Employment, Decent Work and Poverty Reduction in Urban China

Regional and Country Policy Coherence Report No. 4

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Abstract: This is a collaborative study, with the work carried out jointly between the Institute for International Labour Studies of the Ministry of Labour and Social Security, Government of the People's Republic of China, and the Policy Integration and Statistics Department of the ILO.
This study examines urban poverty in China, the underlying causality, and remedial policy through decent work. It arrives at a new and higher set of estimates for urban poverty than those current in the literature, newly prioritising urban poverty in the country. It traces this higher incidence of urban poverty to weaknesses in the urban labour market, principally a high level of unemployment, estimated here to be higher than the figure for registered unemployment. This high level of unemployment is seen to be based on a number of factors, including the necessary but high retrenchment impact of the restructuring of SOEs, a high level and rate of rural urban migration, resultantly increased pressure on a system of urban social protection already struggling to improve coverage, and a high and increasing level of informality, especially in new jobs. The study then appraises government policy to reduce urban poverty, especially focussing on the large income transfer program in urban areas, and the forms of urban social protection in place, noting the tremendous challenges for a system not yet geared to the rising tides of rural urban migration and informality. The study concludes with some strategic policy proposals made towards meeting these challenges.

JEL classification: I32, I38, J21.

Résumé: Cette étude est le produit d'une collaboration entre l'Institut d'Etudes sur l'Emploi du Ministère du Travail et de la Sécurité Sociale du Gouvernement de la République populaire de Chine et du Département de l'Intégration des politiques et statistiques du BIT.
Cette étude examine la pauvreté urbaine en Chine, ses causes et les politiques de promotion du travail décent. L'étude présente de nouvelles estimations sur la pauvreté urbaine qui s'avèrent plus élevées que les estimations antérieures et met l'accent sur la pauvreté urbaine au sein du pays. Cette incidence de la pauvreté urbaine s'explique par la faiblesse du marché du travail urbain, principalement due à un haut niveau de chômage dont l'estimation est supérieure à celle utilisée officiellement. Le niveau de chômage est perçu comme le résultat d'un nombre important d'éléments tels que l'impact considérable de la restructuration des entreprises d'Etat, une forte migration rurale vers les villes, l'augmentation de la pression sur le système urbain de sécurité sociale qui actuellement lutte pour élargir sa couverture, ainsi qu'un accroissement du travail informel parmi les nouveaux emplois. Cette étude évalue la politique publique visant à diminuer la pauvreté urbaine, en particulier le vaste programme de subventions à l'intérieur des zones urbaines et des formes existantes de protection sociale, et met en lumière les défis qui pèsent sur un système peu conçu pour gérer la forte migration rurale-urbaine et le travail informel. L'étude conclut avec quelques propositions de politiques pour aider à surmonter les défis exposés.

Classification JEL: I32, I38, J21.

Resumen: Este es un trabajo de colaboración entre el Instituto de Estudios sobre el Empleo del Ministerio de Trabajo y de Seguridad Social del Gobierno de la República Popular China y el Departamento de Integración de Políticas y Estadísticas de la OIT.
El presente estudio examina la pobreza urbana en China, la causalidad subyacente y la política correctiva a través del trabajo decente. Se presentan estimaciones nuevas y más elevadas de la pobreza urbana respecto de las presentadas en la literatura común, con una nueva priorización de la pobreza urbana en el país. Explica la mayor incidencia de la pobreza urbana a partir de la debilidad del mercado del trabajo urbano, principalmente debido a un alto nivel de desempleo, cuya estimación es mayor a la registrada. El elevado nivel de desempleo es percibido como resultado de un gran número de factores que incluye el necesario pero débil impacto de la restructuración de las SOE's, un elevado nivel de la migración rural-urbana, cuyo efecto es un aumento de la presión en el sistema urbano de protección social, que ya lucha por ampliar su cobertura y, también, un alto y creciente nivel de informalidad, especialmente en los nuevos empleos. Este estudio evalúa la política gubernamental para reducir la pobreza urbana, centrándose especialmente en el amplio programa de transferencias en las zonas urbanas y en las formas de protección social urbana establecidas. Menciona los grandes desafíos para un sistema que no está aún dirigido a enfrentar el flujo creciente de migración rural-urbana y de informalidad. Este estudio concluye con algunas propuestas de política diseñadas para hacer frente a esos retos.

Clasificación JEL: I32, I38, J21.

The Policy Integration and Statistics Department

The Policy Integration and Statistics Department pursues the ILO's decent work and fair globalization agenda from an integrated perspective. It consists of the Bureau of Statistics and the Policy Coherence Group.

The central objective of the latter is to further greater policy coherence and the integration of social and economic policies at the international and national level. To this end, it works closely with other multilateral agencies and national actors such as Governments, trade unions, employers' federations, NGO's and universities. Through its policy-oriented research agenda, it explores complementarities and interdependencies between employment, working conditions, social protection, social dialogue and labour standards. Current work is organized around four thematic areas that call for greater policy coherence: Fair globalization, the global poor and informality, macro-economic policies for decent work, and emerging issues.

Labour statistics play an essential role in the efforts of member States to achieve decent work for all and for the ILO's support of these efforts. These statistics are needed for the development and evaluation of policies towards this goal, for assessing progress towards decent work, and for information and analysis of relevant labour issues. The ILO Bureau of Statistics works with integrity, independence and high professional standards to provide users within and outside the ILO with relevant, timely and reliable labour statistics, to develop international standards for better measurement of labour issues and enhanced international comparability, and to help member States develop and improve their labour statistics. It maintains strong professional relationship with national statistical systems and with statistics offices of other international agencies.

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This report was initiated by *Moazam Mahmood*.
This study was initiated and carried out on behalf of the ILO by Moazam Mahmood, and on behalf of the Institute for International Labour Studies of the Ministry of Labour and Social Security of the Government of the Peoples Republic of China by Zhang Junfeng.

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Employment, Decent Work and Poverty Reduction in Urban China

Chapter 1 The Context of Growth, Poverty and Unemployment in China

1.1 Introduction

The International Labour Organization (ILO) holds 'decent work' to be a global goal in the world of work. Decent work implies the generation of employment and work, and an improvement in the quality of this work. This requires four critical elements: rights, employment, social protection and social dialogue. These four elements lie at the heart of economic growth and social development in both high-income and low-income countries.

Globalization, as the *Report of the World Commission on the Social Dimension of Globalization* states in a resoundingly clear message, offers both opportunities and challenges. Poverty threatens a billion people globally; the struggle for growth is challenged by concerns for rights, for economic stability and for equity; social policy to universalize rights and benefits is constrained by competing priorities, often of the market, and resources.

The ILO holds and seeks to demonstrate that the four elements of decent work provide significant policy directions to turn these massive challenges into opportunities. The challenge of globalization cannot be turned into an opportunity unless it generates employment and improves the quality of this employment. The only sustainable solution to poverty reduction lies not in food or medicines or shelter, but in creating work and better work than that which led to this poverty in the first place. National strategies for growth that do not generate employment will restrict the benefits to a minority of the population, and will not be morally or socially sustainable. Social policy has to balance the needs of the market and the needs of the working population, the vulnerable, children and the aged. Therefore, the potential of decent work as a development agenda is tremendous, both as an analytical and a policy tool.

The Government of China supports the goal and principle of decent work, and the Memorandum signed between the Ministry of Labour and Social Security (MOLSS) and the ILO seeks to strengthen the research into, and the application of, decent work. MOLSS is particularly interested in supporting the objective and principle of decent work for employment generation and poverty reduction.

In this context, MOLSS and the Policy Integration Department (INTEGRATION) of the ILO are collaborating to address the recently emerging and critical issue of urban poverty in China. China has made exemplary progress in poverty reduction in the last two and a half decades, and the common perception is that only rural poverty remains a challenge as urban poverty has been virtually eliminated.

However, urban poverty has emerged as a problem alongside the significant and rising levels of unemployment associated with the deep structural reforms of State-Owned Enterprises (SOEs) that began in the 1990s. Retrenchment, competitive pressures on various sectors as a consequence of globalization and WTO accession, and resulting strains on existing social protection systems, have all pointed to an inevitable re-emergence of urban poverty. Indeed, recent estimates of urban poverty have found it to be well above the earlier negligible estimates of less than 1 per cent of the urban population. Therefore, urban poverty along with urban unemployment is a key priority for MOLSS and for the Government of China.

For that reason, this study has been designed to address the joint problems of unemployment and poverty in urban China. The analytical and policy framework of the study is based on decent work. That is, the study aims to analyze urban poverty and establish that its main causal factors are a lack of employment and a lack of improvement in the quality of employment – a lack of decent work. Accordingly, it reviews current policy and formulates policy recommendations on the issues of ***Decent Work, Employment and Poverty Reduction in Urban China.***

The study addresses the issues of decent work, employment and poverty in urban China, by first establishing the macro perspective in which current growth, urban unemployment and urban poverty have occurred. The study then carries out an estimation of urban poverty based on the most recent official data available. This estimation and characterization of urban poverty indicate three leading causal factors contributing to urban poverty, each related to decent work: urban unemployment, the ongoing unification of the rural-urban labour markets that has led to high levels of migration, and the emergence of a large and growing urban informal economy. The study then analyses each of these causal factors in detail: urban unemployment and the labour market are examined using Decent Work Indicators where these can be estimated using existing data; rural-urban migration is estimated and then analyzed for the supply side pressures it puts on the urban labour market and the demand side pressures it puts on the urban social protection mechanisms; and the informal economy is examined for its contribution to urban poverty through the informality of contracts, low income and wage levels, and absence of social protection schemes. These causal factors highlight the weaknesses in the adequacy and coverage of the existing poverty reduction mechanisms in urban China, and point to future policy based on decent work.

1.2 The Macro Context of Growth in China

The Chinese economy has had two and a half decades of very strong growth in the post 1978 reform period. Table 1D shows that GDP grew at an average of over 10 per cent in the 1980s, and over 9 per cent between 1990 and 2003. Per capita GDP growth has also continued to be very high, measured at 9 per cent in 2003. This has raised the vast population of 1.3 billion to a per capita income level of $1,500 by 2005.

Table 22 provides more extensive labour market trends over the 1995-2004 period.

Table 1A Population and GDP, 2003-05

	Population	% Population	GNI / capita	GDP Growth 1990-2003	GDP Growth per capita
Total	1.29 bn	100%	1500US$	9.6%	8.6%
Rural	768.51 m	60%			
Urban	523.76 m	40%			

Source: China Statistical Yearbook, 2004; World Development Indicators 2005, 2006.

Table 1B Labour Force Participation & Unemployment

2003			1990-92	2000-04
Labour Force	Male Labour Force Participation Rate	Female Labour Force Participation Rate	Unemployment / Labour Force	
773 m	**88.0%**	**76.2%**	**2.3%**	**4.0%**

Source: A Report on Employment in China, MOLSS, 2005; World Development Indicators 2005, 2006.

Table 1C Poverty (%)

Poverty % National			1 $ / day	Gini
1998			2001	
Total	Rural	Urban	Total	
4.6	4.2	< 2	16.6	44.7

Source: World Development Indicators, 2006.

Table 1D Sectoral Growth (%)

GDP		Agriculture		Industry		Manufacturing		Services	
1980-1990	1990-2003	1980-1990	1990-2003	1980-1990	1990-2003	1980-1990	1990-2003	1980-1990	1990-2003
10.3	9.6	5.9	3.5	11.1	12.3	10.8	11.7	13.5	8.8

Source: China Statistical Yearbook, 2004; World Development Indicators, 2005.

Table 1E Structure % of GDP

Agriculture		Industry		Manufacturing		Services	
1990	2003	1990	2003	1990	2003	1990	2003
27	15	42	52	33	39	31	33

Source: China Statistical Yearbook, 2004; World Development Indicators 2005.

This growth has been led by a manufacturing sector that grew at an average of 11 per cent in the 1980s and at 12 per cent in the period from 1990 to 2003 (Table 1). Agriculture also grew over these periods, albeit at lower and declining growth rates (6 per cent over the 1980s, and 4 per cent between 1990 and 2003). As a result, the sectoral share of agriculture in GDP has declined over time to 15 per cent, while that of industry has risen to 52 per cent - manufacturing alone comprising 39 per cent - and services rising to 33 per cent.

Table 2 Manufacturing Structure (%)

	1990	2002
Value (billions US $)	116.6	407.5
Food, Beverages, Tobacco	15	15
Textiles, clothing	15	12
Machinery, Transports, equipment	24	32
Chemicals	13	12
Others	34	28

Source: World Development Indicators, 2006.

The manufacturing sector has diversified in this period of growth. As Table 2 shows, machinery rose to a third of the value added of $400 billion in 2002, and more labour-intensive sectors like textiles and clothing fell from a 15 per cent to a 12 per cent share. Exports are now almost solely manufactured goods, as Table 3 shows, with a 91 per cent share of the near $600 billion total. More than a quarter of the manufacturing exports are high technology products worth over $100 billion.

Table 3 Export Structure (%)

	1990	2004
Value (billions US $)	62.1	593.3
Food	13	4
Agriculture and raw material	3	1
Fuel	8	2
Ores and metals	2	2
Manufacturing	72	91
High technology exports as % of manufacturing exports		27%
Value (billions US$)		107.5

Source: World Development Indicators, 2006.

China's growth has not detracted resources from social policy. As Table 4 shows, public expenditure on health and education does not lag far behind earlier East Asian growth countries like South Korea. These expenditures have had good results. In education, Chinese gross enrolment ratios at the primary level were higher than both South Korea and India, and though China lagged behind South Korea at the secondary level, the two are comparable in adult and female literacy. In terms of health coverage, both China and South Korea have a life expectancy of over 70 years, access to water for over 70 per cent of the population, and a child immunization rate of over 90 per cent.

Table 4 Social Expenditures and Outcomes

Table 4A Public Expenditure

	% of GDP		% GDP / Capita Student	
	Health	Pensions	Secondary School	Tertiary
	2002	1996	1999	1999
China	2.0	2.7	12.7	61.6
South Korea	2.6	1.3	14.9	7.0

Source: World Development Indicators 2005, 2006.

Table 4B Education Outcomes

	Gross Enrolment Ratios (% of Age group)						Adult Literacy			
	Primary		Secondary		Tertiary		Total		Female	
	1991	2003	1991	2003	1991	2003	1990	2002	1990	2002
China	125	116	49	67	3	13	82	95	69	87
South Korea	105	104	90	90	39	85	79	85	73	81
India	99	99	44	50	6	11				

Source: World Development Indicators, 2005.

Table 4C Health Coverage

	Life Expectancy		% Population Access to Water		% Population Access to Sanitation		Child Immunization Rate (%)	Under-nourishment		Child Malnutrition Underweight
	1990	2003	1990	2002	1990	2002	2003	1992	2002	2003
China	69	71	70	77	23	44	90	16	11	10.0
South Korea	70	74		92			97	3	3	

Source: World Development Indicators, 2005.

1.3 A General Review of Poverty in China

In the post 1978 reform period, poverty in China has fallen dramatically. Using the official poverty line, the number of poor people is estimated to have dropped from 250 million in 1978 to 29 million in 2003[1]; a drop in the incidence of poverty from 30 per cent to 3.1 per cent (State Council Working Group on Poverty Alleviation and Development, 2004).[2] Using the $1 a day poverty line, the number of poor is estimated to have dropped from 490 million in 1981 to 88 million in 2002, a decline in poverty incidence from 49 per cent to 6.9 per cent (World Bank 2004).

China's poverty reduction efforts are also of global significance. While China lifted 150 million people out of poverty in the 1990s, this went against the general global trend. Excluding China, the number of poor people actually increased by 28 million in this period (UNDP 2003).

1.4 China's Record on Policy Coherence for Poverty Reduction

With hindsight, this major decline in widespread poverty is based on a remarkable coherence between a number of policies to generate growth and reduce poverty. That is, coherence between macro policies that have in turn enabled coherent employment policies, sectoral policies, policies on technical change, policies on institutional change in the organization of production, specific social policies, on wages and incomes, and poverty reduction programs.

1.4.1 Macro Policy

To begin with, the underlying macro policy has, of course, many strands to it. The most important macro policy has been the determination of investment, growth and incomes. Over the 1980 to 1990 period, value added increased at a high rate of 10 per cent per annum. Over the 1990 to 2000 period, this value added increased at an even higher band rate of 10 per cent to 18 per cent. This growth in value added has been fuelled by initially allowing growth in the wage bill to lag behind growth in value added, giving a high rate of capital accumulation and investment.

A second critical aspect of macro policy has been the adjustment of the trade-off between employment and wages. If growth in value added is approximated to income growth, then it can be divided between employment growth and real wage growth. In the first reform period of 1980 to 1990, employment growth was allowed to exceed wage growth. So, macro policy was explicitly employment enhancing, as demonstrated by the 210 million jobs created in that decade.

However, in the following decade, there was a clear policy shift towards improving wages and incomes, increasing purchasing power, and enhancing the domestic market. In the period from 1990 to 2000, growth in real wages not only exceeded growth in employment, but was very high as well. This has augured well for wages and consumption, but there has been a secular decline in the growth rate of employment. Only 80 million jobs were created in the 1990s, and the elasticity of employment has been negative in the last five years. Overall,

[1] Using a caloric norm of 2,100 kcals per person per day, a food plus non-food expenditure line is calculated for rural China at ¥206 for 1986, and ¥637 for 2003.

[2] *Poverty Alleviation Efforts of China* (2004), The State Council's Working Group on Poverty Alleviation and Development.

macro policy has clearly been expansionary, favoring employment in the 1980s and wages in the 1990s.

A third critical aspect of macro policy has been in domestic pricing. Because the sectoral strategy relied heavily on agriculture, the domestic terms of trade were initially tilted in favor of agriculture to provide the incentives for investment and technical change in the sector.

1.4.2 Sectoral Policy

Agriculture and Rural Areas

Macro policy has enabled the sectoral strategy that China has followed from the 1998 reforms onwards. Much of the high growth has been based in agriculture, where productivity increased strongly, due to three policy factors: land reforms and the shift to the household responsibility system created private incentives for investment in technical change; the tilting of domestic terms of trade in favor of agriculture provided the price incentives for investment in the sector; and the Township and Village Enterprises (TVEs) established in rural areas absorbed a large part of agriculture's surplus labour force, hence the rise in the TVE share in employment to 18 per cent. As a result of this growth in the rural sector, rural poverty dropped by two-thirds between 1978 and 1984.

The policy coherence in the agricultural sector is illustrative. The household responsibility system allowed farmers to get the product from their land, including the surplus. This created a strong incentive for farmers to invest in agriculture, which in turn increased productivity. The incentive increased with the improvement in the terms of trade for agriculture over this period. Between 1978 and 1985, the agricultural price index increased by 67 per cent. Consequently, agricultural incomes increased by a factor of 1.7 over this period, and the incidence of poverty dropped by 50 per cent (State Council Working Group on Poverty Alleviation and Development, 2004).

The income and poverty gains in rural areas would have been wiped out by the increase in agricultural surplus labour caused by the increase in agricultural productivity had it not been for the absorption of the surplus labour into the TVEs. According to recent estimates, the TVEs have absorbed some 130 million people. The transfer of surplus labour from agriculture to the TVEs has, of course, had a dual effect. By taking labour with low marginal productivity out of agriculture, agricultural productivity and incomes increased, and this surplus labour's transfer to TVEs raised its marginal productivity and incomes. In the eastern coastal areas of Guangdong, Shanghai, Zhejiang and Jiangsu, the rapid development of TVEs is seen to have largely contributed to the virtual elimination of the region's poverty, while also providing employment to the farmers from poor areas in the central and western regions (State Council Working Group on Poverty Alleviation and Development, 2004)

Industry and Urban Areas

But China's growth has been led by manufacturing. China inserted itself into the global economy through its labour-intensive industries, where its competitive edge still stands. Indeed, with the phasing out of the MFA quotas, China's competitiveness in textiles, garments and apparel has become clear. In manufacturing, China has walked on two legs; in addition to labour-intensive industries, there were investments in strategic industries such as mining, steel, machinery and chemicals. These strategic industries created much of the capital equipment for the labour-intensive industries, and so had an early market.

Urban poverty was largely eliminated through a policy of full employment and complete social security in urban areas. However, there was a resurgence of urban poverty in the 1990s due to the retrenchment of workers following the reform and restructuring of SOEs, the influx of

large amounts of rural surplus labour following the opening-up of the labour market, and the relative slowdown in growth due to the Asian financial crisis in the second half of the 1990s.

However, re-employment through training and employment information markets has had some success, with 4.4 million retrenched workers finding jobs in 2003. Urban poverty has also been controlled by the establishment of 'three guarantee lines': a basic standard of living guarantee system for retrenched workers, and the unemployment insurance system and the minimum standard of living guarantee system available to urban residents. The current reforms are advancing the transition from social security systems managed by work units towards dedicated social security institutions.

China has also sustained a very intense program of public infrastructure development, which has supported sectoral development, and generated employment and incomes.

1.4.3 Poverty Reduction Programs and Targeting

In addition to its growth strategy, poverty reduction in China has also resulted from dedicated programs targeting the poor. The State Council Leading Group of Poverty Alleviation and Development was established in 1986 to organize, lead and coordinate poverty alleviation. Between 1986 and 1993, the Government identified 331 counties where the poor were concentrated and designated them as 'Key State Supported Poor Counties'. Coverage grew gradually, expanding to 592 countries, and then again after 2001 to include 148,000 key working poor villages, comprising some 83 per cent of the poor population.

Six main types of poverty programs have been designed to meet local needs:

1. A food-for-work scheme that provides subsistence needs in return for work on infrastructure projects;
2. linkages between enterprises and farms in order to process agricultural commodities – resulting in large-scale units that equip farmers with technology and allow them to diversify risk;
3. village development through the provision of infrastructure, social services, and economic projects;
4. micro-credit against joint household guarantees, in small loans to be paid off in small installments;
5. voluntary resettlement from harsher to better environments;
6. assistance for migrant labour, including information, training and funds to seek employment.

Additional programs have focused on compulsory education in poor areas, health services, drinking water, and tax and credit breaks. Specific groups of the poor are targeted through partnerships with NGOs. For example, the 'Spring Bud Plan' supports the education of young girls in poor areas, and the 'Mother Water Tanks Project' assists women in China's arid western region.

Funding for these programs has been remarkable. Between 1980 and 2003, the Central Government spent an estimated $13 billion on poverty reduction. By 2004, the annual budget for poverty reduction was estimated at $1.5 billion (Ministry of Finance, 2004.)

As indicators of achievements of these programs, the National Eight Seven Poverty Alleviation Program targeted the Key State Supported Poor Counties between 1994 and 2000, increasing their value added in agriculture by 52 per cent, and doubling the net per capita income and

local revenues. By 2000, 318 of 592 Key State Supported Poor Counties had achieved the target of implementing nine years of compulsory education.[3]

1.5 A New Generation of Emerging Challenges for Employment Generation and Poverty Reduction – Urban Poverty and Unemployment

A second generation of poverty challenges has now arisen. Over the 1990s, the overall rate of poverty reduction slowed. In the early 1990s, the incidence of poverty barely dropped from the World Bank's estimates of 17 per cent. The rate of poverty reduction picked up briefly in the mid-1990s, but was then hit by the Asian financial crisis and poverty even increased slightly until the end of the decade.

The Emergence and Significance of Urban Poverty

Considerable attention has been focused on rural poverty in China, which has detracted from the recently emerging problem and significance of urban poverty. Until 2002, the literature on poverty in China was still citing a 1999 national poverty estimate of 8.9 per cent, with rural poverty predominant at 12.7 per cent and urban poverty negligible at 0.2 per cent (Chen and Yang 2002).

Contrary to earlier studies that suggested urban poverty had been virtually wiped out, more recent studies and estimates from the National Bureau of Statistics, the Ministry of Civil Affairs, the Asian Development Bank (ADB), the United Kingdom's Department for International Development (DFID), and academics like Wang Youjuan and Hussain have calculated higher levels of urban poverty.

The Government has made urban poverty a priority issue for economic and social policy to address, and indeed this study has focused on urban poverty at the request of MOLSS. MOLSS and the ILO share the same overarching objective of establishing decent work in the world of work, and of propagating and implementing policies to achieve this objective through global and national efforts. Accordingly, this study examines the phenomena of urban poverty in China through the lens of decent work – that is, it establishes urban poverty as being caused fundamentally by a lack of employment and decent work, and examines economic and social policies to generate employment and decent work.

The study is structured into the following chapters.

Chapter 2 - The Emergence and Significance of Urban Poverty

This chapter examines the emergence of urban poverty in China. It provides the most recent estimates for urban poverty and traces the rise in urban poverty over time. The causal factors that have led to this rise in urban poverty are then established, namely urban unemployment based on the restructuring of SOEs, high migration rates, and the rising significance of an emerging informal economy.

[3] Task Force Group on Poverty Alleviation Efforts of China, 2004, The State Council Leading Group Office of Poverty Alleviation and Development, Government of China.

Chapter 3 - An Analysis of Urban Unemployment and the Labour Market using Decent Work Indicators

This chapter establishes that the rate of poverty reduction in China has declined and urban poverty has risen with the decline in employment capacity over the 1990s. The employment elasticity of growth for the entire economy fell drastically from 1.9 in the 1980s to 0.68 in the 1990s. The reform and restructuring of SOEs has led to the retrenchment of workers, some of who have not been re-employed. Social security for these retrenched and unemployed workers has continued to be attached to the SOEs, but this system now faces a sunset, which would make unprotected workers vulnerable once more to income fluctuations and poverty. This chapter then estimates indicators of decent work in urban areas, revealing them as weaknesses underlying urban poverty.

Chapter 4 - Rural-Urban Migration and its Impact on Employment in Urban Areas

This chapter examines the significant impact of the Government's policy of gradually unifying the rural and urban labour markets. Per capita incomes from agriculture are still very low, averaging at ¥514 per year. This income is clearly insufficient for subsistence and accounts for just over half the total income of farmers; the other half having to come from non-farm employment (State Council Working Group on Poverty Alleviation and Development, 2004). On average, urban incomes exceed rural incomes by a factor of three.

Moreover, the benefits and coverage of the urban social security system far exceed those of the rural. Surplus labour in the rural areas is still estimated to be very high, yet the *hukou* system maintains the clear distinction between rural and urban residents, administering the right to work and access to social security, health and education. The differential in incomes and growth between rural and urban areas has put pressure on rural labour to migrate to urban areas for employment and residence.

By 2003, the number of rural migrants looking for jobs in urban areas in China exceeded 110 million, accounting for some 23 per cent of the rural labour force. This figure can be expected to grow for a number of reasons. China's accession to the WTO entails commitments to significantly reducing import taxes over a short period, which is expected to further hit agricultural incomes and the poverty gains made in rural areas. Furthermore, the Government plans to gradually ease the restrictions of the *hukou* system and thereby unify the rural and urban labour markets. While much needed, in the immediate-term this reform will lead to higher levels of migration, and contribute to urban unemployment and poverty.

Chapter 5 - Decent Work and Urban Informal Employment

While there is a growing literature on increasing income differentials in China, there is virtually nothing on job differentials in its emerging parallel economy in urban areas. As formal employment is challenged by the restructuring of SOEs, and rural-urban migration increases urban labour supply, a parallel economy with lower quality jobs was bound to emerge in urban areas. This chapter gives the first available estimates of the urban informal economy, traces its emergence over time and examines some of its major characteristics.

Chapter 6 - Current Government Policy and Measures of Urban Employment and Poverty Reduction

This chapter examines current policy on urban poverty reduction, the responsibility for which is largely shared between MOLSS, which provides social security coverage, and the Ministry of Civil Affairs (MOCA), which provides cash transfers for households falling below designated income levels. The coverage and adequacy of these schemes is assessed against an increasing rate of urban poverty and mounting urban demographics.

Chapter 7 - Conclusions and Policy Implications

Economic and social policy has to be re-designed to address the causal factors contributing to urban poverty, namely: a lack of decent work based on increasing unemployment; the rising labour supply due to rural-urban migration; the emergence of an informal economy with lower quality jobs; and the inadequacy of coverage of the existing social protection programs relative to rising figures. Some broad policy measures to address employment, job quality, social protection, rights and voice are discussed as critical elements of a Decent Work Agenda for urban poverty reduction in China.

Chapter 2 The Emergence and Significance of Urban Poverty

2.1 Estimates of Urban Poverty

2.1.1 Poverty Lines

This study has established a number of estimates of urban poverty based on the most recent available data. There are several estimates because there are several poverty lines.

Unlike rural poverty, the Government has no official urban poverty line. Instead, there are a number of diagnostic poverty lines to identify the poor. One such diagnostic poverty line is the Benefit Poverty Line designed to identify potential recipients of relief. However, rather than being an absolute poverty line, with a constant real value, the Benefit Poverty Line varies, its value being determined by two criteria: funding availability and the need to retain an incentive for seeking employment. On the other hand, some cities base their benefit line on the more usual basic-needs approach to poverty line setting, by costing 20 items of goods and services.

Table 5 gives an example of benefit lines acting as a proxy for poverty lines in 35 key cities. These benefit lines in 1998 ranged from a low of ¥143 per person per month to a high of ¥319 in Shenzhen. The mean of these 35 benefit lines gives a national average income per capita per year of ¥2,365. This mean benefit line approximated and became the basis for the poverty line of ¥2,310 used by the National Bureau of Statistics (NBS) for 1998.

Table 5 Benefit Lines as a Proxy for Poverty Lines in 35 Key Cities (yuan per month/person, 1998)

City	Benefit Line	City	Benefit Line
Shenzhen	319	Lhasa	170
Urumchi	156	Shanghai	280
Chengdu	156	Guiyang	156
Xi'an	156	Wuhan	195
Kunming	182	Changsha	200
Nanjing	180	Nanchang	143
Nanning	183	Xiamen **	265-315
Qingdao	200	Taiyuan	156
Hangzhou	220	Changchun	169
Chongqing	169	Tianjin	241
Hohhot	143	Haikou	221
Shijiazhuang	182	Beijing	280
Zhenghzhou	169	Shenyang	195
Jinan	208	Fuzhou	200
Guangzhou	300	Xining	155
Hefei	165	Harbin	182
Ningbo	215	Lanzhou	156
Dalian	221		

Source: Studies on Urban Development in China, Task Force, ADB, 2001.

In addition to the average Benefit Poverty Line, there is another set of poverty lines that are summarized in Table 6. Another diagnostic poverty line runs alongside the average Benefit Poverty Line, and also comes to approximate it. The Development Research Center of the State Council developed this diagnostic poverty line during the 1990s because of concerns about increasing unemployment, to determine urban poverty trends, and to feed national policy making. This poverty line was set at 33 per cent of the average urban income per capita per year, and was valued at ¥1,700 for 1997, as seen in Table 6.

Table 6 Diagnostic Urban Poverty Lines (per capita per annum, yuan in current prices)

Year	May 2000 Poverty Conference		National Bureau of Statistics				Ministry of Civil Affairs	Khan and Riskin Low urban poverty threshold Income basis ****
	Urban Poverty Line for inland cities (twice the rural poverty line)	Urban Poverty Line for coastal cities (triple the rural poverty line)	Line 1*	Line 2*	Line 3	Development Research Centre of the State Council		
1990	600	900						
1991	608	912	752					
1992			837					
1993			993					
1994			1300					
1995	1060	1590	1547					1604***
1996	1160	1740	1671	1850				
1997	1280	1920		1890		1700		
1998	1270	1905		1880				
1999	1300	1950		1860			1800**	
2000	1300	1950		1875				
2004					2985+			

Notes: * The difference in the two lines is the prices NBS used to cost basic necessities
** It is assumed that the announced MCA figure applied to 1999
*** This figure was derived by follow-on analysis conducted by the Urban Survey Organization of NBS for the ADB
**** Khan and Riskin's figures were taken from their book: *Inequality and Poverty in China*
+ Wang Youjuan, 2006

In 1999, the Ministry of Civil Affairs (MOCA) set an urban poverty line for the whole country, which was valued at ¥1,800 per person per year, and the May 2000 Poverty Conference set two urban poverty lines, one for inland cities and another for coastal cities. The urban poverty line for inland cities was set at twice the value of the rural poverty line, and the urban poverty line for coastal cities was set at three times the value of the rural poverty line. These poverty lines are also summarized in Table 6.

