment-sharing system of insurance premium between unit and individual. On the one hand, improve unemployment insurance rate shared by unit from 1% to 2%; on the other hand, with regard to individuals, former non-payment is changed to payment of unemployment insurance at 1% of one's own salary. Regulations that employee should individually participate in the payment has strengthened personal responsibility and expressed the social insurance principle that rights and obligations are equivalent.

4.2.4 Link the payment standard of unemployment insurance premium with the lowest salary and the lowest life guarantee of urban residents. *Rules* stipulate that the level of the unemployment premium is lower than the lowest local salary and higher than the lowest life guarantee line of urban residents. Specific payment standard is decided by all local governments according to local practical situations.

4.2.5 Make clear and specific stipulation of payment period of unemployment insurance premium. *Rules* stipulate that three payment periods should be defined according to the accumulated payment period of individuals and units before unemployment: in case that accumulated payment period is 1—5 years, one can receive unemployment insurance premium for 12 months at the longest; in case that accumulated payment period is 5—10 years, the longest period is 18 months; in case that accumulated payment period is above 10 years, the longest period is 24 months.

After 1993, when China was establishing and improving its unemployment insurance system, special

emergency measures were taken about large-scale structural unemployment phenomenon resulting from systematical transition and structural adjustment in state-owned enterprises, that is, to set up corresponding basic life guarantee system for laid-off employees and provide security for special unemployed groups during the period of transition.

A basic life guarantee system of laid-off employees was issued in 1993 as a transitional policy. But until 1997, although the work had been commonly accomplished across the country, a uniform system was not yet formed. In May, 1998, the Central Committee of the CPC and the State Council held a national working conference of basic life guarantee and re-employment of laid-off employees of state-owned enterprise and formed a uniform system and stipulation in principle, establishing the main contents of basic life guarantee system of laid-off employees: first, any enterprise with laid-off workers shall establish a re-employment service centre or similar institutions. Secondly, the financing shall be resolved by a “Three-Three System”: financial department shall bear 1/3; enterprises shall bear 1/3; social accumulation shall bear 1/3 (mainly from the unemployment premium). Thirdly, the longest period during which the re-employment service centre shall manage and provide security for laid-off employees is 3 years. For those who could realize re-employment during this period, the labor relationship shall be transferred to the new unit; for those who cannot realize re-employment, the labor relationship with the former unit shall be released and transformed into formal unemployment.¹⁰

A basic life guarantee system for laid-off employees shall be combined with the unemployment insurance system finally as a kind of substitution for the informal unemployment insurance system. According to the reform goal formulated by the State Council, lay-offs of employees on a large scale will not occur after 2000. Laid-off employees who have entered the re-employment service centre shall gradually release the labor relationship with enterprises. In 2003, all laid-off employees shall walk out of the re-employment center, with a changed status and enter the market.

4.3 Evaluation of the existing Chinese Unemployment Insurance System

The Chinese unemployment system was originally established in 1986 and has achieved the transference from symbol of system to effective system over the past 10 years. The reality has proved that the existing Chinese unemployment insurance system is basically an effective system, very rational and applicable; it has also, been shown that a major function of the system can be achieved with fundamental improvements. However, the effectiveness and continuity of the system still requires further improvement. The text has evaluated the Chinese unemployment insurance system from three aspects, namely applicability, effectiveness and continuity.

¹⁰ Luo Rundong: *Urban Laid-off Unemployment and Management*, Zhong Guo Fa Zhan, 2002 in Chinese.

4.3.1 Adaptability of the Unemployment Insurance System

4.3.1.1 System model corresponds with the development of the times. Viewed from the global perspective, unemployment insurance was dominated by a social assistance mode at the beginning of implementation and has gradually been transformed into the insurance mode. Currently among the countries that have established an unemployment social security system, of which 4/5 have implemented unemployment security based on insurance mode. Only a few countries or regions such as New Zealand and Hong Kong adopt the single assistance mode. Since the promulgation of “Unemployment Insurance Rule” in China in 1999, unemployment insurance has realized the transition from social assistance to insurance mode, and individual responsibility is emphasized in unemployment security, and unemployed persons are thus able to enjoy the benefits of unemployment insurance. The unemployment insurance mode characterized by relative rights and obligations is consistent with the trend of international reform.

