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**THE CHANGE OF EMPLOYMENT STRUCTURE
IN CHINA'S URBAN AREAS**

by

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Economic Staff Paper No. 2000-04

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ABSTRACT**THE CHANGE OF EMPLOYMENT STRUCTURE IN CHINA'S URBAN AREAS****FENG XU****2000**

The convening of the Third Plenum of the Chinese Communist Party's Eleventh Congress in late 1978 signaled the beginning of China's reform process. Since then, China has realized significant development in its economic and sociopolitical areas. The Chinese government implemented a gradual reform strategy to revitalize the Chinese economy. Step by step, the government granted greater autonomy to the enterprises and rural households to raise productivity. At the same time, China gradually steered its former centralized planning system toward a market-oriented direction. By introducing the market mechanism into its economy, China modified its development path and moved toward establishing a socialist market economy by the end of the first decade of the 21st century. In the social and political areas, the Chinese government implemented reform policies to foster the economic reform process. Gradually, China opened up its economy to the outside world.

The reform policies enabled the Chinese economy to undergo dramatic structural changes. The non public-owned sectors, such as private and foreign-invested economies, received accelerated development, which, in turn, resulted in changes in the employment structure in China's urban areas. As the Chinese government gradually freed the former

rigid labor allocation and migration control systems, the unified employment structures were diversified, especially the ownership structure of employment in China's urban areas.

Analyzing empirical employment data shows that following the reform process, and more significantly, following the rapid development of non public-owned economies, more and more workers found their jobs outside of public-owned sectors. The data analysis shows that this tendency has continued until now. The ownership composition of employment in China's urban areas has been changed from the former one, which was dominated by public ownership toward a diversified composition in which the non public-owned sectors became more and more important. In addition, following the economic transformation, the unemployment and underemployment problems in China's urban areas became serious.

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Chapter I: Introduction, Objective & Outline

1.1 Introduction

In late 1978, China began to implement political and economic reform policies. The reform process aimed to transform the Chinese economy from a centralized planning system into a decentralized market system. The Chinese leadership intended to steer China onto a new path of long-term stable development.

Since 1978, China has realized startling economic and social development. The annual growth rate of the real GNP during the period from 1978 to 1997 averaged close to 10%. The population living below the poverty level has fallen from 250 million to below 50 million, and the average life span has increased by more than ten years.¹

Among the thirty-one provinces, municipalities and autonomous regions (not including Taiwan, Hong Kong and Macao), twenty have an annual per capita GDP growth rate surpassing all other countries in the world. In particular, in China's five coastal provinces (Jiangsu, Zhejiang, Fujian, Guangdong and Shandong), an area and population four to five times greater than those of the four Asian Tigers, the annual growth rate in per capita GDP averaged 12% during the period from 1978 to 1997.²

The Chinese government has energetically implemented reform policies and introduced market mechanisms since 1978. The economic structure of China has been in

1. State Statistical Bureau. 1998. *China Statistical Yearbook 1998*. China Statistical Publishing House.

2. Lin Y., F. Cai & Z. Li. 1994. *The China Miracle*. Shanghai People's Press & Shanghai Sanlian Bookstore.

transition as a result of the reforms. The industrial development strategy has shifted from a heavy-industry orientation strategy toward a balanced growth development strategy. This policy shift has altered the relative contribution to the GNP of China's three industrial sectors--agriculture, industry and service, respectively from (1) 28.1 : 48.2 : 23.7 in 1978 to (2) 18.7 : 49.2 : 32.1 in 1997.³ The pre-1978 public ownership dominated economy has been transformed into one with diversified ownership. The reform process has increased the pace of development and the role of non public-owned sectors in China's economy. In 1978, the ratio of the gross output value of public-owned sectors compared to that of non public-owned sectors was 100:0; in 1997, the ratio was 63.64:36.36.⁴

During this reform period, the structure of employment in China has been greatly affected. It has been changed from a unified structure to a diversified one, both in rural and urban areas. In China's urban areas, in 1978, more than 99% of the work force was employed in the public-owned sectors. In 1997, this percentage declined to approximately 68.9%.⁵

In short, China has been undergoing a substantial economic transformation since 1978. The country's goal is to establish a socialist market economy with Chinese characteristics. The Chinese leadership plans to fulfill this task by the end of the first decade of the 21st century.

3. State Statistical Bureau. 1998. *China Statistical Yearbook 1998*. China Statistical Publishing House.

4. State Statistical Bureau. 1998. *China Statistical Yearbook 1998*. China Statistical Publishing House.

5. State Statistical Bureau. 1998. *China Statistical Yearbook 1998*. China Statistical Publishing House.

1.2 Objective

Recent reforms have resulted in substantial structural changes in the Chinese economy. An important consequence is the change in the structure of employment in China's urban areas. As China extends the reform process, this consequence will become an increasingly important issue, especially in the ownership composition of employment. The effect of sociopolitical and economic reforms on China's urban labor force is the focus of this research project. Due to the limited reform of the Chinese labor market before 1978, this research will concentrate on the period from 1978 to 1997.

1.3 Outline

The next chapter provides a review of literature. The literature review offers a discussion concerning the reform process of China's sociopolitical, economic and employment policies. The empirical data analysis chapter documents structural changes in the ownership composition of the employment in urban areas. A discussion of the current unemployment and underemployment problems in China's urban areas will also be provided. The final chapter will summarize this research and identify several recommendations for further research.

Chapter II. Literature Review

The literature review consists of two parts: (1) A discussion of China's reform process since 1978; and (2) A discussion of China's recent reform of employment and migration policies.

2.1 China's Reform Process: An Overview

There is a rich literature concerning China's reform policies since late 1978.⁶ To begin the discussion of China's sociopolitical and economic reform policies since 1978, it is useful to review the traditional centralized planning system of China's political economic system before 1978, from which a discussion of the former command economy (Perkins 1994) can be linked to recent reform policies.

2.1.1 Pre 1978 Era: Heavy Industry Orientation Strategy & Centralized Planning Economy

When the People's Republic of China was established in 1949, the new Chinese government (Chinese Communist Party) inherited a poor country that had suffered one hundred years of wars, with 89.4% of its population living in rural sectors (China Economic Yearbook 1981). Due to the lack of industrial infrastructure, the Chinese

6. Kluver[1996]; Perkins[1994]; Wu[1998]; S. Li[1999]; Yabuki[1995]; T. Li[1999] and Lin[1994], etc.

government selected a heavy industry orientation strategy to speed economic development. According to the research of Y. Lin, F. Cai & Z. Li [1994], China chose a heavy industry orientation strategy for three reasons. First, in the 1940s and 1950s, economic development theories focused on industrialization. Second, the West isolated China for political and military reasons. Therefore, it was vital for China to establish its defensive forces, which depended mainly on a complete and independent industrial system within which heavy industry composed a core part. Finally, from the 1930s to the 1950s, the former Soviet Union realized significant economic development by using a heavy industry orientation strategy. After the national economy was restored in 1953 from the former troubled state plagued by a long series of wars, China formulated and began to carry out the heavy industry orientation strategy (often referred to as the “Forging-Ahead” strategy) through a series of five-year plans. Table 2.1 provides a rough description of the strategy's progress from 1953 to the late 1970s.

Table 2.1: Sector Share of Chinese Capital Investment (%)

Period	Agriculture	Light Industry	Heavy Industry	Other
First Five-year Plan	7.1	6.4	36.2	50.3
Second Five-year Plan	11.3	6.4	54	28.3
1963—1965	17.6	3.9	45.9	32.6
Third Five-year Plan	10.7	4.4	51.1	33.8
Fourth Five-year Plan	9.8	2.8	49.6	34.8
1976—1980	10.5	6.7	45.9	36.9

Source: State Statistical Bureau. 1993. China Statistical Yearbook 1993. China Statistical Publishing House.

In order to ensure the success of the "Forging-Ahead" strategy, China established a highly centralized planning system. In the early 1950s, China was a poor, capital-scarce agricultural economy. It was impossible for capital-intensive industries to develop autonomously on such a low-level fragmented rural economy. Thus, the government had to intervene to fulfill the development goals. In order to lower the costs associated with developing the heavy industry sector, the Chinese government artificially suppressed the prices of credit, foreign exchange, energy, raw material, labor and living necessities. To prevent other sectors from competing for these low-price resources with heavy industry, China adopted a planned resource allocation system which resulted in the emergence of institutions of state and public ownership and the "People's Commune" (Lin 1994). The establishment of the People's Commune system (a collective farming system) in rural areas and state-owned and collective industries in urban areas resulted in the socialization of agriculture, handicrafts, and the former capitalist sectors by 1956. A private economic sector was forbidden, and the socialist system of public ownership became the sole base for the Chinese economy. Based on the blueprint of the former Soviet Union's planning model, China established a highly centralized planning system (Wu 1998) in which mandatory plans monopolized nearly every economic activity in the nation (Zhang 1990).

Centralization of the Chinese economy distorted resource allocation and produced economic imbalances between the major economic sectors in China (Zhang 1990). Since there were no free markets for resource allocation, micro units (enterprise units, household units and other economic units on the micro level) were deprived of managerial autonomy in order to prevent the erosion of public properties. Within

industries, enterprises made products under the control of government plans. The government controlled almost all prices, ranging from input and output quantities to the wage rates of workers and managers. Within the traditional rural sector under the institution of collective farming (since 1953), China implemented a mandatory agricultural products purchasing policy. This policy forced all peasants to produce and sell a fixed amount of food, cotton and vegetable oil to the government at fixed low prices. The possession of major production means by individuals and businesses outside of agriculture were basically forbidden (S. Li 1999). The agricultural collectives distributed incomes among laborers according to everyone's working efforts. However, according to the nature of agricultural production (long production periods and certain land areas), it was hard to inspect the work of every laborer. With the egalitarianism in the industrial sectors, the incomes of workers and peasants remained unrelated to their production contributions. This led to low technological efficiency due to poor working incentives (Lin 1994).

From an economic development perspective, the goal of the heavy industry orientation strategy and the governing of a centralized planning system was to control the allocation of scarce resources to accelerate the construction of an industrialized economy. Thus, industry would lead the entire economy on an accelerated development path. However, because the heavy industry orientation strategy abandoned the principle of comparative advantage (China is rich in labor force while short of capital and technologies), the economy failed to achieve economic efficiency due to the lack of competition. Thus, the healthy development of the national economy was impeded.