But perhaps the most objective, methodologically rigorous and statistically robust poverty lines aimed at estimating poverty head counts are the time series of poverty lines established by the NBS. The NBS urban poverty lines have taken all the other urban poverty lines into consideration and approximate them, as can be seen in Table 6. Line 1 covers the period up to 1996 and Line 2 carries on for subsequent years, while Line 3 has been established for 2004. To allow for the crossover, the lines coincide for two years, 1995 and 1996. The difference between the three lines is in the costing of basic necessities. The details can be better visualized using Table 7.

In Table 7, Line 1 is established on the criteria of a Living Expenditure Income. This is estimated as the amount required to buy a basket of goods and services that would provide the Required Dietary Allowance (RDA) for an adult, equivalent to 2,100 calories per day. The consumption of this basket of goods and services is generalized across the country in Line 1. For instance, the required per capita consumption of rice needed to attain the RDA norm of 2,100 calories is the same all across the country and does not vary by region.

Line 2, however, is established using an alternative criterion called Consumption Expenditure. Again, this is estimated as the income required to buy a basket of goods and services that would provide an RDA of 2,100 calories, but the basket is not generalized across the country and considers regional consumption patterns that make up different baskets with different prices. For instance, the required per capita consumption of rice needed to attain the RDA

norm of 2,100 calories may be higher in South and Central China – where rice is grown, is cheaper and eaten more – compared to North Western China.

From 1995, Line 1's older methodology gives way to Line 2's more refined methodology. Line 2 is, on average, approximately 20 per cent higher than Line 1, as the crossover years of 1995 and 1996 show in Table 7.

Line 3, which provides the most recent estimate of poverty for 2004, also uses the Consumption Expenditure methodology established for Line 2, allowing for variation in regional consumption patterns and baskets.

The three lines also vary in their base years. The choice of the base year establishes the consumption pattern and basket for that year. For instance, the required per capita consumption of rice needed to attain the RDA norm of 2,100 calories is established for that base year, and is then generalized across all years in that line. With the consumption basket fixed by the base year, the values of all other years in the line are calculated by a price index. Changing the base year allows for change in the consumption pattern and the basket, such as change in the per capita consumption of rice needed to attain the RDA of 2,100 calories. Therefore, a change in the base year is necessary to capture changing consumption patterns over time and better estimate poverty. Line 1 changes its base year to 1990 from 1991 onwards, Line 2 uses a base year of 1998, and Line 3 uses the most recent base year of 2004. As seen in Table 7, a change in the base year leads to the increased value of each line.

It is these NBS urban poverty lines that have allowed this study to collate a consistent time series for urban poverty from 1981 to 2004.

Wang Youjuan, Director of the Urban Socio-Economic Survey Organization of the NBS, calculates the most recent poverty lines. The income and expenditure survey data collected by the NBS for 2004 is based on a sample of 54,000 households stratified across 300 cities and 150 counties. The poverty line based on the RDA of 2,100 calories per person per day is converted into a price line using the consumption prices of the lowest two deciles of households. Provincial and regional poverty lines are calculated first and then weighted to give a national urban poverty line.

It is important to note that this procedure used by the NBS gives an income poverty line, denoting the income needed to be spent to consume a required dietary norm (RDA) of 2,100 calories. An expenditure-based poverty line, as seen below, gives far higher poverty estimates.

2.1.2 Estimates of Urban Poverty

(a) Urban poverty estimates based on income poverty lines

Table 7 presents the NBS poverty lines from 1981 to 2004, and NBS poverty estimates based on these lines, with the most recent estimates made by Wang Youjuan (Wang Youjuan, 2005 and 2006). The table shows that urban poverty was virtually eliminated over the 1980s, dropping to under 0.5 per cent of the urban population of China. This amounted to just over 1 million urban poor in 1990, out of a total urban population of 300 million.

Table 7 China: Urban Poverty

Year	Poverty line			Poor Population Headcount	Poverty rate
	(yuan/person/year)			(million)	(%)
	Line 1	**Line 2**	**Line 3**		
	Living Expenditure Income	Consumption Expenditure	Consumption Expenditure		
	From 1991 onwards, base changed to 1990	Base 1998	Base 2004		
1981	171			3.9	1.9
1982	169			2.0	0.9
1983	178			1.4	0.6
1984	190			0.8	0.3
1985	215			0.9	0.4
1986	226			0.5	0.2
1987	247			0.6	0.2
1988	289			0.7	0.2
1989	304			0.9	0.3
1990	321			1.3	0.4
1991	752			14.2	5.8
1992	837			11.3	4.5
1993	993			13.3	5.1
1994	1300			15.3	5.7
1995	1547	2107		19.1	5.4
1996	1671	1850		11.9	4.2
1997		1890		11.7	4.1
1998		2310		14.8	3.9
1999		2382		13.4	3.5
2000		2340		14.8	4.59
2001		2355		11.1	3.36
2002		2354		9.4	2.69
2003		2407		9.0	2.58
2004			2985	16.1	4.37

Source: NBS, various years.

The table shows that urban poverty abruptly surfaces in 1991, and at nearly 6 per cent of the urban population, some 13 million urban people were seemingly plunged into poverty. However, the value of the poverty line more than doubles in that year from ¥321 to ¥752. The cost price adjustment necessitated by the NBS suddenly reveals a much higher proportion of the urban poor, jumping up from 0.4 per cent in 1990 to 5.8 per cent in 1991. Rather than 13 million people impoverished overnight, it is likely that urban poverty crept up over the late 1980s, but was masked by lower poverty lines. The 1991 upward revision in the poverty line merely revealed them suddenly.

Over the 1990s, urban poverty remains in the band range of 4 per cent to 5 per cent, according to Table 7, but halves to 2.6 per cent by 2003. However, the most recent estimate for urban poverty for 2004 shows it to resurge to 4.4 per cent, equating to some 16 million urban poor in China. The longer-term trend shows that urban poverty has not dropped over the last decade and a half, and persists at about 4.5 per cent.

(b) Alternative estimates of urban poverty based on inadequacy of standards of living

The NBS series collated for this study gives a lower estimate of urban poverty, shows a declining trend from 2000 to 2003, and then an increase again for 2004. The NBS series is, of course, based on rigorous statistical estimation, large data sets, and objective methodology. However, there are alternative estimates of urban poverty, which are higher than the NBS estimates, and with strong claims to validity and usefulness for policy. Table 8 summarizes some of these alternative estimates of urban poverty.

Table 8 Alternative Estimate of Urban Poverty

Year	(by Per Capita Income)		(by Per Capita Expenditure)	
	Poor Population (million)	%	Poor Population (million)	%
1998[a]			37.0	11.9
2000[b]	14.7	4.59	37.1	8.08
	Poor population < Basic Standard of Living			
2003[c]	22.48	4.29		
2003[d]	21.00	4.01		
2004[e]	22.00	6.20		
2004[f]			36.6	9.8

a. Wang Youjuan, 2005, Analysis of PRC's Urban Poverty, Urban Survey Organization of NBS.
b. Development Research Center, State Council, 2002, published in the China Economic Times.
c. *China Population and Development Country Report*, 2004, cited by Xinhua News Agency, September 8, 2004.
d. Ministry of Civil Affairs Statistics cited in website http://www.china.org.cm/english/2003/Jul.
e. Cited by Wang Youjuan, 2006.
f. Wang Youjuan, 2006.

The first estimate of urban poverty to be considered must be that made by MOCA, which is responsible for income transfers to the urban poor. In 2004, MOCA made 22 million such transfers to people whose incomes fell below a basic standard of living. This puts 6 per cent of the urban population below the MOCA poverty line, as seen in Table 8.

The *China Population and Development Country Report for 2004* revealed an urban poverty estimate similar to MOCA's estimate for 2003, with 22.5 million or some 4.3 per cent of the urban population with an inadequate standard of living (Table 8).

The Social Science Department of the Renmin University of China provides another recent estimate of urban poverty. Using a poverty line of ¥3,840 per person per year, they estimate the urban poverty rate to be 4.1 per cent, amounting to 20 million urban poor in 2005 (Table 9). Furthermore, using the same poverty line of ¥3,840 for both 2001 and 2005, it shows an increase in poverty from 2.6 per cent to 4.1 per cent over this period. This approximates the NBS trend of a resurgent urban poverty of up to 4.4 per cent by 2004.

Table 9 Urban Poverty in China

Year	Poverty guideline (yuan per person per year)	Number of poor (million)	Poverty rate (%)
1981	171	3.9	1.9
1982	169	2.0	0.9
1983	178	1.4	0.6
1984	190	0.8	0.3
1985	215	0.9	0.4
1986	226	0.5	0.2
1987	247	0.6	0.2
1988	289	0.7	0.2
1989	304	0.9	0.3
1990	321	1.3	0.4
1995	2107	19.1	5.4
1998	2310	14.8	3.9
1999	2382	13.4	3.5
2000	1875	10.5	2.3
2001	3840	11.7	2.6
2005	3840	19.6	4.1

Source: *Poverty Relief in Urban China since Reform*, by Hong Dayong, Social Science Department, Renmin University of China, 2003; Data from NBS, 2005.

Surprisingly, all three alternative estimates of the urban poor between 2003 and 2005 agree in their estimations of 4 per cent. Even more disturbing is the upward trend in urban poverty

between 2001 and 2005, from 2.6 per cent to 4.1 per cent. According to this estimate, the absolute number of the urban poor has almost doubled over the last four years.

(c) Alternative estimate of urban poverty based on expenditure poverty lines

Two further estimates raise upward the urban poor headcount observed so far, in fact doubling it. Both the Development Research Center of the State Council and Wang Youjuan from the NBS argue that using an income poverty line to give an incidence of poverty results in its underestimation.

Wang Youjuan demonstrates this argument using the NBS poverty line for 1998. The RDA norm of 2,100 calories valued at observed prices paid by the lowest 20 per cent of households actually results in an expenditure poverty line of ¥2,310. However, this expenditure poverty line is equated to an income poverty line, using the standard NBS methodology. This implies that an income of ¥2,310 will allow just the purchase of basic necessities costing ¥2,310, to keep the person out of poverty.

However, the observed consumption and income patterns of the poor show that their basic-needs consumption basket does not equal their income. The poor are forced to save, above their basic-needs expenditure, to meet payments for crunch season loans, contingencies and emergencies. Therefore, equating the food poverty line to income is to underestimate the actual income needed to meet this food poverty line expenditure. Essentially, people whose food poverty line is equal to their income, are in fact spending less than this required amount on their food, by the amount of their forced savings, and are actually under the food poverty line.

This can be shown simply by:

If: Food Poverty Line Expenditure = FPL

Consumption = C

Savings = S

Income = Y

Then it is observed that: FPL + S = Y

i.e. C + S = Y

But if FPL is equated to Y, i.e. FPL = Y

i.e. C = Y - S

Then FPL will fall below Y by S,

i.e. FPL = Y - S

In fact, the people whose food poverty line expenditure is assumed to be equal to their income actually starve themselves of basic necessities in order to make forced savings. Wang Youjuan uses a food poverty line of ¥2,310 to determine a required income level of ¥3,310, which will enable this expenditure. By this estimation, urban residents need 43 per cent more income than the cash value of their benefit lines. Analysis of survey data shows that half of the savings is needed to repay loans and the other half is needed for education, health and contingencies (Wang Youjuan, 2005).

The expenditure poverty line of ¥2,310, equivalent to an income poverty line of ¥3,310, for 1998, estimates urban poverty at 11.9 per cent (Table 8). This raises the estimate of urban

poverty by a multiple of three, indicating 37 million urban poor in 1998. The Development Research Center of the State Council carried out a similar exercise using per capita expenditure to determine the incidence of urban poverty for the year 2000. They found the number of urban poor to still be 37 million, putting 8 per cent of the urban population below the poverty line (Table 8). Wang Youjuan's most recent NBS estimate, based on the income poverty line for 2004, reveals 37 million people or 9.8 per cent of the urban population remain below the poverty line (Table 8).

(d) Further biases in the estimation of urban poverty

As the methodology for measuring poverty develops, the newer literature and studies bring forth better, albeit higher, estimates of urban poverty. Significant rates of urban poverty are evident in the 1990s, ranging between 4 per cent and 6 per cent. One set of estimates by the NBS show urban poverty to have fell to 2.6 per cent, but had resurged to 4.4 per cent by 2004. The longer-term trend suggests urban poverty has persisted at about 4.5 per cent over the last decade and a half. Another set of estimates, by the University of Renmin, show urban poverty rose to 4 per cent in 2005. Expenditure based poverty lines raise earlier estimates for 1998 and 2000 by factors of two and three. Estimate-based urban poverty can be said to currently range between 4 per cent and 10 per cent, depending on the criteria used to establish the poverty line.

However, the Development Research Center of the State Council is critical of even this range of estimates because of what it considers to be a large sampling bias. The Center alleges that urban poverty is underestimated because two large population groups are excluded from urban classification. One group is that of a migrating population of farmers moving between rural and urban areas, estimated even as early as 1999 at about 30 million and now much higher. A second group that is excluded from urban classification is the suburban population living on a non-farm income. The incidence of poverty in both migrants and suburban groups is expected to be higher than for the average urban population by about 50 per cent; therefore, the inclusion of these groups would certainly raise urban poverty estimates.

The argument that urban poverty is underestimated is also supported by an observation of the Development Research Center of the State Council that concludes that while some 21 million urban poor get support from the Minimum Livelihood Guarantee Scheme, this covers only a proportion of those who need support, excludes certain populations such as migrants, and the amount of the support may be inadequate.

2.2 Characteristics of Urban Poverty

In order to determine the causal factors contributing to these significant and possibly rising levels of urban poverty, to establish the adequacy of current urban poverty reduction programs and to point out directions for future policy, it is important to identify the urban poor. The predominant characteristics of the urban poor need to be examined in terms of their regional location; their relationship with the labour market in terms of employment, wages, incomes, sectors and occupations; their human resources in terms of education and skills; their financial resources in terms of access to assets and markets; and their consumption patterns. These characteristics of the urban poor will allow for the pinpointing of policy needs and formulation.

2.2.1 Demographic Pressures on Urban China

China's urban population more than doubled between 1978 and 2003, reaching 524 million or 41 per cent of the total population of 1.3 billion (Table 10). The identification of this urban population is important because of the above contention that large groups of urban residents are excluded from being defined as urban and are therefore also excluded from being sampled in poverty estimates. Since the excluded groups, particularly migrants and the floating

population, lack access to important urban rights such as particular forms of social protection and access to particular social infrastructure, their poverty levels are expected to be higher, and therefore their contribution to total urban poverty will also be significant.

Table 10 Population Change

Year	Total	Urban	
	(million)	Number	%
1978	962.6	172.5	17.9
1980	987.1	191.4	19.4
1985	1058.5	250.9	23.7
1989	1127.0	295.4	26.2
1990	1143.3	302.0	26.4
1991	1158.2	312.0	26.9
1992	1171.7	321.8	27.5
1993	1185.2	331.7	28.0
1994	1198.5	341.7	28.5
1995	1211.2	351.7	29.0
1996	1223.9	373.0	30.5
1997	1236.3	394.5	31.9
1998	1247.6	416.1	33.4
1999	1257.9	437.5	34.8
2000	1267.4	459.1	36.2
2001	1276.3	480.6	37.7
2002	1284.5	502.1	39.1
2003	1292.3	523.8	40.5

Source: China Statistical Yearbook, 2004.

Table 11 gives a breakdown of the urban population in 2000. The urban population of 459 million comprised three major groups: the largest, the long-term urban residents, made up 45 per cent of the total urban population; the next largest group, the urban population resident in rural localities, comprised another 34 per cent of the total; and a third group, identified as long-term urban residents, but with agricultural classification, contributed the remaining 21 per cent of the total. It is important to note that short-term rural-urban migrants were excluded from these three categories of urban residents.

Table 11 Urban Population Decomposition

	2000	
	Urban Population = Non Agricultural (million)	Urban Population = Non Agricultural (%)
Total	**459**	**100**
Rural localities	156	34
Long-term urban but agricultural classification [1]	96	21
Long-term urban	207	45

Note[1]: Short-term rural-urban migrants are excluded from this 96 million.
Source: Derived from China Labour Statistical Yearbook, MOLSS, 2005.

2.2.2 Regional Characteristics of Urban Poverty

There is consensus between studies that there is a concentration of urban poverty in the mid-western region of China. The NBS shows that in the year 2000, the mid-western region accounted for 53 per cent of China's population and 75 per cent of the total urban poor.[4] Similarly, a study by the All-China Federation of Trade Unions (ACFTU) in 2002 showed that 53 per cent of China's urban poverty lies in the central region, 25 per cent in the western

[4] *Walking Towards a Fairer World in Poverty Relief in Urban China Since Reform*, Professor Wu Dayong, Research Report, Renmin University.

region, and 22 per cent in the eastern region.[5] As seen in Table 12, the western region had a 6 per cent incidence of urban poverty in 2004, twice that of the eastern region, and fifty percent higher than the incidence in the central region. The western region contains only 17 per cent of the country's urban population, but has a quarter of the country's urban poverty. The other two regions' share in urban poverty is proportionately less than their shares of the urban population.

Table 12 Regional Distribution of Urban Poverty in 2004

Area	Share in population (%)	Poverty Rate (%)	Poor population (million)	Share in poverty (%)
East	50.2	3.89	7.31	45.3
Central	32.8	4.05	4.97	30.8
West	17.0	6.06	3.85	23.9
Country	**100.0**	**4.37**	**16.13**	**100.0**

Source: Wang Youjuan, NBS, 2006.

Table 13 categorizes major cities by their incidence of poverty. It appears that the coastal provinces (including Beijing) are richer with a lower incidence of urban poverty, and the western inland regions and Henan province have a higher incidence of urban poverty. However, the degree of equity of income also contributes to the incidence of urban poverty. Some provinces with low GDP per capita still have a lower incidence of urban poverty, like Guizhou and Qinghai provinces, while some provinces with high GDP per capita also have a high incidence of urban poverty, like Liaoning and Tianjin.

Table 13 Provincial Poverty Pattern

Low 0-2 percent	Below average 2-4 percent	Average 4-6 percent	Above average 6-8 percent	Seriously high rate > 8 percent
Beijing	Shanghai	Hebei	Tianjin	Henan
Jiangsu	Fujian	Hubei	Inner Mongolia	Shaanxi
Zhejiang	Hunan	Guizhou	Liaoning	Ningxia
Guangdong	Guangxi	Chongqing	Jilin	Tibet
	Yunnan	Qinghai	Hainan	
	Anhui	Shandong	Xinjiang	
	Jiangxi	Sichuan	Shanxi	
			Heilongjiang	
			Gansu	

Source: Asian Development Bank: Study on China Urban Poverty Issues with NBS.

2.2.3 The Relationship between Urban Poverty and Employment and the Labour Market

The most important characteristic of urban poverty that emerges is its relationship to employment and the labour market. Table 14 categorizes the 20 million urban poor who received benefits from MOCA's Minimum Livelihood Guarantee Scheme in 2002. The table shows that the three largest groups of benefit recipients were terminated personnel (21 per cent of the total), the unemployed (17 per cent), and laid-off workers (12 per cent). Therefore, 50 per cent of the urban poor benefit recipients were unemployed. The working poor comprised 10 per cent of the total urban poor receiving benefits, while retirees added another 4 per cent.

[5] All-China Federation of Trade Unions, 2002, *Report on Operation of Minimum Urban Livelihood Guarantee Scheme*.

Table 14 Types of Recipients under the Urban Residents' Minimum Livelihood Guarantee Scheme

Type of minimum living guarantee	On-the-job employee	Laid-off workers	Terminated personnel	Retirees	Unemployed persons	'Three None' persons	Others	Total
Number (10'000)	190.8	240.7	401.9	86.8	332.1	85.4	625.6	1963.5
Proportion percent	9.7	12.3	20.5	4.4	16.9	4.3	31.9	100.0

Source: Statistical report on October 15, 2002, published by Department of Rescue and Relief, MOCA. The "others" listed herewith are mainly composed of on-the-job employees with financial difficulties, persons terminated from posts and unemployed persons and their families. The "Three None" group refers to persons with no income, no capacity to work, and no legal providers or care-givers.

Generally, the urban poor are either unemployed, or come from the two largest urban sectors, manufacturing and trade. The most recent year for which a detailed breakdown of the urban poor is available is 1998, seen in Table 15. Some data is also available for 2004, seen in Table 16, but it is less specific.

Table 15 shows that in 1998, unemployed workers waiting for jobs and disabled persons without jobs had the highest incidence of poverty, 29 per cent and 32 per cent respectively. This is a strong characteristic that persists over time. As Table 16 shows, in 2004, the unemployed had the highest incidence of poverty at 15 per cent, followed by the disabled without jobs with 12 per cent.

Most of the working poor have jobs in the two largest urban sectors, manufacturing and trade. Table 15 shows that the largest urban sector, with 18 per cent of the working population, is manufacturing, where there is an incidence of poverty of 12 per cent. The next largest urban sector, with 7 per cent of the population, is trade and catering, and the incidence of poverty here is even higher at 14 per cent. Mining and social services are much smaller sectors absorbing between 1 per cent and 4 per cent of the urban population, but have high incidences of poverty of above 13 per cent. Transport and communication services also comprise only 4 per cent of the urban population, but again have a high incidence of poverty of 10 per cent.

Table 15 Characteristics of Urban Poverty Distribution in 1998

	Non-poor	Poor	Total	Poverty Rate
Area				
East Area	47.40	43.40	46.90	10.00
Middle Area	35.50	37.50	35.80	14.33
West Area	17.10	19.10	17.30	11.96
Total	**100.00**	**100.00**	**100.00**	**11.87**
Sex				
Male	49.57	48.71	49.46	11.69
Female	50.43	51.29	50.54	12.05
Total	**100.00**	**100.00**	**100.00**	**11.87**
Age				
0-14	15.36	18.54	15.75	13.97
15-64	78.35	75.22	77.96	11.45
> 64	6.29	6.24	6.29	11.78
Total	**100.00**	**100.00**	**100.00**	**11.87**
Education				
University	5.46	1.59	4.98	3.79
College	11.23	5.30	10.49	6.00
Special or technical school	11.71	7.52	11.19	7.98
Senior high school	23.24	21.72	23.05	11.19
Junior high school	27.78	34.34	28.60	14.25
Primary school	15.24	20.01	15.83	15.00
Other	5.34	9.52	5.86	19.28
Total	**100.00**	**100.00**	**100.00**	**11.87**
Industry				
Farming, Forestry, Animal Husbandry and Fishery	0.52	0.48	0.52	10.96
Mining and Quarrying	1.23	1.49	1.27	13.93
Manufacturing	18.10	18.34	18.13	12.01
Production and Supply of Electric, Gas and Water	1.33	0.99	1.29	9.11
Construction	1.96	1.71	1.93	10.52
Geological Prospecting and Water Conservancy	0.72	0.65	0.71	10.87
Transport, Storage, Postal and Telecommunication Services	3.86	3.12	3.77	9.82
Wholesale & retail Trade and Catering Services	6.55	8.00	6.73	14.11
Finance and Insurance	1.66	1.02	1.58	7.66
Real Estate	0.48	0.35	0.46	9.03
Social Services	3.83	4.27	3.88	13.06
Health Care, Sports and Social Welfare	3.21	1.77	3.03	6.93
Education, Culture and Arts, Radio, Film and Television	4.49	2.46	4.23	6.90
Scientific Research and Polytechnic Services	1.16	0.11	1.03	1.27
Government Agencies, Party Agencies and Social Organizations	7.70	4.32	7.28	7.04
Others	43.19	50.92	44.15	13.69
Total	**100.00**	**100.00**	**100.00**	**11.87**
Employment Status				
State-owned	45.16	35.31	43.94	9.54
Collective-owned	6.68	9.41	7.02	15.91
Joint-venture or foreign owned	1.57	0.48	1.43	3.98

	Non-poor	Poor	Total	Poverty Rate
Private-owned self-employed	1.40	2.89	1.59	21.58
Private-owned, employed	0.84	1.27	0.89	16.94
Retirees re-employed	1.70	0.47	1.55	3.60
Other employment (e.g. babysitter)	0.28	0.76	0.34	26.53
Retirees	13.51	9.56	13.02	8.72
Disabled workers	0.21	0.76	0.28	32.22
Household workers	1.18	3.64	1.48	29.19
Waiting for jobs	1.66	4.93	2.06	28.41
Waiting for job assignments	0.18	0.38	0.20	22.55
Students	20.20	21.02	20.30	12.29
Waiting for entry to higher education	0.04	0.06	0.04	17.81
Others	5.40	9.05	5.85	18.36
Total	**100.00**	**100.00**	**100.00**	**11.87**
Occupation				
Senior engineer	0.55	0.11	0.49	2.66
Engineer	4.31	1.23	3.93	3.72
Assistant engineer	4.16	2.03	3.90	6.18
Technician	3.49	2.26	3.33	8.06
Above middle-level cadre	0.06	.	0.05	0.00
Section chief cadre	0.84	0.23	0.77	3.55
Sub-section chief cadre	3.86	1.62	3.58	5.37
Staff-members	13.54	9.87	13.08	8.96
Staff-members in commerce	3.95	5.96	4.20	16.84
Staff-members in services	3.56	4.59	3.69	14.77
Workers in agriculture, forestry, animal husbandry, sideline, fishery	0.07	0.09	0.07	15.26
Workers and staff-members in production and transportation	18.63	21.48	18.98	13.43
Workers unclassified	42.99	50.55	43.93	13.66
Total	**100.00**	**100.00**	**100.00**	**11.87**
Number of household (HH) members (unit: person per household)	3.09	3.60	3.14	
Number of income earners in the HH	2.20	2.19	2.20	
Number of household members employed	1.80	1.85	1.80	
Disposable incomes	6405.26	2810.43	6032.58	
Wages from state-owned enterprises	3831.70	1570.75	3597.30	
Wages from collectively-owned enterprises	403.44	319.72	394.76	
Wages from joint-venture or foreign owned enterprises	222.51	28.06	202.36	
Net Income from private business	108.23	116.12	109.05	
Income from employment by private business	49.10	36.31	47.77	
Income of retirees re-employment	76.40	10.94	69.61	
Income from employment of other types	8.75	13.08	9.20	
Income from other jobs	170.49	157.56	169.15	

	Non-poor	Poor	Total	Poverty Rate
Income from property	166.43	51.74	154.54	
Income from current transfers	1406.84	516.06	314.49	
Other incomes from family side production	2.48	6.17	2.86	
Living expenses	5256.48	1790.46	4897.15	
Amount spent on food	2307.47	1026.42	2174.66	
Amount spent on clothes	548.90	184.48	511.12	
Amount spent on articles of daily use, durable, service	457.88	63.91	417.03	
Amount spent on health care, medical treatment and medicines	242.25	71.36	224.54	
Amount spent on transportation and telecommunication	327.00	65.11	299.85	
Amount spent on entertainment, education, and culture	600.35	132.73	551.87	
Amount spent on living	522.00	193.79	487.97	
Other	250.84	52.07	230.24	

Source: Wang Youjuan, *Urban Poverty in China – Scale and Characteristics in 2004*, National Bureau of Statistics, 2006.

Table 16 Characteristics of the Poor, 2004

Educational level	Non-poverty composition	Poverty composition	Average composition	Poverty incidence rate (%)
Elementary school and lower	18.81	30.46	19.39	6.76
Junior high school	25.68	37.95	26.29	6.39
Senior high school	33.28	27.20	32.98	3.79
Junior college	15.02	3.30	14.43	1.03
University and higher	7.21	1.10	6.91	0.47
Total	**100.00**	**100.00**	**100.00**	**4.37**
Age group	**Non-poverty composition**	**Poverty composition**	**Average composition**	**Poverty incidence rate (%)**
0-20	20.28	28.29	20.68	5.76
21-30	10.92	10.98	10.92	4.48
31-40	18.71	18.50	18.70	4.02
41-60	37.82	33.61	37.61	3.97
Other	12.28	8.62	12.09	3.54
Total	**100.00**	**100.00**	**100.00**	**4.37**
Gender	**Non-poverty composition**	**Poverty composition**	**Average composition**	**Poverty incidence rate (%)**
Female	50.49	52.06	50.57	4.49
Male	49.51	47.94	49.43	4.23
Total	**100.00**	**100.00**	**100.00**	**4.37**
Residence Register	**Non-poverty composition**	**Poverty composition**	**Average composition**	**Poverty incidence rate (%)**
Migrant agricultural	0.52	0.8	0.53	6.24
Local non-agricultural	97.19	94.49	97.06	4.26
Local agricultural	1.43	4.00	1.56	10.61
Migrant non-agricultural	0.85	0.71	0.85	4.63
Total	**100.00**	**100.00**	**100.00**	**4.37**
Employment status	**Non-poverty composition**	**Poverty composition**	**Average composition**	**Poverty incidence rate (%)**
In employing units	55.13	40.39	54.38	2.08
Self-employed	7.58	12.50	7.83	6.79
Other employees	1.80	4.62	1.94	9.62
Household workers	2.53	8.02	2.80	7.04
Retired	18.89	6.20	18.25	1.66
Lose working capacity	0.43	1.58	0.49	12.37
Unemployed	4.15	14.79	4.69	14.89
Students	9.50	11.90	9.61	5.48
Total	**100.00**	**100.00**	**100.00**	**4.37**
Occupation	**Non-poverty composition**	**Poverty composition**	**Average composition**	**Poverty incidence rate (%)**
Specialized technical personnel	10.18	1.96	9.77	0.99
Principal personnel	2.47	0.43	2.37	0.79
Clerk and relevant personnel	15.22	5.35	14.73	1.41
Business staff	4.28	5.35	4.33	4.88
Service staff	6.78	9.04	6.89	5.62
In agriculture, forestry, livestock husbandry and fishery	0.14	0.54	0.16	15.88
Industrial workers	11.87	11.77	11.87	4.39
Other	49.05	65.57	49.87	5.86
Total	**100.00**	**100.00**	**100.00**	**4.37**

Source: Wang Youjuan, *Urban Poverty in China – Scale and Characteristics in 2004*, National Bureau of Statistics, 2006.

The urban poor largely come from the two largest types of enterprises, state-owned and collectively-owned (Table 15). SOEs employ some 44 per cent of the urban population, among whom there is a 10 per cent incidence of poverty. Collectively-owned enterprises employ 7 per cent of the urban population and have a 16 per cent incidence of urban poverty.

It is interesting to note that in comparison, the private sector, comprising both waged-employment and self-employment, is still small, employing only 1 per cent and 1.5 per cent of the urban population. But while small, the incidence of urban poverty in the private sector is marked by a dualism: very high in self- and waged-employment and low in the foreign investment sector. On the one hand, in self-employment the incidence of poverty is 22 per cent, and in waged-employment it is 17 per cent, even higher than that of the state-owned and collective sectors. Table 16 confirms that this characteristic persists over time until 2004. Household workers, again in the private sector, albeit only a small proportion of the urban population at 1.5 per cent, had almost the highest incidence of poverty – 29 per cent Only disabled workers, who had an incidence of poverty of 32 per cent, topped that figure. Table 16 again confirms that this characteristic persists in 2004. On the other hand, urban poverty in the foreign investment sector is quite low, only 4 per cent, as shown by Table 15.

