

10-15-2000

The Effect of China's Economic Reform Program on the Employment Structure in China's Urban Areas

Feng Xu

South Dakota State University

Scott Fausti

South Dakota State University

Dwight Adamson

South Dakota State University

H. Kim

South Dakota State University

Follow this and additional works at: http://openprairie.sdstate.edu/econ_staffpaper



Part of the [Economics Commons](#)

Recommended Citation

Xu, Feng; Fausti, Scott; Adamson, Dwight; and Kim, H., "The Effect of China's Economic Reform Program on the Employment Structure in China's Urban Areas" (2000). *Department of Economics Staff Paper Series*. Paper 150.
http://openprairie.sdstate.edu/econ_staffpaper/150

This Article is brought to you for free and open access by the Economics at Open PRAIRIE: Open Public Research Access Institutional Repository and Information Exchange. It has been accepted for inclusion in Department of Economics Staff Paper Series by an authorized administrator of Open PRAIRIE: Open Public Research Access Institutional Repository and Information Exchange. For more information, please contact michael.biondo@sdstate.edu.

**The Effect of China's Economic Reform Program
on the Employment Structure
in China's Urban Areas**

by

F. Xu, Fausti S.W., Adamson B., and Kim H.*

Economics Staff Paper No. 2000-13
October 2000

*Feng Xu is a graduate student of Economics Dept. at South Dakota State University, Dr. S. Fausti and Dr. B. Adamson are Associate Professors at Economics Dept. of SDSU. Dr. H. Kim is a professor at Economics Dept. of SDSU. Please send all correspondence to Dr. S. Fausti at the address: Scobey Hall, Economics Dept., South Dakota State University, Brookings, SD 57007. Tel: (605)688-4868

Papers in this series are reproduced and distributed to encourage discussion on research, extension, teaching, and economic policy issues. Although available to anyone on request, Economic Department Staff Papers are primarily intended for peers and policy makers. Papers are normally critiqued by some colleagues prior to publication in this series. However, they are not subject to formal review requirements of South Dakota State University's Agricultural Experiment Station and Cooperative Extension Service publications.

The Effect of China's Economic Reform Program on the Employment Structure in China's Urban Areas

ABSTRACT

A review of China's economic and political reforms since 1978 is provided and then linked to structural change in China's urban labor force as a result of the reform process. Analysis of data on urban labor allocation in China from 1978-97 indicates labor is being reallocated from the public sector to the private sector at a very rapid pace. The data indicates the urban labor has doubled and employment in the private sector has increased from nearly zero to a little over 30% in a 20 year period. The data also suggest that Chinese estimates of urban employment and unemployment are underestimated in official records.

Key Words: Asia, China, Labor, Market Reform

Introduction

In late 1978, China began to implement political and economic reform policies. The goal of the undergoing reform process is to transform the Chinese economy from a centralized planning system into a decentralized market system. The Chinese leadership believe this reform process is necessary sustain long-term stable development.

China has realized remarkable progress toward reaching its economic and social development goals. 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 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.⁵ 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%.⁶

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.

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 and political and military reasons, the Chinese government selected a heavy industry orientation strategy to speed economic development. Based on the blueprint of the former Soviet Union's Planning model, China established a highly centralized planning system, which resulted in the emergence of a planned resource allocation system, state and public owned industries in urban areas and "People's Commune" system in rural areas (Lin 1994). The private economic sector was forbidden, and the socialist system of public ownership became the sole base for the Chinese economy.

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. The centralization of the Chinese economy distorted resource allocation and produced economic imbalances between the major economic sectors in China (Zhang 1990).

In addition, the Chinese government sought to achieve a pure socialism in the political arena. A series of radical political and ideological campaigns were carried out, especially the Great Leap Forward (1958--1960) and the Cultural Revolution (1966--

1976) campaigns, in which the "class struggle" supplanted economic development. Thus, the development of the national economy was impeded. In 1978, the government concluded that it was imperative that a solution to revitalize the economy be found.