In the political arena, the Chinese Communist Party sought to achieve a pure “utopian socialism.” A series of radical political and ideological campaigns were carried out, especially the Great Leap Forward (1958 to 1960) and the Cultural Revolution (1966 to 1976) campaigns, in which the “Class Struggle” supplanted economic development. The results were disastrous. Just after the end of the Cultural Revolution, the national economy of China was on the verge of collapse (Kluver 1996, Yabuki 1995). GNP data from 1952 to 1978 indicated that although China's whole economy grew by 453.4% during the same time period, the consumption of Chinese people grew only by 177% (China Statistical Yearbook 1993). Consumption lagged behind production, and the economy during this period is often referred to as a shortage economy (Fan 1991). During this period, China's economic growth was primarily an extensive economic growth due to the increase in inputs. The intensive economic growth was all but absent as the total factor productivity of China's state-owned industries stagnated and even experienced negative growth during this period (World Bank 1985). Thus, it was imperative that the Chinese government find a solution to resolve the economic problems and revitalize the economy.

2.1.2 Reform and Opening Up Policies Since 1978

China's economic and political reforms started in late 1978, signaled by the Third Plenum of the Chinese Communist Party's Eleventh Congress that convened in December 1978. At the plenum, Deng Xiaoping seized leadership of the “Party Central” (*Dang Zhong Yang*, a term used ubiquitously in China, means the top leadership organ of

the Chinese Communist Party and civilian government and the People's Liberation Army) and began to guide the "Reform and Opening Up" process of China, gradually abandoning the former planning system (Yabuki 1995). After more than twenty years of reform experience, China's economic reform process has developed significant characteristics: 1) market-oriented, 2) gradual improvement and 3) from the ground-up. The gradual improvement process marks the significance of China's reform process when compared to the reforms of the former Soviet Union and other Eastern European countries. The gradual reform process in China is evaluated in the following manners: 1) The reform spread from rural to urban areas; 2) "Special economic zones" were first established, then coastal cities and later the entire country were opened up to the outside world; and 3) China first developed Township-village enterprises, individual businesses, and private and foreign investment sectors, after the market mechanism took effect in these non state-owned sectors, it was introduced to the state-owned sectors; and 4) The reform, which initially began from reforming the micro economy by granting autonomy to enterprises and rural households, spread to the reforms in the resource allocation system and macro economy (Xin 1997). In 1992, China clearly stated the goal of the reform – to establish a socialist market economic system with Chinese characteristics (Jiang 1992).

2.1.3 General Review of China's Reform Process

2.1.3.1 The Birdcage Economy (1978—1984)

The first stage of reform began at the Third Plenum of the Eleventh Party Congress in 1978, and this meeting turned out to be a watershed meeting (Kluver 1996, p.46). The Communiqué of the meeting endorsed Deng Xiaoping's dictum of "practice is the sole criterion of the truth" and legitimized a change of focus away from the "Class Struggle" toward economic modernization. The Party Central adopted the economic reform policies on enterprises and agricultural areas by providing some managerial autonomy for the enterprises and rural households, and raised the "Reform and Opening Up" slogan for economic revitalization. Ideologically, the Communiqué introduced new flexibility to the former static and unchanging Mao Zedong Thought. "If everything had to be done according to books and things became ossified, progress would become impossible, life itself would stop and the Party and country would perish" (Beijing Review, Dec. 29, 1978, p.9-11), thus encouraging people to accept new economic and political concepts.

During the period of 1978 to 1984, China implemented the "Household Responsibility System," abandoned the "People's Commune" system in rural areas, and carried out the system of "*Fang Quan Rang Li*" (Granting autonomy and benefits) in industrial sectors (which, in this case, refers mainly to State-owned enterprises). In early 1979, China began to establish "special economic zones" and to formally introduce foreign investments (Lin 1994). Although China experienced dramatic growth in the economy from 1978 to 1984, especially in agricultural production (the agricultural output

grew more than 7% annually from 1978 to 1984, according to Shuhe Li [1999], p.5), the socialist economy was still recognized as a planned economy by people and the Party. In the spring of 1982, the vice general secretary of the Chinese Communist Party, Chen Yun, announced a policy that shifted the economy toward “taking the planned economy as primary and market adjustment as secondary” (People’s Daily, Jan. 26, 1982). The concept was presented analogously by likening the planned economy to a cage within which the market adjustment mechanism, like a bird, could fly freely, thus revitalizing the economy. The Chinese economy in the first half of the 1980s was directed essentially according to the concept of the birdcage economy: “The system of economic planning continued as the basis for activity, but market forces were introduced and allowed to play an increasingly larger adjustment role” (Yabuki 1995, p.43).

In September 1982, the Chinese Communist Party convened the Twelfth Party Congress. At that meeting, Deng Xiaoping proclaimed the need to “integrate the universal truth of Marxism with the concrete realities of China, blaze a path of our own and build socialism with Chinese characteristics” (Deng Xiaoping, “Opening Speech” at the Twelfth Party Congress, 1982). The general secretary of the Chinese Communist Party, Hu Yaobang, also gave a report entitled “Create a New Situation in All Fields of Socialist Modernization,” in which he stated that the most important task of the Communist Party was to lead the nation toward economic and technological modernization. Hu Yaobang also called for the development of a “socialist spiritual civilization,” thus laying the groundwork for later theoretical innovation (Kluver 1996, p.64-65).

From 1978 through 1984, China increased its pace of implementing “Opening Up” policies. On July 1, 1979, the Second Plenum of the Fifth National People’s Congress adopted the “Law of the People’s Republic of China on Joint Ventures Using Chinese and Foreign Investment” (People’s Daily, July 2, 1979). In 1980, China began to regain memberships in international institutions, thus opening the door to foreign capital, advanced technology and management experience (T. Li 1999, p.51). In April 1984, the Chinese Communist Party decided to open fourteen coastal cities to the outside world and to establish “economic development areas” within these cities (People’s Daily, April 7, 1984). In the same year, Deng Xiaoping proclaimed his famous statement of “one country, two systems” concerning the Taiwan issue and China’s reversion of Hong Kong and Macao.

2.1.3.2 The Planned Commodity Economy (1984—1992)

The introduction of a market mechanism clashed directly with China’s former centralized planning system. In October 1984, the Third Plenum of the Twelfth Party Congress adopted the “Decision on Reform of the Economic System” and introduced a new concept called “Planned Commodity Economy Based on the Public Ownership.” Therefore, “the doctrinal belief that socialism equals a planned economy was abandoned and replaced by the notion that socialism equals a commodity economy” (Yabuki 1995, p.43). However, due to the hesitations of most Chinese Communist Party members, the “Decision” stated that the “commodity economy” was a “Planned (Commodity) Economy” and reinforced the idea that the “labor force is not a commodity ... all state-

owned enterprises and resources are not commodities.” It was not until September 1985 that the Communist Party allowed the gradual introduction of the market forces into the economy, thus laying the foundation for the development of a mature market system.

By 1985, the negative effects of economic reform became apparent. The economy became overheated, and a popular resentment developed toward the new phenomenon of economic inequity between geographic areas and social groups, which contradicted the traditional egalitarianism of the former system. The simultaneous occurrence of corruption by officials also became an important political issue. These problems produced economic and sociopolitical pressures to reverse the reforms. Thus, the justification for reform needed to be modified to face these new challenges (Wu 1998). This was solved by inserting a new historical phase into the national development of socialism, then changing the traditional ideological understanding of people upon socialism (Kluver 1996).

At the Thirteenth Party Congress which opened in October 1987, the Party’s general secretary, Zhao Ziyang, raised the concept of the “primary stage of socialism” (Zhao 1988). Zhao Ziyang stated that China was only in the beginning stage of socialism, and because China had never gone through a stage of capitalism, the means of production had not been fully developed. As such, the nation had been unable to overcome the poverty that characterized feudalism. Hence, socialist development could only occur after the productive forces had been fully developed, thus necessitating some capitalistic measures in the primary stage of socialism. Without this intermediate phase, China was doomed to remain in poverty (Kluver 1996, p.78). Deng Xiaoping further divided the primary stage

into three steps. The first step was to double the GNP of 1980; the second stage called for the redoubling of the economy by 2000; and the third step included raising the per capita GNP equivalent to that of moderately developed countries by the middle of the 21st century (Xin 1997).

By defining the “primary stage of socialism” and setting the strategy of “Three Steps” for economic development, the Chinese leadership redefined the ideological base for greater reforms. With respect to the functions and the role of the market mechanism, Zhao Ziyang’s report stated clearly that the plans and the market held the same importance as “the state controls the market, and the market guides enterprises.”

From 1984 to 1992, China’s economy experienced a rapid growth (except for three years after 1989). Non public-owned sectors developed at an increasingly rapid rate, especially the township-village enterprises in rural areas and the private economy in urban areas. In the external sector, the “opening of the fourteen coastal cities in 1984 initialized the second surge of opening to the outside world” (Yabuki 1995, p.245). In 1986, China adopted the “Foreign Capital Enterprise Law.” In 1989, China acknowledged that it was a “net aid receiving country” (People’s Daily, Jan. 4, 1989). In the state-owned sector, the Chinese government granted more autonomy. The previous system of delivery of enterprise profits to the state was replaced by a new system under which the state levied taxes on enterprise earnings, and the contract responsibility system and the project of “re-establishing the enterprise management system” were carried out (Lin 1994). China also began systematic reforms of resource allocation, macro policies, city administration and the social security system (Xin 1997, p.40).

But price reform (the two-track price system) induced inflation and official corruption, thus raising the people's resentment. Later, in May and June of 1989, the resentment resulted in the Tiananmen Square Incident. In addition, the disintegration of the former Soviet Union impacted the Chinese Communist Party's reform efforts. The economy stalled in 1989; the consequences of these events resulted in the political sphere tightening, and problems of unemployment and deficits of state-owned enterprises became increasingly serious for the government.