In keeping with the high incidence of urban poverty observed in the trade, services, manufacturing and transport sectors, the occupational groups with the highest incidence of poverty also emerge as commerce with 17 per cent, services with 15 per cent and production and transport with 13 per cent (Table 15). Both Tables 15 and 16 show that the incidence of urban poverty is the lowest for technical occupations, followed by management and administrative occupations, and is the highest for services and production workers.

2.2.4 Human Resource Characteristics of Urban Poverty

Tables 15 and 16 show a clear inverse relationship between the incidence of urban poverty and education. As educational attainment levels increase, the incidence of urban poverty drops. In Table 15, the incidence of urban poverty is the highest (19 per cent) for the 6 per cent of the urban population with no formal education. The incidence of urban poverty then drops successively, for those with primary school attainment (15 per cent), junior high school (14 per cent), senior high school (11 per cent), technical school (8 per cent), college (6 per cent) and university (4 per cent). Table 16 confirms that this inverse relationship between the incidence of poverty and education persists over time and can still be clearly seen in 2004.

However, the period of education may be a difficult one, as Tables 15 and 16 show. Table 15 shows that there is a high incidence of poverty for the large urban population of students, who make up 20 per cent of the total population and have a headcount of 12 per cent. Table 16 still gives students a high incidence of poverty of 6 per cent for 2004.

Both Tables 15 and 16 show women and children to be more vulnerable to urban poverty. In Table 15, women have an incidence of urban poverty of over 12 per cent, slightly higher than the incidence of just under 12 per cent for men. Table 16 for 2004 still gives women a slightly higher incidence of poverty compared to men, albeit at lower levels – 4.5 per cent compared to 4.2 per cent. Children also appear to be more vulnerable to poverty; with children under 14 years having an above average headcount of 14 per cent (Table 15).

2.2.5 Income and Expenditure Characteristics of the Urban Poor

The urban poor have lower wages and incomes, virtually no asset income and low transfer income relative to the non-poor.

Table 15 shows that the urban poor have a significantly larger dependency ratio than the non-poor. This is indicated by the average household size of the poor of 3.6, compared to the average household size of the non-poor of 3.0.

In addition, the urban poor have significantly lower incomes. Table 15 shows that the wage income from state-owned and collective enterprises for the urban poor is half that of the non-poor. Virtually none of the urban poor get a wage income from foreign-owned enterprises, which were seen above to have a low incidence of poverty. Moreover, the urban poor are more reliant than the non-poor on private business income, which was seen above to have a high incidence of poverty. The urban poor get effectively no income from assets owned and an income from transfers that are only a third of that of the non-poor. As a result, the disposable income of the urban poor is some 40% of the disposable income of the non-poor.

One important characteristic of the urban poor was introduced by the School of Poverty of Social Rights and Benefits.[6] They argue that a significant proportion of the urban poor fall into the informal economy. This group earns wages, but not through formal labour contracts, and is not entitled to participate in any social insurance or protection programs.

This informal economy overlaps with another significant proportion of the urban poor - rural-urban migrants. A considerable proportion of migrants fall into the informal economy and are also denied the rights and benefits of formality and social protection. While the NBS survey for 2004 has – of its own admission – only partially sampled migrant labour in urban areas, it manages to capture their higher incidence of poverty. Table 16 shows that migrant labour from agriculture has a higher incidence of poverty of 6 per cent compared to the urban average of 4.4 per cent.

The low wages and incomes of the urban poor are matched by their low levels of per capita consumption. Table 15 shows that the expenditure of the urban poor on food is less than half that of the non-poor; on health it is less than a third; and on durable assets it is negligible. As a result, the urban poor expenditure per capita is a third of that of the non-poor.

2.3 The Major Causal Factors Contributing to Urban Poverty

In summary, estimates of the urban poor in China based on national data vary between 4 per cent and 10 per cent of the urban population; with income-based measures giving the lower estimates, and expenditure-based measures giving higher estimates. The trend over the last five years shows that urban poverty dropped but resurged again by 2004. The longer-term trend over the past decade and a half shows that urban poverty has persisted at about 4.5 per cent. Sampling biases and urban definitions may well be excluding large groups of the migrant and floating populations from being enumerated in the poverty headcounts, and the much higher poverty levels among these excluded groups, precisely because of their lack of urban rights and benefits, would significantly add to the estimates of urban poverty.

The observed characteristics of the urban poor help to establish the main causal factors contributing to this urban poverty:

1. The predominant category among the urban poor is that of the unemployed. The major causal factor of urban poverty is the lack of jobs for terminated personnel, laid-off workers and the unemployed.

2. The high rate of urbanization, doubling since 1980, has increased pressure on urban employment and poverty from the labour supply side. Migration also simultaneously

[6] *Rights and Benefits of Poverty Stricken Urban People – Causes and Strategies*, Chang Wei, 2005.

increases the pressure of demand for urban rights, benefits, and social protection. Therefore, migration has to be seen as another major factor contributing to urban poverty.

3. A large proportion of the urban poor have been identified as waged workers with informal contracts and no social protection benefits. This informal economy is also glimpsed through the earning characteristics of the urban poor, with waged workers and the self-employed in manufacturing, trade and transport having high poverty headcounts. Since this informal economy does not provide adequate rights, wages and incomes, and social protection, it must be seen as a major factor contributing to poverty.

All three causal factors for urban poverty devolve on decent work – that is, a need for employment, rights, adequate remuneration and social protection.

Accordingly, this study now examines these three major causal factors contributing to urban poverty in China in order to review policy adequacy and suggest future directions based on the principle of decent work. Chapter Three examines employment and the labour market through the estimation of Decent Work Indicators; Chapter Four analyses the pressures of migration on urban employment, social benefits and poverty; Chapter Five examines the available evidence on the mushrooming informal economy and its impact on urban poverty; Chapter Six then reviews policy for urban poverty reduction; and Chapter Seven suggests future policy directions based on decent work.

Chapter 3 An Analysis of Urban Unemployment and the Labour Market using Decent Work Indicators

China's record on poverty reduction has been an envious one. Chapter 1 showed that extensive policy coherence between growth and social policies, and macro, sectoral, project-based and institutional policies has reduced overall poverty so significantly that by the early 1990s, urban poverty was considered to be virtually negligible at 0.2 per cent of the urban population. Chapter 2 however, revealed the re-emergence of considerable levels of urban poverty over the 1990s, and its persistence at a constant level of about 4.5 per cent through to 2004. Such income-based estimates are lower than the expenditure-based estimates that put urban poverty rates at 10 per cent for 2004.

Concern about urban poverty was prompted by the Government's apprehension that rising urban unemployment based on the structural transformation of the economy may be causing urban poverty levels to re-surge. The characteristics of urban poverty examined in Chapter 2 have borne out these apprehensions. Urban poverty is strongly characterized by urban unemployment, by a high incidence of poverty amongst rural-urban migrants, and by the informality of employment. The contribution of these three causal factors to urban poverty needs to be investigated, in order to derive effective policy for redress.

Accordingly, this chapter examines urban unemployment and the state of the urban labour market as the major factor contributing to urban poverty; Chapter Four examines the impact of rural-urban migration on urban poverty; Chapter Five examines the role and impact of the urban informal economy; Chapters Six and Seven then focus on existing policy coverage, gaps and future policy.

This chapter examines urban unemployment and the state of the urban labour market through the analytical lens of Decent Work Indicators. The function of these indicators is to estimate and highlight weaknesses in employment and working conditions in the labour market. It is these weaknesses in employment and working conditions that are expected to underlie the resurgence in urban poverty in China. The following provides estimates of the urban economy's labour force participation rates, employment to population ratios, employment elasticity and unemployment rates. It gives some explanation for the high unemployment rates and details some of the important characteristics of employment, wages and incomes.

The chapter shows urban unemployment levels to be significant and rising over time. The rising unemployment level is associated with the massive but necessary restructuring and reform of State-Owned Enterprises (SOEs) undertaken in the move towards market mechanisms and increased competitiveness as warranted by the integration of the domestic economy with the global. The large-scale retrenchment of workers has not been accompanied by their proportionate re-employment, thus creating a growing backlog of urban unemployment. Further urban employment pressures come from the large number of new entrants into the labour force. This urban unemployment emerges as the primary causal factor contributing to urban poverty. The chapter also shows that increasing wage and income differentials underlie the increasing concentration of urban income and rising urban poverty.

3.1 Using ILO Indicators as a Base for Establishing Decent Work Indicators for China

In proposing the creation of Decent Work Indicators for China, the reference indicators suggested by the ILO and China's current labour statistical indicators should be considered. On the one hand, the ILO indicators for decent work are similar to the main statistical indicators for employment and the labour market commonly used in most countries. On the

other hand, the basic national labour statistical indicators, especially published basic data, should be used to measure decent work.

The employment related index and 17 indicators proposed by the ILO allow for country context, and the ILO also encourages additional country specific indicators. For China, the 17 indicators can currently be divided into two categories: those completely or essentially applicable and those currently inapplicable. Specifically, there are 12 indicators in five sets that can be considered for use in the establishment of Decent Work Indicators for China. They are:

1. Six indicators in the Employment Opportunity Set: Labour Force Participation Rate, Employment-Population Ratio, Unemployment Rate, Youth Unemployment Rate, Time-Related Underemployment Rate, Share of Wage Employment in Non-Agricultural Employment;

2. two indicators in the Adequate Earnings and Productive Work Set: Inadequate Pay Rate, and Average Earnings in Selected Occupations;

3. two indicators in the Decent Hours Set: Excessive Hours of Work (percentage of employed, by status in employment) and Time-Related Underemployment Rate (percentage of employed population working less than the hours threshold, but available and wanting to work additional hours);

4. one indicator in the Stability and Security of Work Set: Tenure Less Than One Year (percentage of employed persons who have held their main job/work for less than one year, by age, by status in employment) and Temporary Work (percentage of employees who classify their jobs as temporary);

5. one indicator in the Fair Treatment in Employment Set: Female/Male Wage or Earnings Ratio in Selected Occupations.

These indicators can be used to effectively measure the current quantity and quality of urban employment in China. But first, the following examines the related statistical indicators for labour currently used in China:

In the early 1990s, a new labour statistical index system adapted to the market economy was established. The data has been mainly collected from periodic administrative statistics and non-periodic sample surveys. The labour statistical index system has 564 indicators in five sub-systems: Labour Force Resources and Employment, Labour Management, Personal Income, Social Insurance and Welfare, and Vocational Skills Development. Despite this number of indicators, some of the ILO's Decent Work Indicators and Key Indicators of the Labour Market have not yet been established.

For example, in terms of employment there are no indicators on labour force participation, employment-population ratio, part-time workers, urban informal sector employment; in terms of unemployment, underemployment and the non-economic active population there are no indicators on youth unemployment, unemployment by education levels, and time-related underemployment; in terms of wage and labour there is no indicator on hourly compensation costs; and there is no labour productivity and unit labour cost indicator.

Though the China Labour Statistical Yearbook, published by the NBS and MOLSS, provides a large number of indicators, it is still missing some important data, and some indicators are measured differently from standard international practice. In the 2003 Yearbook, there are 87 comprehensive indicators, 19 employment and unemployment indicators, and 52 employed persons and compensation indicators. Some of these are the same as basic international indicators, such as total population, economically active population, non-economically active

population, population above 16 years, total employed population, total unemployed population (in China this is represented by urban registered unemployment), and average total earnings by occupation.

But the Labour Statistical Yearbook is clearly missing some indicators. For example, in terms of employment, the ILO proposes indicators such as employment-population ratio (the share of employed persons to the total working-age population), underemployment and youth unemployment. In terms of labour compensation, there are no indicators on an inadequate pay rate (percentage of employed people receiving less than half of the median wage or less than the minimum wage), yet this indicator is deemed as the most valuable in measuring income-related aspects of decent work. In terms of working hours, there is no indicator to measure excessive or inadequate working hours; and in terms of stability and security of work, there is no indicator measuring the ratio of short-term and temporary workers.

Based on the ILO's recommended indicators and China's existing labour statistical indicators, the selected Decent Work Indicators for China can be divided into three categories.

First are the indicators proposed by the ILO and currently used in China's labour statistics that can obviously already be calculated. These include indicators on the employment rate, the unemployment rate, the share of waged employment in non-agricultural employment and average earnings in selected occupations. These indicators can be adopted to measure decent work in China.

Second are the indicators proposed by ILO, but which are not considered to be priorities in China at present; for example, indicators measuring the earnings of men and women in selected occupations and their earning ratio. If possible, these indicators should be adopted.

Third are the indicators proposed by the ILO, but which are not established in the current labour statistical system, including the youth unemployment rate, time-related underemployment rate, inadequate pay rate, excessive hours of work, tenure less than one year and temporary work. These indicators are not only important for international comparison, but are also imperative as indicators for measuring decent work in China. However, at present these are not used in China's labour statistical system and with insufficient relevant data it will be difficult to adopt them as Decent Work Indicators in the near future. However, the Government is considering adopting some of them, such as youth employment.

The development of Decent Work Indicators is central to the priorities of ongoing work in three areas: employment promotion as the priority of the national plan on economic growth and social development; the Government's policies and measures to promote employment; and national employment policies designed to maximize coverage of workers' benefits.

To summarize, currently the following indicators should be considered as priorities in the development of Decent Work Indicators for China (some of which may require modifications to the statistical system):

1. Labour force Participation Rate
2. Employment-Population Ratio
3. Unemployment Rate
4. Youth Unemployment Rate
5. Underemployment
6. Share of Wage Employment in Non-Agricultural Employment
7. Inadequate Pay Rate
8. Hours of Work

9. Short-Term and Temporary Employed Persons

Of these potential indicators of decent work in China, official statistical data is available on only three: labour force participation rate, employment rate and unemployment rate.[7] In addition, this report analyzes indicators based on: urban employment, urban unemployment, informal employment, rural migrant workers employment, urban poverty and poverty reduction. The data analyzed comes from the official statistics issued by the Government and relevant research studies.

3.2 China's Labour Force Participation Rate

China's official labour statistics contain no measure of the labour force participation rate. This has to be calculated based on the working-age population above 16 years, and estimates of employment and unemployment. Nevertheless, the existing information on labour force participation generally reflects the labour market situation and trends, and can therefore be used as an important measure of decent work.

The few statistics available on the labour force participation vary significantly. According to the data on the China Internet News Center (China Net), the labour force participation rate was 63.2 per cent for 1990, 61.8 per cent for 1997, 62 per cent for 1998, 62.1 per cent for 1999, 61.4 per cent for 2000, and 61.4 per cent for 2001,[8] while the figures calculated by the ILO based on China's official data are 79.2 per cent for 1990, 76.7 per cent for 1995 and 77 per cent for 1999.[9] The data of the latter more closely reflects the 2001 labour force participation rate of 77.03 per cent issued in China's Labour and Social Security White Paper and the China Employment Report 2001-02. However, policymaking and study without official data on labour force participation is always problematic. There are even less data on labour force participation in urban areas specifically, but according to the related data in the fifth general census, some studies estimated it at 73 per cent, 73 per cent, 71 per cent and 68 per cent for the respective years from 1997-2000.[10] This decline can be seen in Table 17.

[7] In the document China Labour Statistics, no labour force participation rate was found, yet the Government has started adopting and using data on labour force participation. For example, in 2004, the State Council issued a white paper entitled *China Employment Status and Policy* that included a 2003 labour force participation rate of 76.2 per cent. Moreover, Government agencies including the National Bureau of Statistics, the Ministry of Labour and Social Security and many experts and scholars have also widely used labour force participation rates in their research and provided subsequent statistical data on the study of employment, the labour market and the social security situation. Therefore, this report treats the labour force participation rate as an adopted decent work indicator.

[8] www.china.com.cn

[9] International Labour Office: *2001 World Employment Report,* China Labour and Social Security Press.

[10] *Urban Employment and Labour Participation-Current Status, Issues and Strategies,* Zhang Chewei, Wu Yaowu; Chinese Journal of Population 2003, 6th Issue.

Table 17 1997-2000 Changes in China's Urban Employment Labour Force Participation Rate

Year	Total Population (10,000)	Population Above 16 (10,000)	Economically Active Population (10,000)	Labour Force Participation Rate (%)
1997	36989	29169	21187	73
1998	37924	30159	21872	73
1999	38892	31331	22178	71
2000	45844	36756	24861	68

Source: Zhangchewei, Wuyaowu: Urban Employment, Unemployment and Labour Participation: Situation, Problem and Policy, 2003.

China's labour force participation rate has generally been declining since the 1990s. Some studies estimate that the drop in the urban labour force participation rate over the decade may exceed 10 per cent.[11] Table 17 shows that in just the short period between 1997 and 2000, the urban labour force participation rate fell from 73 per cent to 68 per cent. More than 20 million labourers, thought to be women mostly, withdrew from the labour market. The continued drop in labour force participation for females reflects the changing mechanism for labour resource allocation caused by reforms of the economic system.

An analysis of labour force participation reveals the following characteristics and trends. Regionally, China's highest labour force participation rate is in the eastern region, followed by the western region and is lowest in the central region. From a gender perspective, labour force participation for males is higher than for females in almost all age groups, except for the under-20s. Between the ages of 25-44, the labour participation rate of males is 16 per cent higher than that of females. For women, the rate of labour force participation reaches a peak between the ages of 35-39; it begins to fall thereafter and sees a sharper decline after the age of 45. The labour force participation rate for men also falls after 45, but at a much slower rate. The difference in labour force participation rates by age and sex implies that women withdraw from the labour market more rapidly after the age of 45.

3.3 Decent Work and Urban Employment in China

3.3.1 Employment in China

China's huge working-age population with a relatively low level of education presents the country with a number of employment challenges, particularly the imbalance between supply and demand. First, there is the process of unifying the rural and urban labour markets, resulting in a huge influx of migrant labour. Second, the restructuring of SOEs requires the re-employment of the retrenched labour force. Third, demographic changes require the absorption of large numbers of new entrants to the urban labour force. Moreover, the quality of the workforce needs to be improved.

In response, the Chinese Government is paying more attention to employment promotion and the protection of workers' rights. China has established a market-oriented employment mechanism to solve the surplus labour force problem caused by the transition from a centrally planned economy. A series of active and effective employment policies and measures that are in line with the country's socio-economic development have been formulated through practice and learning from international experience. Growth and restructuring are expanding employment potential, improving employment structures, widening employment channels and

[11] *Labour Participation Rate: An Ignored Key Economic Indicator*, Li Lilin, Li Qionglin, School of Labour Relations and Human Resources in Renmin University of China; Party School, Jiangxi Xinyu Municipal Committee, China Economic Times, May 27, 2005.

are making the forms of employment more varied and flexible. These measures are expected to maintain the stability of employment.

China's demographics and labour market are the most enormous in the world. By the end of 2004, China's population had reached 1.29 billion, of which 542.83 million lived in urban areas and 757.05 million lived in rural areas. The working-age population, between 16-64 years, was 921.61 million or 70.4 per cent of the total population. There were 757.20 million people employed: 264.76 million in urban areas, or 34.9 per cent of the total; and 487.24 million or 64.3 per cent in rural areas. From 1990 to 2004, the increase in the total number of employed persons was 104.51 million, an average annual increase of approximately seven million. In 2004, 9.8 million new jobs were created.

The high growth over two and a half decades of reforms has been based on considerable structural change in employment in terms of sectors and ownership. In terms of the employment structure, between 1990 and 2004, the proportion of rural employment decreased from 73.7 per cent to 64.8 per cent, while the share of urban employment increased from 26.3 per cent to 35.2 per cent. Employment in the primary agricultural sector decreased markedly, from 60.1 per cent to 46.9 per cent, leaving 352.69 million people in agriculture. Over this period, employment in manufacturing remained constant at 22.5 per cent or 169.20 million people, and employment in the tertiary services sector rose steadily between 1990 and 2004 from 18.5 per cent to 30.6 per cent, or to 230.11 million people.

In terms of the structure of ownership, between 1990 and 2004, employment in state-owned enterprises decreased by 36.54 million to 67.10 million, and employment in urban collective work units decreased by 26.52 million to 8.97 million. Meanwhile, employment in the private sector has risen from 42.67 million by 35.96 million, accounting for 46.5 per cent of the newly created urban jobs. Foreign investments, multiple economic forms and various employment forms including part-time workers, temporary workers, seasonal workers, hourly workers and flexible employment have grown rapidly.

Table 18 GDP and Employment of 1997-2003

Year	GDP Total Employment (yuan 100 million)	Growth Rate (%)	Employed Population (10,000)	Increase Rate (%)
1997	74462.6	8.8	69820	1.26
1998	78345.2	7.8	70637	1.17
1999	82067.5	7.1	71394	1.07
2000	89468.1	8.0	72085	0.97
2001	97314.8	7.5	73025	1.30
2002	105172.3	8.3	73740	0.98
2003	117251.9	9.3	74432	0.94

Source: NBS

Despite the high growth and the generation of seven million jobs a year, the current employment situation is still problematic due to the sheer size of the population, the still high rate of labour force participation, continued pressures caused by the restructuring of the economy, and the rapid urbanization process. As Table 18 shows, while GDP growth has been in the band range of 7 per cent to 9 per cent, employment growth has been much lower in the range of 1 per cent to 1.5 per cent. These circumstances have influenced the Government's prioritization of employment in the economic development strategy, identifying employment promotion as one of the key economic and social goals.

3.3.2 Employment-Population Ratio

An employment-population ratio indicator is used to measure the percentage of the employed population against the working-age population, reflecting the degree to which the working-age population participates in economic activities. Detecting women's involvement in the labour market is also an important gender indicator. The ILO lists this indicator, together with the

labour force participation rate and unemployment rate, as the most important Decent Work Indicators. In practice, the higher the employment-population ratio, the larger the capacity of the working-age population's participation in productive labour market activities. A mid- or low employment-population rate reveals that more of the working-age population is not directly engaged in productive labour market activities; the reason for which is either unemployment or withdrawal from the labour force to join the non-economically active population.

Government-issued labour statistics have not adopted the employment-population ratio, and the employment rate and related data given in some local government statistics are incomplete. Nevertheless, the ratio can be calculated using the official figures of the working-age population and the employed population. Table 19 shows the employment-population ratios over several years as calculated by the Institute for International Labour Studies (IILS), MOLSS based on NBS data.

Table 19 1990-2004 Employment-Population Ratio

Year	Total Population	Population Above 16	Employed Population	Employment-Population Ratio
1990	114333	82662	64749	78.3
1995	121121	88903	68065	76.6
2000	126743	97719	72085	73.8
2003	129227	100668	74432	73.9
2004	129988	102041	75200	73.7

Source: IILS, based on data in the China Statistics Brief (2005).

In 1995, an international comparison by the ILO revealed that of the countries surveyed, China's employment-population ratio was the highest (76.6 per cent), Algeria's was the lowest (28.8 per cent), and most countries ranged between 50 per cent and 60 per cent.[12] More recently, in 2003, China's employment-population ratio was measured at 73.9 per cent, considerably higher than the G7 countries (USA, 62.3 per cent; Canada, 63 per cent; Japan, 57.1 per cent; France, 51.7 per cent; Germany, 50.9 per cent; Italy, 44.6 per cent; and the UK, 59.8 per cent).[13]

ILO statistics show that with the development of the global economy, the employment-population ratio of most countries is generally rising. However, data from the 1990s revealed a different situation, where nearly half of the countries, including several developed countries, had a falling employment-population ratio. Two conclusions can be drawn from the above international comparison: firstly, China's employment-population ratio has remained at quite a high level; secondly, it shows a slight falling trend. Both are consistent with the state of the labour force participation rate; the reason being the level of economic development and the changes in employee behavior - voluntary or forced withdrawal from labour market, caused by economic and labour market reforms.

In summary, both the labour force participation rate and the employment-population ratio in urban China have declined over the 1990s through to 2003. This indicates a dual effect: a transition effect, of moving from a directed labour force to a labour market, resulting in some decline in labour force participation and the employment-population ratio; but, there is also an absorptive effect, indicating the declining employment absorptive capacity of the economy.

[12] *The Key Indicators of Labour Market (1999)*, p. 54.

[13] Source: US Bureau of Labour Statistics.

3.4 Decent Work and Urban Unemployment Statistics

3.4.1 Employment Pressures in Urban Areas

Employment depends on supply and demand in the labour market. There are three main pressures on China's labour supply side: the new entrants into the labour force; the transition of the surplus rural labour force to non-agricultural sectors and urban areas; and the laid-off and unemployed urban workers.

The pressure of new entrants is very high, with China's working-age population currently in its fastest growth period. In 2003, the population aged between 16 and 59 years had a net increase of over 13 million, the largest rise in the labour force seen in recent years. This trend of large increases in the working-age population is expected to continue for approximately 8-10 years. In terms of the migration of the rural labour force to urban areas, the pace of transition is expected to quicken with farmers' increased reliance on non-agricultural earnings. This is examined in detail in Chapter 4. Alleviating employment pressures to some extent is the declining number of urban laid-off workers, from 4.1 million at the end of 2002, to 2.6 million in 2003, to 1.5 million in 2004.

From the demand side, the employment elasticity of economic growth is decreasing. In the early stages of China's reforms, a 1 per cent increase in GDP would lead to an approximate 0.4 per cent increase in employment. But by the year 2000, this employment elasticity had fallen to only 0.1 per cent. There is evidence that this downward trend has continued. The 2005 Report on Employment in China estimates that while 24 million new jobs are needed in urban China, a 7 per cent GDP growth rate can only generate 10 million urban jobs a year, leaving a 14 million urban job shortfall every year. The considerable disparity between labour supply and demand illustrates that China's acute employment situation will not be solved in the short-term.

3.4.2 Urban Unemployment and Statistical Methods of Estimation

There is no accurate and authoritative description of the severity of current urban unemployment, largely because China lacks unemployment data of an international standard. The officially issued unemployment rate is, in fact, the urban registered unemployment rate, which according to MOLSS, was 4.2 per cent at the end of 2004.[14]

Compared with some developed countries, this rate is clearly not very high. For example, in 2004, the unemployment rate across the Euro-Zone was 9 per cent; more specifically 10.8 per cent in Germany, 9.9 per cent in France and 10.9 per cent in Spain. Countries with low unemployment rates include the UK at 4.9 per cent, the US at 5.5 per cent and Japan at 4.7 per cent. However, the rates in these countries were concluded from a sample survey, a common international practice. Moreover, their definitions of unemployment, sample surveys and methods are internationally comparable.

The current official unemployment rate in China was obtained from MOLSS' urban registered unemployment records. However, this rate does not adequately reflect the level of unemployment. So far there are three methods through which urban unemployment statistics can be obtained: administrative departments' registration records, a labour force survey and the census. Among these, findings from the registration and the census are issued officially, while the survey results have not yet been made public.

[14] *A Report on Unemployment in China*, Institute for Labour Studies, MOLSS, 2005.

Urban Registration Method

The urban registered unemployment rate is jointly collected and issued by the NBS and MOLSS. An unemployed person must meet the following conditions: (1) possess a non-agricultural *hukou*; (2) fall within the age category of 16-50 for males, 16-45 for females; (3) be able to work; (4) be without work but actively seeking employment; and (5) registered with the local employment service organization. This figure provides the numerator in calculating the rate of unemployment.

As the denominator, the urban labour population includes: (1) the urban employed (excluding the rural labour force in urban areas, employed retirees, expatriates and personnel from Hong Kong, Taiwan and Macao); (2) absentees; (3) urban private business owners or small business owners; (4) employees in urban private enterprises and small businesses; and (5) the urban unemployed. Because the urban registered unemployment rate is obtained through the number of jobless people who have registered at employment service organizations, unemployed people who have not registered are excluded. Therefore, though the urban registered unemployment rate can reflect the degree to which the urban labour force is put to use, it underestimates the urban unemployment rate, and it is difficult to make international comparisons. This is the fundamental difference between the urban registered unemployment rate and the actual unemployment rate.

Census Method

The census is an important source for estimating employment and unemployment. China has conducted five censuses, in 1954, 1964, 1982, 1990 and 2000. In the fifth census in 2000, people over 15 years of age were questioned on their employment status. The format of these questions essentially followed the employment and unemployment standards recommended by the ILO. According to the census definition, the employed fall into two categories: those who were engaged in paid work for over an hour within the survey week; and those who have jobs yet "have seasonal work or are on temporary leave for vacation or training." There are also two parts to the census definition of unemployed persons: "the new entrants into the labour force [who have] never worked, but are looking for a job"; and those who have "lost jobs and are looking for jobs."

The definition of employment in China's census basically corresponds with the criteria set by the ILO, but with some differences. This is mainly due to the criteria for seeking work; there is neither a stipulation on the period of time for seeking jobs, nor a requirement on methods for seeking jobs. The census therefore only reveals subjective judgments. Moreover, there are no specific recommendations by the ILO on how to treat some special groups like "students", "temporary laid-off persons", "people awaiting new jobs" and "home workers without payment."

Therefore, in many cases, the criteria for judging unemployment are broad, resulting in a high estimated unemployment rate. In addition, the census is conducted every ten years, and though the figures on employment and unemployment are more thorough and accurate compared with the urban registered unemployment rate, the data cannot be collected as often as is required.

3.4.3 Labour Force Survey Method

A labour force sample survey is conducted three times each year by the NBS. Of the three, the surveys of the second quarter and the fourth quarter are conducted in urban areas only; the survey of the third quarter is conducted nationwide (excluding Hong Kong, Macao and Taiwan). The sample targets the population over 16 years old and includes approximately 900,000 people. Various methods including multi-strata, multi-phase, and the sample share of group probability are used. The contents of the survey include: registered permanent residence status, nature of registered permanent residence (non-agricultural or agricultural), education

status, whether working for income or not, employment status, industry and occupation. The main items related to unemployment include: reasons for not working, means of job hunting, unemployment duration, and occupation and industry prior to unemployment.

This survey has adopted the ILO-recommended concept of employment. It defines "employed persons" as those aged 16 and above with the capacity to work, who have been engaged in work for over an hour and received pay or business income for work within the week of the survey, including those who, due to study, vacation and other reasons (including weather, equipment maintenance, lack of power or shortage in raw materials) are temporarily out of work during the survey week. Thus, the unemployed are defined as those aged 16 years old and above who are without work but seeking jobs. From this survey, we can obtain an unemployment rate that can be compared internationally. The NBS has conducted labour force sample surveys since 1996, but the resulting estimation of the unemployment rate has only been used for reference and has not been officially published.

3.4.4 Other Methods

In order to meet research needs and to provide the Government with policy recommendations, some research institutes in China have initiated some statistical survey work on employment and unemployment rates. This work is usually done in collaboration with local statistics departments using the methodology of the labour force survey. By adopting the internationally recognized definitions of employment and unemployment, some regions can calculate their unemployment rates. For example, in 2001, through cooperation between the Institute of Population and Labour Economics at the Chinese Academy of Social Sciences and local statistics bureaus, a labour force sample survey was conducted in five major cities nationwide (Fuzhou, Shanghai, Shenyang, Wuhan and Xi'an).[15] The unemployment rate survey of 2002 was conducted in the same way.

In summary, the unemployment rate is an important measure of decent work in China, but the data is currently limited to administrative registration statistics and the census, as well as survey results from research institutes. The unemployment rate is an important indicator of the macro-economy and the labour market and an important tool in formulating effective employment expansion policies and strategies to tackle unemployment. A statistically robust unemployment rate requires a formal and standardized unemployment survey that can produce official unemployment data comparable to international standards, but pending this, existing data and research can still reflect China's urban unemployment and its basic characteristics.