Reform and Opening Up Policies Since 1978

China's economic and political reform process can be divided into three stages. The first stage is from late 1978 to 1984, which is called the "birdcage economy stage" (Yabuki 1995). In December 1978, The Chinese Communist Party convened the Third Plenum of the Chinese Communist Party's Eleventh Congress. This signaled the beginning of China's economic and sociopolitical reforms. At that meeting, the Chinese Communist Party changed its development focus away from the "class struggle" toward economic modernization. The Party 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. Since then, China has been undergoing significant economic and sociopolitical transformation toward a market oriented and decentralized economy. During the period from 1978 to 1984, China implemented the "Household Responsibility System" in rural area, and gradually granted autonomy and benefits to the enterprises. The reform policies increased productivity and the working enthusiasm of peasants and workers. Agricultural and industrial production grew at an unprecedented rate.

In the external sector, in early 1979, China began to establish "special economic zones" and to formally introduce foreign investment. In the early 1980s, China began to

regain memberships in international institutions, and opened fourteen coastal cities to the outside world, thus opening the door to foreign capital, advanced technology and management experience (T. Li 1999, p.51).

From 1978 to 1984, the economic planning system continued to act as the basis for China's economy. However, as the reforms took hold, the market adjustment mechanism was introduced gradually into the national economy. The former rigid centralized system began to lose its effectiveness.

In late 1984, the Chinese reform process entered its second stage. 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" (Yabuki 1995, p.43). By defining that the Chinese economy was a commodity economy, China necessitated some capitalistic measures into its development of socialism. As a consequence, China experienced rapid economic 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.

Increased productivity in the agricultural sector occurred as a result of the reforms implemented during the second stage of the reform process. This freed a large segment of the rural population from agriculture, fueling increased rural-urban migration. In the industrial sector, state-owned enterprises (SOEs) were given greater management flexibility. The "management responsibility system" and the "enterprises management

system" were implemented, in order that the SOEs could be run more efficiently without government intervention. At the same time, China began systematic reforms of resource allocation mechanisms: a) macro policies, b) city administration, and c) the social security system (Xin 1997, p.40). But due to the problems left by the former rigid planning system, problems of unemployment in China's urban areas and deficits of SOEs became serious. Furthermore, price system reform policies induced inflation and official corruption, thus raising the people's resentment. In May and June of 1989, the resentment resulted in the Tiananmen Square Incident. In addition, the disintegration of the former Soviet Union had a negative effect on the Chinese party's reform efforts. The reform process stalled in 1989, and the political sphere tightened.

In early 1992, Deng Xiaoping made an inspection tour of the south of China. He officially declared "important talks" to advocate a speedup of the reform and opening-up (Yabuki 1995, p.259). In October 1992, the Chinese Communist Party convened the Fourteenth Party Congress and raised the concept of the "socialist market economy." This signaled the start of the third stage of China's reform process. Later, in 1995, the Party decided to complete the transformation of China's economy to the market economy by the year 2010.

Since 1992, China has carried out intensive reform policies. The economy is expanding at an accelerated pace. In the area of SOEs, establishing a modern enterprise system was focused on, along with the introduction of share holding ownership reform. The privatization and renting of some SOEs occurred. In the external field, in 1992, China opened all principal cities and regions of China (except Tibet) to the outside.

The development of non public-owned sectors in China's urban areas has been very significant since 1992. The non public-owned sectors can be divided into 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 total industrial output, but by 1997, they accounted for about 36.4% (China Statistical Yearbook 1998, p.433). Also, at the end of 1997, these non public-owned sectors employed about 31% of the employed staff and workers in China's urban areas, compared to less than 1% in 1978 (China Statistical Yearbook 1998, p.130, 635-637).

Along with the rapid development of the Chinese economy, especially the development of non public-owned sectors, China's economic structure has been undergoing significant changes. Which in turn, resulted in the structural change of employment in China's urban areas.