2.1.3.3 The Socialist Market Economy (since 1992)

From Jan. 18 to Feb. 21, 1992, Deng Xiaoping made an inspection tour of the south of China, and he officially declared "important talks" to advocate a speedup of the reform and opening-up (Yabuki 1995, p.259). Deng Xiaoping said, "Reform and opening up are the only viable road for China. Those who will not undertake reform, no matter who they are, have no course but to resign... Even if something is capitalist there is nothing wrong with incorporating it in the socialist system" ("Talks by Deng Xiaoping," Chinese Communist Party Central Document No. 2[1992], Yabuki 1995, Appendix 1). In 1992, the Party Central issued Document No.2, Document No. 4 "Opening cities along the Yangtze River and border cities" and Document No. 5 "Developing tertiary industries," thereby concretely accelerating the paces of reform and opening-up. In October 1992, the Chinese Communist Party convened the Fourteenth Party Congress. General secretary Jiang Zemin gave a report titled "Accelerating Reform and Opening Up" and raised the concept of the "socialist market economy" for the first time in the Chinese history. He

said, “it is the task of the Congress to mobilize all party comrades and the people of all nationalities to achieve still greater successes in building socialism with Chinese characteristics by further emancipating their minds and seizing this opportune moment to quicken the pace of reform, the opening to the outside world and the drive for modernization” (Jiang 1992). By calling for the establishment of the “socialist market economy with diversified ownership structure,” Jiang Zemin freed China’s economy to pursue market forces, and completely abandoned the outdated concept that a planned economy means socialism and a market economy capitalism.

In November 1993, Jiang Zemin gave a speech named “Decision on Some Issues Concerning the Establishment of a Socialist Market Economic Structure” at the Third Plenum of the Fourteenth Party Congress. In the same year, “the socialist market economy” was written into the Constitution of the People’s Republic of China (T. Li 1999).

In September 1995, the Fifth Plenum of the Fourteenth Party Congress adopted the “Suggestion of Making the ‘Ninth-five Year’ Plan and 2010 Long-term Goals for National Economy and Social Development.” In this document, the Party decided to complete the transformation of China’s economy to the market economy by the year 2010. The Party also set the standard for later reform policies: “...to judge the correctness of a policy is whether it was beneficial in developing productive forces, whether it is advantageous in strengthening overall national power, and whether it is effective in raising people’s living standards.” The former “Three Steps” strategy was also modified. As of 1995, the goal of redoubling the GNP of 1980 was finished, the second step was

modified to be “redoubling per capita GNP of 1980 by the end of 2000. By the end of the year 2010, the GNP of 2000 will double under the condition that the population increases by 300 million from year 1980 to 2000.” (Liberalization Daily, Oct. 5, 1995)

China has carried out intensive reform policies since 1992. The economy is expanding at an accelerated pace. In the area of state-owned enterprises, establishing a modern enterprise system was focused on, along with the introduction of share holding ownership reform. The Shanghai and Shenzhen Stock Exchange markets were established. In addition, China allowed the privatization and renting of some state-owned enterprises. In the private sectors, China amended the Constitution to acknowledge the private sector’s legal status (Roberts 1999, p.74). The development of the private sectors since 1992 has been dramatic. In rural areas, China advocated the development of rural industry and extended the “Household Responsibility System.” In the external field in 1992, China opened all principal cities and regions of China to the outside. In China today, only Tibet lacks an open city. Since 1993, a series of reforms were carried out in the macroeconomic and sociopolitical areas which covered financial, fiscal, investment and social security systems.

China is now engaged in the structural transformation toward a market system. However, because of the structural rigidities left over from the former economic system, problems have developed and become serious, such as the deficits of the state-owned enterprises and the resulting unemployment problem, as well as the official corruption. These issues are of great concern to the Chinese leadership.

2.1.4 Specific Issues

2.1.4.1 Rural Reforms

There have been two important reforms in the rural sector since the late 1970s. The first includes the implementation of the “Household Responsibility System” (HRS). The HRS gives the right to use land resources to every rural household. Every household is given the freedom to farm, to raise cash crops and livestock, and to engage in non-agricultural business after the household has met the state purchasing quotas under contract for grains, cotton and vegetable oil plants. With the implementation of this new system, the problem of the "lack of working incentive" in the former “People’s Commune” system has been solved. From the beginning of the reform, the Chinese government did not intend actually to allow such reform. However, in the winter of 1978, a few collectives secretly, with the implied consent of local government, implemented the new system. After one year, the production of these collectives increased dramatically. In 1979 and 1980, the central government permitted this new system to be adopted within the poorest regions of China. As the general reform process gained forwarding momentum, it was affirmed as a basic state policy and named the “Household Responsibility System.” For the first time, China allowed peasants to have land tenure rights for 15 years, which means that the household holds the property rights to the land and has the freedom to plant what they like after finishing the state contract quotas for 15 years. By the end of 1984, most of the peasant households in China employed this new system (94% according to the research of Bela Balassa [1987], p.410--426). Since 1978,

the Chinese government raised agricultural prices, reduced purchasing quotas and gradually liberalized the prices. The former “People’s Commune system was abandoned” (S. Li 1999, p.5).

Since the early 1990s, in order to induce peasants to carry out land augmenting investments, the Chinese government has focused on optimizing the HRS system. In 1997, the central government permitted the land tenure period to be prolonged by another 30 years after the current period expires, thus ensuring the sustained rapid growth of agriculture (Jiang 1997).

In response to the reform, the production of all crops grew at an unprecedented rate. From 1978 to 1984, the growth rate for agricultural value-added was five times what it had been over the previous two decades (Perkins 1994, p.26). The average annual growth rate of the agriculture output from 1978 to 1984 reached 7% (S. Li 1999, p.5). Within this period, the implementation of the HRS contributed nearly 47% to the growth of the agricultural production since the new system greatly raised working enthusiasm (Lin 1994, p.124). From 1978 to 1997, grain output rose from 304.77 to 494.171 million tons, meat output rose from 10.025 to 51.521 million tons and aquatic products output rose from 4.655 to 36.0178 million tons. The per capita annual net income of rural households rose from 133.6 RMB¥ in 1978 to 2090.1 RMB¥ in 1997 (China Statistical Yearbook 1998, p.325, 403, 412). By using 7% of the world’s cultivated land, China feeds more than 22% of the population in the world (Xin 1997, p.91).

The second area of rural reform focuses on the development of rural industry: the Township-village Enterprises (TVEs). In 1984, the Chinese Communist Party and the

State Council jointly issued the “Report on Creating a New Situation in Commune-Brigade Enterprises.” The report renamed the commune-brigade enterprises as “Township-village Enterprises” and relaxed restrictions on collective businesses while allowing private businesses to operate outside of agriculture (S. Li 1997, p.6). Because the HRS system brought about large, newly created resources and because of the gradual liberalization of the resource allocation system, the TVEs were provided with raw materials and markets for rapid development. Since the mid 1980s, the TVEs have become a more and more important propulsive force for economic development. In 1996, one fifth of tax revenue, one third of GDP and one third of the total exports came from TVEs. Since TVEs have become an important mechanism for absorption of surplus labor in the rural areas, they have changed the employment structure in China's rural areas. In 1996, all TVEs employed more than 130 million laborers. In 1997, TVEs comprised more than one third of rural household incomes and 80% of collective capital reserves. TVEs have invested more than 150 billion RMB¥ in rural development and intend to increase their share in the total national production (People's Daily, Nov. 5, 1998).

Although reforms in rural areas have had great success, they have also freed a large segment of the rural population from agriculture. This has resulted in a rural to urban migration problem. As a result, the employment problem in China's urban areas has become more complicated. Since 1995, China has called for more intensive development of agriculture and TVEs, with the goal to make the rural population “leave the soil, but not leave the rural area.”

2.1.4.2 Reform of State-owned Enterprises (SOEs)

Since SOEs are the pillar of public ownership, reform in this area is of greater importance than that of others. The reform of SOEs began at the micro fields. From 1978 to 1984, SOEs were given some managerial power with the establishment of relationship between the incomes of laborers and their work performance. The goal was to improve work incentives. SOEs were also allowed to retain a certain portion of profits within their control. Step by step, SOEs were given the power to decide their own production and investment strategies (Balassa 1987). With the introduction of material incentives, the output of SOEs grew from 328.918 billion RMB¥ in 1978 to 526.27 billion RMB¥ in 1984 (China Statistical Yearbook 1991, p.356).

As SOEs are embedded in external institutions of the former planning economy, the reform in this area is more complex than that in rural areas. In 1984, China began carrying out a series of reforms on SOEs, trying to increase their vitality. With the fast development of non state-owned sectors, represented by TVEs, which had higher efficiency than SOEs, more and more scarce resources flowed into the non state-owned economy. This placed increased pressures on the SOEs to raise productivity. Since 1984, China has gradually reduced the quota of the mandatory plan, and with the introduction of the “Two-track” price system, SOEs were given more and more management flexibility. The previous system of delivery of profits to the state was replaced by a new system that levied state taxes on SOEs' earnings. A “management responsibility system” was implemented which aimed to “strengthen the financial relationship between SOEs and the state, and to establish the independent status of SOEs” (Zhang 1990, p.38).

Reforming SOEs requires systematic reforms in both economic and sociopolitical areas. Since the mid 1980s, China carried out the reforms of the city administration, the resource allocation system, the price system, etc.

Since 1987, the reform of SOEs has focused on establishing an “enterprises management system.” The ownership and managing rights of SOEs were separated in order that the SOEs could be run more efficiently without government intervention. The managers of SOEs were given more power in the SOEs’ affairs. They also bore the responsibilities for enterprises’ profits and losses (Lin 1994, p. 130-132). The goal was to make SOEs more competitive in the increasingly market driven economy and to increase their productivity. The “Decision” of the Third Plenum of the Twelfth Party Congress stated that SOEs experiencing continuing losses could be closed down. Contract and leasing systems were introduced to the SOE sector after 1987.

Although the production of SOEs continued to grow, more and more problems arose. Due to the lack of cooperation of the reforms in the macro fields, such as price reform and sociopolitical reforms, and due to the blur of the property right of SOEs and their poor management, many enterprises suffered deficits. The problems of the erosion of public-owned property and rent-seeking behavior of some officials increased. In addition, after 1989, the unemployment problem of the SOEs’ staff and workers became serious.