3.4.5 Urban Unemployment Rates Drawn from Different Statistical Methods

Urban Registered Unemployment Rate

According to the criteria of the urban registered unemployment rate, only those registered at the local Department of Labour and Social Security and who meet the conditions of unemployment are considered unemployed. Those who have not registered are not counted as unemployed. This statistic only represents the urban workforce, and not the rural workforce, rural migrant workers in urban areas or laid-off workers. Despite the sizeable difference in the urban registered unemployment rate and the actual urban unemployment rate, the trends of the two are basically consistent. Table 20 reflects the continued growth of urban unemployment since the 1980s, rising to 4.2 per cent by 2005. In fact, the Government acknowledges the limited coverage of the urban unemployment rate, and the Minister of Labour and Social Security stated in 2002 that though the registered urban unemployment rate was then

[15] *Strategic Thoughts on Urban Unemployment and Employment Expansion*, Zhang Chewei, Xinhua Digest, 5th Issue, 2005.

only 4.0 per cent, if the six million laid-off workers were included in the statistics, the rate would reach 7 per cent.

Table 20 Urban Registered Unemployment Rates

Year	Urban unemployment (10,000)		Unemployment Rate (%)
	Total	Unemployed Youth	
1980	541.5	382.5	4.9
1985	238.5	196.9	1.8
1990	383.2	312.7	2.5
1995	519.6	310.2	2.9
2000	595.0		3.1
2001	681.0		3.6
2002	770.0		4.0
2003	800.0		4.3
2005	827.0		4.2

Source: China Statistics Digest (2005), China Statistics Press.

3.4.6 Census Rates

According to the 2000 census, China's overall unemployment rate for people over 15 years of age was 3.58 per cent. Yet there was a large difference between urban and rural areas. The urban unemployment rate was 8.27 per cent (9.43 per cent in cities and 6.24 per cent in smaller towns), while the rural unemployment rate was only 1.15 per cent. From a provincial perspective, ten provinces had an urban unemployment rate that exceeded 10 per cent, among which the highest was Liaoning with 17.68 per cent, followed by Heilongjiang with 15.43 per cent, Tianjin with 13.96 per cent, Hainan with 13.42 per cent, Jilin with 13.88 per cent, Qinghai with 12.30 per cent, Shanghai with 11.99 per cent, Inner Mongolia with 11.35 per cent, Jiangxi with 10.33 per cent and Chongqing with 10.76 per cent. Though the unemployment rates seen in the census appear to be very high, they may provide the closest estimates to the actual rates (Table 21).

Table 21 Unemployment Rates of China for Population Over 15 Years Old, 2000 (%)

Age Group (Years Old)	Total	Urban			Rural
		Aggregate	City	Town	
15-19	11.63	22.60	22.78	22.32	7.32
20-24	6.98	13.12	13.73	12.03	3.02
25-29	3.68	7.89	8.80	6.27	0.93
30-34	2.76	6.76	8.02	4.58	0.43
35-39	2.97	7.17	8.81	4.15	0.32
40-44	3.16	7.71	9.55	3.91	0.28
45-49	2.12	5.96	7.35	3.40	0.25
50-54	1.22	3.91	4.72	2.61	0.23
55-59	0.60	2.29	2.81	1.59	0.14
60-64	0.18	0.82	1.00	0.62	0.06
Above 65	0.22	1.01	1.32	0.71	0.11
Total	**3.58**	**8.27**	**9.43**	**6.24**	**1.15**

Source: Information on the China Population Census, 2000, edited by the Office of the Population Census, State Council; Department of Population, Social, and Science and Technology Statistics, NBS, 2002.

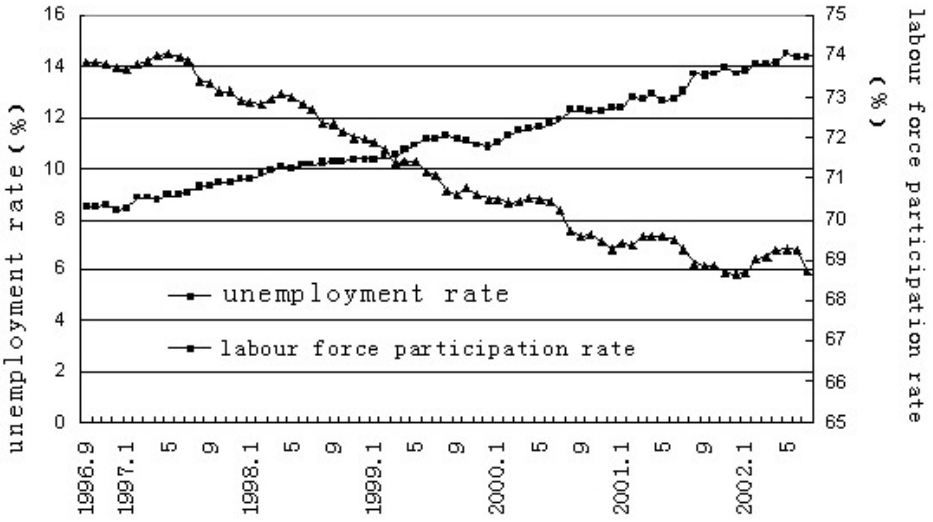
3.4.7 Urban Unemployment Status Reflected by Other Means

In 2001, the Institute of Population and Labour Economics cooperated with local statistics bureaus to conduct a labour force sample survey in five big cities nationwide: Fuzhou, Shanghai, Shenyang, Wuhan and Xi'an. Then, in 2002, they carried out another special follow-up survey on the unemployment rate, adhering completely to the internationally recognized

definition for employment and unemployment. If these five cities are able to represent the regions in which they lie and thus reflect the differences and changes between these regions, then to a certain degree, an unemployment rate of international standard can be calculated. Both Fuzhou and Shanghai are coastal cities that have been well managed economically throughout the economic reform period; Shenyang in northeast China, Wuhan in central China and Xi'an in northwest China are all inland cities. All five cities have large-scale, state-owned industrial enterprises and have all experienced the great impact of economic restructuring.

Chart 1 below is the result of this unemployment survey. The study estimated the unemployment rate for each city and also disaggregated data by sex, age and educational level. By the end of 2002, the overall unemployment rate for the five cities had risen from 8 per cent to a high of 14.3 per cent. The highest rate of urban unemployment was 22.3 per cent in Wuhan, then 17.6 per cent in Shenyang, 16.5 per cent in Xi'an, 12.3 per cent in Fuzhou, and the lowest being 8.9 per cent in Shanghai. At 16.9 per cent, the unemployment rate for women was higher than the 12.2 per cent of men. In terms of age, mid-career workers had the highest unemployment rate.

Chart 1 Unemployment and Labour Force Participation in the Five Surveyed Cities



Source: Task Group of China City Research, Institute of Population and Labour Economics, Chinese Academy of Social Sciences.

In summary, these three alternative estimates of urban unemployment show a common trend. The registered unemployment rate shows an increase over the 1990s from under 2 per cent to over 4 per cent. Furthermore, MOLSS has accepted that if the narrow definition of registered unemployment were widened to include some six million laid-off workers, then the urban unemployment rate would rise to 7 per cent. The alternative census-based urban unemployment rate for 2000 gives a similarly higher estimate of 8 per cent. A more selective urban unemployment rate for five major cities shows an increase from 8 per cent in 1996 to 14 per cent by 2002. Therefore, urban unemployment can be considered the primary causal factor underlying the rise in urban poverty observed in this study.

3.5 Trends in the Labour Market Underlying the Rising Levels of Urban Unemployment

The rising levels of urban unemployment and decreasing employment elasticity observed over the 1990s are based on several labour market pressures. One of the primary challenges to urban employment is the essential restructuring of SOEs, ongoing since the late 1990s. MOLSS puts estimates of laid-off workers from the restructuring of SOEs at 5.9 million for 1998, rising to 6.6 million for 1999 and 2000, and then declining to 5.2 million for 2001, 4.1 million for 2002, and 2.6 million for 2003.[16] Thus, the accumulated figure for workers retrenched from SOEs over this period comes to some 31 million.

A second challenge to urban employment is posed by the increasing impact of globalization on the Chinese economy. As the domestic economy has integrated into the global economy, resulting competition has increased pressures on SOEs to become more efficient. For instance, the Asian Development Bank estimated that in the textile sector, five million spindles were destroyed and 450,000 workers were retrenched in 1998 and another five million spindles were cut and 750,000 workers were retrenched in 1999.[17] In the coal industry in 1998, 7.2 million workers were retrenched from SOEs and production was cut by 18 per cent. Cities with old industrial bases, largely prevalent in the north-eastern part of the country, have had very high numbers of workers laid-off.

Tables 22 and 23 summarize some of these impacts on the urban labour market between 1995 and 2004. In 2004, the total population rose to 1.3 billion, and the employed population rose to 752 million; urban employment rose up to 265 million, 35 per cent of the total. The employment share of industry rose up to 27 per cent, the share of services rose similarly and the share of agriculture fell below half.

[16] *China Labour Statistical Yearbook*, 2004, NBS and MOLSS.

[17] *Poverty Profile of the People's Republic of China*, ADB, 2004.

Table 22 Labour Market Trends 1995-2004

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Population (million)	**1211.2**	**1223.9**	**1236.3**	**1248.1**	**1259.1**	**1265.8**	**1276.3**	**1284.5**	**1292.3**	**1299.9**
Rural	859.5	864.4	866.4	868.7	870.2	807.4	795.6	782.4	768.5	757.1
Urban	351.7	359.5	369.9	379.4	388.9	458.4	480.6	502.1	523.8	542.8
Economically active population (million)	**687.4**	**696.7**	**705.8**	**714.1**	**719.8**		**744.3**	**753.6**	**760.8**	
Total employed (million)	679.5	688.5	696.0	699.6	705.9	711.5	730.3	737.4	744.3	752.0
By sector (%)										
Agriculture	52.2	50.5	49.9	49.8	50.1	50.0	50.0			
Industry	23.0	23.5	23.7	23.5	23.0	22.5	22.3		27.2	27.1
Services	24.8	26.0	26.4	26.7	26.9	27.5	27.7			
By area (%)										
Rural (%)	71.9	71.2	71.0	70.4	70.2	70.1	72.3			64.8
Urban (%)	28.1	28.8	29.0	29.6	29.8	29.9	27.7			35.3
Urban (million)	190.9	198.2	202.1	206.8	210.1	212.7	202.3			264.8
Urban unemployment (million)										
Registered as unemployed	*5.2*	*5.5*	*5.7*	*5.7*	*5.8*	*6.0*	*6.81*	*7.79*	*8.00*	*8.3*
Unemployment rate (%)	2.9	3.0	3.1	3.3	3.1	3.1	3.6	4.0	4.3	4.2
Laid-off (xiagang) workers (million)			*9.9*	*9.0*	*9.4*	*8.6*	*7.1*			*13.0*
Laid-off workers remaining unemployed (%)			40	50	60					
Laid-off workers remaining unemployed (million)			4.0	5.6	6.4					1.5
Laid-off workers as % of total urban employment			2.0	2.7	3.0					
Adjusted unemployment rate (%)			*8.5*	*8.5*	*8.2*					
Urban job seekers (million)										**24.0**
Laid-off workers + Registered unemployed										15.0
Newcomers										7.7
Farmers shifting to non-agriculture										1.4
Demobilised army										0.5
Jobs created (million)										9.8
Jobs shortfall (million)										14.0
Rural unemployment (estimated, million)					100.0					
Rural surplus labour (million)										150.0

Source: NBS 2000, 2001 and 2002, ADB 2004, NBS 2005 and MOLSS 2005.

The table presents a conservative estimate of urban unemployment in 2004: 4.2 per cent or 8.3 million. But the table also shows the constant pressure of laid-off workers on unemployment, with a stock of ten million retrenched workers in 1997, nine million each year until 2000, seven million in 2001, and according to the latest statistics issued by MOLSS, 13 million by 2004. What the table is not very good at is reconciling apparently contradictory trends. On the one hand, it shows this stock of accumulated laid-off workers rising to 13 million by 2004. On the other hand, it shows the number of laid-off workers remaining unemployed rising from four million in 1997 to six million by 1999, but then falling off to 1.5 million by 2004. Perhaps the table reflects the increasing acknowledgement of the impact of restructuring and the resulting retrenchment, with the most recent figures for 2004 reflecting more accurately the current challenges for employment policy.

The table summarizes the current employment challenge as 24 million job seekers confronted by only 10 million jobs, leading to the annual shortfall of 14 million jobs. The largest contribution to the number of annual job seekers is the 15 million laid-off workers plus the registered unemployed, eight million newcomers joining the labour market, and 1.5 million farmers migrating out of agriculture.

Tables 23a and 23b evaluate the labour market impact of this retrenchment by ownership of enterprises between 1994 and 2004. Table 23a shows that between 1994 and 2001, state sector employment as a proportion of urban employment shrunk significantly from 61 per cent to 32 per cent. The share of employment in collective units likewise shrunk from 18 per cent

to 6 per cent. On the other hand, the employment share of private investment-based enterprises grew over this period. For mixed public/private partnerships the proportion increased from 2 per cent to 6 per cent, for domestic enterprises it also increased from 2 per cent to 6 per cent, and for self-employment based units it increased from 6 per cent to 8 per cent.

Table 23A Distribution of Urban Employment by Ownership 1994-2001

	1994	1995	1996	1997	1998	1999	2000	2001
Urban employed persons (million)	184.2	190.93	198.15	202.07	216.16	224.12	231.51	239.4
In the State sector (million)	112.14	112.61	112.44	110.44	90.58	85.72	81.02	76.4
% of Urban Employed persons	*60.9*	*59.0*	*56.7*	*54.7*	*41.9*	*38.2*	*35.0*	*31.9*
In collective units (million)	*32.85*	*31.47*	*30.16*	*28.83*	*20.99*	*18.56*	*16.54*	*14.44*
% of Urban employed persons	*17.8*	*16.5*	*15.2*	*14.3*	*9.7*	*8.3*	*7.1*	*6.0*
In mixed public/private enterprises (million)	*3.44*	*3.70*	*4.12*	*5.11*	*9.42*	*10.69*	*11.86*	*13.69*
% of Urban employed persons	*1.9*	*1.9*	*2.1*	*2.5*	*4.4*	*4.8*	*5.1*	*5.7*
PRC Domestic Private Enterprises (million)	*3.32*	*4.85*	*6.20*	*7.50*	*9.73*	*10.53*	*12.68*	*15.27*
% of Urban employed persons	*1.8*	*2.5*	*3.1*	*3.7*	*4.5*	*4.7*	*5.5*	*6.4*
Foreign/Compatriot Invested Enterprises (million)	*4.06*	*5.13*	*5.40*	*5.81*	*5.87*	*6.12*	*6.42*	*6.71*
% of Urban employed persons	*2.2*	*2.7*	*2.7*	*2.9*	*2.7*	*2.7*	*2.8*	*2.8*
Self-employed Nationals (million)	*12.25*	*15.60*	*17.09*	*19.19*	*22.59*	*24.14*	*21.36*	*21.31*
% of Urban employed persons	*6.7*	*8.2*	*8.6*	*9.5*	*10.5*	*10.8*	*9.2*	*8.9*
Total Categorized Urban Employed (million)	*168.06*	*173.36*	*175.41*	*176.88*	*159.18*	*155.76*	*149.88*	*147.82*
Total (as % of urban employed persons)	*91.3*	*90.8*	*88.5*	*87.5*	*73.6*	*69.5*	*64.7*	*61.7*
Unaccounted for urban employed persons	*16.07*	*17.57*	*22.74*	*25.19*	*56.98*	*68.36*	*81.63*	*91.58*
Unaccounted (%)	*8.7*	*9.2*	*11.5*	*12.5*	*26.4*	*30.5*	*35.3*	*38.3*

Sources: NBS 1999, 2000, 2001, 2002 and ADB 2005.

Table 23B Distribution of Urban Employment in Economic Units by Ownership, 2003-04

	2003	2004
State-Owned Units	62.7	62.3
Collectively-Owned Units	9.1	8.8
Other Units	28.2	28.9
Total	**100.0**	**100.0**

Source: MOLSS, 2005.

Two further interesting points emerge from this analysis of employment share by ownership. Firstly, the employment share of foreign invested enterprises does not increase significantly over this period, ranging in a narrow band between 2.2 per cent and 2.8 per cent. Secondly, the aggregation of employment by ownership leaves a large and growing proportion of employment unaccounted for, increasing from 9 per cent to 38 per cent. This unaccounted employment probably gives one estimate of the urban informal economy and is investigated further in Chapter 5.

Table 23b slices ownership by economic units for 2003 and 2004. In such economic units the state-owned sector is still seen to be predominant with a 62 per cent share of employment, collectively-owned units have a 9 per cent share, and other units have a 29 per cent share.

The rest of this chapter examines some characteristics of urban unemployment and incomes.

3.6 The Youth Unemployment Indicator and Youth Unemployment Rate

It has been observed that young workers are the most vulnerable to unemployment. The ILO points out that, worldwide, the youth unemployment rate is generally between 1-2 times higher

than the overall unemployment rate.[18] In 2003, the global number of unemployed youth reached 88.2 million, 47 per cent of the total number of unemployed. The youth unemployment rate tends to be twice that of other age groups.[19]

The higher rate of unemployment can be attributed to the difficulties linked to searching for a first job: the lack of work experience and job-hunting information. High job mobility also increases the risk of unemployment. The international community has paid great attention to resolving the problem of youth unemployment. Providing youth with decent work opportunities is incorporated into the UN's Millennium Development Goals, with the youth unemployment rate one of its 48 indicators. The ILO's *Key Indicators of the Labour Market* also prioritizes the youth unemployment rate alongside the rates for labour force participation, employment and unemployment. To improve international comparability, the ILO suggests that youth unemployment be measured as "the ratio of unemployed youth population to the total youth population".

There are over 300 million youth in China and approximately 20 million pass into the working-age population each year. But due to their limited educational capacity and lack of work experience many cannot compete in the labour market and only between 10-16 million join the ranks of the employed. In a situation where supply is always larger than demand, the youth employment issue remains prominent, as demonstrated by their above-average unemployment rate. Unfortunately, since 1996, officially published labour statistics no longer provide the number of unemployed youth or the youth unemployment rate.

However, some estimates of youth unemployment are available. The *China Employment Report* shows that in 2003, the urban unemployed had an average age of 33, among which, unemployed people under 35 represented 70 per cent of the total.[20] Just over 55 per cent of those had been unemployed for over two years and 19.7 per cent had been unemployed for between one and two years. The report attributed the increasingly difficult youth unemployment situation to generally high employment pressures, fewer opportunities, the low quality labour force, failing to meet the needs of the market, evident imbalances in the education system, delays in the adjustment of educational disciplines, and changing values that have led to a changed concept of employment.

The *First Survey Report on the Status of China's Youth Employment* in 2005 offers more detailed characteristics of youth unemployment.[21] The survey was co-conducted by the China Youth Association and the Institute of Labour Science at MOLSS and was based on employers' evaluations and a sample of 7,000 young people between the ages of 15 and 29 from 220 enterprises. They were questioned on their employment intentions, employment conditions and the work environment, employment and unemployment. The survey revealed the following:

- The total unemployment rate for young people between 15-29 was 9 per cent, 6.1 per cent higher than the overall rate;
- 80 per cent of those between 17 and 23 had entered the labour market for the first time, 13 per cent had entered the labour market before 16 years old, and only 2 per cent had entered labour market after 26;

[18] *Global Trend for Youth Employment*, International Labour Office, 2001.

[19] *World Employment Trends*, 2004.

[20] *China Employment Report, 2005*, p. 198-201.

[21] Officially issued in *The First Survey Report of China Youth Employment Status* on May 20th and 21st at International Forum of Youth Employment and Social Harmony held in Beijing.

- Among those who entered the labour market prior to the age of 22, around 15 per cent had since experienced unemployment; those who entered the labour market after this age had almost no such unemployment experience;
- Long-term unemployed young people (who had experienced unemployment for over one year) accounted for 72 per cent of the total;
- Only approximately 13 per cent of people had participated in study programs or training during their unemployment period.

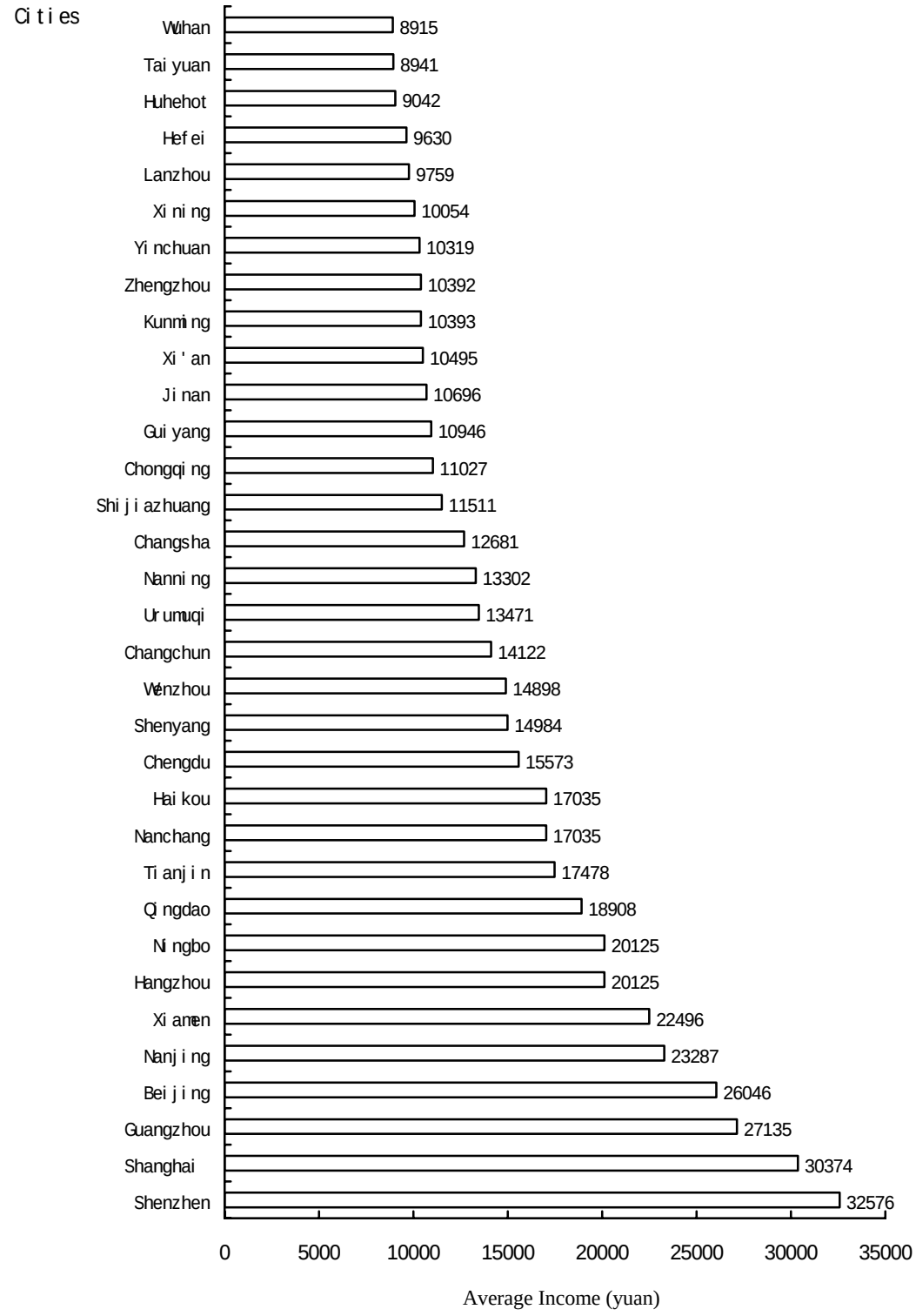
3.7 Average Earnings in Selected Occupations

The ILO indicator for 'Average Earnings in Selected Occupations' (in the Adequate Earnings and Productive Work Set) is used to track earning trends and earning differentials across occupations, sex, skill levels, and categories of workers in foreign trade related activities.

Therefore, the ILO suggests good sample stratification across these categories of occupations, sexes, skill and foreign trade related categories. The organization suggests that the 49 industries and the 159 occupations proposed by the *ILO October Inquiry on Wage and Working Hours* (an annual ILO study conducted over the long-term) be used as the basis for comparison. In selecting occupations, the ILO's Labour Market Indicator System (2001) recommends six representative occupations for reference including: construction worker, welder in the manufacturing industry, nurse, primary school teacher, program designer in insurance and banking accountant. Given the country context, the following occupations can also be considered for selection: agricultural worker (representing the unskilled group), engineer (representing the male-dominated highly-skilled group), clothing and electronic products worker (representing the female-dominated, high foreign-trade related group). Since the beginning of the reforms and the rapid development of the economy, the earnings of workers in urban areas have increased steadily. The Chinese Government prioritizes efficiency, but also fairness, and has undertaken reform of the income distribution system and strengthened the market mechanism for wages and income. As a result, workers' incomes have gradually risen along with economic development and enterprise profits. By the end of 2004, the average cash earnings of employees in urban areas reached ¥16,024, a 24-fold increase since 1978. The real annual increase over 2003-04 alone has been 10.5 per cent. However, at the same time, the gap between the earnings of urban workers is also widening, as are the disparities between different regions, industries and jobs.

Regional differences have arisen, with earnings in the seven relatively developed provinces in the eastern region increasing significantly over the past twenty years. The net earnings of these provinces rose much higher than the national average in 2002. Among them, Shanghai increased from 1.1 times the national average in 1978 to double the current average. In contrast, Hainan Province has dropped from parity with the national average in 1978 to 0.76 of the national average in 2002. Despite being a relatively developed province, there has been no noticeable increase in the average wage level over the national average in Shandong. Another striking example is Heilongjiang Province, where comparative incomes have dropped from 1.2 times the national average in 1978 (the highest level in the central region) to 0.8 in 2002. Overall, the comparative earnings in the central and western regions have been declining. According to the 2002 income statistics issued by the NBS, the gap between average incomes in different regions was 3.24:1, or ¥16,177, to ¥1,348 per month in absolute terms. The data also shows that the difference between cities was larger than the inter-regional disparity (Chart 2).

Chart 2 Average Wage in the Labour Markets of Large and Medium-Sized Cities



Source: China Employment Report, 2003-04.

The continued deepening of enterprise reform is increasing the wage gap within industries and occupations. Since the mid-1980s, the variance in incomes between the monopoly industries, sunrise industries and sunset industries has been steadily growing (Table 24). The prosperous industries such as oil and gas, tobacco, railways, airlines and telecommunication, have incomes that are 25 per cent – 60 per cent higher than the overall average. The gap in incomes between monopoly industries and other industries has been widened by the shortage of energy

and transport.[22] The industries with the highest average earnings are: information transmission, software and computer services (¥18,798); finance (¥15,982); and scientific research, technological services and geological survey (¥15,489). The sectors and industries with the lowest earnings are agriculture, forestry, farming and fishing (¥4,655); hotels and restaurants (¥8,057); and wholesale and retail (¥8,159). According to MOLSS, by 2005, the difference between average annual earnings in the main industries had risen to a factor of 20 (Table 25 and Chart 3).[23]

In terms of the occupation wage gap, estimates by the NBS show that the ratio of average personal earnings between the highest and lowest occupational incomes increased from 1.29:1 in 1990 to 3.98:1 in 2003, and in the third quarter of 2004 stood at 4.25:1. In 2004, the average income of employees in urban work units was ¥10,755. The widening income differential between management personnel and workers in enterprises is adding to the occupation wage gap.

Table 24 Average Earnings of Some Industries in 2003

Item	Earnings (yuan 100 million)	Average Earning (yuan per year)
Nation's total	15329.6	13969
Agriculture, Forestry, Farming, Fishing	335.8	6884
Mining	662.9	13627
Manufacturing	3772.7	12671
Textile	222.2	8079
Textile/Clothing, Shoes, Hat/Cap Making	137.4	10090
Construction	965.9	11328
Transportation, Storage, Post Office	1008.0	15753
Information Transmission, Computer Service, Software	356.0	30897
Wholesale, Retail	696.3	10894
Hotel, Food and Beverage	190.9	11198
Finance	734.4	20780
Real Estate	202.7	17085
Leasing, Business Service	305.2	17020
Education	2035.9	14189
Elementary Education	748.7	11957
Mid Level Education	854.7	14308
Higher Level Education	323.8	23307
Hygiene, Social Security and Social Welfare	782.1	16185

Source: Compiled from the *Labour Statistical Yearbook*, 2004.

[22] *Solving the Increasing Earning Differential Issue, Constructing a Harmonious Socialist Society*, Chen Liuqian, May 31, 2005.

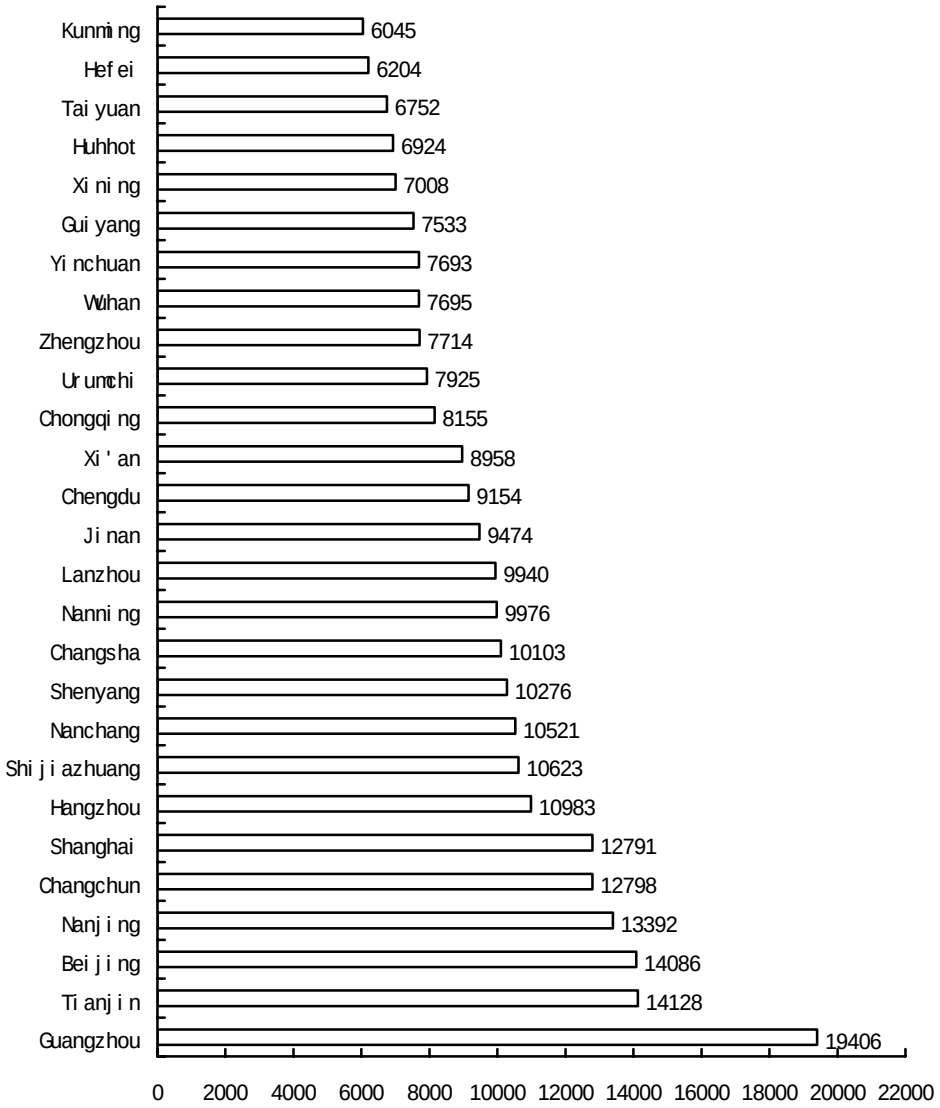
[23] Xinhua Net, June 17, 2005, www.xinhuanet.com.