4.3.1.2 System function corresponds with the social and political situation during the transitional period of China. Unemployment insurance is the social insurance with "noble quality", closely related to the level of economic development. Among 172 countries and regions in the world that have already established social security systems, an average of 40% of these have also established unemployment insurance systems. However, the percentage in low-income countries with average per capita income of less than 700 dollars is only 13%, but the percentage is as high as 92% in high-income countries with average per capita income of more than 10,000 dollars. Measured by the level of economic development in the 1980s and 1990s in China, it seemed that China did not have the economic base in order to establish an unemployment insurance system. For the Chinese, the basic background for establishing an unemployment insurance system is mainly for political and social considerations, that is, the commitment of lifelong employment for state-owned enterprises in the planned economy era, because the market economic reforms cannot maintain the commitment, if there is no corresponding unemployment insurance system to undertake moderate substitution and relief, then the Government's credibility will be damaged and tens of millions of jobless workers will cause an incalculable impact on the entire society because the income and life of jobless workers does not have assured source.¹¹

4.3.1.3 Low-level security corresponds with the level of Chinese economic development. At present, the unemployment insurance for livelihood security of the unemployed is at a low level, usually only equivalent to 60-70% of the local minimum wage, and in some underdeveloped areas, unemployment insurance benefits are almost equal to subsistence allowances. According to a large-scale sample survey by Sun

¹¹ Mao Jian (Chief Editor) : *Unemployment Insurance* (in Chinese), China Labour and Social Security Pressing House 2004

Liping et al. in Shenyang and Changchun in 2003 and 2004, the average monthly household income per capita of laid-off workers is 218 RMB, and the average monthly household expenditure per capita is 215 RMB, barely maintaining a “fragile balance” between income and expenditure. China has just emerged from the ranks of low-income countries, and financial resources of state are limited. Coupled with the of rigidity that social insurance should be in the upper level instead of lower level, this implies that the most important function of the Chinese current unemployment insurance is to cope with an emergent need and to provide the unemployed with temporary and basic economic help. This not only corresponds with Chinese economic development level, but also effectively avoids repeating the “unemployment trap” that once afflicted many “welfare state”.

4.3.2 Effectiveness of the Unemployment Insurance System in China

4.3.2.1 The life of the unemployed is basically guaranteed, and social stability during the period of economic transition (between unemployment and finding re-employment) is maintained. Since the 1980s, with the gradual intensifying reform of Chinese economic system, the redundant workforce of state-owned enterprises is gradually separated, thus forming a large-scale portion of the unemployed. Under such great pressure, China is able to basically maintain the stability of social order and growth by stages of the economy, in which the unemployment insurance system (including the basic livelihood guarantee system for laid-off workers) has played a major role.

Since the promulgation of *Rules* in 1999, the coverage of insurance of unemployed Chinese has been increasingly expanding. By the end of 2003, the number of people participating unemployment insurance had reached 103,730,000 all over the country, and a total of 7.42 million unemployed were provided with unemployment insurance benefits on various different terms all year around. Meanwhile, the distribution amount of unemployment insurance benefits has increased year by year to ensure that laid-off workers can maintain a basic living standard.¹²

4.3.2.2 The policy of “re-employment project” is formulated, but the policy is inefficient. Till now, the problem of the re-employment of laid-off workers has still been a top priority among all tasks of government at all levels. In order to promote re-employment work, a series of preferential policies are put forward for laid-off workers at all parts of country, and these policies have created favorable conditions for laid-off workers, so that they could start a new job or their own businesses. From 1998 to 2000, a total of 23 million laid-off workers from state-owned enterprises had entered re-employment centers, and

¹² Source of Data of 2003: State Council Information Office: *China's Social Security and Its Policy (2004)*

¹³ Zheng Gongcheng: *Change and Evaluation of the Chinese Social Security System* (in Chinese), China Renmin University Press 2002 Page 176

16,500,000 people left the center, of which 88% were re-employed. In 2003, there were 10.38 million laid-off workers receiving a "re-employment benefits card", and a total of 440 million people were assisted to realize re-employment, among which there were 1.2 million people who were born after "1940s and 1950s".¹³