Since 1992, as China extended the reform process toward market orientation, the reform of SOEs entered into a new stage. The “Decision” of the Third Plenum of the Fourteenth Party Congress called for the establishment of a “Modern Enterprise System Based on the Public Ownership.” Since 1992, the Chinese government comprehensively

implemented the reform of the “Share Holding Ownership System” to SOEs. China established two stock exchange markets in Shanghai and Shenzhen. According to the principle of “*Zhua Da Fang Xiao*” (focusing on large scale SOEs and freeing medium and small scale SOEs completely to the markets), China has allowed privatization of SOEs and collective enterprises. The government has begun the reorganization of large scale SOEs into stock holding companies. The state has concentrated on 1000 large-scale key enterprises and strategic SOEs (Xin 1997, p.119). Reforms such as mergers, restructuring, cooperation, leases, selling to collectives or individuals and closing SOEs have been allowed since 1992. Because of the great shock of the economic transition, China has experienced serious deficit problems surrounding SOEs and unemployment (underemployment). According to the Y. Lin, F. Cai and Z. Li[1994](p.134), about one third of the SOEs encountered explicit losses in 1992; one third experienced implicit insolvency problems. In 1997, the registered unemployed and the “Off-position” (a specific term used in China which stands for people who lack work because of the financial problems of the SOEs) workers in urban areas reached 17.7 million people (China Statistical Yearbook 1998, p. 127, Hu 1998, p. 5).

2.1.4.3 The Development of Non Public-owned Sectors

Public ownership was once considered the cornerstone of China's socialist economy. Since 1978, three important modifications to the ownership structure were made in China. In the early 1980s, the Communist Party acknowledged that the ownership structure of China was “Public ownership is the base, with non-public ownership as a

supplement.” In 1984, it was amended to state that “non-public ownership is a beneficial supplement,” and the “Decision” of 1984 raised the principle of “Actively develop the diversified ownership based on the public ownership.” (T. Li, 1999) In 1997, the Fifteenth Party Congress acknowledged the important role of non-public ownership and stated that it is a principal economic regulation that diversified ownership economies co-develop with public ownership (T. Li 1999, p.46). All of these legitimized the institutional base for freeing non public-owned sectors of the Chinese economy.

The non public-owned sectors in China consist of three parts: a) foreign investment enterprises, b) private enterprises, and c) individual industrial and commercial operations. At the beginning of the reform process, these sectors contributed very little to the total industrial output, but by 1997 they accounted for about 36.4% (China Statistical Yearbook 1998, p.433). They “now provide some less than half of the GDP of China” (S. Li 1999, p.3) and can even be recognized as the best hope to fuel future economic growth (Roberts 1999, p.74).

China began to introduce foreign investments in the late 1970s by establishing four “special economic zones” (Shenzhen, Zhuhai, Shantou and Xiamen; in the late 1980s, Hainan Province and Pudong District of Shanghai were also opened as special economic zones) and adopted the “Joint-venture Law.” In 1979, the Foreign Investment Management Committee of China and the China International Trust and Investment Corporation were established to actively introduce foreign investment. Since 1980, China regained memberships in almost all international institutions. In 1980, China became a

member of the IMF, the World Bank, the International Development Association, and the International Finance Corporation. In 1986, China entered the Asian Development Bank.

In the 1980s, China's leadership realized the globalization trend of the economy. They also realized that the greatest obstacles to China's modernization were "lack of capital and backwardness of technology and management" (Yabuki 1994, p. 246). To overcome these obstacles, China increased the pace of economic reform in the 1980s and 1990s. In 1984, fourteen coastal cities were opened to the outside world; in 1986, the "Foreign Capital Enterprise Law" was adopted and preferential treatments were granted to absorb foreign investment. In 1992, China opened all the principal cities and regions (except Tibet) and implemented a "multi-directional, multi-strata" opening up policy.

In regard to the development of the internal non public-owned sectors, in 1981, the Chinese government recognized the existence of "individual industrial and commercial operations." The "Constitution of the People's Republic of China," adopted in 1982, declared the legal status of this private sector. In the 1988 emendation of the Constitution, the legal status of private enterprises was acknowledged (X. Li 1990, p.6). Under encouragement from the Chinese leadership to "get rich ahead of others" and abandonment of former egalitarianism, the private and individual sectors developed rapidly. In 1999, private property rights were spelled out as a legal right in the amended Constitution (Roberts 1999, p.74).

The non public-owned sectors are becoming an important force in the Chinese economy. From 1978 to 1997, the total amount of foreign capital actually used in China accumulated U.S.\$ 348.348 billion; in 1997, about 46.95% of the imports and exports

were made by the foreign investment enterprises. At the end of 1997, these non public-owned sectors employed about 31% of the employed staff and workers in China's urban areas (China Statistical Yearbook 1998, p.130, 635-637). Non public-owned sectors also provide important contributions to the state revenue. Since they behave according to the rules of the market mechanism, their development is beneficial to the reform of the economic system and to the adjustment of the economic structure.

2.1.4.4 Reform of Resource Allocation System and Macro Fields

Since China carried out the reform on the micro fields in the late 1970s, the improvement in the production and the autonomy of the micro units required reforms in the former rigid resource allocation system and macro managing fields. From 1979, China began reform in these areas:

< A >. Materials Managing System

Since 1979, China began to reform the former centralized planning materials allocation system. Reform policies granted autonomy on management and retaining profits to the enterprises. The right to sell products was gradually granted to the enterprises and rural households. The previously planned allocated materials were replaced by market allocation. Many free markets for production means were established in different regions. The government also reduced the scope of the planned prices on materials, and instead began using "guiding prices" (prices set by the government that only gave price signals to the market transactions) to guide the production of the enterprises. From 1980 to 1988, the number of categories of the state controlled materials

declined from 256 to 27. Materials previously allocated by ministries of the State Council were reduced from 316 to 45 categories. By the early 1990s, almost all state allocated factor inputs and materials were transferred to the market allocation system. (Lin 1994, p.136)

< B >. Financial System

Before the reform, the People's Bank of China (PBOC) was the only bank in China. Thus, the first goal of the banking reform policies in China was to establish a banking system. In the 1980s and early 1990s, a series of policy banks (banks which carry out business under government dictation instead of the profit motive) and financial institutes were set up. These included the Agricultural Bank of China, the Bank of China, the Industrial and Commercial Bank of China, the People's Construction Bank of China, and the People's Insurance Company of China. The PBOC was reorganized to function as the central bank. During the same period, collectively owned banks and credit and trust institutions boomed in China. Different types of financial markets like the National Debt market, the Bonds market, the Future market and the Stock Exchange markets were also set up. The "Decision" of the Third Plenum of the Fourteenth Party Congress in 1993 called for further reform in the banking system. The policy banks were under transformation to be the first "specialty banks" and later to become commercial banks that pursue profits and are responsible for investment risks. Modern monetary policy tools such as open market operations and discount rate policies were actively introduced to stabilize the value of the currency. A foreign exchange market was established in Shanghai. Foreign banks were allowed to set branches in China. A market-based floating

exchange rate system was under construction with RMB (Chinese currency) gradually to be made convertible. (Lin 1994)

In the government financial system and the fiscal system, under the direction of the premier Zhu Rongji, reform policies of “macro adjustment and control” (Yabuki 1995, p.128) have been carried out since 1994. A new divided taxation system was adopted which separated the collection and management of central government taxes and local government taxes. A value-added tax was introduced, and for certain commodities and non-commodity activities, a sales tax and a gross receipts tax were imposed. Government expenditures were also put under strict control.

< C >. Price Reform

During 1978—1984, China reformed the price system by adjusting the relative prices of commodities and raw materials. This meant that the government had to raise the prices of highly demanded products and reduce the prices of commodities in excess supply. Since 1985, the market mechanism was introduced to the price system with a “two-track” system. Under the “two-track” system, each product had two prices: a government planned price if the product was in the quota of the centralized plan, and another price formed by the market force if it was out of the government planning system. As the reform process guides the Chinese economy more and more toward a market-oriented direction, the effects of the “planning track” have gradually reduced. In 1999, the reform of the price formation mechanism on commodities was basically completed. Now China focuses on the reform of market adjustment of prices for the factors of production. (T. Li 1999, p.49)

2.2 The Reforms of the Employment and Migration Control Policies of China

This section is based on the discussion of several articles on Chinese employment and migration policies.⁷

2.2.1 Employment Policies in China's Urban Areas

2.2.1.1 Pre 1978 Era

China implemented a highly centralized system of employment before 1978. In order to maintain social security and pursue the pure socialism based on public ownership, China implemented a "unified allocation" system for labor allocation. Under the principle of public ownership, the means of production are jointly owned by all people in the country within the whole-people ownership form, or by all workers of the enterprises and collective units within the collective ownership. Ownership is equally divided among all people under the direction of the state. Every able bodied person in a socialist society should work to receive the income, and the income distribution is based on an individual's contribution to production. Because everyone has claim to the ownership of the factors of production, he or she has the legal right to participate in production activities and receive payment for his or her contribution to the production. In turn, everyone has the right to be employed. Thus, it is logical and necessary that a socialist economy should achieve "full employment."

7. Goldstein [1996], Davin [1999], Solinger [1999], White [1988] and World Bank [1985], etc.

China carried out a heavy industry orientation strategy and pursued pure socialism under a centralized planning system in the 1950s. As a consequence, the state planning system governed the urban employment field, which resulted in a rigid unified labor allocation system. This system was called the "unified recruiting and unified allocation" system, and it covered almost all of the urban labor force. Within this system, all new laborers were dispatched to particular jobs, "with little attention to their preferences or the preferences of employers" (World Bank 1985, p.131). The job assignment was for life. "Along with this system of administrative allocation evolved a system of job tenure, the workers had the right to remain in their enterprises for life and had the privilege to access certain welfare benefits like free medical care, housing, child-care, pensions and guaranteed jobs for their children" (White 1988, p.184). Workers could not move from one enterprise to another except in rare instances; for example, a worker might be assigned or promoted to a new position by the state or local governments. Enterprises were not permitted to recruit and dismiss workers "even if they had more employees than they needed and if some were habitually absent, lazy or negligent" (World Bank 1985, p.131).

In order to realize rapid growth in industrialization, especially in heavy industry, and because of the great burden to provide employment for an expanding working population, China adopted a rigid wage policy as part of its industrial development strategy. The wage scales were centrally determined and varied among occupations, industries and localities. Bonuses, piecework and other paying schemes were prohibited. There was an egalitarianism of the income and welfare distribution among all employees. The job

position in urban areas, especially in state-owned enterprises, was referred to at that time as an "iron rice bowl"(White 1988).