Table 25 Earnings for Managers /Directors of Different Enterprises (yuan)

Business Type	Subject Number	High figure	Mid figure	Low figure	Average
Total	**13 297**	**100 451**	**16 053**	**5 424**	**26 105**
Foreign Invested	266	260 185	39 056	12 429	66 458
Share Limited Corp.	1 084	148 956	21 982	7 713	38 335
Investors from HK, Macao, Taiwan	261	143 735	34 807	9 808	45 657
Central Government Business	840	142 543	27 742	9 011	41 842
Transportation and Telecommunication	1 348	113 184	17 497	6 367	29 730
Production and Supply of Power, Gas, Water	558	92 304	19 197	7 540	27 667
Finance, Insurance	982	86 769	10 379	4 869	19 992
Construction	825	83 475	18 175	6 238	26 387
State-owned enterprises	7 539	81 334	13 803	5 328	21 834
Private Business	111	73 713	15 219	7 055	22 486
Wholesale, Retail, Trade, Food, Beverage	2 959	73 508	12 866	5 256	20 099

Source: China Employment Report, 2003-04, p. 238, Table 9-17.

Chart 3 Earnings for Simple Physical Labourers



Source: *China Employment Report*, 2003-04, p. 239.

Data from the Labour and Social Security Bureau in Nanjing shows that between 2004 and 2005 the wages for the top posts in enterprises has grown further.[24] Wages for management and technical staff have risen considerably, from ¥210,899 to ¥246,347 for enterprise managers and factory directors; and from ¥115,559 to ¥150,087 for production and operation managers.

In contrast, workers wages in some low-skilled jobs have remained at a level just above the minimum wage. For instance, the minimum annual wage for grinders is ¥9,413, which gives a monthly wage of less than ¥800. Similarly, the annual income of printers is only ¥8,972, the lowest among all occupations in 2005. Although increasing attention is paid to these occupations, for more than 20 technical occupations, incomes have actually decreased. In comparison, earnings for the same post can vary as much as 17 times, while earnings from different posts can vary up to 31 times. In the past year, the variance has increased 10 times and 20 times respectively. This type of income inequality is typical around the country.

3.8 Decent Training Opportunities

The ILO lists 'Decent Training Opportunities' (in the Adequate Earnings and Productive Work Set) as a Decent Work Indicator. Training and education, as a form of human resource investment, is crucial for increasing workers' skills to improve their career prospects and incomes. For employers, vocational training can lead to improved productivity. The Decent Work Indicator on training opportunities contains two qualifiers: that training should be on-the-job training or directly related to employment; and that the fee for training should be borne by public expenditure or by employers themselves.

The current pressures to increase the quantity and the quality of jobs requires an improvement in the quality of the workforce - their employability, work capability and job mobility so as to enable employment and re-employment. Vocational training is crucial to improving the quality of the labour force, alleviating employment pressure and promoting the competitiveness of enterprises. In China, vocational education and training activities are mainly targeted towards the following categories of workers: pre-vocational education and employment preparation for new entrants to the labour market, re-employment training for unemployed and laid-off workers, on-the-job training for employees, business development training for various types of self-employed workers and training for high-tech personnel.

At the beginning of 2003, 4.8 million students were recruited into mid-level vocational schools, bringing the total number of students to 11.82 million. These schools have also provided training for 5.58 million people in society.[25] Senior vocational education schools (including senior vocational colleges) have developed fairly fast, with an annual recruitment rate of nearly two million, taking the total number of students to 4.8 million. In the same year, there were 1.93 million students in technical schools nationwide. By the end of 2003, China had 2,970 technical schools, 3,307 employment training centers, 19,139 private training institutions and more than 20,000 enterprise training centers.

In 2003, nearly 14 million people (new labour market entrants, laid-off and unemployed workers and on-the-job trainees) attended different types of training institutions; 2.27 million in technical schools, 5.99 million in employment training centers, 5.67 million in private training institutions. The employment training centers carry out public training activities organized by the Government (Table 26). Of all the trainees, nearly 400,000 received senior

[24] *Salary Guidance for Main Enterprise Occupations*, Nanjing Labour and Social Security Bureau, 2005, Jiangsu Economic News, May 13, 2005.

[25] *China Education Yearbook 2004.*

vocational qualification certificates.[26] In 2004, there were 5.3 million people unemployed and laid-off workers participating in re-employment training programs, with 410,000 participating in self-employment development training.[27]

Table 26 Number of Participants Attending Public Vocational Training Centers (Job Training Centers)

Year	Employment Training (Number of Trainees)	Completion (Number of people)	Subsets by Trainee Types			
			Work preparation	Laid-off workers	Unemployed persons	Others
2001	4760494	4633170	427164	1234953	1448977	1522076
2002	5333426	5034098	483221	1147500	1763198	1640171
2003	5990485	5796603	521829	1238715	2201358	1834701

Source: Compiled from the *China Labour Statistical Yearbook*, 2001-03.

3.9 Fair Treatment in Employment: Occupational Segregation by Sex and Female Share of Employment in Managerial and Administrative Occupations

In measuring decent work, the ILO uses two indicators in Set 7 on Fair Treatment in Employment: Number 16, Occupation Segregation by Sex (non-agricultural male or female dominated occupations and their indices); and Number 17, Proportion of Female Employment in Managerial and Administrative Occupations (ratio of females in non-agricultural employment). There is no official data on the degree of segregation in different occupations, but sex disaggregated data on employment in urban areas reveals some trends. First, the scope of women's employment in China continues to grow. However, in general, participation rates for women remain lower than for men: the number of women employed in the rural and urban informal sectors is increasing, while the number and rates of women employed in the urban formal sector are continually decreasing.

Second, women participate more than ever in occupations traditionally considered "fitting for women". Third, the ratio of women production workers is decreasing. In an occupational structure comprising seven major occupations, only 6.3 per cent of employed females are engaged in technical and management work, while 82.3 per cent are in physical labour or non-management positions.[28] A comparison with the occupational structure for men shows obvious disparities in three areas: for managers and directors, the percentage of women is 0.7 per cent, compared to 2.6 per cent for men; for production, transportation and equipment operators, the percentage of women is 7.8 per cent, compared to 13.5 per cent for men; and for professional and technical personnel, the percentage of women is 5.6 per cent, compared to 7.9 per cent for men. In urban employment, women are concentrated in the business and service sector, accounting for 26.4 per cent of all women employed in urban areas, followed by the 18.1 per cent of clerks and related occupations. This occupational segregation of women calls for policy redress.

[26] *China Labour Statistical Yearbook*, 2004.

[27] *China Employment Report*, 2005.

[28] The Institute for Labour Studies, Ministry of Labour and Social Security, P.R.C., 2005: A Report on Employment in China.

Table 27 Urban Employed Persons' Occupation Structure by Sex (%)

		Person in charge	Special Tech Person	Clerk & Relevant Personnel	Business Service Persons	Agriculture Forestry Bi-product Fishing Irrigation Production Workers	Production Transportation Equipment Operation Persons	Others
Nation	**Total**	**1.8**	**6.9**	**7.7**	**10.0**	**57.7**	**11.0**	**5.0**
	Male	2.6	7.9	8.1	8.5	53.7	13.5	5.6
	Female	0.7	5.6	7.1	11.9	62.6	7.8	4.2
Urban	**Total**	**4.1**	**15.1**	**18.2**	**20.9**	**15.8**	**17.8**	**8.2**
	Male	5.9	16.1	18.2	16.7	13.9	20.8	8.4
	Female	1.9	13.7	18.1	26.4	18.1	13.8	7.9

Source: *China Employment Report, 2005*, China Labour and Social Security Press.

Chapter 4 Rural-Urban Migration and its Impact on Employment in Urban Areas

The previous chapter suggested that the high and growing level of urban unemployment is a major causal factor contributing to urban poverty. Urban unemployment pressures included the large size of the labour force and the high levels of laid-off workers resulting from SOE reform. This chapter traces a second significant contributor to urban poverty and unemployment, that of large-scale rural-urban migration. The causes and effects of such rates of migration are complex.

One reason behind rural-urban migration has been the typical structural transformation of the economy. The last chapter illustrated how China has followed a traditional development path, with a shrinking agricultural sector and growing industrial and service sectors. As rural labour demand falls, urban labour demand has risen. Rural productivity and its equivalent rural wage have also fallen below urban sector productivity and wage levels. The classic migration from rural surplus labour areas to urban labour shortage areas is driven by these classic Lewisian 'push' and 'pull' factors.

China's high growth rates, verging on 10 per cent per annum for the last two and a half decades, have accelerated the rate of structural transformation, pushing surplus labour out of agriculture and pulling it into urban sectors like manufacturing and services. However, the dual labour market has provided a second impetus for rural-urban migration. For years, the *hukou* system separated the rural and urban labour markets and confined residence to the place of origin by attaching it to the household's access to services such as social protection, health and education. The significant disparities that built up between rural and urban social service provision added another incentive to migrate. The Government's acknowledgement of these differentials in wages and social services triggered the process of unifying the rural and urban labour markets. Not surprisingly, the relaxation of the *hukou* system has led to huge increases in the rates of rural-urban migration.

Large-scale rural-urban migration impacts urban poverty and employment in several ways. First, the high level of migration adds to the urban labour supply and puts pressure on urban employment. This contributes towards raised urban unemployment levels and thereby urban poverty levels. Second, migrants' weaker conditions of employment and limited access to social services and social protection give them a higher rate of poverty compared to longer-term urban residents. This higher incidence of poverty for migrants raises overall urban poverty levels. This chapter provides some estimates of the level of rural-urban migration, and its impact.

4.1 An Estimate of Rural-Urban Migrant Labour and its Urban Distribution

The Rural Social-Economic General Survey Team of the NBS estimated that 80.1 million rural residents were working outside rural areas in June 2004.[29] The NBS estimated annual migration in 2003 to have been 8.4 million.[30] Estimates from the Ministry of Agriculture and the Ministry of Labour and Social Security put the current number of rural migrants higher, at

[29] Ministry of Labour and Social Security, 2005, A Report on Employment in China. Integration of Urban and Rural Employment, The Institute for Labour Studies, Ministry of Labour and Social Security, December.

[30] Ministry of Labour and Social Security, 2005, op. cit.

approximately 120 million - of which 100 million migrate to urban areas; and the Chinese Academy of Social Sciences has put the estimate at 150 million.[31]

Table 28, based on NBS estimates, calculates that these migrants comprise 26 per cent of the total urban labour force.

Table 28 Structural Data on Rural Migrant Labourers (%)

	2002	2001
Ratio of migrant labourers to total urban labour force	26.23	24.50
Percentage of males	64.38	64.04
Agriculture	0.83	1.03
Industry	30.28	29.03
Construction	14.17	13.74
Service	36.10	36.02
Others	18.60	20.18
Intra-province	74.88	76.42
Inter-province	25.05	23.52
Overseas	0.07	0.06
Provincial capital cities	16.27	15.63
Prefecture-level cities	14.61	13.99
County-level City	10.69	10.44
Town	6.31	6.08
Others	52.05	53.80

Source: Labour Force Sample Survey of Rural Households, Rural Survey Team, NBS of China, *China Employment Report, 2003-04*, p. 212, Table 8-12.

Table 29 shows some of the general characteristics of current rural migrant workers. Migrants mainly comprise working-age labourers, are predominantly male, have relatively low levels of education, and are mostly unskilled. They leave rural areas voluntarily, and are introduced by friends and relatives to potential job openings. Half of all migrant workers cross provincial borders, moving from the main labour-sending areas of the central and western regions to the main labour-receiving areas of the eastern region. The majority of migrants are absorbed in the manufacturing and construction sectors, though the service sector is gradually becoming an important employer. Migrant workers' earnings from these non-agricultural occupations have risen over time and their remittances are a major source of income for rural households. Organized migration has been increasing each year, the period of migration is becoming longer, and the percentage of families migrating is increasing (Table 29).

[31] *Selections from Report on Poverty and Anti-Poverty in Urban China*, Chinese Sociology and Anthropology, Winter–Spring; Tang Jun, 2005, Chinese Academy of Social Sciences, and Tang Jun 2004.

Table 29 Rural Migrant Labourers' Employment Situations

	2002			2001		
	(%)	**Work Hours** (per month)	**Total Earnings** (yuan)	(%)	**Work Hours** (per month)	**Total Earnings** (yuan)
Country	100.00	7.98	5 444	100.00	8.02	5 168
Male	67.89	7.68	5 708	67.17	7.65	5 373
Female	32.11	8.62	4 885	32.83	8.79	4 747
Illiterate or semi-illiterate	1.68	6.17	3 636	1.73	6.45	3 625
Primary	16.56	7.36	4 282	17.93	7.43	4 218
Junior High	65.73	8.09	5 494	65.68	8.15	5 237
Senior High	11.59	7.94	6 400	10.86	8.03	6 079
Mid-Vocational	3.58	9.37	6 800	2.96	9.33	6 283
Senior Vocational & Above	0.87	9.67	8 983	0.85	9.32	7 450
Trained	21.97	8.79	7 330	16.76	8.89	6 668
Untrained	78.63	7.76	4 931	83.24	7.85	4 866

Source: Labour Forces Sample Survey of Rural Households, Rural Survey Team, NBS of China, *China Employment Report, 2003-04*, p. 209, Table 8-12.

A 2004 survey by the NBS showed that 30 per cent of rural migrant labourers were in the manufacturing industry, 23 per cent were in construction, 10 per cent were in the service industry, 7 per cent were in the hotel and catering industry and 5 per cent were in wholesale and retail trade. In 2005, a one-off MOLSS survey of the occupational profile of these migrants broadly confirmed this sectoral pattern of employment, showing 27 per cent to be in manufacturing, 26 per cent in construction, 11 per cent in hotel and catering, 12 per cent in wholesale and retail trade, and 9 per cent in community service industries.

Thus, rural migrant workers have become an important part of the urban workforce. They account for 68 per cent of the labour in processing and manufacturing, nearly 80 per cent of the labour in construction, and over 52 per cent of the labour in wholesale and retail, trade and catering (Table 28).

4.2 Development Trends in Rural Labour Migration

Two trends are expected to characterize rural-urban migration in the coming years. The scale of migration is expected to increase and migration destinations are expected to become more diversified.

To begin with, there are two causes for the expected rise in rural labour migration. The first is the pressure from both the supply and demand sides of the labour market. On the demand side, the industries with greatest growth potential and highest demand for labour are manufacturing and services. Significantly, it is rural migrants who meet this demand in the labour-intensive industries.

On the supply side, rural China is currently estimated to have a surplus labour force of 150-180 million, and there are six million new entrants to the rural labour force each year. The vast majority of these surplus rural workers need to make the transition to urban areas to find employment. It is estimated that during the period of the Eleventh Five-Year Plan (2006-10), the transition of the rural population to urban areas will increase by 75 million people, of which 45 million are expected to be rural migrant labourers.

This large supply of rural surplus has to be reduced through a necessary national policy to accelerate the process of urbanization, which of course becomes the second cause for the rising levels of rural migrant labour. China's urbanization rate increased from 26.4 per cent in 1990

to 41.8 per cent in 2004; the average annual increase between 2000 and 2004 was 1.4 per cent. If 80 per cent or more of the rural migrants are of working-age, then the relationship between urbanization and the scale of rural labour migration will be as follows: for every 1 per cent increase in urbanization, the rise in rural labour migration will be approximately 10 million. With accelerated urbanization, the number of China's rural migrants will increase correspondingly.

Regarding the trend of more diversified migration patterns, rural migrant labour is influenced by regional development, and usually moves from less developed regions to more developed regions. Typically, the economically developed urban centers of the Pearl River Delta, the Yangtze River Delta and the Beijing-Tianjin-Tanggu region have attracted the largest numbers of migrants, but these eastern regions are becoming less attractive. Not only is the cost of living increasing faster than their earnings, but at the same time, new employment opportunities are becoming available to migrant workers in the new economic growth centers of the mid-western region, the revitalized north-eastern industrial base, and the developing western and central regions. This regional diversification, as opposed to single point migration, is significant enough for a large proportion of rural migrant labourers to choose to work within local or neighboring urban areas.

4.3 Indicators for Migrant Workers' Employment and Decent Work

4.3.1 Inappropriate Rate of Pay

Since the reforms, the Chinese economy has developed rapidly with approximately 10 per cent GDP growth each year. The average monthly wage for urban employees rose more than 21 times from ¥762 in 1980 to ¥16,024 in 2004. In contrast, the pay for rural migrant labourers has not seen an equivalent increase. For example, in Guangdong, a province in the Pearl River Delta with a large migrant population, migrant workers have seen relatively little change in their wages in the last decade, despite the region's very high GDP increase of 20 per cent per annum. A report from the Development Research Center of the State Council found that in the past 12 years, the average monthly wage increase for rural migrant labourers in the PRD was ¥68. This share of the workforce has clearly not benefited from the rising profits of their employers or from national economic growth.

Surveys for 2004[32] show that some enterprises in western regions paid their rural migrant labourers an average monthly wage of about ¥500, while in more developed south-eastern coastal regions such as the PRD, the average monthly wage was around ¥600. In the Yangtze River Delta region, the wage is slightly higher, around ¥650 to ¥750.

Second, it is commonplace for workers doing the same job to be rewarded differently. For example, in some SOEs, even though some rural labourers are engaged in the same work, due to their different *hukou* status, they receive just half the income of urban labourers.

Third, some enterprises use the standard minimum wage to determine the pay for all rural labourers, thereby depressing their entire wage structure. In Dongguan, a city in Guangdong Province, it is quite common for rural labourers to make ¥500 per month, more or less equivalent to the local minimum wage. In the city of Shenzhen, wages for parts of the rural migrant workforce did not even reach the local minimum wage of ¥610 per month.

[32] MOLSS.

4.3.2 Decent Working Hours

Rural migrants are usually observed to be in jobs that longer-term urban residents are unwilling to occupy. These tend to be labour-intensive jobs with long working hours, in which basic rights are difficult to effectively assure, and with inadequate compensation. MOLSS surveys for 2004 showed that though the average working week was 46 hours long, some rural migrants in the construction industry and in Shenzhen's factories worked over 11 hours per day and over 26 days per month, exceeding the work hours stipulated by the State. In the Pearl River Delta, 46 per cent of rural migrants worked between 12 to 14 hours a day and 47 per cent were not entitled to holidays.

When rural migrants are unable to cover basic living expenses by working normal hours, they agree to work overtime – but their compensation is often inadequate. One particular survey found that among rural migrants who had worked overtime, 54 per cent had never been paid accordingly, and 20 per cent were only compensated occasionally. Another NBS survey found that 76 per cent of labourers had worked overtime during the holidays, but had never received the overtime compensation legally entitled to them.

4.3.3 Vocational Training for Rural Migrant Labourers

Vocational and skills training for migrant workers has been limited. NBS sample surveys for 2004 show that only 28 per cent of 120 million rural migrant labourers had received training. Considering that a number of these 'trained' migrants had only received very basic and general training before coming to work in the urban areas, the proportion that actually received vocational and skills training is lower.

In 2004, technical schools and employment training centers affiliated to MOLSS, as well as approved private training institutions, together trained over seven million rural migrant labourers across the country. Of these, one million have been trained through institutional education and short-term training courses in 2,884 technical schools; 2.5 million have been trained by 3,323 job-training centers; and 3.7 million have been trained in over 20,000 private training institutions. In addition, training programs have also been conducted by the Departments of Agriculture, Education, Science and Technology, Construction; as well as the State Council Office for Poverty Alleviation and Development; trade unions, youth leagues, the Women's Federation, and Industry and Commerce Associations. However, except for graduates of technical schools and some junior vocational schools offering a formal vocational education, the majority of rural migrants have only had short-term practical skills training, and only a small proportion attain the national vocational technical grade.

4.3.4 Social Security for Rural Migrant Labourers

Although the State has not established a specific system, the Labour Law entitles formally employed rural migrant labourers to social security. In addition, rural migrants with formal employment are not excluded from the current social insurance system. Though they are entitled, in principle, to a basic pension, medical insurance, unemployment insurance and employment injury insurance, the participation rate in these schemes is very low. For example, only 15 per cent of rural labourers' have old age pension insurance (participation rates in some areas such as Guangdong and Dalian are slightly higher at 20 per cent); around 10 per cent have medical insurance, and at present, rural migrant workers have no access to unemployment or maternity insurance. With regards to employment injury insurance, in terms of institutions and benefits, rural migrant labourers and urban labourers get the same benefits without discrimination. In 2004, the *Regulations on Employment Injury Insurance* stipulated that employers are required by law to participate on behalf of their employees, covering all rural migrant labourers in all enterprises. Currently more than 70 million employees in urban

enterprises are insured against injury in the workplace; of which, a considerable number are rural migrant labourers.

4.3.5 The Impact of Rural-Urban Migrants on Urban Poverty

As a result of their limited access to social protection and social infrastructure, the incidence of poverty among rural-urban migrants is significantly higher than that of longer-term urban residents. Table 30, based on estimates from the NBS, shows a 10 per cent incidence of poverty among local urban residents, while migrant workers, at 15 per cent, have a 50 per cent higher incidence of poverty. In fact, in some of the bigger cities, such as Beijing, Shanghai, Shenzhen, and Nanjing, rural migrant poverty is more than double that of local residents.

Table 30 Relative Poverty Occurrence Rate for Migrant Workers and Local Residents

Regions	Poverty Guideline	Poverty Occurrence Rate		
		Local Residents	Migrant Workers	(3/2)
Beijing	3118	4.6	10.3	2.3
Tianjin	2912	3.5	11.9	3.4
Shijiazhuang	2706	5.1	13.3	2.6
TaiYuan	1894	14.9	17.4	1.2
Hohhot	2144	23.0	28.7	1.2
Shenyang	2118	22.9	15.0	0.7
Dalian	2901	14.1	14.3	1.0
Changchun	2048	8.3	8.1	1.0
Harbin	1899	7.1	7.6	1.1
Shanghai	3652	5.8	18.3	3.1
Nanjing	2972	9.5	29.0	3.1
Hangzhou	3414	7.1	7.8	1.1
Ningbo	2940	3.7	5.7	1.5
Hefei	2283	12.2	10.9	0.9
Fuzhou	2161	3.8	2.7	0.7
Xiamen	3543	8.2	2.0	0.2
Nanchang	1747	12.8	19.0	1.5
Jinan	3017	11.0	39.3	3.6
Qingdao	3209	16.8	12.1	0.7
Zhengzhou	2504	11.2	20.5	1.8
Wuhan	2428	6.3	15.1	2.4
Changsha	2488	8.4	5.0	0.6
Guangzhou	4221	9.2	15.0	1.6
Shenzhen	6227	0.0	16.9	
Chengdu	2742	17.2	10.7	0.6
Chongqing	2612	16.9	9.4	0.6
Xiamen	2644	27.5	17.9	0.7
Lanzhou	1676	8.6	12.5	1.5
Xining	1668	16.2	9.8	0.6
Yinchuan	2547	11.4	22.7	2.0
Urumchi	3026	14.2	54.0	3.8
All cities		**10.3**	**15.2**	**1.5**

Source: NBS

4.4 Problems Associated with the Employment of Rural Migrant Labourers

There are three major problems associated with the employment of rural migrants. First, the working environment needs to be improved. Although the limitations on jobs open to rural labourers are gradually being done away with, there remain other system-related confinements, such as the discrimination they continue to face. There is also a huge amount of work to be done before rural labourers can benefit from the same public employment services available to urban residents. Furthermore, despite a minimal increase in earnings for rural labourers, the

cost of living in urban areas is rising quickly. Without equal access to the public resources that urban residents enjoy, the additional costs of services affect, to a certain extent, rural labourers' incentive to migrate for employment.

The second major problem related to the employment of rural migrants is the difference between their income, welfare, rights and interests and employment stability. Addressing this imbalance has to be prioritized.

Third, there is an increasing disparity between the quality of the rural migrant workforce and the requirements of the labour market. Urban economic development and the rapid restructuring of industry are creating an urgent need for skilled workers. Enhancing skills training to meet the needs of industrial development is a great challenge.

The long-term solution to the employment problems of rural migrants is the creation of an integrated urban and rural labour market. This entails building a unified, competitive, open, orderly labour market; eliminating all systematic obstacles that confine labour migration; establishing a highly efficient labour force management and service system; creating a consistent environment for a free flow between rural and urban areas with good options for jobs and equal employment; and thereby realizing a better distribution of urban and rural labour resources throughout society.

The short-term goals are to gradually end the urban-rural and regional segregation, establish a labour market management system and service system that serves rural and urban areas equally, create a better employment environment, guide the orderly migration of rural labourers, enhance the quality of rural labourers, and effectively protect the legal rights and interests of rural labourers.

The current policy goal is to enable rural labourers to enter smoothly into urban employment, without suffering discrimination in employment; protect the legal rights and benefits for all employed rural labourers, including basic and necessary social security; and enable the rural labourers who have met the necessary conditions for permanent residency to settle down in urban areas.

4.5 Policies and Measures Protecting Rural Migrant Workers' Employment Rights and Interests

The Chinese Government's position on employment for rural migrants has evolved from control to equal treatment. A 30-year-old system of employment management was made more flexible during two phases, migration control (1979-83) and authorized migration (1984-88), which accelerated the transition of rural labourers into urban areas. Subsequently, the Government implemented a control phase over blind migration and a migration standardization phase. Policy was adjusted from "controlling blind migration" to "encouraging and guiding orderly migration by exercising macro-control". The Government began directing cross-regional rural migration by executing an employment system that centered on employment certification.

However, in some regions there are still regulations and policies preventing rural labourers from entering the cities and confining migrants to certain jobs. After 2000, the Government began clamping down on the unreasonable treatment of rural migrants in cities with the aim of gradually integrating the rural and urban labour markets. Other affiliated reforms were carried out, in areas such as active employment, social security, the *hukou* system, education, housing, small town construction, etc. This has signaled a transition towards equity for rural migrant workers.

In January 2003, the State Council issued a notice calling for an improvement in the management and the services for rural migrant labourers in urban areas and for better protection of their legal rights and interests.[33] The decree urged a crackdown on the unreasonable treatment of rural labourers entering urban areas, a solution to the problem of defaulted and embezzled wages from migrants, the improvement of their working and living conditions, and enhanced access to training. In the meantime, to ensure the implementation of policies and measures to protect the migrant workforce and their families, government bodies at all levels were requested to adopt effective interventions to resolve problems relating to employment opportunities, family planning, children's education, healthcare for women and children, legal services, security, hygiene and disease prevention.

At the end of 2004, the State Council issued another notice, recommending further improvement in the conditions of rural migrant employment and better protection of their legal rights and interests.[34] Local governments were again requested to improve employment management and services for rural migrants, including the elimination of discriminatory regulations. The notice recommended the strengthening of organized labour export, job placement, guidance services and vocational training for rural migrants; and also sought further efforts to regulate the labour market and pilot work on the unification of the urban and rural labour markets.

The following concrete policy suggestions were put forward:

1. Establishment of an employment management mechanism at various levels of government for the unification of the urban and rural labour markets. Uniform State policies are needed in important policy areas such as the reform of the *hukou* system, giving rural labourers equal "urban resident treatment," and designing a pension system.

2. Gradual elimination of the systematic obstacles that confine the orderly migration of the rural labour force and the integration of the urban-rural labour markets. The removal of restrictive policies through reform of the *hukou* system, freer migration rights and legal rights for rural labourers in urban areas, deepening rural land reforms, financial support to ensure stable transition of rural workers to urban areas, gradual extension of urban public services to rural workers and prevention of discrimination against rural workers.

3. Generation of employment for rural migrant workers and accelerating the development of a unified labour market.

[33] *Notice on Improving Management and Service of Rural Labourers for Employment in Urban Areas*, the General Office of the State Council, Jan 5, 2003.

[34] *Notice on Further Improve Rural Migration Labourers' Employment Environment*, Dec. 27, 2004.

Chapter 5 Decent Work and Urban Informal Employment

Chapters 3 and 4 have set out two main causal factors underlying urban poverty in China, urban unemployment based on SOE reform and the pressures of migration based on unification of the rural and urban labour markets. This chapter sets out a third major contributing factor to urban poverty: the urban informal economy.

The impact of the urban informal economy on urban poverty is somewhat complex. On the positive side, the urban informal economy provides the unemployed with 'employment of last resort'. Given the large and increasing size of the urban labour force, the growing rates of registered urban unemployment, and the pressures of rural-urban migration on urban employment, informal employment takes the pressure off formal employment.

However, on the negative side, urban informal employment is a refuge for unemployed labour, which is somewhat definitional, in that this hitherto unemployed labour, struggling for survival, has no other sector in which to seek refuge. Therefore, much of the employment in the informal economy is a default option, when there are no other options left. And indeed, the conditions of employment in the informal economy in China, as elsewhere, are quite poor. Informal employment is characterized by the low security of employment and high frequency of unemployment; wage and working conditions are lower than in the formal economy; and critically, employment in the informal economy largely precludes social protection coverage. Furthermore, in China, the informal economy is still excluded from official recognition by the urban administration, which rules out unionization, collective bargaining and access to training opportunities.

This chapter attempts – perhaps the first such effort – to estimate the size of the Chinese urban informal economy. Pending a dedicated survey of the informal economy, these estimates are perhaps less rigorous. However, as such, the estimates not only show the significant size of the urban informal economy, but also demonstrate a growing trend. The poor working conditions in the urban informal economy, coupled with its growing share in urban employment, reveal this to be a major causal factor contributing to urban poverty.

5.1 Definitions of Relevant Concepts

The concepts of the 'informal sector' and 'informal employment' originated in the ILO. A 1972 ILO investigation of employment in Kenya characterized the "working poor" in the "informal sector," and defined their employment as "informal employment". The Director-General's report to the 1991 International Labour Conference on "*The Dilemma of the Informal Sector*" further defined the informal sectors as "low income, low pay, non-organized, non-structured, small-scale production or service units in the cities of the developing countries", and termed the workers employed by these sectors as 'informally employed persons'. In 2001, the concept was re-defined as the informal economy. It was also acknowledged that informal employment not only exists in the informal economy of developing countries, but also in developed countries. The informal economy has now become a sub-indicator of the employment-population ratio.[35]

[35] *The Key Indicators of Labour Market*, International Labour Office, 1999.

5.1.1 Informal Economy

Although China has not officially defined the "informal economy," the concept itself has been increasingly used to describe the ever-growing number of informally managed urban work units and workers. The informal economy in urban areas is commonly thought of as the majority of self-employed businesses and the small private enterprises owned by individuals or partners.

5.1.2 Informal Employment

"Informal employment" is a commonly used concept usually raised in comparison with traditional formal employment. It incorporates unregistered forms of employment that do not participate in social insurance and are without formal labour relations. Currently, small owner/proprietor businesses and individual workers in cities can all be considered informally employed. They can include self-employed persons, hourly wage workers, temporary workers, seasonal workers and freelancers, as well as those employed persons who constantly change occupations and jobs. The mass of rural workers migrating to the city and non-agricultural sectors are, to a large extent, likely to enter informal employment.