But it should also be noted that the Chinese "re-employment project" is also obviously deficient in the system design. The main implementers of "re-employment project" are government and some enterprises, and they are in the leading position. The decentralization of management functions, the insensitivity in reflecting market demand, as well as the difficulty for people who have to make their own choices, all these lead to inefficiency of the part of the "re-employment project" policies. A typical example is re-employment training, the result of which is ineffective although a great amount of money is spent and the effort of seeking work is intensified. In 2000, the sample survey in Wuhan and Shenyang showed that 82% of laid-off workers who have achieved re-employment believed that the training they received was not helpful to their current work, and the percentage was as high as 91% among the laid-off workers who were in self-employment or started their own business. Because of some over-principled regulations, some re-employment policies not only have strong political hue of mobilization, but also are inevitably accompanied with formalism in actual implementation. For example, some local government starts needless projects and recruits unnecessary labor and makes them do unnecessary work in order to solve the unemployment problem for laid-off workers. All this is just to "buy" a pretext for paying living expenses.

4.3.2.3 The systematical function on facilitating employment is obviously inadequate. From the perspective of social policy, employment is the best social policy, and the system of promoting re-employment of the unemployed is the best way to solve unemployment. The reason for this is self-explanatory. Because the rise in unemployment, the rate is like a "double-edged sword" to unemployment insurance, the increase by 1% of the unemployment rate not only means the loss of 1% source of unemployment insurance fund, but also means to provide unemployment insurance benefits for every unemployed person.

The Chinese unemployment insurance system clearly determines two systematical functions of living security and employment promotion since the beginning of its establishment. However, during the specific implementation process of the system, there were some irregularities of fund management, abuse and embezzlement of unemployment insurance fund in the name of employment and service, and even in some places, 70% unemployment insurance were used for the "Warmth Project". Thus current *Unemployment Insurance Rules* makes a strict limit on the expenditure of insurance fund for the promotion of employment, making the system function on promoting employment less obvious. Viewed from the expenditure structure of the unemployment insurance fund, the proportion of expenditure (including transfer and training costs, allowance for profession introduction and expenditure for supporting re-employment service centers) used to promote employment is declining year by year since 1999, most of which is used

to pay unemployment insurance.

4.3.3 Sustainability of the Unemployment Insurance System

4.3.3.1 The formation of "new unemployed groups" is challenging the unemployment insurance system.

Chinese unemployment security system is characterized by insurance model aims at "old unemployed groups" who are formed by the laid-off workers of enterprises at the beginning of its establishment, but in recent years, the "old unemployed group" tended to drop after the peak, and "new unemployed groups" are also emerging subsequently, "new unemployed groups" are composed of the young jobless, and a considerable part of them join the ranks of the unemployed directly after graduating from school. According to the survey of labor market conditions in 89 cities by the Ministry of Labor until the end of 2002, the average age of the unemployed was 33.4 year old, and the unemployed young people under the age of 35 accounted for 55.5% of all unemployed persons.

"New Unemployed Groups" mainly composed of young people are confronted with the absence or inadequacy of compensation within the family on one hand: elder generation holds very few resources and has to prepare for their own retirement; being the only child in the family, young people cannot get support from brothers and sisters; being young, young people have no next generation to rely on. On the other hand, because young people never work or are only engaged in temporary jobs, they never pay unemployment insurance premium, and cannot obtain institutionalized unemployment insurance according to current system, and even all preferential policies to support employment also forget "new unemployed groups." So for the time being, the unemployment insurance system obviously cannot meet the needs of "new unemployed groups", however, the more disturbing thing is that the scale of "new unemployed groups" is continuously increasing.

4.3.3.2 Diversification of the employment pattern is challenging the unemployment insurance system.

Now, with the establishment of a Chinese socialist economic system and industrial structural adjustment, the trend of employment pattern diversification has been increasingly apparent, and more and more informal employment appears as temporary employment, flexible employment, domestic service, self-employment, etc.. Diversification of the employment pattern is in line with Chinese employment policy choices to resolve serious employment problems during both current and future times, but it should be noted at the same time that irregular unemployment will come into being with a diversification of current employment patterns, which is undoubtedly a challenge for the unemployment insurance system, in its aims to cope with traditional employment as well. For example, because of the instability of informal employment and income fluctuation, the question is how to define the boundary between unemployment and non-regular employment? How to determine the payment base of unemployment insurance? How to determine the minimum time limit of cumulative or continuous benefit payments and so on.