Reform of the Employment Policies of China

In the 1950s, China implemented a highly centralized planning system. As a consequence, the state planning system governed the urban employment field, which resulted in a rigid wage policy and a rigid unified labor allocation system. Within this system, all new laborers were dispatched to particular jobs. The job assignment was for life. Urban workers had many welfare benefits like free medical care, housing and pensions, etc. Income distribution in China during this period can best be described as egalitarianism. In addition, reaching "full employment" is a principle of a socialist system, so before 1978, the Chinese government "converted open unemployment into

'unemployment on the job' in both state and collective sectors" (White 1988, p.185).

These policies resulted in the over-manning of Chinese enterprises and created an immobile labor force. The lack of labor flexibility resulted in low efficiency with respect to resource allocation and production, and low worker morale.

Accompanying the economic reform process, the Chinese government found it necessary to reform the former rigid labor allocation and wage policies. The first step was introduced in the late 1970s by granting enterprises the autonomy to offer material incentives to workers. Gradually, enterprises were given the right over the internal distribution of employee compensation.

From 1980, the Chinese government encouraged laborers to establish small urban collective enterprises and to engage in self-employed commercial and industrial operations. The former fixed job tenure was abandoned by implementing a comprehensive "labor contract" system. The enterprises were, step by step, granted autonomy to choose and evaluate workers. Also, as the non public-owned sectors experienced dramatic growth, they created new opportunities for job seekers. Employment in China's urban areas thus underwent a significant structural change.

Under the former rigid system, China kept unemployment within state-owned and collective enterprises. Due to the "full-employment" commitment of the Chinese government, the SOEs and urban collective enterprises were forbidden to dismiss unneeded workers. Since 1993, many SOEs met financial problems and some of them were closed down, surplus workers of these enterprises were included into a special category called "off-position" workers. This meant workers lacked work but the former

enterprises and the government still provided their necessities. As China extends the market oriented reform policies and further restructures the economy, the problems of unemployment and "off-position" population in China's urban areas will remain or become even more serious.

Reform of the Migration Control Policies

The implementation of the heavy industry orientation strategy required the Chinese government to restrict the huge rural population within the rural areas. In the 1950s, China carried out a restrictive migration control policy called the "*hukou*" (Household Registration) system. Under the system, each household and its members were categorized through an "agricultural" or "urban" residence status, and people were confined to reside and work only where they had their "*hukou*." Movement from rural to urban areas was extremely difficult, but urban-rural migration was encouraged. During the period of the "cultural revolution" (1966--1976), about 17 million young high school graduates were rusticated to the rural areas (Reynolds 1988, p.190).

The migration control policies effectively restrained a majority of China's population to rural areas. However, as the inequality between rural and urban areas grew, people in the rural areas were eager to seek a better life and greater economic opportunities in urban areas. As China gradually liberalized its economy, it became impossible for the Chinese government to forbid rural surplus labor to migrate to the urban and more developed areas. As the economy and non public-owned sectors experienced rapid growth, internal migrations, especially rural-urban migration increased dramatically.

According to this tendency, China gradually reformed its migration control policies. In the mid 1980s, the reform policies of issuing "temporary residence certificates" and "identity cards" system were implemented, which encouraged legal migration. Relaxation of the migration policies created a great population flow and estimates on the size of the migration suggest 50 million people have migrated to urban areas in the early 1990s (China Daily, March 3, 1994).

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

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. The following discussion and analysis are based on empirical data.⁷

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 the registered unemployment rate in urban areas into the number of the registered unemployed persons in urban areas.

- (13). The relationships among these terms are:

- | | |
|-----------------------------|------------------------|
| a). $LS = LSI + LOS$ | b). $LP = LS + LUC$ |
| c). $UE = LP + LO$ | d). $ULF = UE + UUNEM$ |
| e). $RULF = UUNEM / UERATE$ | |

Data on these terms have been collected for the 1978—1997 period. The data are reported in Table 1. Table 1 is 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.⁸

A Comparison of the Actual Urban Labor Force (ULF) to the Registered Labor Force (RULF)

Theoretically, ULF should equal RULF in a centralized planning economy. Because of measurement errors, a small divergence could exist between them. This is evident in

the employment data presented in Table 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 1).