In China, Government agencies usually adopt the concept of "flexible employment" to describe informal employment (throughout this text, the term "flexible employment" will be used to express informal employment). In recent years, the number of people seeking forms of flexible employment has increased at a remarkable pace. This process, on the one hand, expands employment, alleviates employment pressures and improves the efficiency of labour force resource allocation. But on the other hand, this form of employment also includes elements of instability, low income, a lack of security and a low degree of organization. With further economic diversification, flexible employment in China is expected to increase and become a large component of the employed population.

The Chinese Government's policy towards flexible employment is to aim at standardizing such employment, and guide and protect the rights and interests of informally employed persons.

5.2 Estimate and Composition of Informal Employment

China has no official statistics on the number of people in informal employment, but studies show the sector to be significant, both in its share of employment and in its share of new jobs created. One study puts the estimate of the urban informal economy at approximately 80 million workers, which given the 2004 urban employment estimate of 265 million, comes to some 30 per cent of urban employment. This number also approximates the one-third proportion of urban employment, which is unaccounted for by enterprise type, seen above in Table 23.

To take the example of a major city like Shanghai; in 2004, it had an estimated 2.52 million informally employed workers, or 30 per cent of its total employment. This figure consists of employees in urban privately-owned businesses, informal employment and self-employment, freelancers and individually-owned urban businesses.

A decomposition of the increase in employment between 2000 and 2002 attributes two-thirds of the increase to informal employment and only one-third to formal employment.[36] A MOLSS

[36] *China Statistics Summary 2002*.

study raises this estimated contribution of the informal economy to new employment to 75 per cent.[37]

Flexible employment can be seen in all industries and occupations around the country, but it is particularly present in the following areas of the tertiary sector: (1) construction; (2) community and domestic services; (3) social welfare work, including city cleaning and hygiene, security, landscaping and gardening maintenance; (4) accessory services, including production of parts and packages for the manufacturing and processing industries; (5) logistics and other services in formal sectors; (6) business services, including convenience stores, restaurants, stall vendors, maintenance, beauty salons and hairdressers; (7) intermediaries and cultural, scientific and technological services, including legal services, foreign trade, real estate and investment consultancy.

In April 2004, in Nantong in Jiangsu province, a joint sample survey conducted by the municipal survey team and the Nantong Municipal General Workers Union investigated the occupations of workers engaged in informal employment. The study showed that 28 per cent were employed in the wholesale and retail trade; 25 per cent in manufacturing; 23 per cent in a combination of leasing and business services, hotel and restaurants, convenience services and other services; 5 per cent in information transmission and computer services; 2 per cent in real estate; and 17 per cent in other industries.

5.3 Economic and Social Functions of Informal Employment

It is now well recognized that in many countries, particularly in the developing world, informal sectors are principal components of the national economy in terms of employment, if not output, and so constitute a vital part of the labour market. They play a major role in creating job opportunities, promoting economic development and generating income. In countries with high population growth and rapid urbanization, informal sectors tend to absorb the majority of the newly increased labour force in urban areas. Under the circumstances, despite the low incomes, low job security and lack of social security, the informal economy develops as a default survival strategy. In the case of China, flexible employment or the informal economy performs three principal functions:

First, the informal economy absorbs the country's surplus labour force, alleviating employment pressures. It has been observed that the nature and form of employment has undergone tremendous change since the 1990s, moving significantly from formal employment to informal employment.[38] During the 1978-96 period, 53 million new formal employment opportunities were created, accounting for 51.4 per cent of all the new urban jobs in the country, while informal employment increased by 51 million or 48.6 per cent of all the newly employed people in urban areas. Moving on in time, between 1996 and 2001, informal employment increased by 81.28 million, and formal employment decreased by 40.53 million. Therefore, the informal economy is accounting for an increasing share of the new jobs created in the economy.

With the changing structure of ownership, between 1990 and 2004, the total number of employees in urban SOEs and collective work units decreased by 62.88 million. Of those, except for the retired and terminated, most have entered flexible employment sectors. At the end of 2004, the number of the urban registered unemployed was 8.27 million, up 0.27 million on the previous year. Unable to find formal employment, most of these people have found

[37] Director He Ping, Social Insurance Institute, Ministry of Labour and Social Security, May 2004.

[38] *Micro Economy and Promoting Employment*, Hu Angang, *China Employment Report 2003-04*.

flexible employment. Between 2000 and 2004, the number of employed persons in privately-owned enterprises and individually-owned enterprises increased from 36.58 million to 55.15 million. In other words, the number employed in private enterprises and individual businesses engaged in mainly flexible employment has increased by 50.76 per cent in five years.[39]

The second function being performed by informal employment is its role in economic growth and diversification in the pattern of ownership. The cost of a flexible job is low, and to a certain degree its use has facilitated the development of the non-state-owned economy. In a structure of co-existing multiple forms of economic ownership, private enterprises and individual businesses relying mainly on flexible employment comprise an increasingly large share of the national economy. By 2004, the non-public economy including individual business contributed up to 60 per cent of national GDP, 70 per cent of the newly created jobs and 60 per cent of export; the number of employees in both individually-owned enterprises (45.87 million) and private enterprises (49.70 million) reached nearly 100 million; 65 per cent of laid-off employees from SOEs found re-employment in private enterprises, with a relatively large proportion of them engaged in the informal economy.[40]

The third function performed by informal employment is its contribution to urban services. With the development of the tertiary industry, flexible employment is playing an increasing role in the provision of services to communities in cities, particularly in the case of medium-sized and large cities. These services include housekeeping, medical care, intermediaries, restaurants and retailing.

According to a 2004 MOLSS survey on job openings and skilled workers across 40 cities, of the people engaged in flexible employment, the self-employed workers and professionals totalled 34 million; people assisting family members with production and operation accounted for about six million; others engaged in flexible employment, including part-time workers, seasonal workers, contract labourers, dispatched labourers and hourly wage home workers numbered seven million.[41]

5.4 Characteristics of Informal Employment

5.4.1 Multiple, Flexible Employment Forms and Simple Organizational Structures

By its very nature, informal employment entails flexible and varied forms of employment and work mechanisms. Most informal employment is in micro-enterprises or individual businesses with few employees, many of whom are independent labourers and their family members. These enterprises often operate with little capital and low technologies, and their services do not usually have regular customers. Some enterprises do not have fixed workplaces and normal work hours; and the form of labour organization, product types, quantity, contents and methods of service usually change according to variation in demand and production.

[39] Statistical Communique on Labour and Social Security, 2001, 2004.

[40] *Non-public economy: drive on equity highway*, by Bao Yujun, Vice Chairman, All China Federation of Industry and Commerce, Xinhua Net, June 30, 2005.

[41] Task team, Statistical Analysis of China's Flexible Employment, MOLSS, Jan. 2005, www.calss.net.cn.

5.4.2 Less Formal, More Complicated and Diversified Labour Relations

A prominent characteristic of flexible employment is its informal, complex and diverse labour relations. Employees in informal employment usually have a comparatively loose relationship with their employers. Formal employers do not usually sign formal labour contracts with temporary, seasonal and hourly-wage workers, and their employment relationship can terminate at anytime. It is more complicated in the case of flexible employment: some people may have multiple labour relationships, i.e. working with several employers at the same time; some still keep labour relations with former employers; some do not have any oral or written employment contracts; and for self-employed persons, the other side of the labour relationship – that is, an employer who is responsible for employee interests as stipulated in an employment contract – does not even exist. According to a survey conducted by the Institute for Labour Sciences on the status of youth employment in four cities, 86 per cent of employed persons between the ages of 15 and 19 had no employment contract or had temporary contracts for less than a year.

5.4.3 Unstable Employment, Lack of Social Protection

There are four main dimensions of instability in flexible employment. One is employment instability, as the incidence and frequency of unemployment is the highest in flexible employment. A second is low remuneration, because of the large difference in wages with the formal economy. A third is that most of the people in flexible employment are excluded from social insurance; the current pension, medical and other social insurance systems were designed for employees in formal employment sectors. Therefore, this considerable share of the population in the informal economy has no institutional relationship with the social insurance system. Fourth, because most flexible employment units are not registered and are not included in official statistics, they receive little administrative and legislative coverage, and thus rarely have access to loans, formal vocational training, public services or legal protection. Few workers from the informal economy join professional organizations or trade unions, and with little understanding of labour and social security policies, they are vulnerable to rights infringements. For example, in 2004, there were 14 million people categorized as "others" in the country who participated in the basic pension program. Even if all of these "others" are employed informally, the participation rate still accounts for only 30 per cent of the total. In terms of medical insurance for those in flexible employment, over four million people (excluding retirees) have individually participated, which still only comes to a participation rate of less than 10 per cent.[42]

5.5 Policies and Measures on Standardizing Flexible Employment and Protecting the Rights and Interests of Flexibly Employed Persons

In October 2003, at the Third Plenary Session of the Sixteenth Central Committee of the Communist Party of China, the *Decision on Some Issues for Perfecting the Socialist Market Economic System* was passed. In order to meet employment and re-employment needs, the document emphasized the development of labour-intensive industries; in terms of enterprise scale, it emphasized support for small and medium-sized enterprises; in terms of economic ownership, it emphasized the development of the non-state-owned economy; and in terms of

[42] Task Team, Statistical Analysis of China's Flexible Employment, MOLSS needs to explain that the proportion of employed persons engaged in flexible employment and are participating in (old-age) pension programs and medicare insurance was drawn from a relatively low base of 47 million total flexible employees.

the form of employment, it emphasized the development of varied forms of flexible employment.

To standardize and develop flexible forms of employment, it has to be recognized that, as noted above, some parts of the labour and security laws, regulations, labour standards and social insurance system do not cover flexible employment. Workers in flexible employment lack training and measures to protect their rights and interests. Policy recommendations therefore include:

1. Introduction of laws and policies that allow workers to choose between different forms of flexible employment. This includes the development of management policies towards small businesses, credit policies, tax policies and the provision of information services, technical training and consulting services to support small enterprises or individual businesses.

2. Vocational guidance, occupational introduction, skills training and business start-up training to support flexible forms of employment.

3. Protection of the rights and interests of the flexibly employed in the form of employment contracts which stipulate employment duration, remuneration, vacations and holidays, social insurance, vocational training, labour protection and conditions for employment termination, etc. The general principle is to ensure that full-time and part-time workers, temporary and formal workers, home workers and self-employed workers all enjoy the same rights.

4. Strengthen research on flexible employment. The unique features of flexible employment make regulation and management by the government very difficult. There are still insufficient statistics, surveys and in-depth studies for the Government to be able to make effective policy based on a better understanding of the informal economy.

Chapter 6 Current Government Policy and Measures on Urban Employment and Poverty Reduction

6.1 Summary of the Empirical Part of the Study

The preceding empirical part of this study has established that in the last five years, alternative estimates have shown urban poverty to be increasing. Urban poverty levels have resurged over the 1990s from their previously insignificant levels of 0.2 per cent of the urban population to current estimates ranging between 4 per cent and 12 per cent.

This study has established that the resurgence in urban poverty has been caused by three primary factors. The first factor observed to be contributing to urban poverty is a significant and rising rate of urban unemployment. This rising level of unemployment is associated with the massive, but essential, restructuring of SOEs in a move towards adopting market mechanisms and increased competitiveness necessitated by the growing integration of the domestic economy with the global. The resulting large-scale retrenchment of workers has not been met with sufficient re-employment opportunities, thus creating a large and growing backlog of unemployment.

A second factor observed to be contributing towards the re-emergence of urban poverty is the high level of rural-urban migration. The standard structural transformation of the economy – a shrinking agriculture sector and growing industrial and service sectors – has, in China's case, been more marked following very high growth rates of 10 per cent sustained over two and a half decades. Furthermore, China's *hukou* system, which effectively led to a dual labour market separating the urban from the rural, has gradually been relaxed. This differential in the labour market initially prompted higher levels of rural-urban migration, lured by the higher urban wages and better urban social infrastructure, especially social protection, health and education. The Government's policy to unify the labour market by gradually relaxing the *hukou* system has now facilitated this rural-urban migration. The estimated 150 million rural-urban migrants have put pressure on urban employment. In addition, the exclusion of rural migrants from urban facilities and programs gives them a higher incidence of poverty compared to local residents by a factor of one-and-a-half to two.

The third factor contributing to urban poverty is the emerging size and role of the urban informal economy. This study estimates the size of the urban informal employment to be approximately 80 million, nearly a third of total urban employment. Moreover, estimates measuring employment over time, while tentative, show that between 66 per cent and 75 per cent of new urban employment generated in the past five years is informal. However, the urban informal economy is characterized by a number of weaknesses: employment is more insecure and unemployment is more frequent; wage and income levels are lower than in the formal sector; and workers are largely excluded from social protection programs, critical rights like unionization and collective bargaining, and access to training and skills programs. These weaker employment and working conditions coupled with the growing proportion of the informal economy contribute to urban poverty.

Given this identification of the major causal factors underlying urban poverty, this chapter now reviews current policy towards urban poverty reduction and examines the extent to which policy addresses these three factors. Focusing on the gaps in policy coverage leads to the proposals for future policy in the next chapter.

6.2 The Government's Policy Goals

Poverty alleviation is a major goal of the Chinese Government. Since reforms and the opening-up policy, there has been rapid socio-economic development and considerable improvements in living standards. As most poverty is concentrated in rural areas, the Government has implemented a number of poverty relief measures that focus on the rural poor. This poverty reduction work has had great success, with the number of the rural poor decreasing from 250 million in 1978 to 29 million in 2003; down from 31.6 per cent to 3.1 per cent of the total population.[43]

While intensifying poverty reduction in rural areas, the Government is also prioritizing urban poverty issues. To reduce and eliminate poverty, the Government is committed to realizing the five balances: balanced urban and rural development, balanced regional development, balanced economic and social development, harmonious development between humans and nature, and balanced domestic development with the opening-up strategy. In urban poverty reduction, the basic policy of the Government is that reform is the fundamental engine and common wealth is the goal – following the principle of efficiency as well as equality, adjusting the income distribution, expanding the proportion of middle-income earners, and raising the income of low-income earners.

There are two major measures underway:

The first measure is a proactive employment policy and the development of employment channels. This takes the form of implementing the guideline on the free choice of occupation for workers, with market regulation and Government employment promotion; developing the tertiary industry, particularly community services; promoting the reform and readjustment of SOEs; encouraging the development of private business, multiple forms of ownership, and labour-intensive industries; increasing the employment elasticity of economic growth; strengthening on-the-job training; and enhancing the employability of workers.

The second measure is to enhance the social security and relief system. This is based on the Government's principle of providing thorough needs-based security, providing security for different categories of workers, social distribution, and improving the information management system. It involves improving the Urban Minimum Livelihood Guarantee Scheme; further developing urban employees' basic pension insurance and the basic medical insurance system; and establishing and enhancing healthcare, housing, and a children's education system for people with considerable economic difficulties. These measures will enable a level of basic security for the poor that is compatible with the country's economic development.

6.3 Policies and Measures on Employment Promotion and the Effects on Urban Poverty Reduction

6.3.1 Employment Promotion and Urban Poverty Reduction

Of China's urban poor, the great majority are able and willing to work, but do not have the opportunity. This population usually has no assets or other sources of income besides their own capacity to work. Only stable job opportunities can allow them to climb out of poverty.

[43] *China Economic Development, Human Resource Development and Poverty Reduction (1978-2003)*, Hu Angang, Center for China Study, Tsinghua University, September 9, 2004.

As seen in Table 14 above, of the seven groups of urban residents entitled to the Minimum Livelihood Guarantee Scheme, laid-off workers, temporarily absent workers with no payment, and the unemployed account for 50 per cent of the total. This rate exceeds 80 per cent when their dependent family members are included. This endorses the study's argument that a clear relationship exists between urban employment and urban poverty. Recognizing this nexus between urban unemployment and poverty, the Chinese Government has adopted a proactive employment policy that prioritizes employment and the creation of job opportunities, an improvement in employment conditions and the reduction of urban poverty. In May 2004, the Steering Committee on Poverty Reduction and Development of the State Council stated the Chinese Government's position in the *Declaration of the Chinese Government Policy on Poverty Alleviation and Elimination*, based on promoting the re-employment of laid-off workers. It involves creating new employment opportunities, providing good re-employment services, increasing investment in re-employment, and strengthening re-employment skills training.

6.3.2 Employment Promotion Measures Targeting Urban Groups with Difficulties in Finding Jobs

The Chinese Government has taken the following measures:

First, the Government has established re-employment service centers in SOEs by mobilizing all social resources, provided laid-off workers with basic living security and contributed to their pension insurance and medical insurance. The Government also offers an employment guidance service, three visits to the employment information service center, and a free job-training opportunity.

Second, laid-off workers and the unemployed are either tax exempt or pay a reduced tax, and can apply for small loans from the Government. Self-employed workers who were laid-off or unemployed are entitled to tax-free status for three years. They can also apply for low-interest small loans from a guarantee fund set up by the Government.

Third, the Government provides social insurance subsidies and has implemented a tax-exemption/reduction policy. In order to encourage the recruitment of more laid-off workers, the Government provides expanding enterprises in the trade and service industries with social insurance subsidies. Should the proportion of laid-off workers hired account for 30 per cent of their total workforce, trade and service enterprises, labour service companies and small processing enterprises in the community are entitled to a tax reduction or tax exemption.

Fourth, the Government assists those having trouble in finding re-employment. Laid-off men above the age of 50 and women over 40 who want to work but are facing difficulties are offered immediate help in a variety of forms. The Government is even developing and financing job opportunities in non-profit organizations. If they are employed in commonweal jobs (for the public good) in the community, the Government provides them with a post subsidy and a social insurance subsidy.

Fifth, the Government encourages large SOEs to reduce surplus labour by separating mainstream and subsidiary businesses, and reforming those subsidiaries. Reformed enterprises and new economic entities that have recruited a certain proportion of surplus labour are entitled to tax-deductions and exemptions for three years.

Sixth, the Government has strengthened employment services for laid-off workers. 'One-stop shops' offer job counseling, free job placement and training services, and an information network is used to provide them with employment information. For laid-off workers who are now self-employed, a package of intermediary services is available, including commerce registration, taxation processing and related labour and social security issues.

Seventh, the Government organizes a diverse re-employment training program, at several skill levels, to improve the employability of laid-off workers. For those who are ready to start a new business, the Government provides business development training and guidance, a project consulting service and a follow-up support service. The aim is to set up a self-employment model that more laid-off workers can follow.

6.3.3 Poverty Reduction through Employment Promotion Policy and Measures

The Chinese Government has put forward a series of sustainable employment policies. Re-employment training schemes and "re-employment assistance services" have made progress in getting laid-off workers back into work and improved working and living conditions for the urban poor.

Re-employment Training Programs

In order to enhance the re-employment capacity of urban laid-off workers, in 1998 the Government introduced the "Ten Million in Three Years" training program, which has proved to be very successful. The program targeted laid-off workers and unemployed people through the mobilization of social resources and government-funded training. In the first phase of the program, between 1998 and 2000, over 13 million laid-off and unemployed persons attended training, six months after which their employment rate was 60 per cent. In the second phase, from 2001 to 2003, the program did even better. Of the 15.35 million laid-off and unemployed persons attending training all over the country (organizations affiliated to MOLSS trained over 60 per cent, other institutions trained the remaining 40 per cent), 91 per cent met the training requirements and 8.79 million people were re-employed after training, a re-employment rate of 63 per cent. In 2003, of the 4.82 million laid-off persons trained, 93 per cent made the grade, and 2.97 million or 62 per cent were re-employed.

During the 2004-05 period, the Government initiated a re-employment training program called "Raising your Re-Employment Capacity". The goal was to provide skills training to eight million laid-off workers within two years, targeting a qualification rate of 90 per cent and a re-employment rate of 60 per cent. The program included a business development training component, which has been offered to 600,000 people, 80 per cent of whom met the course requirements and has resulted in a 50 per cent success rate in starting new businesses. The program aimed at improving workers' employment capability, entrepreneurial ability and capacity to accommodate to occupational changes. Measures included relying on qualified education and training institutions to carry out re-employment training; supporting training activities sponsored by social organizations with policy, technology and funding; periodically providing training organizations with labour market information; and establishing information channels between training organizations and individual work units. The Government also provides various types of career counseling and training services to laid-off workers, graduates and rural workers.

Re-employment Assistance Action

Re-employment Assistance Action began in 2001 to mainly serve laid-off workers with employment difficulties and the unemployed. Eight types of services are provided: counseling services and policy support, career guidance, employment information and job support, skills training support, support for resuming a social security relationship, agency service on labour security, life security support and special support to the most disadvantaged within the target population.

In recent years, employment assistance measures have greatly improved the re-employment process for the urban poor, and predominantly laid-off workers. In 2003, 8.5 million new job opportunities were created in China; 10.38 million laid-off workers obtained preferential re-

employment certificates, and 4.4 million were re-employed (including 1.2 million men and women above the ages of 50 and 40 respectively who had difficulties in finding work). Of the re-employed, two million were engaged in private business, 800,000 were in service enterprises and 800,000 were in non-profit organizations. In 2004, there were 9.8 million newly employed urban residents, with 5.1 million laid-off workers re-employed.

6.3.4 Social Security and Social Assistance and their Functions in Urban Poverty Reduction

The "Two Guarantees" and "Three Guarantee Guidelines" System

In order to adapt to the in-depth reforms of the national economy and SOE restructuring, and especially to ease the pressure in dealing with the surplus workers with insufficient unemployment insurance, the Government adopted a program of "Two Guarantees" in 1998. One guarantee ensures a basic standard of living for laid-off workers through re-employment service centers in SOEs that provide a basic cost-of-living income and contribute to their social insurance. The fund is financed through the Government, enterprises and the community, mainly from the social insurance fund. At the same time, laid-off workers were encouraged to participate in re-employment guidance and training. The second guarantee ensures a basic standard of living for retirees who are entitled to full basic retirement benefits.

The "Three Guarantee Guidelines" were established to ensure the implementation of the "Two Guarantees", which include: a guaranteed basic standard of living for the laid-off workers from SOEs, unemployment insurance and the guaranteed minimum standard of living for urban residents. Laid-off workers who attend re-employment centers can receive a basic cost-of-living for three years. If they have still not found a job after this period, they can receive unemployment benefits for two years on the condition that they have made unemployment insurance contributions. The laid-off urban residents with a per capita family income lower than the minimum standard may access benefits from the Minimum Livelihood Guarantee Scheme. The "Three Guarantee Guidelines" is a major component of the country's social security system, with specific Chinese characteristics. It plays an important role in ensuring a basic living standard for workers and urban residents, and in allowing deepened reform by providing a social floor and thereby social stability.

In recent years, the "Three Guarantee Guidelines" has proved to be effective in easing employment pressures, as well as ensuring a basic standard of living for workers laid-off from SOEs and the urban poor. However, the first guarantee – i.e. the basic standard of living for workers laid off from SOEs – is a transitional arrangement. In 2004, when the SOEs passed the lay-off peak, unemployment insurance had been widely established, re-employment promotion policies started to take effect and workers' views on employment had changed considerably. In this case, based on a relatively well-functioning social security system and on the basic requirements of constructing a socialist market economy, the Government made a key decision to integrate the basic standard of living guarantee system for laid-off workers from SOEs into the social unemployment insurance system. This integration had been largely completed at the end of 2005, but making the urban social security system more comprehensive is an ongoing process, with the establishment of a market-oriented employment system and the better protection of the fundamental interests of the masses.[44]

Despite the continuing challenges that have been noted throughout this study, the overall impact of the Government's policy on generating employment and protecting the vulnerable is considerable. From 1998 to 2003, an estimated 27.8 million workers were laid off from SOEs, 18.5 million of whom have been re-employed. This re-employment rate of two thirds can be

[44] Zheng Silin, Minister of the MOLSS, People's Daily, April 4, 2005.

seen in Table 31.[45] In 2004 alone, 5.1 million laid-off workers and unemployed persons were re-employed.

Table 31 1998-2003 Basic Living Guarantee Status of Workers Laid Off from State-Owned Enterprises (10,000 people, 100 million yuan)

Year	1998	1999	2000	2001	2002	2003
Year-end laid-off worker numbers	610	653	657	515	410	260
Number at the center	604	623	614	464	339	195
Increased number of the year	562	619	446	234	162	
Number decreased in the same year	659	558	441	376	267	
Re-employment number of the year	610	491	361	227	120	
Capital expenditure of the year	122	217	267	246	182	121
Financial subsidy	92.8	127.9	204.5	225.4	207.1	177.1
Central finance subsidy	75.7	90.3	132.6	135.3	129.6	130.2

Source: Key Statistical Data 1997-2002 and One-Off Statistical Data Message, Labour and Social Security 2003, compiled by Department of Planning and Finance, Ministry of Labour and Social Security.

6.3.5 Urban Poverty Reduction through an Unemployment Insurance System

China established an unemployment insurance system in 1986. In 1998, while implementing the basic standard of living system for workers laid-off from SOEs, the Government began to reform the unemployment insurance system as required by the formation of a socialist market-oriented economy. In 1999, the State Council's *Unemployment Insurance Regulations* stated that coverage includes all enterprises and businesses in urban areas; unemployment benefits are all authorized at the same standard; the insurance premium is to be funded by enterprises and individuals; unemployment benefits are lower than the minimum wage but higher than the urban minimum living standard and are determined by local governments; and individuals may receive unemployment benefits for 24 months.

The unemployment insurance system has developed very quickly in the past few years. A relatively full set of regulations and policies has helped to legally extend coverage and increase the unemployment fund. At the end of 2004, coverage had increased to 105.48 million people and the unemployment fund reached ¥29.3 billion through an annual double-digit increase in the six consecutive years since 1999. The fund's expenditure was ¥21.4 billion and the accumulative balance was ¥38.4 billion. In 2004, 7.54 million unemployed workers received unemployment benefits; in December alone, the number receiving unemployment benefits was 4.19 million. Fewer and fewer laid-off workers received the basic standard of living subsidy from re-employment service centers, decreasing from a peak of 7.01 million to 1.75 million. The integration of laid-off workers' standard-of-living subsidy with unemployment insurance has essentially been completed in more than 10 provinces in eastern areas and unemployment insurance has become the main form of social security. Since the larger proportion of the urban poor are unemployed workers and their families, this establishment and development of unemployment insurance plays an important role in improving their living conditions.

However, there are some problems in the implementation of the unemployment insurance program. First, due to great socio-economic disparity across regions, unemployment insurance has been implemented in different phases and has had a varied impact. The second problem is that, except for the municipalities directly under the jurisdiction of the Central Government, cities and districts actually have lower integration and fund levels. Third, unemployment insurance is observed to have little effect on employment generation.

[45] Source: China Labour Force Market Information Network Supervision Center, MOLSS. Due to various sources, there is difference between data in this table and those in Table 18.

The development of unemployment insurance in China requires work in three principal areas. (1) More workers need to be incorporated into unemployment insurance coverage, especially private sector workers who are mobile and need more security. (2) Unemployment insurance has to be put into the perspective of the strategic employment plan, to increase the expenditure budgets to promote employment, and strengthen coordination between unemployment insurance and employment promotion. (3) Unemployment insurance has to strengthen its infrastructure and service management, regulate its working procedure, improve its service quality and promote balanced inter-regional development.

6.3.6 The Minimum Livelihood Guarantee Scheme for Urban Residents: "The Last Safety Net" for the Poor

China's Minimum Livelihood Guarantee Scheme for urban residents is the last safety net for the urban poor. The traditional Chinese welfare system of the 1950s and 1960s was based on the planned-economy. A fixed amount of periodical relief and temporary relief was provided to the aged urban population and to people in need or facing difficulties. This target group was defined as those with no capacity to work, no income source, and no legal provider or care-givers. In the 1990s, reforms were undertaken to improve this system. For instance, in 1993, Shanghai successfully established a minimum standard of living guarantee program, based on international models but according to its local context. In September 1997, the State Council issued a notice on 'Establishing a Minimum Livelihood Guarantee for Urban Residents Nationwide'. By September 1999, all cities and county governments with established township systems had set up this system. The *Regulation on the Minimum Livelihood Guarantee for Urban Residents* issued by the State Council was implemented on October 1, 1999, standardizing the system (see box below).

The "Needs-Based Guarantee" Development Process of the Minimum Livelihood Guarantee Scheme for Urban Residents

In June 1993, the Bureau of Civil Affairs in Shanghai took the lead in investigating the establishment of a minimum standard of living for urban residents. They received affirmation from the Tenth National Civil Affairs Conference in 1994 and the Ministry of Civil Affairs adopted the system in 1995.

In April 1995, six cities including Xiamen, Qingdao, Dalian, Fuzhou, Guangzhou, and Wuxi established this system. The number had risen to 12 cities by the end of that year. In the following year, 101 cities had set up the system.

By the end of 1997, the number of cities that had established the minimum standard of living for urban residents reached 334. Four of those were directly under the jurisdiction of the Central Government, five were separately administered cities, 160 were prefectural cities, and 165 were county-level cities, nearly 50 per cent of the total. There were also 290 towns at county-level that established the system.

By the end of 1998, 584 out of 668 cities and 1,035 out of 1,683 county-level governments had established the system, giving a coverage rate of 87 per cent and 63 per cent respectively.

By the end of June 1999, 660 cities around the country and 1,505 towns with county governments had established the system, with a coverage rate of 99 per cent and 92 per cent respectively.

Since 2000, the focus of this work has moved from system building to standardizing and perfecting the system. By the end of June 2001, there were 4.58 million people under the minimum livelihood scheme nationwide; this number rose to 7.15 million in October and 11.7 million by the end of the year.

By the end of January 2002, 12 provinces had almost realized the "needs-based" guarantee, and 12.35 million people, or 78 per cent of the total of 15.89 million urban poor, were guaranteed a minimum standard of living. In July 2002, the "needs-based" guarantee was fully realized. Now all towns and cities with county-level governments have established the Minimum Livelihood Guarantee System.

Source: Abstract taken from China Civil Course Development Report, Research Center, Ministry of Civil Affairs, 2003.

The urban poor who are recipients of this minimum standard of living fall into three categories: (1) the "Three None People", so called because they have no income source, no capacity to work, and no legal provider or care-givers; (2) those who remain unemployed during the period they receive unemployment benefits or after their unemployment insurance has expired *and* have an average family income lower than the minimum standard of living; (3) those employees and laid-off workers who have received their minimum wages or subsidy, or retirees who have received their retirement benefits, *but* whose family income is still lower than the local minimum standard of living.

Local governments determine the minimum standard of living based on necessary living expenditures and budgetary constraints. Due to large regional differences in income, growth and consumption levels, the necessary living standards can vary greatly, as Table 32 shows. Usually, apart from the "Three None People" who get the full-amount, all other recipients get subsidies according to the difference between the minimum standard and their actual average family income. This essentially guarantees a minimum standard of living for urban residents living in difficulty.

Table 32 The Minimum Living Guarantee Baseline for 36 Cities (March 1, 2004) **(yuan/person/month)**

City	Minimum Guarantee Standard	City	Minimum Guarantee Standard
Beijing	290	Guangzhou	300
Tianjin	241	Nanning	190
Shijiazhuang	205	Haikou	221
TaiYuan	171	Chengdu	178
Hohhot	180	Chongqing	185
Shenyang	205	Kunming	190
Changchun	169	Guiyang	156
Harbin	200	Lhasa	180
Shanghai	290	Xi'an	180
Nanjing	220	Lanzhou	172
Hangzhou	270-300	Xining	155
Hefei	210	Yinchuan	170
Fuzhou	200-220	Urumchi	159
Nanchang	165	Dalian	240-312
Jinan	208	Qingdao	230
Zhengzhou	200	Ningbo	260
Wuhan	220	Shenzhen	290-344
Changsha	200	Xiamen	265-315

Source: Ministry of Civil Affairs, published in April 2004.