According to the rigid systems in the pre-reform era, the resultant overmanning and immobility impeded the flexibility of a dynamic economy. In addition to the other effects of the planning system, there came the low efficiency in resource allocation, production and low worker morale. By committing to the socialist goal of full employment, the Chinese government "converted open unemployment into 'unemployment on the job' in both state and collective sectors" (White 1988, p.185) and adopted strict control policies on the internal migration of the population.

2.2.1.2 Reform of Employment Policies

Reaching "full employment" is a principle of a socialist system. Because workers depended on the enterprises for medical care, housing, pensions and other welfare, and because prior to 1990 there was no unemployment insurance system in China, the reforms of the employment policies were carried out with caution.

China began the reform process in late 1978, aiming to revitalize the economy and increase production and productivity. The government found it necessary to reform the former rigid labor allocation and wage policies. The first step toward reforming employment policies was introduced in the late 1970s and early 1980s. Enterprises were gradually granted autonomy to offer material incentives to workers, such as bonuses and piecework to counter the problem of low morale and low efficiency. "Regulations on the Work of Factory Managers in State-Owned Factories" was issued by the State Council in

1982. This document gave factory managers the authority to raise wages one percent per year. Later, in May of 1984, the scale was raised to three percent, and enterprises were given "full sovereignty in the method of distributing bonuses; further, 'floating wage' schemes and position-related allowances were left to the discretion of the enterprises" (Yabuki 1995, p.76).

From 1984 on, China began to carry out a systematic reform on the industrial sector. To accompany this process, which aimed to reform the enterprises into independent production and operation units, the State Council issued several documents in 1985 and 1986, further broadening the independence and sovereignty of enterprises in wage determination. In 1988, the "State-owned Enterprise Law of the People's Republic of China" was adopted, which for the first time legalized the enterprises' right over internal distribution.

Gradually, the Chinese government transferred control of wage determination to the state-owned and collective enterprises. The goal was to realize "a flexible, less egalitarian wage system in which demand and supply as well as individual contributions to production would play a greater role in determining the earnings of particular employees and occupations" (World Bank 1985, p.134).

Establishing the sovereignty of enterprises in the area of labor allocation is also an essential part of enterprise reform. If the enterprises do not have authority over wage determination and labor recruiting and dismissing, then it will be impossible for them to become responsible for profits and losses, which is the core of enterprise reform. Since the Third Plenum of the Eleventh Party Congress, a series of labor allocation reform

policies were carried out. In 1980, the Party Central and the State Council issued the "Three Combinations" policy, encouraging laborers to establish small urban collective enterprises and to engage in self-employed commercial and industrial operations. In the same year, China began experimenting with a new "labor contract" system in some areas. In 1981, the "Decisions on Solving the Urban Employment Problems" was issued, which called for breaking the "iron rice bowl" and job tenure and introduced diversified labor allocation channels outside of state plans. The enterprises were, step by step, granted autonomy to evaluate and choose individual workers within the numerical quota assigned by state and local labor bureaus (Wang 1994, p.265). Since the early 1980s, the right to dismiss unsatisfactory workers has been granted to enterprises. By raising the notions of "Planned Commodity Economy" and "the Primary State of Socialism," the former Marxist principle which states that labor power is not a commodity in the socialist system was abandoned, thus providing more flexibility to reform the rigid labor allocation system.

On September 9, 1986, the State Council issued four regulations on labor allocation reform. These regulations abandoned the former fixed job tenure, and instead implemented a comprehensive "labor contract" system. The laborers were allowed to choose jobs that they preferred and were encouraged to move between enterprises and work outside state-owned and collective sectors. As the reform process moved more and more toward a market-oriented direction, the private sectors, for example, foreign invested enterprises, and previously proscribed commercial and service sectors developed quickly, creating new opportunities for job seekers. Laborers employed by non public-

owned sectors grew dramatically in the 1980s. In 1978, only about 0.15% of the urban labor force was employed outside of the state-owned and collective sectors, but in 1989, the percentage changed to about 5.42% (China Statistical Yearbook 1998, p.130-131). It is obvious that along with the reform process, China's urban employment underwent a structural change, labor circulation increased, and a labor market subject to free market forces was under construction. All of these contributed to the dynamism of the economic development.

Albeit great freedom was granted to enterprises and individuals, the most serious problem of China's labor allocation system, the overmanning of the public-owned enterprises, especially in state-owned factories, was difficult to solve. Under the former rigid system, China kept unemployment within enterprises. This resulted in a high level of underemployment. If all workers who were not needed for production were allowed to be dismissed by enterprises, there inevitably would be widespread unemployment. This outcome is counter to the "full employment" commitment of the Chinese government and would result in the risk of sociopolitical instability. So, for Chinese state-owned and collective enterprises, dismissing unneeded workers was principally forbidden. Even after China declared its reform policy to transform its economy into a "socialist market economy" and carried out reforms of "establishing the Modern Enterprises System" and the social security system in the early 1990s, workers of closed down enterprises and unneeded employees of those enterprises with serious financial problems were included only into the "off-position" population. This meant workers lacked work but the former enterprises still provided their necessities. As China deepens the market oriented reform

and further restructures the economy, the problems of unemployment in China's urban areas will remain or become even more serious. According to the data of the State Statistical Bureau, about 22 million surplus enterprise workers within China's urban areas need to be reallocated. In addition, the immigration population from rural areas and young urban job seekers entering the work force increase. There is a heavy burden on the Chinese government to increase employment opportunities (Xin 1997, p.379-380). Since the early 1990s, the Chinese government urged the establishment of an unemployment insurance system. At the same time, the government accelerated the development of non public-owned economies and the service sectors with the intent that these new sectors would have great potential to create productive jobs. The current goal of China's urban employment reform policies is "to establish a competitive labor market, which adjusts labor demand and supply through the market mechanism, to establish a mature unemployment insurance system, and to control the urban unemployment rate below 4% at the end of the year 2000" (Xin 1997, p.389).

2.2.2 Reform of the Migration Control Policies

From the early 1950s to 1978, China implemented a restrictive migration control policy called the "*hukou*" (Household Registration) system. This system resulted from China's focus on the development of heavy industry. A significant division between urban and rural areas appeared as a result of these policies. "China's vast rural population not only endured a standard of living far below that in the urban sector, they were also denied access to many social welfare benefits" (Wang 1999). Urban laborers had

guaranteed lifetime employment and many benefits, including free medical care, pensions and housing, etc. In contrast, life in rural areas was risky and fluctuated with the production of crops. Although the Chinese government considered urbanization essential to economic development, it controlled urban growth to avoid the undesirable conditions of urbanization exhibited in other countries, such as great strain on urban infrastructure, the development of slums and massive urban unemployment. To maintain the huge rural population within the non-urban areas, since the early 1950s, China has carried out various migration control policies. By issuing the "Regulations of Household Registration of the People's Republic of China" in 1958, China established "perhaps the strictest system, the '*hukou*' system of migration control in the modern world" (Davin 1999, p.5). Under the system, each household and its members were categorized through an "agricultural" or "non-agricultural" residence status, and people were confined to reside and work only where they had their "*hukou*." Transferring residence status was granted only in certain circumstances, such as marriage or graduating from college. Movement from rural to urban areas was extremely difficult, but urban-rural migration was encouraged; during the time period of the "Cultural Revolution" (1966--1976), about 17 million young high school graduates and students were rusticated to the countryside and mountain regions (Reynolds 1988, p.190). Moreover, before the early 1980s, even temporary sojourns in the cities were strictly controlled. Visitors had to register at the local Public Security Bureau for any stay longer than three days. Because of the rigid rationing system of foods and housing in urban areas, immigrants could not find employment and accommodation.

These migration control policies effectively restrained a vast population to China's rural areas. However, as the inequality between rural and urban areas grew, people in the countryside were eager to seek a better life and greater economic opportunities in urban areas. With the introduction of the reform policies, the Household Registration System began losing its effectiveness.

Following the reforms beginning in late 1978, especially the dismantling of the former "People's Commune" system and the implementation of the "Household Responsibility" system, vast numbers of peasants were freed from agricultural work and encouraged to engage in non-agricultural activities. As a consequence, the rural industry of China (Township-village Enterprises) developed rapidly, but they could not provide sufficient jobs for the huge surplus of rural labor. Since a large population of young laborers entered the rural labor force each year, it was impossible for the Chinese government to forbid them to migrate to the urban and more developed areas as China gradually liberalized its economy. Also, in China's urban areas, reform policies stimulated economic growth, and diversified economies, such as private and foreign invested enterprises, grew rapidly since the mid 1980s. In addition to the reform of the labor allocation system, the motivation for migration grew stronger for rural and urban laborers. "As urbanites increasingly opted for jobs in new sectors, state firms became pressed to find substitute labor. In addition, a vast variety of low-tech jobs in building and services called out for casual workers" (Solinger 1999, p.199). Thus, a huge army of surplus rural labor obviously became the source of a cheap labor supply.

Under these conditions, China gradually reformed its migration control policies. In 1985, the Ministry of Public Security of China issued a regulation on temporary residence certificates for the urban areas. Migrant workers with certificates were allowed to live in the destination areas but could not enjoy the social benefits to which permanent urban residents were entitled. Migration was therefore, grew significantly. In 1986, regulations to establish a system of identity cards were implemented, which encouraged the reasonable movement of the labor force. The relaxation on migration control and the rapid economic growth created a great population flow. Although urban and rural migration increased, the flow from rural areas was much greater and "the typical migrant was a young peasant from west or central China seeking employment in an urban area either within his/her own province or in the rapidly developing areas of coastal China"(Davin 1999, p.38). Because the migrants lacked permanent residence status, they were categorized as a "floating population" (unofficial residents). Estimates about the size of the "floating population" varied largely. Some accounts say only 40 million, some estimate 80 million, and some claim even more than 100 million. One credible estimate is about 50 million in the early 1990s (China Daily, Mar. 3, 1994).

Migrants provided cheap labor and lifted large rural population out of poverty and contributed to China's fast economic growth. However, according to the current developing level of the Chinese economy, it was impossible for the Chinese government to abandon the former "*hukou*" system and completely allow the people to make their own decisions concerning migration. China is sensitive to social chaos and disorders that may result from the economic and sociopolitical transformation process. Especially since

1993, following the restructuring of China's economy toward a market system, the serious problem of unemployment in urban areas arose. Only after China has successfully established the socialist market system should it be seen as the elapse of the Household Registration system and other migration control policies.