In fact, whether unemployment insurance system should cover groups of informal employment gives rise to a further dilemma. From the point of view of employment, more and more persons are engaged in informal and diverse types of employment, so the unemployment insurance system should cover a variety of new employment groups – that is, as many as possible from the perspective of promoting employment. However, viewed from the burden of enterprises (or employers) and individuals, if enterprises and individuals have to undertake the payment of various social insurance, the cost advantage to the labor market will be weakened, thereby the development of informal employment will be inhibited, then unemployment may be expanded, thus increasing the burden of unemployment insurance. Therefore, diverse types of employment, particularly the expansion of informal employment groups, is said to give rise to a big problem to the existing unemployment insurance system.¹⁴

4.3.3.3 The comprehensive combination of newly laid-off workers and long-term unemployment is challenging the sustainability of the unemployment insurance fund. Chinese unemployment insurance benefits are undoubtedly at a low level, but even this low standard, in 2002, the income and expenditure of the unemployment insurance fund cannot be balanced in some Chinese provinces and cities, such as Tianjin, Chongqing, Jilin, Inner Mongolia, Anhui, Qinghai, and Liaoning, and deficits have prevailed in some provinces and cities, such as Chongqing, Tianjin and Jilin for 3-4 years.

Some international organizations and domestic scholars¹⁰ argue that Chinese current payment level of unemployment insurance is far from enough to meet the requirements. The International Labor Organization (ILO) argues that the payment rate of 3% can only maintain the unemployment rate of 7%-10%. With the comprehensive combination of newly laid-off workers and long-term unemployment, there is considerable doubt about the responsibility of the unemployment insurance which should provide unemployment benefits to laid-off workers on the condition that the payment rate of the unemployment insurance is not adjusted, and some scholars think that actual payment rate of unemployment insurance organized by the Chinese should reach 8%. But in fact, for a long period it has not been feasible to improve the payment rate of unemployment insurance. Because the burden of social security insurance is rather heavy on Chinese enterprises and individuals at present, “five guarantees” rate by enterprises is as high as 30%, and personal payment rate is over 10%, plus the burden of housing accumulation fund, is almost the same as western welfare countries, so it is not possible to upgrade the rate of the unemployment insurance.

¹⁴ Song Xiaowu (and other editors): Report on the Reform and Development of China's Social Security System(in Chinese), China Renmin University Press 2001.

¹⁰ Qu Zhijun :”Historical Review of Chinese Unemployment Insurance and thinking ”(in Chinese) , Shanghai Academy of Social Sciences Press 2009, (75-99).

The year 2000 witnessed a peak period of Chinese worker's being laid off. The scale of laid-off workers is more than 10 million; 11.74 million in 1999; 10.98 million in 2000, and separation rates were 5.59% and 5.16% respectively, and both were much higher than the level of urban registered unemployment rate, 3.1% for these two years. With the combination of newly laid-off workers and long-term unemployed, although a considerable part of laid-off workers will not enter the field of unemployment insurance through re-employment, can the unemployment insurance bear the pressure from the laid-off workers because it is very fragile by itself? In fact, one of the reasons for slow combination of newly laid-off and long-term unemployed in the mid-west area is that the accumulation of the unemployment insurance fund is not enough to bear the shift from recently laid-off to long-term unemployment.

4.3.3.4 The overall planning for employment in urban and rural areas is challenging the statistics system of the unemployment insurance fund. In China, according to the regulations of the statistics system, the unemployed people refer to non-agricultural population within certain age (from 16 to statutory retirement age), with the ability to work, unemployed during the reporting period and having registered for employment at their local labor department according to "provisions of employment registration" of the Ministry of Labor. The resulting unemployment index is known as the "urban registered unemployment rate."

It is an international practice to register the unemployed people on a voluntary basis, because registration shows that they have the aspiration of employment, which is consistent with internationally recognized judgment criterion on unemployment. Viewed formally, the Chinese "Urban registered unemployment rate" is in line with international practice, but the defect of this indicator is also obvious under specific conditions in China. First, the registered unemployed persons do not include laid-off workers, but the flaw will tend to disappear with the combination of laid-off and unemployment. Secondly, the registered unemployed people only include those who hold the certificates of residence in urban areas, and even migrant workers who take up jobs in cities are excluded.

