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CHINA

CHINA'S LABOR MARKET AND PROACTIVE EMPLOYMENT POLICY

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Organisation for Economic Co-operation and Development

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China has a population of 1.3 billion, and is the most populous country in the world. The population over the age of 16 was 1,025 million, of which the urban population was 562.12 million and the rural population 745.44 million; the economically active population was 778.77 million and the workforce participation rate was 76% in 2005. To perfect market-oriented employment mechanism and solve the employment issue in China is a strenuous, arduous and pressing task.

I. Development of labor market and employment situation.

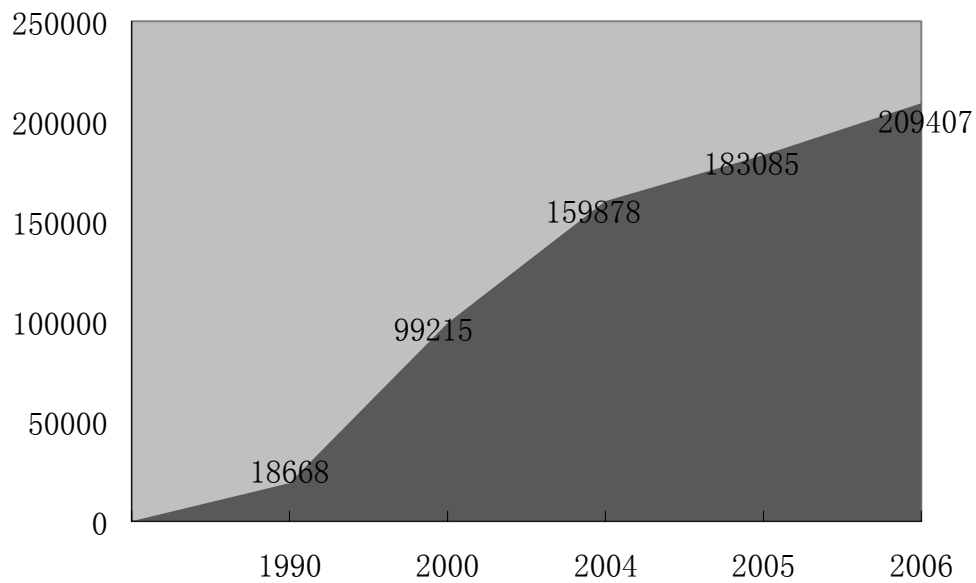
1. China carry out reform and opening-up policy .Its economy maintained steady and rapid growth into the 21st century.

Economic reforms began with the rural areas in 1978, and were extended to the cities in 1984. In 1992, after some 10 years of reform in the clear direction of the establishment of a socialist market economy, the government set out the main principles of economic restructuring: encouraging the development of diversified economic elements (while retaining the dominance of the public sector); creation of a modern enterprise system to meet the requirements of the market economy; a unified and open market system across China, linking domestic and international markets, and promoting the optimization of resources; transformation of government economic management in order to establish a complete macro-control system; encouraging certain lead groups and areas to become rich first, enabling them to help others towards prosperity too; the formulation of a China-appropriate social security system for both urban and rural residents, so as to promote overall economic development and ensure social stability.

A socialist market economic system has now taken shape, and the basic role played by the market has been improved in the sphere of resource allocation. At the same time, the macro-control system continues to be perfected. The pattern has basically been formed in which the public sector plays the main role alongside non-public sectors such as individual and private companies to achieve common development. According to the plan, China is forecast to have a relatively complete socialist market economy in place by 2010 and this will become comparatively mature by 2020.

-----In 2006, **the GDP of the year was 20,940.7 billion RMB yuan, up by 10.7% over the previous year.** At the 2006 average exchange rate, GDP equated to US\$2,500 billion, and US\$1,700 per capita.

(Unit: 100 million yuan)



Source: CHINA STATISTICAL YEARBOOK 2006

-----The general level of consumer prices in China was up by 1.5% over the previous year.