Funding for the Minimum Livelihood Guarantee Scheme for urban residents comes mainly from the local departments of finance. In order to ensure that the disbursement is on time and complete, special accounts are opened under dedicated management. This is to guard against misappropriation and ensure transparency. For the disbursement of the guarantee funds, the departments of civil affairs open special accounts for the Minimum Livelihood Guarantee Scheme in a state-owned commercial bank. These are used especially for payment of the guarantee funds seen in Table 33.

This Minimum Livelihood Guarantee Scheme is the last resort of social security. When other measures fail to resolve the difficulties of urban residents, this is the final safety net to bear the burden. Therefore, the scheme plays a key role in guaranteeing the urban poor the basic necessities of life, and in maintaining social stability and smoothing the progress of economic reform.

Table 33 Expenditure and Beneficiaries of the Minimum Livelihood Guarantee Scheme 1996-2004

Year	Total Finance Expenditure (¥100 million)	Central Finance Expenditure (¥100 million)	Local Finance Expenditure (¥100 million)	Number of the Guaranteed (10,000 people)
1996	3		3	85
1997	3		3	88
1998	12		12	184
1999	20	4	16	281
2000	27	8	19	403
2001	42	23	19	1171
2002	109	46	63	2065
2003	151	92	59	2247
2004	173	105	68	2201

Source: *Minimum Urban and Rural Living Guarantee Guideline System: History, Current Situation and Future* by Tang Jun, Institute of Social Science, Chinese Academy of Social Sciences.

By the end of 2004, the lowest urban 'minimum standard of living' was ¥152, and there were altogether 9.56 million households and 22.05 million urban residents recipients of the fund. Of those who received the minimum standard of living, 1.41 million were working, 4.69 million were laid-off workers, 731,000 were retirees, 4.23 million were unemployed, 10.04 million were family dependents, and 954,000 were "Three None People". The total expenditure for all levels of the minimum standard of living for urban residents that year was ¥17.27 billion.

Chapter 7 Conclusions and Policy Implications

7.1 Conclusions for Policy

Urban Poverty and the Rural-Urban Dynamic

This study has taken a few, but significant, steps towards understanding and addressing a problem area that is bound to increase in importance and scope for many, if not most, countries around the world – the problem of urban poverty. For China, as for many other countries, the standard focus on poverty has long been on the rural poor. The agricultural sector had simply been perceived to be deluged with huge challenges, which logically drew the attention of poverty policy. The large backlog of the rural poor; the lower growth rates and declining employment opportunities in agriculture; the increasing competitive pressures on agriculture as globalization, trade liberalization and structural reform policies permeate the sector; the economic policy bias against agriculture in the pursuit of traditional development leading to resource outflows from agriculture and the rural areas to manufacturing and services in urban areas; the social policy bias which restricts access to rural social services compared to urban services, in education, in health, water supply and sanitation; and a raft of such development and policy slights against agriculture, all had led to focus poverty policy on where the bigger problems lay – in agriculture and the rural areas.

What this study has shown is that the large numbers of rural poor can, and have masked the emergence or re-emergence of urban poverty in China. The Government of China has been bold in acknowledging the problem and addressing it, and this study has attempted to contribute towards this endeavor.

The study shows that urban poverty has re-emerged in China for two sets of reasons. One set of reasons is based on the urban dynamic. Urban unemployment has crept up over time. Though much needed, SOE reforms and restructuring have resulted in the large-scale retrenchment of workers. Furthermore, employment generation in urban-based sectors like manufacturing and services has also declined over time, and at times have not been able to re-employ the growing backlog of retrenched workers. Yet another contributory factor to urban poverty has been the rising significance and scale of the urban informal economy. This informal economy has weaker working conditions and a resultantly higher incidence of poverty compared to the urban formal sector, and consequently adds to the incidence of urban poverty.

Moreover, a second set of reasons based on the rural dynamic has been an equally, if not more important contributor to urban poverty. While poverty policy in China focused traditionally on agriculture and the rural areas, and resulted in its significant reduction, the other economic and social policy biases against them, which have been summarily listed above, remained. Growth in the agricultural sector was slower than that of manufacturing and urban services, it absorbed fewer workers over time, and led to lower wage rates and agricultural incomes. Moreover, social security provisions were weaker, with lower access to education and health services. This policy bias against agriculture and the rural areas may well have been necessitated by the vast backlog of rural development to be undertaken, the sheer size of the rural population to be covered, and the Lewisian logic of autarchic development by transferring resources from agriculture to manufacturing. However, the policy bias did exist and was maintained by the *hukou* system that separated the rural labour market from the urban.

What this study attempted to show for China is that it is this rural dynamic that has contributed significantly to the re-emergence of urban poverty. The large rural-urban differentials in wages and incomes, employment opportunities, social security, and education and health services – all the outcomes of policy bias – have led to a huge and increasing flow of rural to urban

migration. Whereas the *hukou* system of separate rural and urban residency permits once controlled the flow somewhat, China's staggering manufacturing growth over two and a half decades has generated an urban demand for labour that the *hukou* system has been unable to abate. The push factors of rural surplus labour, lower wages and incomes, and weaker social benefits, together with the pull factor of the urban demand for labour, have resulted in unprecedented rural-urban migration. But since the flow has been market dictated, rather than planned, the high levels of migration have put further pressures on urban unemployment. And as the *hukou* system attaches access to social protection and services to residence, unplanned and technically illegal migration has not resulted in the migrants benefiting from the social protection and services. Hence the incidence of poverty for these migrants is a multiple of that for urban residents, again contributing to the incidence of overall urban poverty.

So, the rural-urban dynamic of policy differentials and large-scale migration to urban areas is a very important contributor to the re-emergence of urban poverty in China. It provides a salutary policy lesson to a host of other countries that have high rates of internal migration to urban areas, booming urban populations, urban infrastructure hopelessly inadequate to meet the growing demand, and consequent new urban impoverishment. The solution to urban poverty must, of course, lie in urban policy, but not solely. If rural differentials go un-addressed, high levels of rural-urban migration will counteract urban poverty reduction policies, leaving urban poverty stubbornly high. Therefore, the solution to urban poverty must lie in both urban and rural poverty policies.

Again, we reiterate that it is a great tribute to the Government of China to first acknowledge the re-emergence of the problem of urban poverty, to wish to determine its significance and trends through this and other research and policy studies, to establish the causal factors underlying these urban poverty levels and trends, and to wish to address policy towards them.

Decent Work as a Methodological and Policy Tool for Poverty Reduction

A second element that must be the basis for policy on poverty reduction has been acknowledged from the outset of this study: decent work. The Government of China and the ILO have undertaken this collaborative study as part of a joint venture on decent work in China. The Government's goal of constructing a socialist harmonious society shares the ILO's goal of decent work. For the ILO, decent work is a global goal, to be achieved for each country. This implies that each country can be analyzed in terms of its existing level of attainment and its policy needs to reach the goal. Therefore, this study has examined urban poverty using the methodological tool of decent work.

Urban poverty has been estimated and found to be significant, varying between 6 per cent and 10 per cent, and with some estimates showing possible increase over time. The causal factors contributing to this urban poverty have been traced to deficits in decent work – that is a lack of employment and weak conditions of employment. The major factors correlated to urban poverty have been observed to be high and increasing levels of urban unemployment caused by the retrenchment of workers through SOE reform and restructuring; the high flow of rural-urban migrants, the working conditions of whom are seen to be weak, giving them a higher incidence of poverty compared to urban residents; and the mushrooming urban informal economy. The estimates show the urban informal economy comprises almost one quarter of urban employment and accounts for the greater share of the annual increase in urban employment. The urban informal economy is also observed to have much weaker working conditions compared to the urban formal economy, giving it a much higher incidence of poverty. These are the first estimates of the urban informal economy and pending a dedicated survey they are more in the nature of approximations and micro-estimates for select cities.

Having established this causality of factors underlying urban poverty, the study examines current policy for urban poverty reduction. The policy measures examined are the following:

The major policy for urban poverty reduction is appropriately employment promotion. This is carried out through several mechanisms. One mechanism is the re-employment center that provides services and facilities for retrenched SOE workers. A second mechanism is the provision of low-interest loans for the unemployed and tax incentives for their business start-ups. A third mechanism is the supply of tax incentives and social insurance subsidies for expanding enterprises that hire more laid-off workers. A fourth mechanism is the placement of unemployed workers in non-profit and public service organizations. A fifth mechanism is a placement service. And a sixth mechanism is a re-training service for both waged employment and self-employment.

A second policy for urban poverty reduction is protection of the vulnerable through social security and social assistance. This takes several forms. The "Two Guarantees" scheme ensures retirees and laid-off workers from SOEs a pension and a basic cost of living respectively. The "Three Guarantee Guideline" offers a basic standard of living for laid-off workers, and unemployment insurance and a minimum standard of living for urban residents. Retrenched urban resident workers have access to the services of re-employment centers, but also receive a basic cost of living for three years and those still unemployed are provided with unemployment benefits for a further two years. They also receive contributions to their pension and medical insurance. In addition, unemployment insurance has developed gradually over the last two decades and now covers 106 million urban workers, with some seven million unemployed workers receiving benefits. At the end of 2005, the scheme for retrenched workers from SOEs had been effectively merged with the social unemployment insurance scheme. Also, all urban residents with a household income falling below a minimum standard are entitled to receive benefits from the Minimum Livelihood Guarantee Scheme. This serves as the last safety net of the urban poor.

7.2 Policy Gaps and Proposed Future Policy for Urban Poverty Reduction based on Generating Decent Work

Having identified the major causal factors contributing to urban poverty in China – urban unemployment and SOE reforms, rural-urban migration, and the urban informal economy – it would be logical to address a decent work policy instrument to counteract each of these causal factors.

1. *Preserving employment in SOE reforms by use of multiple criteria for judging outcomes.*

There is no ambiguity about the policy proposal that urban unemployment is the major causal factor contributing to urban poverty, and therefore must be the main policy variable to be brought down to reduce it. Urban unemployment is increasing in China, despite the very high growth rates in manufacturing and services, the policies of large-scale re-training for waged and self-employed workers, the tax incentives offered to firms to re-employ the retrenched workers from SOEs, the low interest loan scheme for self-employment, the placement program for the unemployed, and employment services and Labour Market Information systems designed to facilitate the match between labour demand and supply.

One reason behind the rising unemployment, despite high growth and the Government's large-scale re-employment schemes, is the nature of the SOE reforms. These reforms are very necessary for the long-term viability and competitiveness of the manufacturing sector, so they cannot be slowed down, let alone stopped. However, the nature of the SOE reforms can be

varied to produce better employment outcomes. At present, China's SOE reforms, like privatization and structural reforms all over the world, are based on restructuring units to restore or enhance profitability. The criterion for judging the outcome of these reforms is, at present, only financial. However, with a composite of both financial and employment criteria, the re-structured units can be judged not only on financial profits, but also on the outcome of preserved employment. Such multiple criteria for conducting SOE reforms will have the advantage of both enhancing or restoring financial profitability, and once having achieved this financial profitability, trading it off on the margin against preserving employment. An appropriate tax incentive system can provide the impetus for the use of such multiple criteria in conducting further SOE reforms and restructuring.

2. Preserving employment by partial bailouts of firms shutting under the competitive pressures of globalization.

The common perception of China in a post-MFA environment is one of out-competing other countries producing labour-intensive products such as textiles, garments and footwear. Yet this study has shown evidence of large-scale retrenchment based on the shutting down of textile and garments units in China that have been unable to sustain external demand for their products. This appears to have led to a high turnover of firms and employment in some industries. While preserving the spirit of competitiveness is necessary in the post-MFA world, firms need not be penalized so drastically as to cause their complete shutdown. The lesson of increasing productivity and competitiveness can be learned through reduced profit margins, without the extreme outcome of a shutdown and full retrenchment of workers.

Firms shut down based on debt accruing from capital costs raising operating costs. These capital costs can be reduced through more liberal interest rate policies for such labour-intensive industries. This will reduce shutdowns and preserve employment. Supplementary to such liberal interest rate policies, a Debt Resolution Trust can be instituted that functions to buy a share of the firm's debt and helps restructure the firm for survival. Such a Debt Resolution Trust has been instituted in the United States and has been observed to work well in saving less indebted firms and their employment.

Such liberal macro policy prevents the onset of hysterisis. Hysterisis is the drastic and irreversible outcome of strong policy options, such as firms shutting down. While policy can always be reversed, firms cannot as easily be un-shut. Therefore, more liberal macro policy can save firms from shut down in critical time periods, and can always be reversed in other less difficult time periods. The debate on monetary policy during the Asian financial crisis brought out this policy lesson very vividly, especially for the ILO. Several crisis-hit countries were initially granted emergency loans by the Bretton Woods institutions based on conditionality that included running very tight monetary policy to preserve exchange rates. However, contrary advice pointed out the negative impact this would have on the industrial structure and on employment. Subsequent re-negotiations allowed monetary policy to loosen, and firms and employment to be saved.

3. Counteracting the pressures of rural-urban migration on urban poverty.

Rural-urban migration is pressuring both urban employment and urban social security and infrastructure, both factors contributing to urban poverty. At present the migrant population does not participate in and is not eligible for many of the social security benefits and social services reserved for urban residents. However, the clear direction of Government policy is much needed. It is moving towards a gradual unification of the rural and urban labour markets; but this unification must be hastened for several reasons.

One, the much higher levels of poverty among the migrant population have been observed to be due to their weak access to urban social security and social service amenities, thus driving up the overall incidence of urban poverty. The relaxation of the *hukou* system is taking place,

but only its elimination will allow migrants complete access to these urban social security schemes and social services. This will lower the incidence of poverty among migrants, and thereby lower the overall incidence of urban poverty.

Two, while migrants put pressure on urban employment, they are also not sufficiently skilled to meet urban demand requirements, thus adding to urban unemployment. This migrant population is not fully eligible to participate in urban training programs. The unification of the labour market will allow the migrant population to join these training programs, better match urban demand for skills, and thereby lower the urban unemployment rate. A more skilled migrant population, more formally integrated into the urban labour market, will also be able to increase its average wage above its present minimum one, so also reducing its poverty incidence and its contribution to total urban poverty.

Three, much of the migrant population is not resident in urban areas over the longer-term and receive much lower income levels than urban residents. This migrant population has been observed above to be continually shifting and insecure in its perpetual search for work. This insecurity in their employment and lives needs to be removed from the migrant population, and unification of the labour market will enable this to a great extent.

4. Counteracting the pressure of rural-urban migration on urban employment.

However, unification of the rural and urban labour markets will increase the pressure on urban employment. The increased ease of migration, formal integration into the urban labour market, access to urban social security systems and social infrastructure will create a greater pull factor towards the cities. The large labour surpluses observed in rural areas and agriculture will continue to provide the push factor for this labour to migrate to cities. Therefore, unification of the rural and urban labour markets will have a directly beneficial impact on reducing urban poverty in the longer term, but in the shorter term it can also be expected to have a negative impact on urban poverty through an increased pressure on urban employment. To counteract this, there has to be a combined strategy, incorporating urban areas and the rural-urban dynamic.

Unification of the rural and urban labour markets will have a dampening pressure on the urban wage as the increased supply of lower waged rural labour floods more easily into the urban labour market. However, formal integration of migrants into the urban labour market will also build up their wage rates, and dampen the presently soaring demand for cheap migrant labour. It is likely that the dampening effect on wages will be more present in the short to medium term, while the longer-term effect will be an improvement in wages as a result of formalization. Therefore, a short- to medium-term urban strategy for increasing employment has to be based on expanding urban infrastructure, especially that necessitated by the increased migrant population.

Then again, the whole point of the unification of the rural and urban labour markets is that migration will be managed through market incentives rather than the fiat of the *hukou* system – recalling that the main causal factor for the high rate of rural-urban migration has been the differentials in the labour market conditions in rural and urban areas. The rural labour market has had lower wages and incomes, weaker social security and weaker access to social services. Unification of the labour market will lead to a narrowing of these disparities and therefore lower the push factor to migrate.

On the one hand, there is a large pool of rural surplus labour that will still be prone to migrate; and on the other hand, unification of the labour market and levelling the differences will require an increased supply of rural social infrastructure. Therefore, a rural employment strategy, to lower the rate of migration, has to be based on developing this much-needed rural infrastructure. The rising urban wage due to unification of the labour market will also spur decentralization of manufacturing into more rural areas, in search of lower wages and lower

operating costs. This could provide a new source of demand for the old township and village enterprises (TVEs) on which rural employment and poverty reduction was previously based.

5. Counteracting the higher incidence of urban poverty in the urban informal economy.

This has been a very initial foray into examining the urban informal economy in China. Much more research is needed to determine its characteristics and growth patterns. Therefore, policy on ameliorating the higher incidence of poverty in the informal economy has to be somewhat speculative and tentative. However, our conjecture here and subject to further analysis, is that the informal economy has two main sources of labour supply, both with a low expected reservation wage because of the lack of employment and the prevalence of insecure employment. These are laid-off workers from SOEs and the private sector, and migrant workers. The informal economy matches these expectations of a low reservation wage and the low levels of employment security and stability, by offering only these conditions of work.

The unification of the rural and urban labour markets, and the formal integration of migrants into the urban labour market, should reduce an important source of supply of labour to the informal economy. By giving the migrant population access to the urban amenities of training, social security and social services, their incidence of poverty should also decrease. Therefore, the unification of the labour market should result in the greater formalization of the urban economy.

If the other major source of labour supply to the informal economy is the retrenched workers, then an extension of social security to them following the re-employment center provisions should also help to increase their expected reservation wage and therefore improve the wage in the informal economy.

Further conditions of work in the Chinese urban informal economy can be improved by marrying flexibility to social security. The Government of China wishes to use flexibility of employment to improve responsiveness, competitiveness, and thereby generate more demand for labour. From the ILO's point of view, this is certainly desirable also, but what is not desirable is the insecurity of income that accompanies flexibility if it is not linked to social security. Therefore, various forms of flexi-security need to be investigated to improve this aspect of working conditions in the informal economy, and to reduce the high incidence of poverty within it.

Appendix A

Papers Delivered at the Seminar on Decent Work, Employment and Poverty Reduction in Urban China, 30 November 2005, Beijing

Abstract 1:

Urban Poverty in China - Scale and Characteristics in 2004

Wang Youjuan, National Bureau of Statistics, Government of the Peoples Republic of China

Current Government and academic studies come to the following conclusions on urban poverty in China: (1) measured using China's official poverty line for rural dwellers, urban poverty is about 0.7 million, i.e. 0.2 per cent of the urban population; (2) measured by the expenditure level of $1 per day, the number of urban poor is about 1 million, i.e. 0.3 per cent of the urban population; (3) according to the Ministry of Civil Affairs, the number of people who received the minimum living guarantee payment in 2004 was 22 million, i.e. 6.2 per cent of the urban population; (4) measured by the subjective poverty line used in the World Bank "China Poverty Assessment Project", urban poverty is 60 million, i.e. 16.9 per cent of the urban population. Why are the conclusions so different? The main reason is that the poverty concepts, poverty lines, assessment indicators and data used by different researchers vary, based on the research objective. It is difficult to select one estimate of poverty because of a lack of access to much-needed contextual data. This study will estimate urban poverty and examine its characteristics using the household survey data from the National Bureau of Statistics (NBS) and using mainstream methodology to allow comparative reference across countries.

1. Definition of Poverty and Its Measurement

1.1 What is Poverty?

It is generally recognized that poverty can be divided into two categories - absolute poverty and relative poverty. Absolute poverty refers to the lack of basic material resources necessary for living. It is based on a basket of goods and services, quantified and valued for a specific point in time and geographical area. Relative poverty is the relationship between people who have the lowest living standard compared to the majority. It usually refers to those whose income is lower than 1/2 or 1/3 of the overall average, or sometimes refers to those whose income is among the lowest 5 per cent or 10 per cent of the population. In this study, poverty refers to absolute poverty.

1.2 What is the Object of Research?

The urban population in China is defined by two criteria: (1) according to geographical region, the population that resides in cities and towns is called the urban population, which was 543 million in 2004; (2) according to the census register, the non-agricultural population is called the urban population, which was 377 million in 2004. At present, the coverage of Minimum Livelihood Guarantee Scheme for urban dwellers is the non-agricultural population. To be consistent with the specifications in poverty alleviation policy, this report takes non-agricultural population as the object of research. This notably excludes migrants, for lack of better data on them.

1.3 Which Poverty Line to Use?

There are several methods to determine the poverty line. National studies use the Basic-Needs Method, the Engel Coefficient Method, a 1/2 (or 1/3) of Average Income Method and the Martin Method to estimate the poverty line. The essential steps in estimation are: first, to determine a base year and use one of several methods to calculate the poverty line for that year; then, use price index adjustment to deduce the poverty lines of the following years. For more than one decade, the NBS has mainly used the Basic -Needs Method and the Martin Method to estimate its poverty lines, as given in Annex Table A1.

Table A1 Poverty Lines for 1990-2004

In RMB per capita per year

Year	Basic needs method Base period 1990		Martin Method Base period: 1998	Martin Method Base period: 2004
	Living expenditure income	Disposable income	Consumption expenditure	Consumption expenditure
1990	696			
1991	752			
1992	837			
1993	993			
1994	1300			
1995	1547		2107	
1996	1671	1850		
1997		1890		
1998		1880	2310	
1999		1860	2382	
2000		1875	2340	
2001			2355	
2002			2354	2864
2003			2407	2890
2004				2985

Source: NBS.

The table shows that:

1. Poverty lines vary depending on the methods used. From 1998 to 2000, both the Basic-Needs Method and the Martin Method were used. The poverty lines using the Martin Method are 20 per cent higher than those from the Basic-Needs Method, because of the extra regional costs of the selected basket of goods and services.

2. Poverty lines vary across different base periods. The main reason is the change in people's consumption patterns between, say, the line that uses 1998 as a base year and the line that uses 2004 as a base year. For example, the Engel Coefficient in 1998 was 44.5 per cent, while it was 37.7 per cent in 2004.

3. Poverty lines vary across different indicators, such as living expenditure income or alternatively disposable income. In 1998, both disposable income and consumption expense were used to estimate the poverty line, with a 7-10 per cent difference between the two results.

Therefore specification of poverty line across time should be consistent for comparability.

1.4 Estimation Method for a Poverty Line for China Urban Dwellers in 2004

This study uses the Martin Method to estimate the poverty line for each region, and then calculates the weighted average of those poverty lines as the poverty line for the whole country.

This poverty line is composed of two parts – a food poverty line and a non-food poverty line. First, to meet a Required Dietary Allowance (RDA) caloric level, a basket of goods and services is valued using prices paid by low-income households. This food poverty line allows choosing households whose food expenditure matches it, to determine their non-food expenditure, which give the non-food poverty line. The general poverty line aggregates the food and the non-food lines. The RDA norm set by the Chinese Academy of Preventive Medicine (CAPM) is 2,100 calories. The method to calculate the non-food poverty line is the following:

$$Si = \alpha + \beta * \log(Xi/Z) + \gamma * \log(Ni) + \varepsilon i$$

i is the household;
Si is the share of food in total expenditure for household i;
Xi is the average expenditure per capita in household i;

Z is the food poverty line for the province where the household comes from;
Ni is the number of people in household i;
ei is the random disturbance;
α, β, γ are parameters.

The regression estimation equation: $S = \alpha + \beta * log\ (X/Z) + \gamma * log(n)$. Then we choose some households whose food expense exactly equals the food poverty line, i.e. to assume: S*X=Z or S=Z/X. Then we calculate their non-food expense as the non-food poverty line.

1.5 Identifying the Poor Population?

There are two ways to identify the poor:

1. If the average income per capita in the household is lower than the poverty line;

2. If the average consumption expenditure per capita in the household is lower than the poverty line.

There is debate on whether to choose household income or consumption to equate to the poverty line in defining a cut-off point for poor households. On the one hand, income does not indicate expenditure on the required basket of goods. On the other hand, consumption expenditure on the required basket of goods could be based on loans and therefore unsustainable income levels in the longer-term. Here we lay the argument aside and use income to identify the poor, in keeping with a large body of international studies.

1.6 Data

Our data comes from survey data of 54,000 urban households collected by the NBS in 2004. The survey sample covered over 300 cities and 150 counties. The households were selected by stratification, multi-phase, random isometric sampling methods in each city/county. The survey targeted the permanently resident urban households, and a few migrant households. But the survey of migrant households is not representative.

2. Poverty Line for Urban Dwellers in 2004

2.1 Food Poverty Line and Poverty Line

The urban food poverty line in 2004 was estimated at RMB 1,614, and the poverty line at RMB 2,985. Table A2 gives these poverty lines for major cities. At RMB 4,397, Shanghai had the highest poverty line in 2004, while Shaanxi had the lowest poverty line of RMB 2,303.

2.2 Comparison between Poverty Line and Minimum Guarantee Line for Urban Dwellers

Table A2 shows that the minimum guarantee line is lower than the poverty line nationwide, by about 48 per cent. In the less developed central and western areas, the difference is even higher, over 50 per cent.

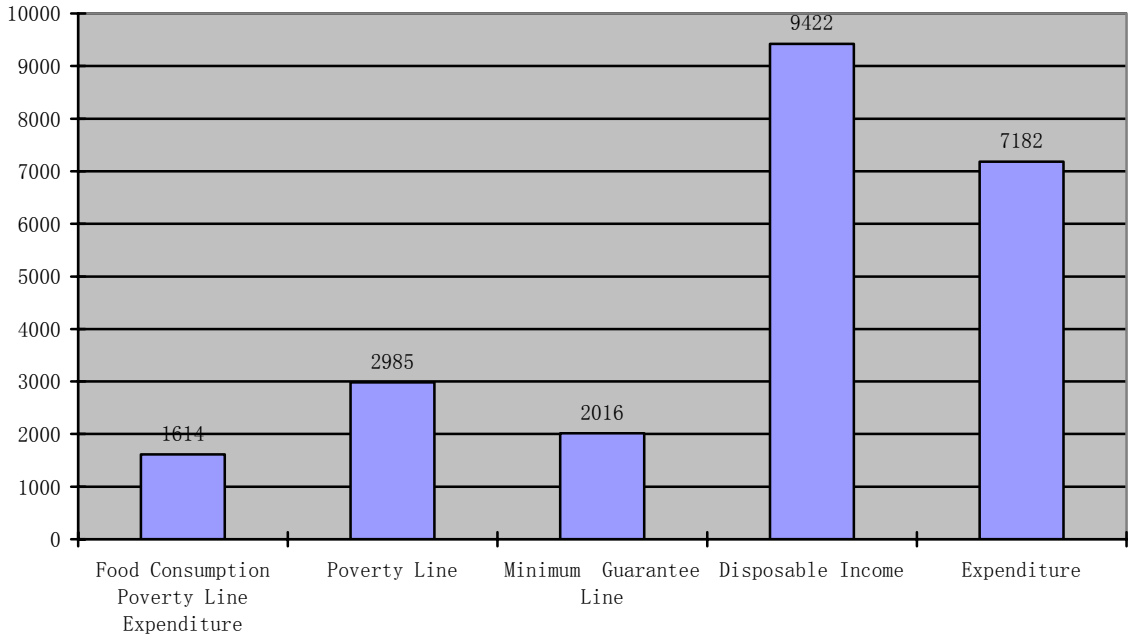
Table A2 Comparison between Poverty Line and Minimum Guarantee Line for Urban Dwellers in 2004

Area	Poverty Line	Minimum Guarantee Line	Poverty Line / Minimum Guarantee Line
East	3411	2407	1.42
Central	2610	1670	1.56
West	2664	1735	1.54
Whole country	**2985**	**2016**	**1.48**

Source: NBS.

2.3 Comparison between Poverty Line and Income/Expenditure

Fig. A1 Comparison between Poverty Line and Income/Expenditure for Urban Areas
In RMB per capita per year



Source: NBS

The average disposable income for urban dwellers in 2004 was RMB 9,422, and the average consumption expenditure was RMB 7,182. The poverty line was about one-third of the average disposable income and 41 per cent of the average consumption expenditure. In the studies on relative poverty issues, if we use one-third of average income as the poverty line, then the relative poverty line is almost the same as the absolute poverty line. Figure A1 shows that the absolute poverty line for urban areas in 2004 was almost the same as the relative poverty line of one-third of average income.

3. Poverty Estimates for Urban China for 2004

Estimate of the Incidence of Poverty

Table A3 estimates the incidence of urban poverty based on income, in 2004 to be 4.37 per cent, which is 16.13 million poor. The estimate of the incidence of urban poverty based on consumption expenditure in 2004 is 9.79 per cent, which is 36.64 million poor. In terms of regions, the incidence of poverty in the west in 2004 was 6.06 per cent, 50 per cent higher than in the east. The depth of poverty (the average ratio of the gap between the income of the poor and the poverty line) in the west was -1.36 per cent, 70 per cent higher than in the east. The incidence of poverty in the central areas was better than in the west, but worse than in the east.

Table A3 Estimates of the Incidence of Urban Poverty in 2004

Area	Ratio to the total population %	Poverty Rate %	Poverty population (million)	Ratio to the total poverty population %
East	50.2	3.89	7.31	45.3
Central	32.8	4.05	4.97	30.8
West	17.0	6.06	3.85	23.9
Whole	**100.0**	**4.37**	**16.13**	**100.0**

Source: NBS.

4. Characteristics of the Urban Poor in 2004

Estimates show that in 2004, the incidence of poverty was closely related to the level of education.

In terms of age, the incidence of poverty decreased with age. Households that were more prone to poverty had a larger number of children, lower labour force participation and higher dependency ratios.

In terms of gender, the incidence of poverty for women was 4.49 per cent, slightly higher than the 4.23 per cent for men. The incidence of poverty for the migrant agricultural population was 6.24 per cent, 43 per cent higher than the average of 4.37 per cent. The main reason for this is that the Minimum Livelihood Guarantee Scheme in cities does not cover people registered as 'rural'.

In terms of employment status, the unemployed and those who had lost their capacity to work had a higher incidence of poverty of 12-15 per cent, well above the average. The self-employed, household workers and contingent workers had the next highest incidence of poverty, between 6-10 per cent. People employed in the formal sector have the lowest incidence of poverty, around 2 per cent.

In terms of occupation, the incidence of poverty for employees in the service industry and other professionals was 5-6 per cent, while the incidence of poverty among principal personnel and technical personnel was less than 1 per cent.

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Abstract 2:

Employment and Unemployment in China: Another Approach?

Tang Jun, Chinese Academy of Social Sciences

In 2005, the term "the harmonious society" would surely be on top of the list of most frequently used Chinese expressions. For this sociological conceptualization recognized and accepted by the Government, academia, the media and the public, the interpretation of the two Chinese characters of the term 'harmonious' are important. The first Chinese character for harmonious is pronounced 'He' and is composed of two separate parts: 'mouth' on the left and 'crop' on the right, which together mean, "everyone needs to eat". The second Chinese character in the term is pronounced 'Xie', and also consists of two parts: 'speech' and 'all', which together mean, "everyone can speak". Thus, an interpretation of harmonious is "everyone has something to eat and is able to speak"; that is, everyone has 'subsistence' and 'democracy'.

Basic human rights can be further categorized into six rights, rights to life, health, education, employment, housing and ownership of property. "Everyone has something to eat" is closely related to the rights to life and employment. However, the dual pressures of both unemployment and poverty are strong in urban China, despite significant achievements in these areas.