In fact, since the formation of the "migrant worker tide" of the early 1990's, a simple but deliberately ignored truth has been demonstrated: the unemployment problem in the rural area is not irrelevant to the city, but it has directly affected the urban job market. In 2000, China put forward formally the development strategy of overall planning for employment in urban and rural areas, but this strategy was not represented in the field of unemployment insurance. Although peasants, especially migrant workers, had entered the urban labor market, they were still separated from the scope of unemployment statistics and unemployment insurance. At present, more than 100 million migrant workers have worked in cities, accounting for more than half of the industrial workers. Long-standing neglect of such a significant workforce not only will lead to the distortion of the unemployment rate indicator but will also certainly affect the coverage of unemployment insurance, and limit the overall function of unemployment insurance.

4.4 Defects of Chinese Unemployment Insurance System

Even in economically-developed western countries, unemployment insurance is also a controversial issue, because the targeted recipients are healthy, able-bodied adults. In China, although the unemployment insurance system is the most normatively institutional arrangement among all social insurances, its history of development has been beset with difficulties, especially its supporting capabilities are inefficient and its development capability is not sustainable, thus greatly affecting the institutional effectiveness and social credit. So, improving the unemployment insurance system must be treated as the first priority.¹⁵

4.4.1 Imperfection of Unemployment Statistics Index System & Lack of Unemployment Alarm System

At present, only the urban registered unemployment rate is widely used to reflect unemployment situations in China, because there are some flaws in the index itself, it cannot fully reflect the real situation of unemployment in China. At the same time, in order to reflect such complicated socio-economic phenomenon of unemployment, even a flawless index is definitely too thin and slim. So, it is necessary for China to gradually perfect the system of unemployment statistics and establish a statistics indexing system reflecting comprehensively the unemployment situation. First, statistics of the unemployment rate of different levels of aggregation is imperative. A low level of aggregation refers to the urban registered unemployment rate; medium refers to urban unemployment rate, i.e. the sum of the number of urban registered unemployed and the number of the unemployed among laid-off workers, and this index can reflect actual situations of urban unemployment; a high aggregation level is total unemployment rate, i.e. urban unemployment rate plus unemployment rate in rural areas. Three unemployment rate indexes of different calibers from minor to large and in the way of cumulative progression, can reflect the unemployment situation at different levels. The second is to increase the indexes reflecting the serious situation of unemployment such as average duration of unemployment, proportion of long-term unemployed, proportion of partly employed; the third is to increase the statistics indexes of unemployment insurance, including the number of insurance, the number of receivers, collection amount, payment amount, per-capita average receiving period, and per-capita monthly receiving amount, etc. Under conditional circumstances, it is necessary to promote the classification of unemployment statistics indexes, such as the number of voluntary unemployed and involuntary unemployed. In addition, there is only annual statistics of unemployment in China, but there is no standard quarterly statistics and internationally accepted monthly statistics. Therefore, it is compulsory to establish a monthly, and quarterly unemployment statis-

¹⁵ Li Songji, Guo Yongfen : Reform and Improvement of Chinese Unemployment Insurance System, Shang Ye Yan Jiu December 2002 (80-81) in Chinese

tics system, and to make the analysis and prediction of unemployment statistics, mainly based on recent statistics and taking medium and long term statistics into account.

4.4.2 No Establishment of Central Adjustment Fund of Unemployment Insurance

Currently, in the process of combining laid-off workers and long-term unemployed, there is tremendous payment pressure on the Chinese unemployment insurance fund, but another tougher problem is that regional distribution of fund balances are not even. At present there are nearly one thousand coordination units, of which there are a significant proportion of county-level coordination units. Because the range of fund transfer is small, more than 20 billion fund balances cannot be fully utilized. Viewed from a national perspective, according to income and expenditure of the unemployment insurance fund in 1999, its revenue in eight provinces and cities - Beijing, Shanghai, Jiangsu, Zhejiang, Shandong, Guangdong, Fujian and Tianjin in the east coast - accounted for 49% of national income, rolling balance 41%, and the number of unemployed who enjoyed unemployment insurance benefits accounted for 47% of the country. However, in the 23 central and western provinces and autonomous regions, because of the large number of laid-off workers, a large amount of enterprises faced closure and bankruptcy, low wages of employees, and here the shortage of the unemployment insurance fund is very conspicuous. First, this non-equilibrium situation is against the basic principles of social insurance and does not achieve the goal of sharing the risk throughout society, departing from the original intention to establish the unemployment insurance system. Secondly, the limited fund has failed to be effective, thus idly wasting its inadequate resources.