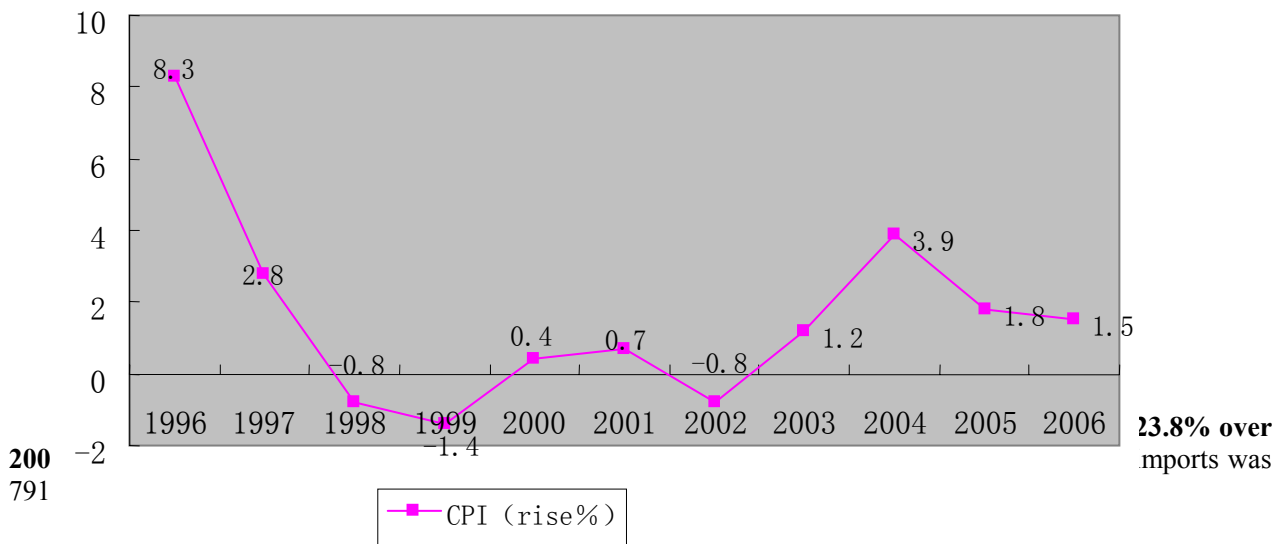


Table : Imports and Exports by Major Countries and Regions and the Growth Rates in 2006

Unit: 100 million USD

Country or region	Exports	Increase over 2005 (%)	Imports	Increase over 2005 (%)
United States	2035	24.9	592	21.8
European Union	1820	26.6	903	22.7
Hong Kong, China	1554	24.8	108	-11.8
Japan	916	9.1	1157	15.2
ASEAN	713	28.8	895	19.4
Republic of Korea	445	26.8	898	16.9
Taiwan, China	207	25.3	871	16.6
Russia	158	19.8	176	10.5

----**The utilization of foreign capital decreased slightly.** The year 2006 witnessed the establishment of 41,485 enterprises with foreign direct investment, down by 5.8 %; and the foreign capital actually utilized was 69.47billion US dollars, down by 4.1%.

----- **China's foreign exchange reserves reached 1,066.3 billion US dollars** at the end of 2006,, an increase of 247.5 billion US dollars as compared with that at the end of the pervious year. At the end of the year, the exchange rate was 7.8 RMB to 1 USD.

2. The labor market and employment situation improved

(The Chinese government recognizes the importance of the issue of employment. Based on the Constitution of China, the Labor Law of China, and other laws and regulations, the Chinese government has protected the workers' right to employment, and adopted various policies and measures to promote employment actively and steadily meet their needs for employment. Furthermore, the Chinese government has explored and drawn on international experiences and adapted them for use in the domestic situation, formulating and implementing a number of proactive employment policies.)

Currently, China has established a market-oriented employment mechanism; largely solved the problem of surplus enterprise personnel arising over the years under the planned economy; and, in the course of economic development and economic restructuring, expanded the employment scope continuously. As a result, the employment structure has gradually been optimized; the avenues for employment have been steadily broadened; the forms of employment have become more flexible and the employment situation has been maintained basically stable.

---- **Total employment increasing continually. At the end of 2006, the total of employed people in China numbered 764.00 million,** or 5.75 million more than at the end of 2005. Of this total, 283.10 million were employed in urban areas, an increase of 11.84 million or a net increase of 9.79 million. The urban unemployment rate through unemployment registration was 4.1% at the end of 2006, a drop of 0.1 percentage point over that of 2005.

In 2005, the employed population reached 758.25 million (see Chart 2), of which the urban employed population was 273.31 million, accounting for 34.4%(see Chart 3), and the rural employed population was 487.93 million, accounting for 65.6%. From 1990 to 2005, the employed population increased by 96.83 million, an average increase of 7.45 million per annum.

Chart 2. Changes in the number of employees in urban and rural areas

(Unit: 10,000 people)