Two events may be used to explain this phenomenon. The first event occurred in 1990, employment statistics were adjusted by the State Statistical Bureau in accordance with the data obtained from sample surveys on population change (China Statistical Yearbook 1998, p.127). This change in statistical procedures accounts for the one time increase of 15 million ULF workers relative to the official RULF statistics. The second event is the phenomenon of the huge internal migration of population, especially rural-urban migration in China since the late 1980s. Migration is the key to explaining the increased difference between the actual ULF and the registered ULF (RULF). One can postulate that the dramatic increase in rural-urban migration forced the government to change its statistical procedures in 1990. For example, as millions of people flowed into the urban areas, many of them engaged in casual and informal jobs. Statistics provided by 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 and RULF since 1990. The employment data since 1990 indicates that the actual urban labor force is between 10 and 12 percent larger than the registered labor force (Figure 1).

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 has provided more freedom to enterprises and individuals concerning employment selection. The implication is that the proportion of urban labor force employed in the public-owned sector will change as labor is reallocated to the private sector. To test this hypothesis, three ratio terms are plotted against the time trend in Figure 2. These ratios indicate the percentage of persons employed by different sectors to the total urban labor force.

a). Ratio-1= LS/ULF

b). Ratio-2= LP/ULF

c). Ratio-3= LO/ULF

In Figure 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

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 policies of the "planned commodity economy" initiative. The non public-owned sectors were encouraged to develop swiftly, and greater flexibility was offered to allow reform of the former rigid labor allocation system. Thus, the decline in Ratio-1 and Ratio-2 accelerated during the second 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 to the statistical methods used to estimate employment in 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 reversed direction and 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 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%.

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.

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.

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 as inefficient firms are closed.

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, a more realistic estimation of the number of the unemployed workers and unemployment rate can be calculated and is provided in the table below (Table 2).

Table 2: Real Unemployment Population Estimators In China's Urban Areas (in millions)

	(1)	(2)	(3)	(4)	(5)
Year	UNNEM	Off-position Population	Unemployed Persons in Off-position Pop.(40% estimation)	Real Unemployed Pop.	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 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 employment opportunities for the Chinese people.

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 efficiency, 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 according to China's sociopolitical and economic goals.

In the areas of employment and migration control, the Chinese government has gradually freed the population from 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 employment in the non public-owned sector. 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.

Endnotes

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.
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. Unified in the sense means that the central government made all labor allocation decisions.
6. State Statistical Bureau. 1998. *China Statistical Yearbook 1998*. China Statistical Publishing House.
7. All data used in the analysis are cited and calculated from the data in the 1990, 1991 and 1998 China Statistical Yearbook.
8. The Chinese government sources for the data reported in Table 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).

References

- Asian Development Bank. 1999. *Annual Report 1998*. Asian Development Bank.
Metro Manila, Philippines.
- Balassa, Bela. 1987. "China's Economic Reforms in a Comparative Perspective." *Journal of Comparative Economics* (November, 1987).
- China Daily*. March 3, 1994
- China Economic Yearbook 1981*. Economic Management Press, China. 1982
- State Statistical Bureau. 1990. *China Statistical Yearbook 1990*. China Statistical
Publishing House.
- State Statistical Bureau. 1991. *China Statistical Yearbook 1991*. China Statistical
Publishing House.