2.3 Summary

China began its reform at the micro level, following a gradual market oriented direction. Since late 1978, rural households and urban enterprises were given some managerial autonomy with the establishment of relationship between the incomes of laborers and their working efforts with the intent to improve working incentives. Also, enterprises were allowed to retain a certain proportion of profits within their control, and they gradually became independent production and financial units that were responsible for all losses and profits.

The improvement in firm incentives created a new stream of resources. On one hand, the allocation of newly created resources by autonomous firm management prompted for reforms in the resource allocation mechanism and macro areas. On the other hand, the induced relaxation and reform of the rigid planned resource allocation system allowed the newly generated resources to be allocated to the sectors that had been suppressed under the traditional economic system. Thus, the economic structure improved and the growth rate accelerated. Because the economic reforms increased the firm profit rates and the state's tax revenue collection without harming benefits of any vested-interest group, the reforms enjoyed overall support and became irreversible. When the reforms proceeded to

the macro areas, China had the ability to compensate the losers of the macro reforms. Therefore, the macro reforms were carried out without disruption. Such a gradual reform progress gave the society continuous opportunities for making choices. This method allowed China to maintain a balance between speed and stability during the process of reforms and prevent the occurrence of political radicalism and social shocks that were suffered by the former Soviet Union and other Eastern European countries.

In regard to the employment in China's urban areas following the reform process, obvious structural changes occurred as the economic structure diversifies and the government relaxes the former rigid migration control system. Within these changes, the change of the ownership structure is especially significant. This change will be the focus of discussion in the next chapter.

Chapter III. Empirical Data Analysis

As a result of China's reform process, i.e., the economic transformation toward the socialist market economy with Chinese characteristics, employment in China's urban areas has undergone structural changes. This chapter will present an analysis on this change based on empirical data. The unemployment problem in China's urban areas will also be addressed.

3.1 Definition of Terms

All data used in the analysis are cited and calculated from the data in the 1990, 1991 and 1998 China Statistical Yearbook. To begin the analysis, the following terms should first be defined.

- (1). Urban area: In China, an urban area consists of both cities and towns. City refers to cities established with the approval of the central government; town refers to towns established with the approval of the provincial, autonomous regional or municipal governments directly under the central government. Ordinarily, a town is an area with more than 3000 permanent residents, of which seventy percent or more are from a non-agricultural population. A town may also be an area with more than 2500 but less than 3000 permanent residents, of which eighty-five percent or more are from a non-agricultural population. (China Statistical Yearbook 1990, p.108)
- (2). ULF (Urban labor force): Refers to the population aged sixteen and over in urban areas who are available for employment. The ULF includes those both

participating in and desirous to participate in the economic activities, including the employed and unemployed population.

- (3). LSI: Staff and workers employed by state-owned industries in China's urban areas. In China, state-owned industries refer to state-owned mining and quarrying, manufacturing, electricity, gas and water production and supply industries.
- (4). LOS: Refers to staff and workers employed by all state-owned units, except the state-owned industries, in China's urban areas. It includes people employed in state-owned construction, transport, storage, telecommunications, banking and insurance, social services, education and government agencies, etc. (China statistical Yearbook 1998, p.138)
- (5). LS: Staff and workers employed by total state-owned units in the urban areas.
- (6). LUC: Staff and workers employed by collectively owned units in China's urban areas. A collectively owned unit constitutes the collective enterprises and institutions run by cities, towns and subdistrict offices.
- (7). LP: Staff and workers employed by public-owned units in the urban areas.
- (8). LO: Staff and workers employed by non public-owned units in the urban areas.
- (9). UE: Staff and workers employed in China's urban areas.
- (10). UUNEM (Registered unemployed persons in the urban areas): Refers to persons who have a non-agricultural residence, fall within the range of working age, are capable to labor, and are unemployed but desirous to be employed and have been registered at the local employment service agencies to apply for jobs.

- (11). UERATE (Registered unemployment rate in urban areas): Refers to the ratio of the number of registered unemployed persons to the sum of the number of employed persons and the registered unemployed persons in China's urban areas.
- (12). RULF: Registered labor force in the urban areas. It is calculated by dividing registered unemployment rate in urban areas into the number of the registered unemployment persons in urban areas.

The relationships among these terms are:

$$LS=LSI+LOS$$

$$LP=LS+LUC$$

$$UE=LP+LO$$

$$ULF=UE+UUNEM$$

$$RULF=UUNEM/UERATE$$

3.2 Data and Sources

According to the terms defined above, Table 3.1 is established based on the data in the China Statistical Yearbook 1990 (p.113, 130), 1991 (p.76-87, 97) and 1998 (p.127-131, 138-141). The measuring units for LSI, LOS, LS, LUC, LP, LO, UE, UUNEM, RULF and ULF are 10,000 persons per unit.

The Chinese government sources for the data reported in Table 3.1 are: the Department of Population and Employment Statistics of China State Statistical Bureau, the Department of Overall Planning and Wages of Ministry of Labor and the General Office of State Administration for Industry and Commerce (China Statistical Yearbook 1998, p.125).

Table 3.1: Data of Employment in China's Urban Areas (1978--1997)

YEAR	LSI	LOS	LS	LUC	LP	LO	UE	UUNEM	UERATE	RULF	ULF	DIFF
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
1978	3139	4312	7451	2048	9499	15	9514	530.0	0.053	10000.000	10044.0	44.0
1979	3208	4485	7693	2274	9967	32	9999	567.6	0.054	10511.111	10566.6	55.5
1980	3334	4685	8019	2425	10444	81	10525	541.5	0.049	11051.020	11066.5	15.5
1981	3488	4884	8372	2568	10940	113	11053	439.5	0.038	11565.789	11492.5	-73.3
1982	3582	5048	8630	2651	11281	147	11428	379.4	0.032	11856.250	11807.4	-48.9
1983	3632	5139	8771	2744	11515	231	11746	271.4	0.023	11800.000	12017.4	217.4
1984	3669	4968	8637	3216	11853	376	12229	235.7	0.019	12405.263	12464.7	59.4
1985	3815	5175	8990	3324	12314	494	12808	238.5	0.018	13250.000	13046.5	-203.5
1986	3955	5378	9333	3421	12754	538	13292	264.4	0.020	13220.000	13556.4	336.4
1987	4086	5568	9654	3488	13142	641	13783	276.6	0.020	13830.000	14059.6	229.6
1988	4229	5755	9984	3527	13511	756	14267	296.2	0.020	14810.000	14563.2	-246.8
1989	4273	5835	10108	3502	13610	780	14390	377.9	0.026	14534.615	14767.9	233.3
1990	4364	5982	10346	3549	13895	2721*	16616*	383.2	0.025	15328.000	16999.2*	1671.2*
1991	4472	6192	10664	3628	14292	2685	16977	352.2	0.023	15313.043	17329.2	2016.2
1992	4521	6368	10889	3621	14510	2731	17241	364.0	0.023	15826.087	17605.0	1778.9
1993	4498	6422	10920	3393	14313	3276	17589	420.0	0.026	16153.846	18009.0	1855.2
1994	4371	6843	11214	3285	14499	3914	18413	476.0	0.028	17000.000	18889.0	1889.0
1995	4397	6864	11261	3147	14408	4685	19093	520.0	0.029	17931.034	19613.0	1682.0
1996	4277	6967	11244	3016	14260	5555	19815	553.0	0.030	18433.333	20368.0	1934.7
1997	4040	7004	11044	2883	13927	6280	20207	570.0	0.031	18387.097	20777.0	2389.9

Source: State Statistical Bureau. China Statistical Yearbook 1990, 1991& 1998. China Statistical Publishing Hou

* Sharp change in figures in 1990 according to the statistical adjustment.

$$(3) = (1) + (2)$$

$$(5) = (3) + (4)$$

$$(7) = (5) + (6)$$

$$(10) = (8) / (9)$$

$$(11) = (7) + (8)$$

$$(12) = (11) - (10)$$

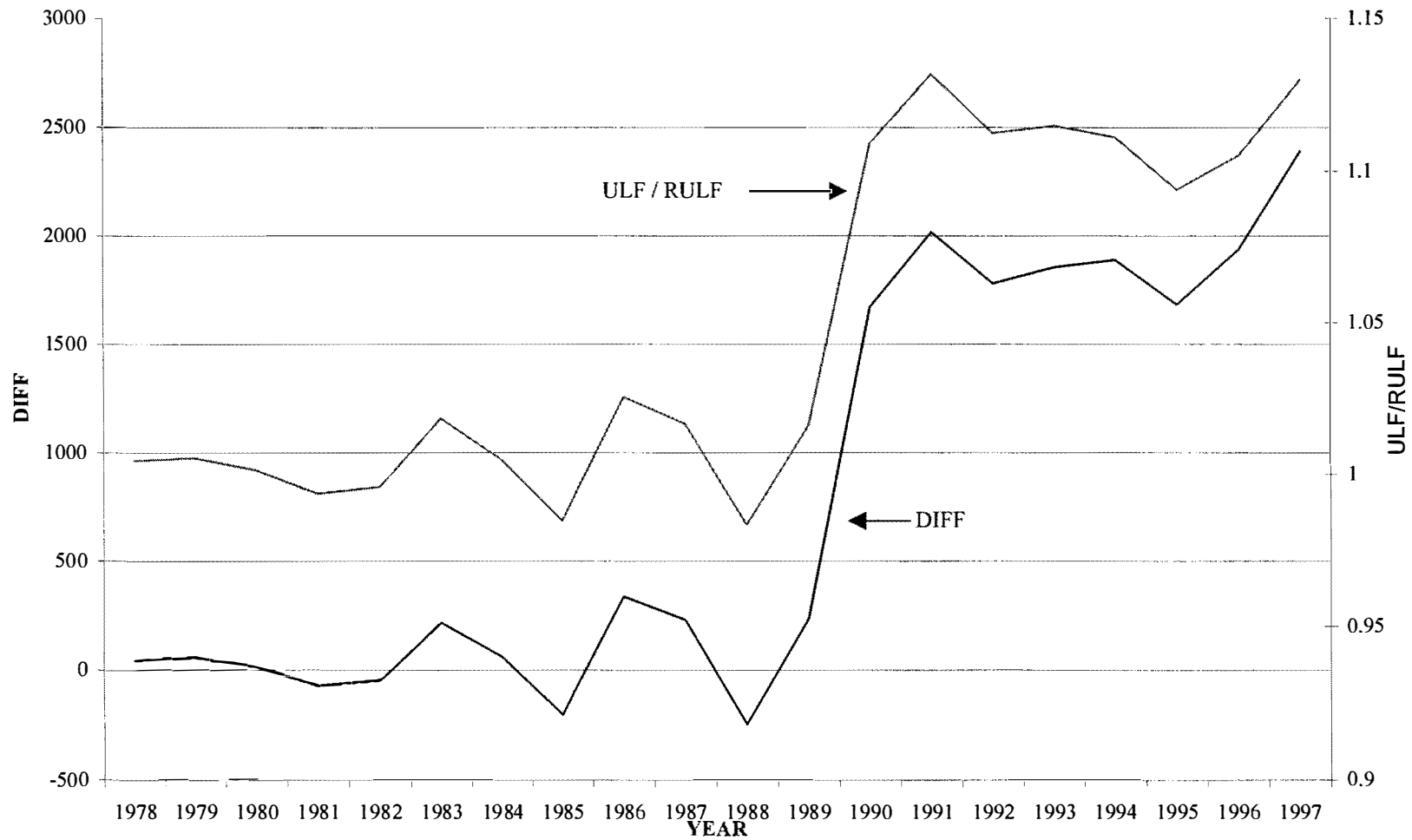
3.3 Data Analysis of the Change of Ownership Structure of Employment in China's Urban Areas