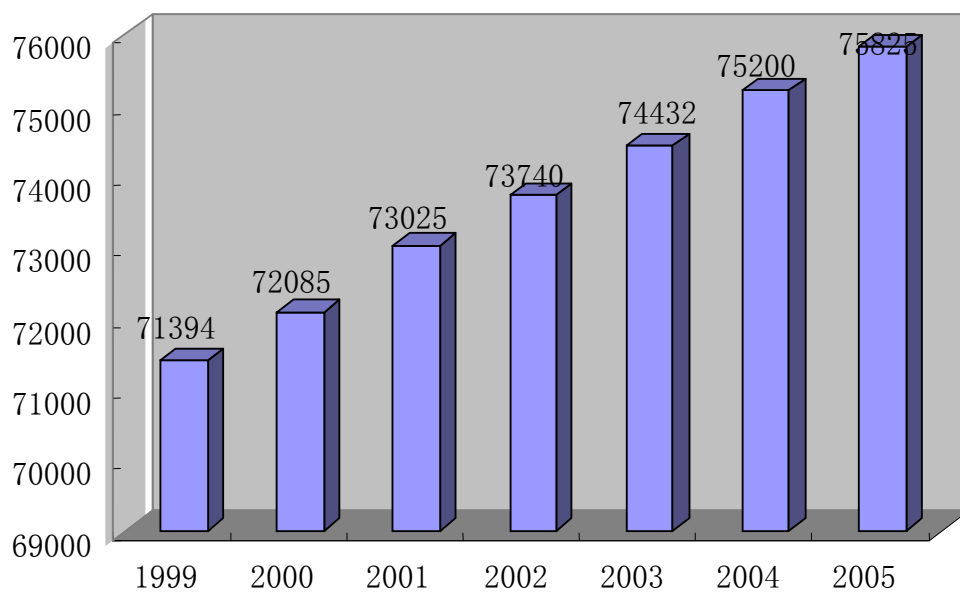
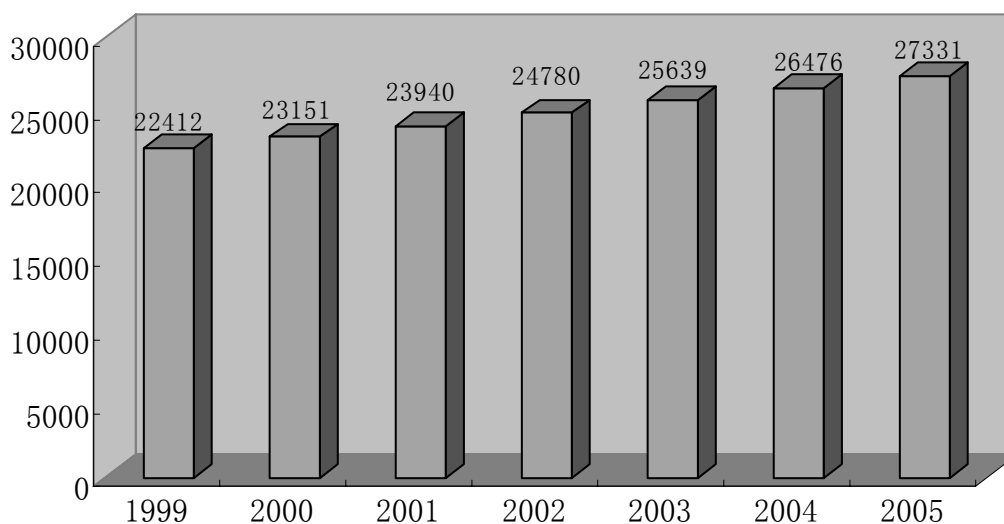


Chart 3. Changes in the number of employees in urban areas

(Unit: 10,000 people)