- State Statistical Bureau. 1993. *China Statistical Yearbook 1993*. China Statistical Publishing House.
- State Statistical Bureau. 1998. *China Statistical Yearbook 1998*. China Statistical Publishing House.
- Chinese Communist Party. 1978. "Communiqué of the Third Plenum of the Eleventh Chinese Communist Party Congress." *Beijing Review* (Dec. 29, 1978).
- Davin, Delia. 1999. *Internal Migration in Contemporary China*. St. Martin's Press, Inc.
- Deng, Xiaoping. 1984. *Collected Works of Deng Xiaoping, Vol.2*. People's Press, China.
- Fan, Gang. 1990. *Outline of the Public Ownership Macroeconomic Theories*. Shanghai Sanlian Bookstore.
- Goldstein, Alice & Wang Feng. 1996. *China: The Many Facets of Demographic Change*. Westview Press.
- Hu, Angang. 1998. "The Unemployment Problem and Employment Strategy of China." <http://forum.cei.gov.cn/Forum50/NameList/HuAnGang/h2.htm>.
- Jiang, Zemin. 1992. "Report at the Fourteenth Chinese Communist Party Congress." *Beijing Review* (Oct. 26, 1992).
- Jiang, Zemin. 1997. "Report at the Fifteenth Chinese Communist Party Congress." *People's Daily* (Sep. 13, 1997).
- Kliver, Alan R. 1996. *Legitimizing the Chinese Economic Reforms*. State University of New York Press, Albany.
- Liberalization Daily*, Oct. 5, 1995.

- Li, Shuhe. 1999. *The Road from Socialism to Capitalism: Determinants of the Private Sector Development in Chinese Industry*, International Workshop "International Trade, Industrial Organization, and Asia." Hong Kong, August 2-6, 1999.
- Li, Tieyin. 1999. "The Formation and Great Development of the Socialist Market Economic Theory." *Xinhua Wenzhai* (June, 1999).
- Li, Xiaoxi. 1999. "The Development and Analysis of the Non Public-owned Economy." <http://forum.cei.gov.cn/Forum50/newwork/19990111bb1xx4.htm>.
- Lin, Yifu, Fan Cai & Zhou Li. 1994. *The Miracle of China*. Shanghai Sanlian Bookstore.
- People's Daily*, 07/02/1979, 01/26/1982, 04/07/1984, 01/04/1989, 11/05/1998.
- Perkins, Dwight. 1994. "Completing China's Move to the Market." *Journal of Economic Perspectives*(Vol.8, No.2, 1994).
- Reynolds, Bruce L. 1988. *Chinese Economic Reform: How Far, How Fast?*. Academic Press, Inc.
- Roberts, Dexter, Prasso Sheri & Mark L. Clifford. 1999. "As the state sector crumbles, dynamic private companies are taking up the slack." *Business Week* (Sep. 27, 1999).
- Solinger, Dorothy J. 1999. *Contesting Citizenship in Urban China*. University of California Press, Berkeley and LA., CA.
- United Nations Development Program. 1996. *Human Development Report 1996*. New York: Oxford University Press.
- Wang, Feng & Xuejin Zuo. 1999. "Inside China's Cities: Institutional Barriers and opportunities for Urban Migrants." *The American Economic Review* (May 1999).

- Wang, Haiping & Chunbo Wu. 1994. *National Economy Management*, People's University Press, China.
- White, Gordon. 1988. "State and Market in China's Labour Reforms." *Journal of Development Studies* (V.24, No.4, July 1988).
- World Bank. 1985. *China: Long-term Development Issues and Options*. The Johns Hopkins University Press.
- World Bank. 1997. *World Development Indicators 1997*. New York: Oxford University Press.
- Wu, Jinlian. 1998. "The Development of the Reform Theory in the last Twenty Years." <http://forum.cei.gov.cn/Forum50/newwork/0004.html>
- Xin, Junfang. 1997. *The Economic Trend of China in the 21st Century*. The Central Party School Press of Chinese Communist Party.
- Yabuki, Susumu. 1995. *China's New Political Economy*. Westview Press.
- Yin, Xiangkang. 1998. "The Macroeconomic Effects of Waiting Workers in the Chinese Economy." *Journal of Comparative Economics* (26/1998).
- Zhang, Zhongli. 1990. "The Chinese Economic Regulatory Mechanism in Transformation." *Journal of Asian Economics* (Vol.1, No.1, 1990).
- Zhao, Ziyang. 1988. *Advance Along the Road of Socialism with Chinese Characteristics* (Report at the Thirteenth Chinese Communist Party Congress). Xinhua Press.
- Zhu, Rongji. 1999. *Report at the Second Plenum of the Ninth National People's Congress*. People's Press, China.

Table 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.