Currently, in addition to Beijing, Shanghai and a few other cities, overall planning for all income and expenditure of the unemployment insurance fund has not fully been conducted at prefectural and municipal levels in other parts of China. The general practice is a “three-level management, dual-level transfer”. So, the implementation of *Rules* should be carried out gradually in the near future and the overall planning for all income and expenditure of the central unemployment insurance funds should be realized in cities that are divided into districts and the role of provincial adjustment payments shall be fully played. In view of the difficult situation in the central and western regions, especially during the current period of combining newly laid-off workers and the long-term unemployed, the problem of an insufficient fund is very conspicuous, so it is necessary to establish central adjustment fund of unemployment insurance, and to carry out re-distribution among different regions throughout the country in order to ensure the payment ability in the areas with heavy burdens of unemployment. The source of a central adjustment fund can be raised from unemployment insurance fund of all provinces, but the main part should be raised through discounting state-owned assets and increasing central budget subsidies or other measures.¹⁶

4.4.3 Weak Employment Promoting the Function of Unemployment Insurance

¹⁶ Tian Xiaobao: *China's Social Security*, Wu Zhou Chuan Bo 2002 in Chinese.

From a middle and long-term perspective, Chinese unemployment insurance cannot only play a negative relief role afterwards, and its function on promoting employment should be strengthened. Two systematical functions established by the Chinese unemployment insurance: livelihood security and employment promotion, which are not only in accordance with developmental trends of international unemployment insurance systems, but are also compatible with traditional Chinese culture emphasizing hard work and self-help. Strengthening the employment promotion function is both the medium and long-term goal of systematical development and the fundamental goal.

Viewed from a fund-bearing ability, it is not possible to increase the expenditure of employment promotion in the unemployment insurance fund at present, and therefore the most important work is to improve the system's efficiency in promoting employment. First, it is necessary to optimize the existing traditional employment service activities, such as professional introduction, vocational guidance, training, etc. It is necessary to change fundamentally the existing management confusion and policy inefficiency or present ineffectiveness. It should be pointed out that optimization service does not mean that the government should undertake the complete task. The government can strengthen cooperation with non-governmental organizations (NGOs) in the field of employment by learning from the successful reform experience of welfare states. Government should provide policy and appropriate economic support by way of authorization or contract purchase, and non-governmental organizations (NGOs) as the mainstay should provide services such as professional induction courses, vocational guidance, training, etc. The second is to further improve the system of public release of employment information. The government should establish a dynamic tracking system of changes of employment information and labor market and provide comprehensive information service such as unemployment insurance and related policy guidance, legal advice, etc., and this dynamic information must be made available to the public. Currently it is necessary to realize the network system of information about employment information and labor market overall so that the unemployed and other agencies in need of information are able to inquire easily and openly, to use freely, then to gradually establish channels for information communicating between the different areas.

4.4.4 Malfunctioning of the Unemployment Insurance Fund

At present, "unregistered employment" in China is the greatest erosion into the unemployment insurance fund. According to the survey of the re-employment service center of Shanghai Textile Industry, 60.8% of laid-off workers are in a state of "unregistered employment". Another sample survey shows that about 50% are in a state of unregistered employment among the unemployed persons who have been included in statistics of unemployment in Shanghai, so the phenomenon of "unregistered employment" is already very common in China. The impact of "unregistered employment" group on the unemployment

insurance fund is two-fold: reduce the sources of fund's revenue on the one hand, and increase the fund's expenditure on the other.