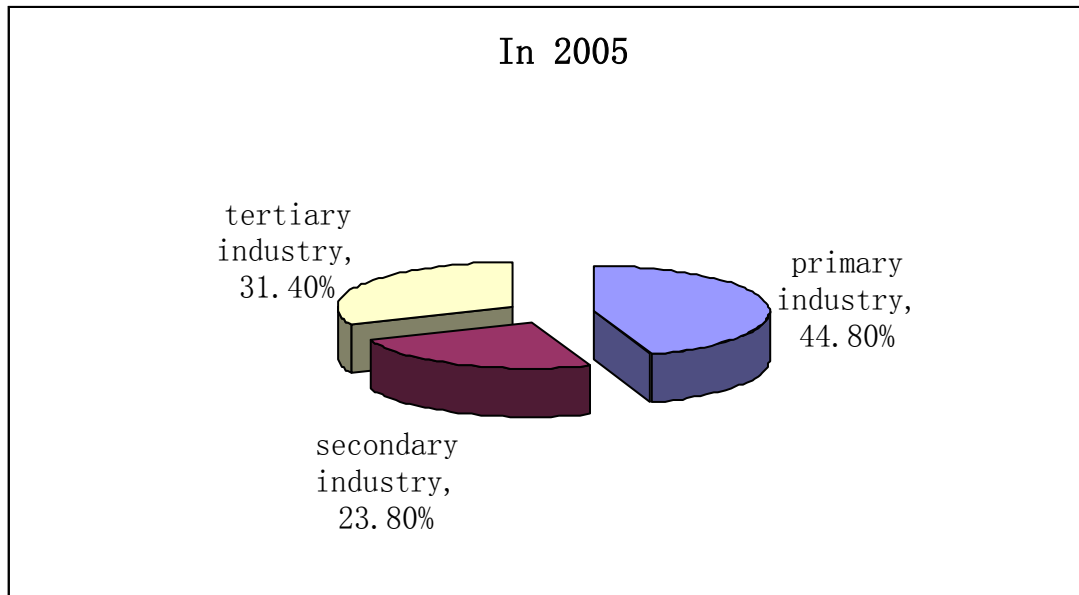
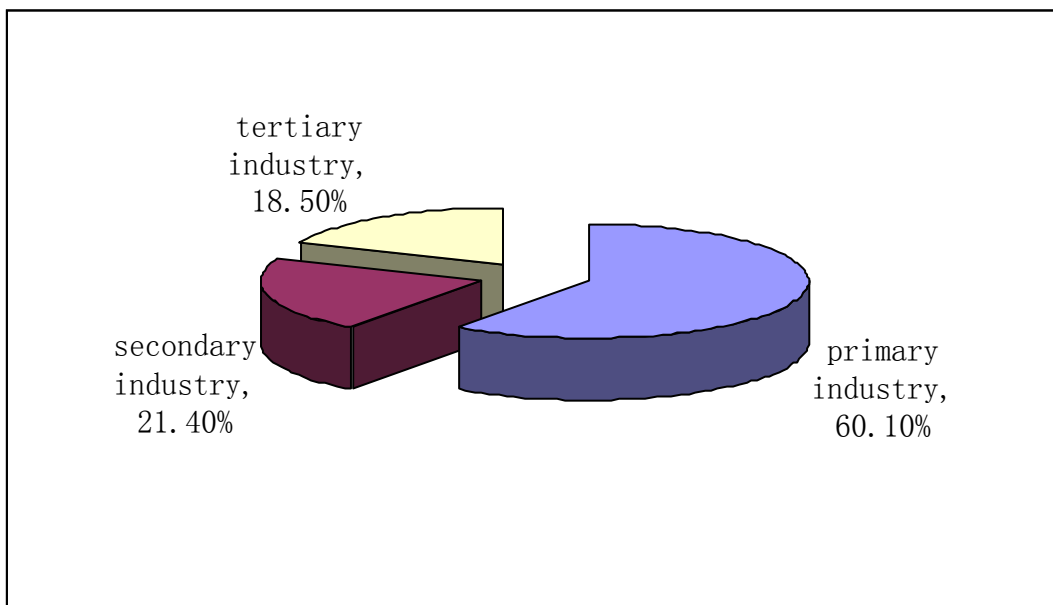
Source: CHINA STATISTICAL YEARBOOK 2006

---Employment structure improved

As far as the employment structure is concerned, from 1990 to 2005 the proportion of those employed in tertiary industry rose steadily from 18.5% to 31.4%, with the number of employees reaching 218.09 million; the proportion of those employed in secondary industry remained at around 23.8%, with the number of employees reaching 160.77 million; and the proportion of those employed in primary industry dropped from 60.1% to

44.8%, with the employees numbering 365.46 million (see Chart 4).

Chart 4. Employment structure of primary, secondary and tertiary industries in 1990



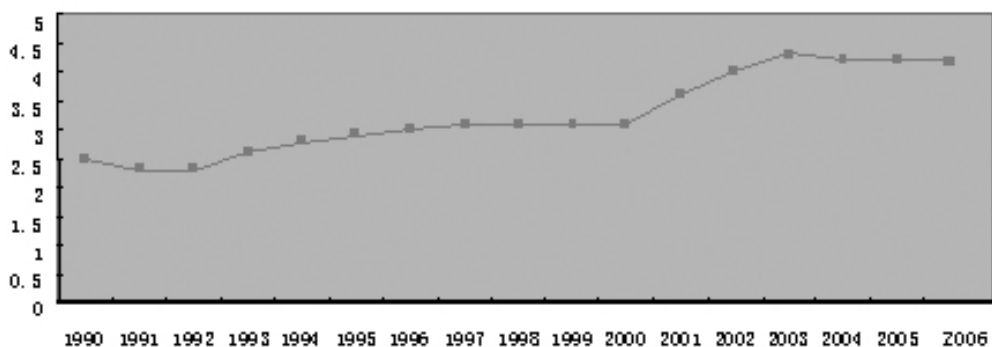
Source: CHINA STATISTICAL YEARBOOK 2006

In terms of employment structure by urban and rural areas, from 1990 to 2005, the ratio of the employed in rural areas dropped from 73.7% to 65.6%. In terms of employment structure by different economic sectors, the number of employees in state-owned entities decreased by 34.7 million, down to 62.32 million; the number of those employed by urban individual and private economic entities increased by 55.65 million, to reach 62.36 million, representing 46.5% of the newly employed in the urban areas in the same period.