Since the 1990s, a large number of laid-off and unemployed workers have emerged in China's urban areas. It is estimated that there are about 30 to 40 million laid-off and unemployed workers, contributing to the poverty that affects nearly 10 million families, or some 22 million people in urban areas. The Chinese government pins its hopes of solving this issue on the unemployment insurance system. However, the traditional unemployment insurance system in the world which was established in the late 19th century and matured in the middle of the 20th century, is no longer suitable for the changing situation, especially not for the current social climate of China's economic transitional and reform period.

The unemployment insurance model is meant to deal with 'normal' unemployment under conditions of sufficient employment. Therefore, this model often has time limitations on the duration of unemployment payments received by the unemployed. The duration period in some countries is usually 6-18 months, compared to the 24 months provided for in China. A prerequisite for this kind of unemployment insurance model must be that the majority of the unemployed can find a new job within a short period of time. However, in the context of globalization under which industrial restructuring has resulted in unemployment on a large scale and with most of the unemployed at the lower end of the labour force in terms of skills and remuneration, this kind of model may not be the most appropriate.

In Europe, the unemployment insurance system has been transformed through an "active labour market policy", which means that the unemployed have to participate in technical training in return for receiving unemployment payments. As the training is completed, there is a specified time period for them to seek a job on the labour market, and during which they still receive benefits. If they are unable to find a job during this period, they can re-participate in technical training and after that continue to seek a job. And so the cycle continues. However, studies show that this cycle of training, unemployment and payments can be considerably prolonged.

This prolonged cycle may be too "luxurious" for China to afford. Furthermore, the training provided may not be adequate as it is often very short, not taken seriously, and appears to have had a low impact so far.

Some alternative labour market policies are needed to increase the impact on unemployment:

One, vocational training should be oriented much more strongly towards the skills demanded by employers. If employers perceive that hiring the appropriate skill base can increase their profitability, they will hire these workers. But if that skill base is not available in labour supply, they will not hire workers, and demand for employment will be constrained.

Two, the job search model in urban areas in China varies considerably from the model in rural areas. The urban job search model is a very passive one of waiting for opportunities to open up, whereas the rural job search model is a much more dynamic one of searching for a variety of alternatives. Therefore, the rural job search model needs to be applied to urban areas.

Three, often enterprises project their demand for a required skill base and then open up the search with a long lag. Prior public intimation of such skill requirements, before the actual open search would allow unemployed workers time to re-skill themselves with the actual skills demanded.

Four, Labour Market Information (LMI) is often limited in China, both that supplied by employment offices and that available through secondary sources. Online LMI is one way of enhancing this flow information for better supply and demand matches.

Five, the skill base of the labour supply should be better communicated to employers, again to allow better matches.

Six, private databases of both labour supply and job opportunities can only help supplement the public source of LMI.

Seven, incentives should be offered for flexible working hours, self-employment programs, and the development of public sector programs for urban infrastructure based on labour hired at sustainable subsistence wages.

Eight, the unemployed should be encouraged to build nest-eggs in individual accounts, for consumption smoothing, education, and health with matching counterpart funding contributed by the government.

Nine, the unemployed should be streamed into local community services and programs at subsistence wages. The community program can also train them and help them to seek mainstream employment. The community program then becomes the medium through which people enter or leave employment. Means tested payments to supplement income earned through the community or other employment guarantees a minimal social floor.

Ten, incentives should be offered for labour mobility, from high labour surplus regions burdened with high payments for social protection, to regions with lower labour surpluses and lower social protection payouts. Sunset clauses after reasonably long periods of dependence on social protection could provide push factors.

Abstract 3:

More Efforts are to be Taken to Develop the Community-based Service Industry and to Promote Decent Work for Women in Cities and Towns

Yue Songdong, Researcher of the Development Research Center of the State Council

Gender equality is of great significance to achieving the objective of decent work. In this article, the author has presented some personal opinions on how to promote decent work from the angle of community-based employment for women.

1. Basic Criteria for Decent Work

"Decent Work" should meet at least six criteria:

1. Non-discrimination in hiring and employment;
2. Work hours that conform to the statutory standard set by the State;
3. Prompt and full payment for the work done (equal to or higher than the minimum wage);
4. Working environment and conditions that accord with the standards set by the industry, with security and protection for workers;
5. Workers' proper claims can be filed, and satisfied fairly;
6. Workers' can get the social security benefits prescribed by the State.

2. Six Distinguishing Characteristics of the Present Employment Situation for Women

2.1 A shrinking number of women in regular employment in the mid-1990s

According to data provided by the National Bureau of Statistics (NBS), the number of women in regular employment has shrunk since 1996, as Table A4 shows.

In terms of the distribution across industry, both the proportion of women engaged in the primary industry and women in the secondary industry have declined, while the proportion of women engaged in the tertiary industry has increased.

Table A4 Distribution of Women Engaged in Urban Employment Classified by Industry (10,000 persons)

Industries	1994	1995	1996	1997	1999	2000	2001
Farming, forestry, animal husbandry and fishery industry	259.3	252.6	237.8	238.4	201.5	195.6	181.0
Mining industry	229.4	238.9	233.4	222.5	173.6	152.8	138.5
Manufacturing industry	2460.7	2482.1	2391.7	2286.3	1541.9	1425.3	1318.4
Electric power, gas and water supply industry	75.8	81.1	86.3	90.3	91.6	91.0	91.7
Construction industry	205.9	207.1	208.1	203.6	150.8	144.0	136.8
Geological industry and hydraulic industry	34.3	33.5	32.2	32.6	29.4	29.5	28.4
Transportation, storage and post and telecommunications	219.7	221.5	227.9	232.1	197.2	193.3	184.4
Wholesale, retail, trade and catering industry	853.5	858.3	855.3	841.2	528.0	461.2	394.1
Bank and insurance industry	105.4	111.3	120.1	128.1	140.4	141.2	149.6
Real estate industry	24.3	26.6	28.9	30.4	32.6	34.2	36.1
Public health, welfare and sports industry	239.1	247.5	257.0	265.6	274.4	278.2	283.5
Education, culture, radio, film, and TV	561.3	588.0	622.1	650.3	680.6	689.3	704.5
Scientific research and comprehensive technology service industry	60.5	61.4	61.8	62.7	57.1	57.9	54.1
Party and government institutions, and social groups	234.3	238.3	258.6	257.9	266.1	268.8	273.5
Social service industry	213.1	215.2	221.6	230.4	211.5	210.4	209.7
Other industries	24.3	25.6	40.5	52.4	36.7	38.5	41.4
Aggregate number	5799.1	5889.0	5883.3	5824.8	4613.4	4411.3	4225.7

Source: China Statistical Yearbook 2002.

2.2 Women employed in cities and towns tend to be younger, while women engaged in agriculture in the rural areas tend to be older

Since the implementation of the reform and the opening up policy, young women from rural areas have swarmed into the cities, lowering the average age of the women employed in cities and towns, while women engaged in farming, forestry, animal husbandry and fishery industries in the rural areas tend to be older (see Table A5).

Table A5 The Composition of the Employed Women Classified by Age in 2001 (%)

Domain / Age	People employed in the urban units	People employed in township enterprises	People employed in farming, forestry, animal husbandry and fishery industries in rural areas	Employees working for the privately-owned and individually-owned businesses	Employers of the privately-owned and individually-owned businesses	Self-employed workers	Others
Total 100	**47.3**	**3.8**	**14.3**	**12.9**	**5.6**	**12.9**	**3.2**
16-19 years old	21.9	4.0	13.2	39.5	2.5	8.6	10.3
20-24 years old	45.5	4.8	8.2	23.9	4.1	9.54.1	
25-29 years old	51.3	4.0	9.5	14.8	5.9	11.9	2.7
30-34 years old	49.6	3.8	11.8	11.5	7.1	13.9	2.4
35-39 years old	49.8	3.7	13.1	9.4	6.6	15.0	2.5
40-44 years old	54.7	3.6	13.5	7.9	5.3	13.2	1.9
45-49 years old	49.3	3.6	18.7	7.2	4.9	13.5	2.9
50-54 years old	38.0	2.7	32.0	5.8	4.9	12.6	3.9
55-59 years old	19.7	2.6	48.3	5.0	5.1	14.7	4.6
60-64 years old	11.3	1.9	55.4	2.9	4.4	17.3	6.9
Above 65 years old	12.4	2.6	51.8	3.6	4.2	15.5	9.9

Source: China Statistical Yearbook, 2002.

2.3 The educational level of employed women has increased with their decreasing age

Table A6 shows that the average educational level of employed women has gradually increased with their decreasing average age. Among employed women aged 16 to 39 years old, the majority have got a junior high school degree; among employed women aged 40 to 59 years old, the majority have got a primary school degree; and employed women aged above 60 years old are primarily those with only a primary school education or are illiterate.

Table A6 Educational Composition of Women Employed by Age in 2001 (%)

Educational level / Age	The Illiterate	Primary school degree	Junior high school degree	Senior high school degree	College degree for professional training	Under graduates	Post graduates
Total 100	**11.3**	**34.4**	**37.9**	**11.7**	**3.6**	**1.1**	
16-19 years old	2.3	21.8	66.5	8.6	0.7	0.1	
20-24 years old	2.6	19.7	53.1	18.2	5.3	1.1	
25-29 years old	3.4	26.1	48.4	13.9	6.4	1.8	0.1
30-34 years old	4.3	33.3	44.9	11.1	4.9	1.5	0.1
35-39 years old	5.3	31.7	43.6	14.5	3.6	1.1	0.1
40-44 years old	10.1	37.7	30.4	18.2	2.9	0.7	
45-49 years old	16.3	49.3	23.0	8.5	2.2	0.7	
50-54 years old	24.7	55.7	13.4	4.1	1.5	0.5	
55-59 years old	37.4	50.7	9.5	1.7	0.4	0.3	
60-64 years	53.3	40.9	4.6	0.9	0.2	0.2	
Above 65 years old	68.6	28.7	2.0	0.4	0.1	0.1	

Source: China Statistical Yearbook 2002.

2.4 Women have had greater difficulty in getting employed than men

Ever since the implementation of the reform and the opening up policy, most enterprises and public institutions have basically relaxed control over recruiting procedures. But recruitment of State public servants and the recruitment of personnel by some public institutions still remain subject to State control. Aiming to lower the cost of labour and to improve economic efficiency and working efficiency, many employers have raised the criteria for recruiting women, on discriminatory grounds like child-bearing and child-caring.

2.5 The proportion of women employed has declined by more than men

Table A7 shows that urban men's employment dropped by 9 per cent between 1990 and 2000, while urban women's' employment dropped by 13 per cent. It is interesting that in rural areas there is no such difference in the employment decline between men and women.

Table A7 A comparison between the proportions of men and women employed in 1990 and 2000 (%)

Year	The whole nation		Cities and towns		Rural areas	
	The male employed	The female employed	The male employed	The female employed	The male employed	The female employed
1990	96.1	90.5	90.9	76.3	97.4	93.9
2000	93.6	87.0	81.5	63.7	97.3	94.8
Alterations	-2.5	-3.5	-8.5	-12.6	-0.1	+0.9

Note: based on the second issue of the sample survey data on the social status of Chinese women.

3. The Impact of the Economic Transition on Women's Employment in Urban China

3.1 Owing to economic restructuring, a number of women workers in traditional industries have been "squeezed out of their jobs"

With industrial restructuring, traditional industries like textiles and manufacturing have reduced their employment shares. In this process a large number of women workers who had been skillful in traditional technology found it hard to stay on in these industries and also had difficulties in finding jobs in high-tech industries, thus becoming the first to be structurally jobless. By 1997, laid-off and unemployed women in urban areas accounted for 62.8 per cent of the total laid-off and unemployed workers. From 1997 to 1999, women accounted for up to 46 per cent of workers laid off from SOEs (Table A8).

3.2 "Intermittent employment" for women has resulted from enterprises prolonging maternity leave

In order to shed surplus labour, many enterprises have prolonged the non-employment period granted especially for women's maternity leave, thus resulting in their "intermittent employment".

Table A8 The number and proportion of the laid-off women workers from the state-owned enterprises between 1997 and 1999

Year	Total number of the laid-off workers (10,000 persons)	The number of the laid-off female workers (10,000 persons)	Proportion of the laid-off female workers (%)
1997	634.3	284.1	44.8
1998	876.9	392.7	44.8
1999	715.5	334.4	46.7

Source: China Labour Statistical Yearbook 2000

4. Policy Suggestions on Promoting the Employment of Women

1. Great efforts should be made to develop the tertiary industry to offer more jobs for women;
2. Small and medium-sized private enterprises should be vigorously developed, and the employment criteria for women should be lowered;
3. Development of community-based services to employ a higher proportion of women;
4. Training for women in the community-based employment should be intensified, and the level of women's professional and labour skills should be raised;
5. Gender discrimination in employment should be opposed to increase women's access to job opportunities;
6. Formal regulation should be exercised over informal employment so as to enhance the protection for women's employment in that sector;
7. Laws and regulations on gender equality in labour market should be formulated so as to guarantee decent jobs for women;
8. A comprehensive social security system for maternity leave should be established so that the economic expenses incurred by women for child bearing can be borne by the whole of society.

Abstract 4:

Employment Promotion: the Fundamental Solution to Urban Poverty

Mo Rong, Institute of Labour Science, Ministry of Labour and Social Security

Currently, there are 21.8 million urban residents living below the standard of the minimum livelihood guarantee guideline. Of the urban poor, only 5 per cent fall into the traditional category of "Three None People", i.e. those with no income source, no capacity to work, and no legal provider or care-giver. The new entrants to the 'urban poor' are mainly laid-off workers and workers unemployed over the course of economic restructuring. Another causal factor contributing to urban poverty are the gaps in the social security system.

1. Causes and Characteristics of Urban Poverty

1.1 Under the context of a planned-economy system, the key causal factor of urban poverty in China is the lack of "work unit guarantee"

Until the 1980s, employment in the planned economy ensured access to a set of guarantees provided by the work unit. Workers were entitled to social security as soon as they were employed by a work unit. The work unit not only paid the workers wages, but also were responsible for their housing, health, old-age pensions, and solving a host of problems encountered by the poor workers in their daily lives. At that time, the majority of the urban poor were those with no capacity to work, such as the "Three None People", and those excluded from any "work unit" for various reasons, like needing special assistance. Generally, between 0.6 and 0.8 million urban residents with economic difficulties received a certain amount of assistance from the Government regularly each year.

1.2 New Features of the Urban Poverty

In the 1990s, the Chinese economy entered a period of restructuring. In 1992, the Chinese Government decided to make the socialist market-oriented economic system the goal of economic reform. The core step to achieve this goal has been to push SOEs into the market. Owing to the lack of a more comprehensive social security net, the ensuing restructuring and reform has had a strong impact on workers' lives and has led to newer forms of poverty.

There are three categories:

First, in the course of the SOEs reforms, laid-off and unemployed workers have increased the population of the urban poor dramatically. According to a survey of 4,000 laid-off workers' households conducted by the Institute of Labour Science, MOLSS in June 2000, the average monthly income per capita of a laid-off family is merely ¥269. It is ¥220 less than the national urban residential household income per capita and only ¥70 more than the standard of minimum livelihood guarantee guideline. Therefore, it is these laid-off workers who have come to largely comprise the urban poor. This means that in the market-oriented economy, even those with capacity to work could fall into poverty.

Second, the social security system is still limited, which leads to loss of income reduction and an increase in expenditures by the unemployed, plunging them into poverty. In the course of social security system reform, some enterprises included in the social security scheme are not profitable enough to contribute to social insurance, and some are excluded from social security scheme for not being profitable, the retirees from these enterprises cannot receive a significant pension. Since 1998, the Central Government has adopted the "Two Guarantees" scheme, guaranteeing retirees old-age pension and laid-off workers a basic cost of living. This has resolved the problems of pension for retirees from enterprises included in the social security scheme. However, the problems of pension of retirees from enterprises neither profitable nor included in the social security scheme remain untouched. Although MOLSS made great efforts to expand the coverage of social security in 1999, the current old-age pension coverage of urban workers is only 50 per cent, or 100 million workers.

Third, reforms in pricing, education and housing, as well as other services, have increased urban residents' expenses, again contributing to poverty. According to the National Bureau of Statistics, the Consumer Price Index (CPI) for Chinese urban residents has increased 7.45 per cent per year since 1980, which makes it 1.6 times higher than that for 1980. In particular, in the 1991-95 period, the CPI increased by 59.7 per cent. Approximately 40 per cent of urban residents in large and medium-sized cities have encountered income reduction due to price increases, and it is even 65 per cent in some cities.[46]

1.3 The Characteristics of Poor Urban Households

Poor urban households tend to fall into four main categories:

First: the household members have no income source, no capacity to work, and no legal provider or care-givers; that is, they are the "Three None' People".

Second: the primary wage earner has been laid-off and is unemployed and there is no other source of income. Of the laid-off workers, the group most difficult to re-employ are older, with no special skills, or those laid-off from SOEs far from urban areas.

Third: disability and chronic illness increases the dependency ratio.

Fourth: unforeseen and sudden expenditures, such as health costs. Without medical insurance, sudden or chronic disease burden the family heavily. Also, if there is a family member continuing to study after the nine-years of compulsory education, especially college education, the tuition becomes a huge burden. Housing is another source of expenditure. All of these are factors contribute to family expenditure and if unmatched by income ultimately lead to poverty.

Table A9 Categories of Urban Poor Households

Item	Characteristics
1.Traditional "Three None" group	No income source, no capacity to work, no legal provider or care-giver
2.Lack of family labour force	There is disabled family member or chronic patient, and that means no chance to increase income, depending on the social assistance to keep basic livelihood.
3.No job but able to work	The main family labour is laid-off or unemployed, and there is no other income source.
4.Poverty because of increased expense	Without the establishment of medicare, sudden or chronic disease burdens the family heavily; there is family member receiving an education other than nine-year compulsory education, especially college education, the tuition is a huge burden; housing is another source of expense.

2. Employment Promotion is the Primary Means to Reduce Poverty

According to our survey, laid-off and unemployed workers show great initiative in seeking re-employment. Approximately 72 per cent of the unemployed look for job through all kinds of channels, as do laid-off workers. The pressure to survive makes the unemployed poor more active in seeking re-employment than other groups. They would rather find jobs than receive the minimum livelihood guarantee. However, several disadvantages limit their re-employment and rise out of poverty. The laid-off and unemployed workers are not well qualified, they lack skills to apply for jobs, and they have little access to social resources and business start-up funds. These issues should be addressed in order to resolve the employment problem of the most vulnerable groups in urban areas, so that they can increase their income through

[46] According to a survey of 35 large- and medium-sized cities conducted by the National Bureau of Statistics in January to May, 1996.

employment and ultimately alleviate poverty. Some suggestions for a proactive "employment security" policy are offered.

2.1 Vocational training and business start-up training

In order to improve vocational training, the existing labour market information system should be fully utilized to select, analyze and deliver the information concerning market supply and demand; vocational training should be carried out according to the needs and conditions of the poor, and the practice of "the government buying the outcome of the training" should be adopted so as to radically improve the effect of vocational training. In particular, more attention should be paid to business start-up training, targeting those intend to start their own business, estimated at some 20 per cent-30 per cent of the poor population. The labour and social security departments should provide policy consultation and follow-up services to increase the successful rate of start-up business.

2.2 Job guidance and an "employment service warranty"

It is important to set up a group of responsible and competent job advisors who could properly evaluate the unemployed, improve their employability and make them more confident in finding jobs. Furthermore, one of the most effective measures, is an "employment service warranty", which should be implemented, ensuring that all those who have received vocational guidance and passed skills training, and are willing to work and able, can get jobs sooner.

2.3 Develop "informal work organizations" and help the poor engage in community services

Service jobs in the community are very appropriate for the poor who want to work. They can provide job opportunities with low investment and low skills; women workers have many in providing community services especially to other women; and residents prefer services provided by locals. Two problems should be solved. The first is the issue of employment access. The "informal work organizations" form adopted by the labour and social security departments should be expanded so that more poor people can be re-employed in flexible forms of work. The second is to gain the confidence of the residents. The poor should be organized to engage in community service by employment service enterprises or community organizations.

2.4 Establish a small loans fund

Small enterprises are the main source of job opportunities, employing 75 per cent of urban workers. However, the biggest problem for small enterprises and the poor who want to start a business is getting a bank loan. A survey conducted by the Institute of Labour Science in the city of Shenyang and Wuhan showed that, only one person in more than 600 laid-off workers had successfully applied for a loan to start a business. The reason is that small businesses have high-risk and no collateral guarantees. A financial support system for small businesses should be set up to provide small loans to the poor who want to start business. Financial departments at all levels of government should set up loan guarantee funds and comparatively independent guarantee organizations to provide loan guarantees for the poor who have passed the business start-up training.

2.5 The governments must create job opportunities

The cost of government job creation would be much lower than providing for the poor through the Minimum Livelihood Guarantee Scheme and is more feasible. Some cities have been studying this issue and Shanghai found that most laid-off workers get re-employed in commonweal jobs supported by the local government; while Shenyang also used the local government's infrastructure program to help the poorest of the poor.

2.6 Encouraging women's initiatives in poverty reduction

More attention must be paid to the impact of women's employment on poverty alleviation. Women's skills should be improved through strengthened vocational training and business start-up training, so that their skill levels can match men's; the "Women's Hand in Hand to Alleviate Poverty" and "Helping Women out of Poverty" programs advocated by All-China Women's Federation should be implemented to organize and guide women's involvement in poverty reduction; and small loans should be provided to the women who start businesses.

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Appendix B

1. Analysis of the ILO Decent Work Indicators

1.1 Measuring Decent Work Indicators for China

The two major ILO documents on measuring decent work are *Measuring Decent Work with Statistical Indicators* and *Seven Indicators to Measure Decent Work: An International Comparison*.[47] These documents introduce ILO proposals on establishing Decent Work Indicators and make detailed explanations on how to use them.

Based on these documents, decent work implies the following six dimensions for working men and women: the opportunity to obtain employment, self-determined and freely chosen employment, productive employment, equal opportunities and treatment in employment, security of employment, and the dignity of workers. The ILO has proposed 11 sets and 30 statistical indicators to measure the degree to which decent work has been attained.

The eleven sets are:

1. Employment Opportunities
2. Unacceptable Work
3. Adequate Earnings and Productive Work
4. Decent Hours
5. Stability and Security of Work
6. Balancing Work and Family Life
7. Fair Treatment in Employment
8. Safe Work
9. Social Protection
10. Social Dialogue and Workplace Relations
11. Economic and Social Context of Decent Work

The 30 indicators are:

1. Five indicators of Employment Opportunities:
    (1) Labour Force Participation Rate
    (2) Employment-Population Ratio
    (3) Unemployment Rate
    (4) Youth Unemployment Rate
    (5) Share of Wage Employment in Non-Agricultural Employment
2. Two indicators of Unacceptable Work:
    (6) Children Not in School by Employment Status (percent by age)
    (7) Children in Wage Employment or Self-Employment activity rate (percent by age)
3. Three indicators of Adequate Earnings and Productive Work:
    (8) Inadequate Pay Rate (percent of employed below 1/2 of the median or an absolute minimum, whichever is greater, by status in employment)
    (9) Average Earnings in Selected Occupations
    (10) Employees with Decent Job Training (percent with job training during last 12 months provided or paid for by employer or state)
4. Two indicators of Decent Hours:
    (11) Excessive Hours of Work (percent of employed, by status in employment)

[47] *Measuring Decent Work with Statistical Indicators*, Policy Integration Department, Statistical Development and Analysis Group, International Labour Office, Geneva, October 2002; *Seven indicators to measure decent work: An international comparison*, Vol. 142 (2003), No. 2.

(12) Time-Related Underemployment Rate (percent of employed persons working less than the hours threshold, but available and wanting to work additional hours)

5. Two indicators of Stability and Security of Work:
   (13) Tenure Less than One Year (percent of employed persons who have held their main job/work for less than one year, by age, by status in employment)
   (14) Temporary Work (percent of employees who classify their jobs as temporary)
6. One indicator of Balancing Work and Family Life:
   (15) Employment Rate for Women with Children under Compulsory School Age (ratio to the rate for all women aged 20-49)
7. Two indicators of Fair Treatment in Employment:
   (16) Occupation Segregation by Sex (percent of non-agricultural employment in male-dominated and in female-dominated occupations and index of dissimilarity)
   (17) Female Share of Employment in Managerial and Administrative Occupations (ratio to female share of non-agricultural employment)
8. Three indicators of Safe Work:
   (18) Fatal Injury Rate (per 100,000 employees)
   (19) Labour Inspections (inspectors per 100,000 employees and per 100,000 covered employees)
   (20) Occupational Injury Insurance Coverage (percent of employees covered by insurance)
9. Six indicators of Social Protection:
   (21) Public Social Security Expenditure (percent of GDP, separately for total, health service and old-age pension)
   (22) Public Expenditure on Needs-Based Cash Income Support (percent of GDP)
   (23) Beneficiaries of Cash Income Support (percent of poor)
   (24) Share of Population over 65 Years
   (25) Share of Economically Active Population Contributing to a Pension Fund
   (26) Average Monthly Pension (percent of median/minimum earnings)
10. Three indicators of Social Dialogue and Workplace Relations:
   (27) Union Density Rate
   (28) Collective Wage Bargaining Coverage Rate
   (29) Strikes and Lockouts (per 1,000 employees)
11. One indicator of Economic and Social Context of Decent Work:
   (30) Informal Economy Employment (percent of non-agricultural or urban employment)

1.2 Principles to Follow in Establishing Decent Work Indicators in China

Emphasizing the Country's Key Issues of Labour and Social Security

Each country has its own priorities to consider and problems to solve. Therefore, countries have to determine their decent work policies and action plans according to their specific contexts. Two issues need to be considered: national priorities and harmony with national labour and social development strategies.

China has to observe this principle in determining its overall decent work goals, policies and measures, action plans and indicators. The current priorities of labour and social security in China include: providing adequate employment opportunities for workers and ensuring the quality of employment; further development of the social security system through increasing coverage and raising protection levels; strengthening the basic rights of workers; establishing and developing social dialogue. Of these, employment and social protection are particularly imperative. Therefore, China's goals and action plans in promoting decent work should take employment promotion and further development of the social security

system as the core in order to form a comprehensive strategy where the four goals can be mutually supportive.

In considering Decent Work Indicators for China, both indicators on current priorities (e.g. the basic standard of living guarantee for laid-off workers from SOEs and collective enterprises, and employment assistance for vulnerable groups) and on long-term problems (e.g. the development and perfection of the social security system and relieving continual employment pressures caused by structural adjustment and urbanization) have to be incorporated.

Appendix Table 1 Urban Poverty line Using Rural Consumption Basket in 1998

Food type	Quantity (kg/year)	Urban Price (¥/kg)	Rural Price (¥/kg)	Calories (K-ca/day)	Calories per kilo	Expenditure (¥/year)	Scaling down Quantity		New Expenditure (¥/year)
							New Quantity (kg/year)	New Calories (K-ca/day)	
	(1)	(2)	(3)	(4)	(5)=(4)/(1)	(6)=(1)*(2)	7	8	9
1. Grain	**Rural consume**	**in 1988**	**in 1995**				**Rural consume**		
Wheat	82.17	2.07	1.14	776.27	9.45	170.09	77.49	732.10	160.41
Rice	56.79	2.28	1.27	538.35	9.48	129.48	53.56	507.72	122.11
Corn	22.75	2.24	1.00	216.49	9.52	50.96	21.46	204.17	48.06
Millet	0.94	2.24	1.00	9.06	9.64	2.11	0.89	8.54	1.99
Potato	52.55	0.94	0.20	149.72	2.85	49.40	49.56	141.20	46.59
Other grain	17.80	2.24	0.94	144.37	8.11	39.87	16.79	136.16	37.60
2. Beans									
Soya	1.85	2.83	2.00	18.22	9.85	5.24	1.74	17.18	4.94
Hybrids	0.07	3.39	1.92	0.63	9.00	0.24	0.07	0.59	0.22
Other beans	0.06	3.39	2.10	0.56	9.33	0.20	0.06	0.53	0.19
3. Beans products	**1.73**	**1.88**	**2.06**	**4.60**	**2.66**	**3.25**	**1.63**	**4.34**	**3.07**
4. Vegetables	**72.25**	**1.43**	**1.09**	**49.46**	**0.68**	**103.32**	**68.14**	**46.65**	**97.44**
5. Sauces	**11.87**	**1.15**	**0.84**	**8.13**	**0.68**	**13.65**	**11.19**	**7.67**	**12.87**
6. Oil									
Oil	3.01	8.93	8.06	74.25	24.67	26.88	2.84	70.03	25.35
Fat	1.55	9.76	8.26	38.20	24.65	15.13	1.46	36.03	14.27
7. Meats									
Pork	7.39	12.24	9.44	79.98	10.82	90.45	6.97	75.43	85.31
Beef	0.25	12.40	9.33	1.32	5.28	3.10	0.24	1.24	2.92
Mutton	0.88	13.02	10.63	4.79	5.44	11.46	0.83	4.52	10.81
Poultry	0.61	12.96	9.06	3.63	5.95	7.91	0.58	3.42	7.46
Meat products	0.17	16.97	6.69	0.99	5.82	2.88	0.16	0.93	2.72
8. Eggs	**1.58**	**6.28**	**4.99**	**5.96**	**3.77**	**9.92**	**1.49**	**5.62**	**9.36**
9. Milk	**0.76**	**5.24**	**4.94**	**5.69**	**7.49**	**3.98**	**0.72**	**5.37**	**3.76**	
10. Fish	**0.55**	**9.76**	**5.30**	**1.68**	**3.05**	**5.37**	**0.52**	**1.58**	**5.06**
11. Sugar/Candy	**1.11**	**7.11**	**4.30**	**12.00**	**10.81**	**7.89**	**1.05**	**11.32**	**7.44**
12. Drinks/Beverages	**7.82**	**5.02**	**4.61**	**64.25**	**8.22**	**39.26**	**7.38**	**60.59**	**37.02**
13. Cakes	**0.85**	**10.91**	**4.33**	**7.46**	**8.78**	**9.27**	**0.80**	**7.04**	**8.75**
14. Fruits	**5.80**	**1.87**	**1.55**	**9.62**	**1.66**	**10.85**	**5.47**	**9.07**	**10.23**
15. Nuts	**0.06**	**6.33**	**3.85**	**1.01**	**16.83**	**0.38**	**0.06**	**0.95**	**0.36**
TOTAL				**2226.69**		**812.53**		**2100.00**	**766.30**

0.943105 scale factor

Calculate the poverty line:

S=a+b*log(x/zf)+e zf=766.3	Low PI	
	High PI	
Use survey data to estimate the average expenditure share of food for urban	0.66	
Use the formula ZL=ZF+NF where		
NF=(1-0.66)*ZF	1026.85	1267.00
Engle Coe.	0.75	0.60

Notes:

a. Income of household refers to the sum total income of all members of a household from wage income, net business income, assets income and income of transfer after taxes should be deducted in a survey period (in generally, one year).

Income of wage refers to the sum total wage, prize, subsidies, and other ownership enterprises, and the others (or income from moonlighting).

Net business income refers to net income of all member of a household gained from individual labour, household business and so on.

Assets income includes interest, dividend and rents income from property rented.

Income of transfer includes pensions, price allowances, income of alimony, income from grants, income from social relief, Medicare payment, income from sale of assets, etc.
Taxes include all kinds of individual income tax.
b. Expenditure of household refers to all expenditure on consumption for livelihood of a household in a survey period (in generally, one year). It includes expenditures such as foodstuff, clothing, home appliances and service, medicare, transportation and communication, recreation and education and entertaining, accommodations, sundry goods and services. It doesn't include expenditure on construction of dwelling house, payment of alimony and payment from grants.

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