5. Conclusion: Chinese Governmental Comments on Relief Policy for the Unemployed

The unemployment rate of member countries of the United Nations Economic Cooperation and Development Organization (OECD) was 8.6% in August, 2009, showing a trend of increase for 6 months. Spain was still the country with the highest unemployment rate among all member countries, and its unemployment rate was 18.9% in August, followed by Ireland (12.5%), Slovakia (11.6%), the United States (9.7%) and Hungary (9.6%). The Netherlands was the country with the lowest unemployment rate of 3.5% among all OECD member countries. The above figures show that Europe remains one of the areas with the most serious unemployment problems in the world. The unemployment rate of Mexico reached 5.9% in August, showing a trend of increase for 8 months, and became the country with the highest unemployment rate among developing member countries. The United Nations Economic Cooperation and Development Organization (OECD) said that the unemployment rate of many developed and developing countries will rise to double figures because of the heavy blow of the global financial crisis. The report of the G8 Summit Meeting in Rome in March 2009, pointed out that the unemployment rate of all member states might reach 10% except for Japan by the end of 2010. In the background information submitted to the conference of Labor Ministers held in Rome, Angel Gurría, Secretary-General of OECD, said that in three years by 2010, the number of the unemployed of member countries in the Organization will surpass that of the first decade in the 1980s including two oil crises. The report predicts that the economic growth in the G20 Group will shrink by 4.2% this year, and the previous forecast of this organization was 0.4% in November. By the end of January 2009, the average unemployment rate of OECD member countries was 6.9%, increasing by 1% over the same period in 2008 and the number of the unemployed increased by about 7.2 million.

The statistics data by the United Nations Economic Cooperation and Development Organization (OECD) show that the Chinese rich versus the poor polarization has become stable in recent years and may not be as severe as expected. This shows that the Chinese government has made achievements in solving some of the most serious social problems. In the report on the Chinese economy investigation published, the OECD said that increase of social welfare expenditure in rural areas and migration of more people from rural to urban areas play a role in curbing the widening gap between rich and poor. The organization, established in Paris, called on China to reduce the gap between the rich and the poor by increasing expenditure on social welfare and eliminating discrimination against rural residents. The report was the second important study on China by the OECD; It should be noted that China is not a member of OECD. This year China is expected to surpass Japan to become the world's second largest economy after

the United States. The OECD also called on China to adopt a series of measures to liberalize its economy, such as liberalization of interest rates in order to encourage banks to increase loans for small-sized enterprises, and the privatization of state-owned enterprises. The OECD also said that further appreciation of RMB will help the Chinese government to manage its economy more efficiently. The rapid growth of the Chinese economy over the past 30 years has allowed hundreds of millions of people to get away from poverty. But the income growth of high-income groups is much faster than that of lower-income groups, so the society in which once every one is equal to each other has become polarized. The tense relation between real estate developers and peasants losing farmland, factory owners and migrant workers often becomes the flash points of social conflict. This situation forced the Chinese government to reduce the income gap, and officials repeated that they would take further measures to improve the income of the poorest people. According to the statistics by the Chinese Academy of Social Sciences, the Chinese Gini coefficient (Gini index) was 49.6 in 2005, having surpassed that of the United States. The Gini coefficient is an index measuring income inequality, zero standing for absolute equality and 100 for absolute inequality. But the OECD used a statistics method that is said to be able to better reflect the fluctuation of price and urban unregistered migrant workers and concluded that the Chinese Gini coefficient was 41 in 2005, declining slightly to 40.8 in 2007. Viewed from the data by the OECD, the gap between rich and poor in China is still higher than that of the United States and that of most other developed countries. But the gap between the rich and the poor in China is still lower than that of South Africa, Brazil, Chile, Russia or Mexico. A lot of domestic critics called on China to narrow the gap between the rich and the poor, and to avoid the "Latin Americanization" of the economy, i.e. inequalities in wealth which appear in Latin America. Chinese officials often focus on the urban-rural income gap. Last year, the per-capita income of urban residents was about 2,500 U.S. dollars, over three times than that in rural areas of 750 U.S. dollars. The proportion has been expanding over the past 10 years. But this comparison did not include increasing migrant workers in cities and towns, and did not take into account the fact that prices are lower in rural areas. The OECD further said that the average income in urban areas is actually closer to twice that in rural areas, not three times after adjustment according to these factors.