----Unemployment rate decreasing slightly

In recent years, as the employment pressure has been continuously increasing, the Chinese government has adopted many measures to curb the sharp rise of urban unemployment. By the end of 2006, the registered unemployment rate in the urban areas was 4.1%, and the number of registered jobless urbanites was 8 million (see Chart 5).

Chart 5. Registered urban unemployment rate, 1990-2006 (%)



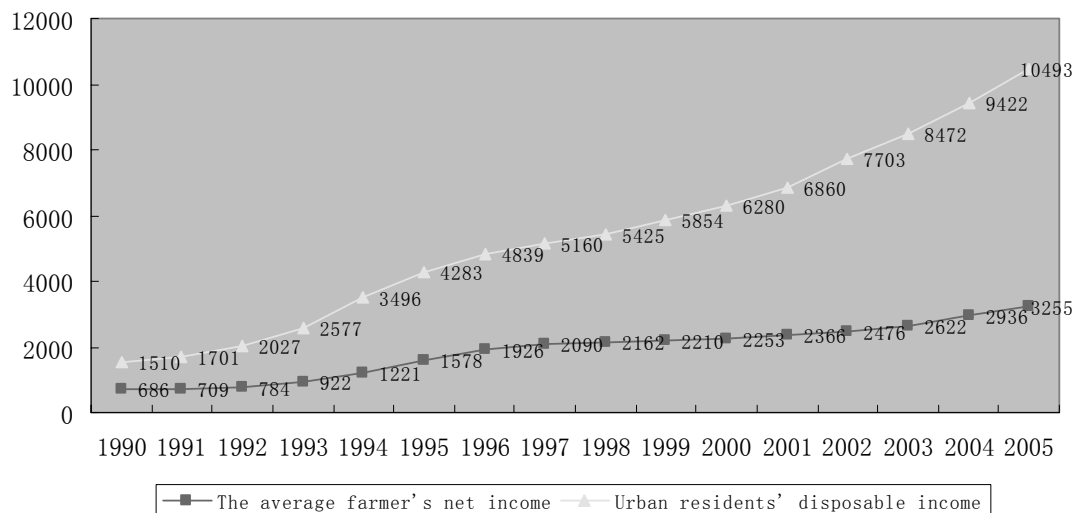
Source: CHINA STATISTICAL YEARBOOK 2006

----Income of urban and rural residents rising

As the economy develops and job opportunities increase, the income of urban and rural residents keeps rising. From 1990 to 2005, the disposable income per capita of urban residents rose from 1,510 yuan to 10,493 yuan, an increase of 695% or a rise of 160% in real terms; and the net income per capita of rural residents increased from 686 yuan to 3,255 yuan, an increase of 475%, or a rise of 77% in real terms (see Chart 5).

Chart 5. Income of urban and rural residents, 1990-2005

(Unit:yuan)



Source: CHINA STATISTICAL YEARBOOK 2006

----- Improving the public employment service system, and fostering and developing the labor market

Establishing a market-oriented employment mechanism. The Chinese government actively fosters and develops the labor market and has gradually established the enterprises' status as the major employers and the laborers' status as the major labor suppliers. Simultaneously, it has coordinated and propelled reform in the social security system, the residential housing system and the household registration system. The environment for labor market development has been noticeably improved, and the market mechanism is now playing the fundamental role in the allocation of labor resources.

Developing and improving the public employment service system. Since the late 1990s, the Chinese government has made great efforts for scientific, standardized and modernized building of the labor market, and established a public employment service system. Currently, in cities and some rural areas the public job agencies have been widely established.

Cities at the prefectural level and above have set up organizations to provide labor security work in local communities, and improved the network of employment service organizations at the grass-roots level. Almost a hundred large and medium cities in the country have launched websites providing information on the labor market, and ensured inter-connection between computers of the city and district employment service organizations.

In cities, the information websites can be accessed in local neighborhoods and communities. Most large and medium cities provide to the public analyses of information concerning supply and demand of the labor market by different categories of jobs. This service plays a guiding role in the promotion of the rational allocation of labor resources and the development of occupational training.

China had established a public employment services mechanism to service the jobless, especially those with difficulties in finding work. The mechanism had enabled the establishment of 3,860 government-funded employment agencies across the country by the end of 2005, with about 27,000 staff. The public job agencies provide employment services to some 20 million people each year, and have found jobs for 10 million people successfully. The government also encouraged the opening of private agencies to expand channels for job-seekers. By the end of 2005, about 8,600 private agencies had been set up, playing an important role in improving services for laid-off and migrant workers.

(At the end of 2006, 186.49 million people participated in basic pension programs, a year-on-year increase of 11.62 million. A total of 157.37 million people participated in urban basic health insurance programs, an increase of 19.54 million, of whom 115.87 million were staff and workers, 41.50 million were retirees. About 111.87 million people participated in unemployment insurance programs, an increase of 5.39 million. Some 102.35 million people participated in work accident insurance, an increase of 17.57 million, of which 25.38 million were migrant workers coming from the rural areas, an increase of 12.86 million. Some 64.46 million people participated in maternity insurance programs, an increase of 10.38 million.)