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

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

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

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

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

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

Figure 1: Difference Between ULF & RULF
DIFF=ULF-RULF, Measured in 10,000 persons per unit

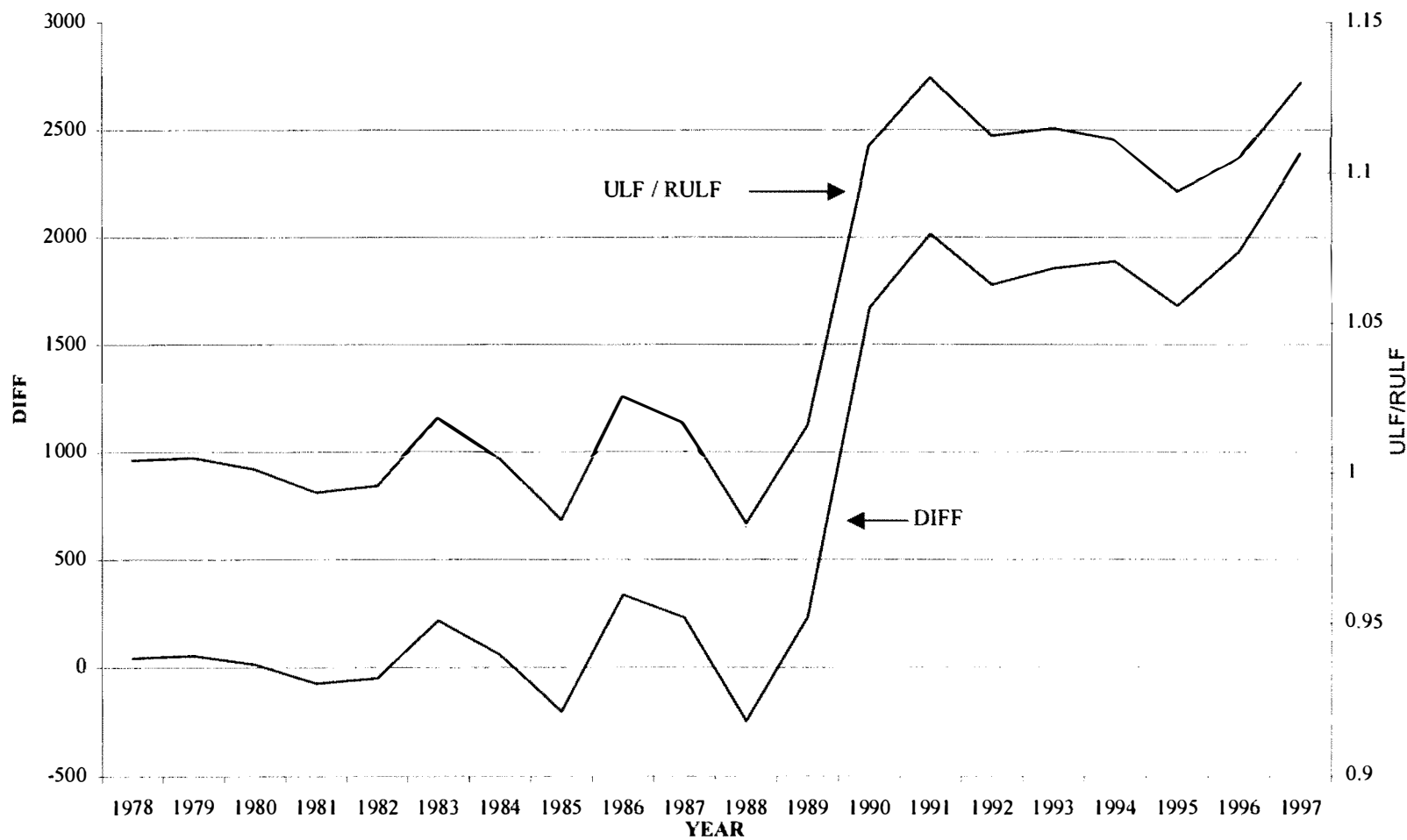


Figure 2: Time Series of Employment Ratios (1978--1997)