In order to cope with large-scale urban lay offs and long-term unemployed on the one hand, Chinese government implements the system of basic living allowances for laid-off workers from state-owned enterprises, on the other hand, and constantly improves the unemployment insurance system and actively establishes urban subsistence security system in the hope to set up a "subsistence security network" to resist urban poverty. Under the "subsistence security network", when urban workers are laid off, they will enter re-employment service center first, and when they cannot find new jobs for at least three years will enjoy the benefits of unemployment insurance. Then there are others who receive unemployment insurance but cannot find new jobs (including those with low incomes) who should obtain a minimum allow-

ance. “Three guarantee measures”, which are interconnected, constitute the most important part of the social security system for laid-off workers in China. However, whether in terms of intensity of policies or from the scope of coverage, the above-mentioned policies are not enough to solve all the problems that confront us at the present time. On one hand, there are still a considerable number of poverty-stricken workers of enterprises who have not been included in “three guarantee measures”; on the other hand, even though people enjoy the support of these policies, the improvement of their living conditions is exceedingly limited. Income support policy which only aims to guarantee the basic livelihood is impossible to resolve the increasingly severe problem of unemployment, because further implementation of these social security policies means more financial investment and burdens on the one hand, and income support policy does not fundamentally help them get away from poverty on the other hand. In this case, to promote re-employment of laid-off workers has become another way to solve the problem. In September 2002, the CPC Central Committee and the State Council held a national re-employment work conference. *“Circular of the CPC Central Committee and the State Council on further re-employment of laid-off workers”* was issued after the conference, and relevant departments of the State Council have gradually formulated eight areas of supporting documents. This marks a major adjustment of labor market policy: shifting from relatively passive income support policy to active employment policy by encouraging employment as its main activity. Chinese active employment policy is a comprehensive labor market policy by drawing on some practices of active labor market policies in the West and adding many new contents as well.

It should be said that China's labor market policies have almost started from zero, and within just a few years, a series of policies, rules and regulations have been promulgated and the content of all these policies have covered a wide range of areas. The urgency of the unemployment problem has resulted in the fact that many promulgated policies were not based on the accurate command and understanding of the problem, but only on being practical in order to solve the immediate problems. As a result, many policies have neither the feasibility verification before promulgation as well as a lack of assessment of effectiveness of policy implementation. Especially for the latter, since the implementation of basic living social security system for laid-off workers in 1998, there have been many policies promulgated indeed, but whether these policies are effective or not and to what extent they are effective, there is no definite answer: Time only will tell.

Therefore, the prominent issue existing in the current Chinese labor market policy is the validity of policy. So far, the research documents on the effect of labor market policy are very limited in number, and almost no one really knows what policies are working, or what policies are not working. The World Bank has investigated the policy implementation effect of re-employment training in Shenyang and Wuhan and found that training in Shenyang would weaken employment opportunities, but in Wuhan it would improve employment opportunities. Simon Appleton et al. (2002) used sur-

vey data for 2000 to study the impact of personal characteristics on laid-off workers and the consequences of laid-off policy, finding that unemployment benefits have no effect on the duration of unemployment.¹⁷ As far as the minimum living security policy and unemployment insurance policy for urban residents are concerned, there has not been any study on the effect assessment of the policy. Many of the policies were formulated after the National Re-employment Working Conference in 2002 and the impact assessment of these policies are also blank because the implementation of policies is just over a half year. In fact, the evaluation of policy effects should be an integral part of the policy-making process, and the evaluation of policies should include both the assessment of effect of policy implementation and the analysis of costs and benefits related to policy. It is the only way to maximize the efficiency of the policies.

Another prominent problem existing in Chinese current labor market policy is the fairness issue. So far, both “negative” policy and “positive” policy content are essentially concerned with the issue of laid-off workers of state-owned enterprises. Laid-off workers of non-state-owned enterprises are often ignored by policy, and even some social groups such as migrant workers may be excluded from various policies. This policy deviation is very clear in the basic livelihood guarantee system, urban minimum living guarantee system and the newly promulgated active employment policy for laid-off workers in state-owned enterprises. Of course, such policy deviation is closely related to the feature of Chinese economy that is shifting from a planned economy to a market economy, because system reform and structural adjustment make the greatest impact on the interests of laid-off workers of state-owned enterprises. In this sense, this policy deviation has certain rationality. However, when the reform of state-owned enterprises is completed, the policy deviation should be ended, because the policy deviation for a certain category of staff means “discrimination” against another particular type of person, or simply unfairness. Therefore, from the perspective of development, this labor market policy with deviation should be soon ended in certain stage, and how to make the policy of labor market more fair and reasonable is an important issue for the future.

¹⁷ Simon Appleton, Labor Retrenchment in Chinese Determinants and Consequences, *Chinese Economic Review* 13 (2002) (252-275.)

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