II. The disadvantages and advantages in the labor market and employment

1. Challenges and Problems

China will enter a new era of building a harmonious society in an all-round way in the first two decades of the 21st century. Although some achievements have been made in employment since the country's reform and opening-up drive, China still faces "serious employment situation" in a long period. In this period the country will still face severe employment pressure due to various factors, such as the huge population base, a large number of rural redundant labor force, laid-off workers and newly-emerged labor force, the low level of education, population migration, and so on.

In China, there is a large working-age population, while the average educational level of the people is relatively low, resulting in a very prominent problem of unemployment. This is primarily manifested in the co-existence of the contradiction of the total volume of workforce supply and demand and the contradiction of employment structure, in the simultaneous appearance of increasing pressure on urban employment and acceleration of the shift of surplus rural laborers to non-agricultural sectors, and in the intertwining of the employment problem for new entrants to the workforce and that of the reemployment for laid-off workers.

The employment situation at present and in a long period to come is not "optimistic". Statistics showed that at least 13 million new job opportunities need to be annually created in urban areas for laid-off workers, university graduates, demobilized servicemen, and migrant workers.

In 2007, the Chinese government has plans to find employment or reemployment for 9 million people, and reemployment for 5 million laid-off people, of whom the number of those who have difficulties finding a new job is 1 million. The registered unemployment rate in the urban areas is planned to be controlled at around 4.6%.

Main problems that existed in the labor market and employment included:

---The contradiction between overall supply of and demand for labor is sharp

In the coming 15 years, China's population above the age of 16 will grow by 5.5 million annually on average. By the year 2020 the total population of working age will reach 940 million.

In the period of the Eleventh Five-Year Plan (2006-2010), the population of working age is growing at fast rate, increasing by 50 million in urban areas, not including migrant workers. On the other hand, the demand for labor is predicted just about 40 million. Therefore, there are 10 million workforce who will lack jobs.

There will be 24 million job seekers nationwide this year, but only half will find a job even with various policies and training projects to promote employment. The employment situation is still serious although more than 10 million new jobs were created last year.

Most of the employment pressure stems from laid-off workers from state or collective-owned businesses, an increasing number of college graduates, rural labor transfer and farmers who lost their land due to industrial development or urbanization.

China faces a major challenge in meeting its goal of creating 9 million jobs this year.

---The problem of structural unemployment, characterized by a mismatch between the quality of the labor force and job requirements, is becoming more and more conspicuous.

Among the population over the age of 16, the population with junior middle school education level and above took up 61.7%, and that with junior college education level and above, 6.6%. Among the population of technical workers, those of the elementary grade took up 61.5%, those of the intermediate grade, 35%, and those of the advanced grade, 3.5%.

Professional training for the labor force has lagged behind market demand. Some booming coastal regions such as Guangdong and Fujian provinces are facing a technical labor shortage. It mainly reflects a structural problem. As these prosperous regions upgrade their industrial structure, they need more skilled workers. However, migrant workers from rural areas usually don't meet the requirements. At the same time, the underdeveloped central and western regions are badly in need of talent.

----The problem of the employment of young people

China has a large young population. Every year, about 10 million new workforce arises, making young people's employment an increasingly striking problem. Of the registered unemployed people in urban areas, around 70% are under the age of 35.

In addition, millions of university graduates are entering the job market every year, with the number of new graduates reaching a record 4.95 million this summer. Adding last year's university graduates who are still jobless, the total number of university graduates seeking jobs will be more than 6 million in 2007.

A survey showed 52.14% of bachelors considered lack of social experience as the biggest obstacle in finding work. To reduce the employment pressure on society, and improve young workers' skills and overall quality, are heavy tasks for China.

---The migrant workers face a lot of problems

A survey by the Ministry of Agriculture shows China's migrant worker population has grown to 114.9 million with an estimated 6.7 million new migrant workers in 2006.

China's vast rural areas have provided cheap labor for the country's industrialization drive since the 1990s with an average annual increase of 4.03 million migrant workers from 1998 to 2005. The migrant worker population would increase on average by 4 million annually in the next few years. 70% of migrant workers had primary school education and 21.8% had gone to high school.

According to the ministry, migrant workers have seen their average wage increase to 852 yuan (106 U.S. dollars) per month in 2006 from 803 yuan in 2005.

Migrant workers mainly work in the service sector, with 24.2% in industry, 21.1% in construction and nearly half in the commercial and restaurant sectors.

The concern for the well-being of the more than 100 million migrant workers in China still does not match the contributions they have made to overall economic growth and social progress. But efforts in this regard are catching up.