3.3.1 Divergence between the Data of ULF and RULF

Theoretically, ULF should equal RULF. Because of measurement errors, a small divergence could exist between them. This is evident in the employment data presented in Table 3.1, during the period from 1978 to 1989. In 1990, the differential between ULF and RULF widened to a degree that it can not be attributed solely to the measurement error, increasing by about 700% from 1989 to 1990. The widening differential represents an increase of about 20 million unregistered workers from 1990 to 1997 (Figure 3.1).

Two explanations may be used to explain this phenomenon. The first one states that since 1990, the statistics of the total and sub-total employed persons have been adjusted by the State Statistical Bureau in accordance with the data obtained from the sample surveys on population change (China Statistical Yearbook 1998, p.127). The second explanation suggests that the phenomenon of the huge internal migration of population, especially rural-urban migration in China since the late 1980s, has resulted in the increased difference between the actual ULF and the registered ULF (RULF). As millions of people flowed into the urban areas, many of them engaged in casual and informal jobs. Statistics provided by the enterprises and other units employing them did not include the casual and temporary workers in their reports to the government. However, the sample surveys on population changes did include them as persons employed in urban areas. This may explain the large divergence between the data of ULF

Figure 3.1: Difference Between ULF & RULF
DIFF=ULF-RULF, Measured in 10,000 persons per unit



and RULF since 1990. The employment data indicates that the actual urban labor force is between 10 and 12 percent larger than the registered labor force (Figure 3.1).

3.3.2 The Change of the Ownership Structure of the Urban Employment

As a consequence of the reform process, especially since the mid 1980s, the Chinese government provided more freedom to enterprises and individuals concerning employment determination. The implication is that the proportion of urban labor force employed in the public-owned sector will decline. To test this hypothesis, three ratio terms are plotted against the time trend in Figure 3.2. These ratios indicate the percentage of persons employed by different sectors to the total urban labor force.

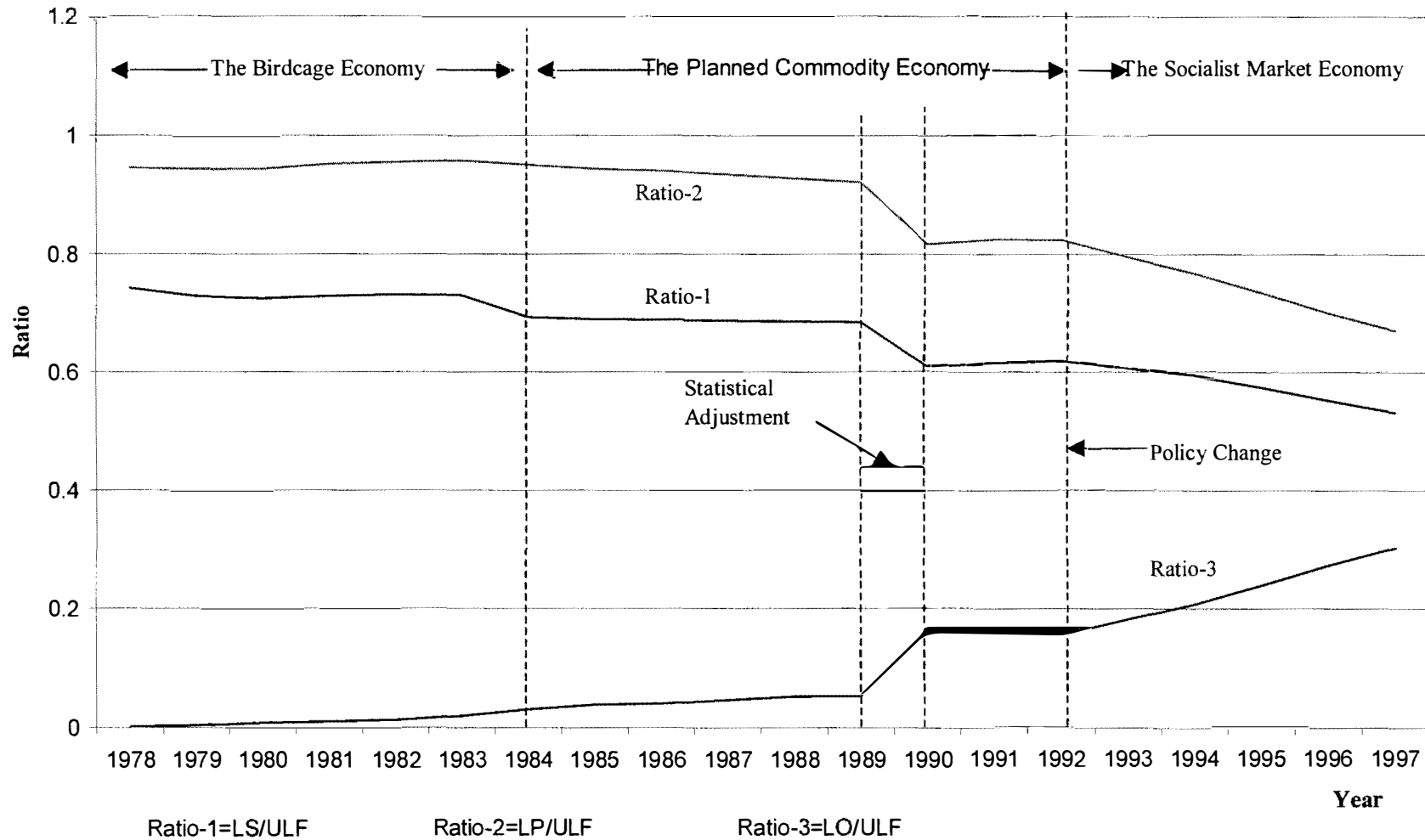
$$\text{Ratio-1} = \text{LS/ULF}$$

$$\text{Ratio-2} = \text{LP/ULF}$$

$$\text{Ratio-3} = \text{LO/ULF}$$

In Figure 3.2, Ratio-1 and Ratio-2 have declined continually, except for a slight increase in the early 1980s. This increase in the early 1980s resulted from two political events. The first one centers on the reform policies in 1980 in which the Chinese government encouraged the establishment of small urban collective enterprises. The second event is that by 1981, about 17 million young people who were rusticated to the countryside during the “Cultural Revolution” period returned to the cities. In addition to new middle school graduates, the government was forced to arrange jobs for these job-seekers, and most of them were placed as laborers assigned to SOEs and collective

Figure 3. 2: Time Series of Employment Ratios (1978--1997)



enterprises: "...in the period from 1978 to 1983, more than 44 million urban job-seekers found employment" (Reynolds 1988, p.190).

Since the mid 1980s, the Chinese government carried out the reform of the "planned commodity economy." The non public-owned sectors were encouraged to develop swiftly, and greater flexibility was offered to the reform of the former rigid labor allocation system. Thus, Ratio-1 and Ratio-2 decreased faster than they did during the early stage of the reform process. At the same time, the ratio of people working in the non public-owned sectors as compared to the total urban labor force continued to grow. Because the State Statistical Bureau of China made adjustments (see section 3.3.1.) to the statistical method since 1990 (which included the influence of the population migration), the statistics of the total urban labor force and employees of the non public-owned sectors shifted dramatically in 1990. Hence, the ratios of persons employed by respective sectors to the total labor force showed a sudden change in 1990. Ratio-1 dropped from 0.6845 to 0.6086 and Ratio-2 fell from 0.9216 to 0.8174, a drop of about 12%. Ratio-3 increased from 0.0528 to 0.1601, an increase of about 303%. During the period from late 1989 to 1992, accompanying the occurrence of the Tiananmen Square Incident and the collapse of the former Soviet Union, the reform process stalled. During this period, the ratios of persons employed in the state-owned units and public-owned units stopped decreasing, and even increased slightly. On the opposite side, Ratio-3 fell slightly.

Since late 1992, China abandoned the former planning system and implemented the reform policies to establish the socialist market economy. Following this new reform process, as well as the restructuring of the public-owned sectors and the dramatic

development of the private and other non public-owned sectors, the ownership structure of employment in China's urban areas changed significantly. The trend in the ratios displayed in Figure 3.2 accelerated after 1992. From 1992 to 1997, Ratio-1 dropped by more than 12%, Ratio-2 by more than 15%, and Ratio-3 increased by more than 66%, which was the most significant change.