A survey by the National Bureau of Statistics reveals that the average monthly income of rural migrant workers has reached 966 yuan (US\$122) in 2006, an increase of 79% from 539 yuan (US\$75) in 2004 but still well below the 1,533-yuan (US\$194) average for their urban counterparts. And the farmers' incomes grow slowly.

As the prosperous regions upgrade their industrial structure, they need more skilled workers. However, migrant workers from rural areas usually don't meet the requirements.

In the future, more and more laborers from rural areas will continue to seek their fortunes in urban areas.

---**The unemployed and laid-off people who need to be employed or reemployed.** The continuing reform of State-owned enterprises will create a huge number of laid-off workers, who will find it difficult to find new jobs. To alleviate the strain, the government will strengthen training and improve public services for job seekers.

--- **The diversity forms of employment is a challenge for improving worker's quality of employment.** New forms of employment mushroomed, such as jobs in foreign-invested firms and economic entities of diverse forms, part-time jobs, temporary jobs, seasonal jobs, work on an hourly basis and jobs with flexible working hours, and became important avenues for the expansion of employment. However, how to improve their quality of employment is a problem.

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2.The opportunities and advantages

In the early years of the 21st century there are many favorable conditions for solving China's employment problem:

- **The economy keeps developing in a sustained, rapid, coordinated and healthy way**, revenue is growing rapidly, the readjustment of the economic structure is progressing smoothly, enterprises are gaining better economic returns and tertiary industry is developing at a faster rate – all these will certainly contribute to increasing job opportunities.
- **The Chinese government pays close attention to the problem of employment**, adheres to the principle of putting people first, keeps to the concept of overall, coordinated, sustainable development and promotes the all-round development of society and man, thus laying an ideological basis for further solving the problem of employment.
- **After many years of exploration and practice, the general policy for solving the employment problem has been settled**, with a clear direction and matching measures, and a market-oriented employment mechanism has taken shape, thus providing guarantees in policy and mechanism for solving the problem of employment.
- **The implementation of the strategies for promoting the coordinated development of different areas**, such as developing the western region, revitalizing old industrial bases in the northeast and other regions, promoting the rise of the central area, and encouraging faster development of the eastern area, as well as accelerated urbanization, will bring new opportunities for solving the problem of employment.
- **With the in-depth implementation and improvement of various policies for increasing employment**, the policy effects will be further released and the environment for employment and starting businesses will be further improved. China's accession to the WTO, the continuous growth of foreign trade, and closer ties between the Chinese economy and the global economy will provide a

favorable external environment for solving the problem of employment.

III. The strategies and policies for improving the labor market system and promoting employment

Employment has a vital bearing on people's livelihoods. It is the fundamental prerequisite and basic approach for people to improve their lives.

1. The major goal for the labor market and employment should be set

to increase the posts of employment in large numbers through developing the economy and improving its structure, and enhance laborers' ability to find employment through strengthening education and training, so as to ensure relatively full development and reasonable utilization of China's abundant labor resources.

to create a better environment for workers to choose jobs on their own, migrate freely and set up their own businesses, form stable policies and systems for promoting employment, improve a labor market characterized by unity of the urban and rural areas, opening up internally and externally, fair competition, and standardization and orderliness, so as to ensure the smoothness of the employment channels.

to control the unemployment rate and average unemployment cycle within limits the society is able to bear, and enable all people having the ability and intention to work to enjoy equal opportunities for employment or to be ready for employment.

During the Eleventh Five Year Plan (2006—2010), the new employed population is expected to reach 45 million in urban areas and another 45 million will be transfer from agriculture to other industries. The unemployment rate is expected to be controlled within 5%.

2. Major policies and measures should be exercised

— Maintaining the relatively rapid growth of the economy, and putting the work of employment and reemployment in a more salient position. China will adhere to the policy of expanding domestic demand and maintain a sustained, healthy and rapid development of the national economy, so as to provide a strong drive for expanding employment.

When making policies for economic growth and industrial readjustment, it is necessary to give priority to the strategic goal of creating job opportunities and expanding employment, to make creating more job opportunities an important goal of development and to ensure that it is expressed positively in the making of macro-economic policies, such as in the drafting of plans for national economic and social development, industrial policies, financial and taxation policies, investment policies, and banking and currency policies, so as to attain the dual goal of achieving a rapid and healthy economic growth and promoting full employment.

— Promoting the readjustment of economic structure and the improvement of employment structure in coordination, and expanding the capacity of employment. It is necessary to strengthen readjustment of the industrial structure, ownership structure and enterprise structure. Greater attention will be paid to the development of labor-intensive industries to bring into fuller play their important role in absorbing the labor force.

It is necessary to direct the major part of future efforts for expanded employment to tertiary industry. Efforts will be made to continuously support and guide the development of the non-public sector of the economy, further carry out various policies and measures to encourage the development of small and medium enterprises and the economy with diverse forms of ownership, strengthen support to them in such areas as investment and financing, taxation, technological service, market development, information and consultation, and personnel training, and encourage them to play a greater role in promoting employment and reemployment.

While continuing to deepen the reform of state-owned enterprises, it is necessary, through the separation of major and subsidiary sectors and reform of the subsidiary sector, to properly place surplus workers, and bring about a coordinated progress of the reform of state-owned enterprises, the readjustment of economic structure and the readjustment of employment structure.

— Adhering to coordinated economic and social development of urban and rural areas, and making overall plans for urban and rural employment. It is necessary to coordinate the development of large, medium and small cities on the one hand and small townships on the other, take the road of urbanization with Chinese characteristics, and remove the institutional and policy obstacles to the development of urbanization, so as to create more job opportunities for farmers.

Efforts will be made to cancel restrictive regulations for farmers to find jobs in cities, gradually unify the urban and rural labor market, and strengthen guidance and management in this respect, so as to put in place a system enabling urban and rural laborers to enjoy equal employment opportunities.

Protecting the rights and interests of migrant workers from rural areas according to law, and give guidance to the stable and orderly transfer of rural surplus labor. It is also necessary to promote the reform and readjustment of township enterprises, make efforts in developing county economy, and actively expand the space for employment in rural areas.

— Establishing and improving a market-oriented employment mechanism with free choice of jobs by laborers as the salient feature and the legal system of the government as the foundation. It is necessary to give more play to the fundamental role of market mechanism in the allocation of labor resources, and form, in particular, a new employment pattern characterized by free choice of jobs by laborers.

In view of the trend of diversification of employment demands, it is necessary to introduce flexible and different forms of employment according to circumstances; to improve the environment for starting businesses, and to encourage individuals to start their own businesses, so as to promote employment; to strengthen in an all-round way the building of government-sponsored public employment service organizations, improve job referral, vocational guidance and training, and provide quality employment services.

Efforts will be made to improve the legal system, clarify the government's responsibilities in promoting employment, and standardize the behavior of enterprises in hiring people and the order of the labor market, so as to guarantee laborers' equal right to employment. In addition, efforts will be made to speed up development of the labor market and to establish an employment mechanism with laborers' free choice of jobs as the salient feature, market regulation as the foundation, and government promotion as the driving force.

— Raising the level of education, strengthening vocational training, and tailoring the level of human resources quality improvement to the needs of economic development. It is necessary to fully utilize various education resources, strengthen the improvement of human resources quality, direct major efforts to the promotion of quality-oriented education, stress cultivation of practical abilities, and make efforts in improving education quality, so as to train millions of high-caliber workers, thousands of special talents and a large number of outstanding innovative talents for the socialist modernization drive.

In line with market demand and the demand for enhancing laborers' quality, it is necessary to strengthen elementary education, actively develop higher education, vigorously promote vocational education, adult education and other forms of continuing education, so as to gradually establish a socialized life-long training and education system.

In line with the higher and higher requirements of economic development and sci-tech progress for laborers' knowledge level and work skills, it is necessary to further readjust the structure of vocational education, increase input, construct a modern vocational education system, and vigorously strengthen training of skilled workers, especially high-level skilled workers and technicians. In view of the demand for the readjustment of rural economic structure and the transfer of rural surplus labor, attention will be paid to

elementary education and skill training for farmers.

It is necessary to introduce in an all-round way the work preparation system and employment accession system, and achieve the dual goal of improving young laborers' ability for employment and regulating the supply of labor force. Moreover, it is necessary to establish and improve the vocational qualification certificate system, vigorously introduce the system of paying attention both to diplomas and vocational qualification certificates, introduce the vocational qualification certificate system in all technological professions and jobs throughout the society, and establish a close link between school education and social employment.

— Making rational arrangement in social security and employment, and providing basic subsistence guarantee and employment assistance for the underprivileged group. It is necessary to guarantee the basic subsistence of the underprivileged by continuously improving the unemployment insurance system and urban residents' minimum subsistence guarantee system. Continued efforts will be made to provide employment aid, develop jobs suitable for the underprivileged group, especially welfare jobs, and help them to get reemployment through preferential policies to encourage enterprises to hire underprivileged persons and provide them with free employment services.

— **Raising the level of opening-up, and giving play to China's advantage in labor resources.** It is necessary to vigorously organize labor-intensive production and processing of superior agricultural products. While steadily increasing export of industrial products with high technological content and high added value, efforts will be made to improve the export competitiveness of labor-intensive products and increase their market share, so as to maintain and increase domestic employment. It is necessary to rationally guide foreign businesses to invest into labor-intensive products or industries at once labor intensive and capital intensive, so as to increase as many jobs as possible. It is also necessary to actively implement the strategy of "going global" and open up the international labor market.