It is reasonable to say that the reform process has dramatically changed the ownership structure of the employment (allocation of labor) in China's urban areas. Since the Chinese government set the goal to complete the establishment of the socialist market economy by the end of 2010, more reform policies are sure to be carried out, especially in the state-owned sector. China has been putting great effort into restructuring its SOEs. Beginning in 1998, China began to reduce the government staff (from 1998 to early 1999, half of the staff of the State Council and all ministries were dismissed) and instituted a 500,000 man reduction of the People's Liberation Army (Zhu Rongji. 1999. Report at the Second Plenum of the Ninth National People's Congress). All of these factors make it clear that a large number of workers have entered or will enter the non public-owned sectors. As the non public-owned sectors grow, their ability to absorb new and displaced workers will also increase. Thus, it is possible that Ratio-3 could show a more significant rise in the first decade of the 21st century; it might even equal Ratio-2 by the year 2010.

China proclaimed maintaining socialism as a top priority. Its economy has been based on public ownership, therefore, it is very possible that the public-owned sectors will remain the main employer of the urban labor force in the long run.

3.4 The Unemployment Problem in China's Urban Areas

The unemployment problem is very sensitive to every government. It is particularly important to the Chinese government, which views full employment as a top priority. As stated before, in order to realize the “full employment” goal according to socialist principles, China has kept a large proportion of the labor force “unemployed on the job.” At the end of 1996, in China's urban areas, there were 22 million surplus laborers within SOEs and collective enterprises (Xin 1997, p.380). Since the early 1990s, the unemployment problem in China's urban areas has become more serious. As China has been restructuring its economy toward a market system, many public-owned enterprises, especially SOEs, were allowed to be closed down or to “dismiss” (here it refers to produce “off-position” persons) employees if they had deficit problems. Thus, a large population of unemployed and “off-position” (The “off-position” population is a special concept in China, referring to persons who lack work, while the former enterprises still offer them minimum salary and welfare benefits) persons surfaced in China's urban areas.

3.4.1 The Real Extent of the Unemployment Problem in Urban Areas

The registered unemployed population in China's urban areas has experienced two upward structural shifts since the beginning of China's reform process. The first occurred during the period from 1978 to the early 1980s, when a large number of young people who were rusticated to the rural areas returned to the cities. The second wave began in 1993 and still continues today.

The phenomenon of the large “off-position” population began in 1993. According to the research from the State Research Academy of China, from 1993 to 1997, the figures of the “off-position” population are: 3 million in 1993, 3.6 million in 1994, 5.64 million in 1995, 8.916 million in 1996 and 12 million in 1997 (Hu 1998, p.4). The "off-position" population is a very blurred concept because it involves two categories of the population: (1) people who have no work, and (2) people who are reassigned to new jobs (Xin 1997). Thus, people in the first category should be included in the unemployed population by international standards. The actual unemployed population and unemployment rate in China’s urban areas should be much higher than those shown in the registered data. For example, suppose that 40% of the “off-position” population (a low estimation) has not been reassigned to new jobs, more realistic estimations of unemployed workers and unemployment rates are provided in the table below (Table 3.2).

Table 3.2: Real Unemployment Population Estimators In China’s Urban Areas (in millions)

Year	(1) UNNEM	(2) Off-position Population	(3) Unemployed Persons in Off-position Pop.(40% estimation)	(4) Real Unemployed Pop.	(5) Real Unemployment Rate(%) (Estimated)
1993	4.2	3.0	1.2	5.4	3.3
1994	4.76	3.6	1.44	6.2	3.6
1995	5.2	5.64	2.256	7.456	4.0
1996	5.53	8.916	3.56	9.09	4.9
1997	5.7	12	4.8	10.5	5.7

Sources: Data in column 1 are cited from China Statistical Yearbook 1998. Data in column 2 are from Hu[1998]. Others are calculated by using the 40% estimation.

(4) = (1) + (3)

(5) = (4) / ULF

From Table 3.2, it can be seen that the unemployment problem in China’s urban areas has been understated in government estimates and the actual unemployment level

has increased. If the large population of surplus laborers who are still in the public-owned sectors and newly generated young job-seekers are included, “till the end of 2000, the unemployed population in the urban areas will reach 16 million, the unemployment rate will increase to be 7.4%” (Xin 1997, p.380). Since high unemployment rates bear the risks of sociopolitical instability and loss of GDP, it becomes an urgent task for the Chinese government to carry out effective reform policies to create sufficient jobs for people.

3.4.2 Some Explanations to the Unemployment Problem

The following reasons may be used to explain why, since 1993, a serious problem of unemployment in China’s urban areas has developed.

< A >. Rapid Growth of the Labor Supply

The growth rate of China’s population within the working age is much higher than that of the total population. According to the policy goal, to reach “full employment,” the percentage of people employed of the total population in China is much higher than that of other countries in the world. In 1993, this percentage in China was 57%, while in the industrialized countries it averaged 49%. Also, since the establishment of P. R. China in 1949, Chinese women are given equal opportunities in employment, education and their social lives. Hence, the ratio of women employed in relation to the total labor force is very high in China. In 1993, this ratio averaged 44% for all developed countries and 39% for all developing countries, but in China it was 45% (UNDP 1996, p.168-169). All of these factors place great pressure on the Chinese government to provide jobs for an

increasing population. According to the World Bank[1997], in 1995 the labor force in China consisted of 26.3% of that in the world, but in the same year China's domestic investment only occupies 3.4% of the total investment in the world. Thus, China used a small capital resource to expand employment opportunities for about 25% of the total labor force in the world. This situation is very difficult to improve in a brief period of time as China engages in the reform process, which requires a large amount of capital resources.

< B >. Significant Structural Changes

Rapid economic development since 1978 has resulted in significant changes to China's economy. Two important changes might be attributed to the occurrence of the large unemployed population. The first one is the rapid change of the industrial structure. Since 1978, China's agricultural sector changed from an absorbing sector of labor force to an excluding sector. The contribution of the agricultural sector to the total labor force employed declined from 70% in 1978 to 50% in 1995. This economic transformation took Japan 60 years to complete (1870-1829), and took the U.S. 50 years (1820-1870) (Hu 1998, p.7). In comparison, China's structural change is occurring in a very short time period relative to the historical norm. Although the decline of agriculture's share was an unavoidable result of industrialization, it freed the rural-urban migration and intensified the urban unemployment problem.

In conclusion, China is now undergoing a dramatic structural change and moving toward a market economy. During this transformation, labor resources will be reallocated. In the initial period, the ratio of persons employed by the public-owned

sectors compared to the total labor force has declined rapidly in China. However, the non public-owned sectors have only begun to emerge, and do not have the ability to absorb all of labor surplus leaving the public-owned sectors. Thus, China may not be able to avoid a large structural unemployed population (including “off-position” people). As the growth in non public-owned sectors accelerates, their ability to provide jobs for the unemployed population should also increase, which in turn will contribute to improving or even solving the unemployment problem.

3.4.3 A Few Policy Suggestions

Based on the discussion above on the unemployment problem, the following policy suggestions might offer possible solutions for the problem of large unemployment and “off-position” population in China’s urban areas.

<1>. The state and local governments should set goals to reduce the real unemployment rate as one of the most important policy tasks, and make reducing the unemployment population one of the criteria to evaluate and promote government officials.

<2>. Intensively develop labor-intensive industries, including the services industry. The Chinese government should also continue to enlarge its exports of labor-intensive commodities and labor services.

<3>. Intensively develop non public-owned sectors in the urban areas, and encourage people to work in non public-owned and informal sectors. In rural areas, the government should offer preferential conditions for TVEs to accelerate their developing paces.

<4>. Accelerate the establishment of a social unemployment insurance system, and develop training and retraining systems for the labor population.

Chapter IV. Conclusions & Recommendations for Future Research

4.1 Conclusions

Since the 1970s, many socialist countries have carried out reform policies to restructure their economies. Among them, China realized significant economic and sociopolitical development. China's reform experience differs from those of other countries. Based on its special conditions, China followed a gradual reform process to spur economic development. With more than twenty years of reform experience, this gradual reform strategy has proved correct for China's economic revitalization.

China began its reform process from the ground-up by granting managerial autonomy to enterprises and rural households. The market mechanism was, at first, only introduced under the control of the planned system. When the enterprises and peasant households realized increased production effectively, the market adjustment mechanism gained greater importance in China's economy as a resource allocation mechanism. From the "birdcage economy" era to the "planned commodity economy" period and later to the establishment of the "socialist market economy," the Chinese government gradually set the market-oriented direction for its reform process and carried out reform policies to China's sociopolitical and economic fields. Also, step by step, China's economy has been opened up to the outside world.

In the areas of employment and migration control, the Chinese government has gradually freed the former rigid labor allocation and "*hukou*" systems. As a consequence,

the employment in China's urban areas has been undergoing structural changes. Following the dramatic development of private and foreign-invested enterprises, more and more workers (including rural-urban immigrants) found their jobs in non public-owned sectors. Thus, the ownership structure of the employment in China's urban areas has changed dramatically. However, the economic transformation process has also created an unemployment problem for the Chinese government since 1993.

The Chinese government is now putting a great deal of effort into economic modernization and sociopolitical development. Following the establishment of the socialist market economy with Chinese characteristics and the accelerating development of the non public-owned sectors, further changes in the employment structure of China's urban areas will occur. The expanding non public-owned sectors should also improve the unemployment problem.

4.2 Recommendations for Further Research

Employment in China is an interesting topic for the research in the areas of economics and social science. Due to time restraints, this paper can only present primary research on the structural change of employment in China's urban areas. To further this research, the following points might suggest some directions.

First, a few models can be established regarding the ownership structural change of the employment in China's urban areas. With these models, the future changing tendency of the ownership structure of employment could be forecast. This might be useful for the

policy makers to more thoroughly understand the employment problems in China's urban areas and set efficient reform policies.

Second, a regional or provincial comparison can be done if data concerning the structural change of the employment of different regions or provinces are included in the research. This comparative research might be useful for understanding the inequality problems between China's different regions and provinces.

Third, other changes of the employment structure, like the industrial structure of the employment, can be taken into account. From which the relationship between the structural change in production and the structural change in labor allocation within the reform process could be linked directly.

Fourth, the structural changes of employment in China's rural areas can be included in the research, which will make the research more comprehensive and reveal the entire tendency of the structural change of employment during China's reform period.

Finally, this research can be used to determine the current unemployment problem in China's urban areas, which in turn is also a specific research topic.

China's reform experience and economic development strategies provide new resources for the research in the fields of macroeconomics, political economy and economic development. As the Chinese government furthers the reform process toward the establishment of a socialist market economy, China's experience will provide insight on the economic and sociopolitical development of the developing countries in the world.

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