

Reforms and Labour's Landscape in Contemporary China

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Abstract

By all accounts, China's economic growth in the recent years has been an astounding one. However, one of the major issues of concern that has emerged in a context of very impressive growth performance, for almost three decades now, is the well-being of workers in this country. Even though there is not much theoretical support or hard evidence to connect economic performance to labour market flexibility, policy makers, almost everywhere in the world, including in China, appear to be persuaded by such a connection. This paper focuses on some issues related to the well-being of labour in contemporary China; in particular we take a look at the relevant labour related policies and their implications for employment.

Introduction:

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In spite of the lack of theoretical and empirical evidences, labour market 'reforms' have acquired a centrality in official economic policy discourses across the globe, and labour market flexibility is being prescribed as the key to enhance productivity, to be more competitive, to accelerate employment generation and also to step up the tempo of economic growth (Blanchard and Wolfers, 2000; Besley and Burgess, 2004; Burki and Perry, 1997; Forteza and Rama, 2002; Heckman et al 2003; Salvances, 1997 among others). In this context, India and China have been at the centre stage of the recent debates and discussions as both these countries are going through an economic transformation, and the issues relating to their respective labour regimes have been in sharp focus. Given that these two giants of the global economy account for almost 41 percent of the global workforce, the significance of their labour policies can hardly be overstated.

As is well-known, China started its transition to market economy towards the end of the 1970s and its remarkable growth story, for almost three decades now, has led to debates regarding the aspect of its policies that can be emulated elsewhere. In this context, the view, that China has managed to address marked rigidities in its labour market and India also needs to do away with the 'high degree of protection' to its organised labour has gained considerable ground, and the official thinking has endorsed such a view explicitly.

However, the view that labour laws ought to be considered a major hindrance to industrial growth in India is quite suspect; as is well-known, such laws, for all practical purposes, are applicable to less than 10 percent of the workforce. Furthermore, in the recent years, these laws have been diluted in many ways. Given that very significant

changes towards flexibilisation even for this small segment, the so-called organised sector, have taken place, the overall policy environment can hardly be considered as creating significant rigidities in the country's labour market. For instance, the introduction of a voluntary retirement scheme in the early 1990s, and its rapid spread subsequently, may well have legitimized layoffs, retrenchments and in general, freer policies of hire and fire across the board in India's registered manufacturing sector, although, on paper, the labour laws have largely remained unchanged. It is well-documented that their implementation appears to have been diluted substantially as the governments at different levels have become even more indifferent towards enforcing them in the recent years (Anant et al. 2006; Sharma 2006).

In other words, a realistic assessment of the ground reality of India's labour market would seem to suggest that, except for a minuscule segment of workers with some degree of protection, we almost have a classic text-book model of flexible labour market. Hence, the clamour for its further flexibilisation to accelerate GDP growth rate, or other indicators of economic performance, seems quite bizarre in the Indian case, even if there is some such connection in the case of China. Furthermore, it is elementary commonsense that a country whose labour market is almost fully flexible, (whatever the laws¹ may be), has little to learn about the virtues of flexibilisation from some other economy!

Sure enough, the transition to a market economy in China has resulted in a process of gradual withdrawal of the protective coverage for workers associated with socialism; however, to argue that the labour market in China is considerably more flexible than India may well be off the mark. In fact the request of the Second National

Commission on Labour (2002), set up by the Government of India, took the view that China's labour market was substantially more protected and regulated than that of India's. In this paper, we do not wish to enter into a comparative assessment of these two labour markets, but would only like to note that the judgement of the above said Commission appears closer to the ground reality than the opposite view, as we have argued in some detail elsewhere (Jha & Golder, 2007). Nonetheless, there is hardly any doubt that the policy-makers have increasingly become anti-labour in China with the progress of its economic reforms.

One may also go along with the view that the complex story of China's very impressive economic performance, which many consider 'praiseworthy', should also take into account the ongoing transition in its labour regime. During approximately two and a half decades, beginning 1980, China's GDP expanded seven-fold or about fourfold in terms of real GDP per capita and it stands to reason that this wouldn't have been possible without a gradual marketisation of the economy and integration with the world market during the era of ongoing globalization².

However, as has been observed by several commentators (Patnaik, 2007; Hart-Landsberg and Burkett, 2007 among others) there are several worrisome aspects of the Chinese growth pattern³, in terms of the sources and stability of the growth, as well as extremely inadequate transformation of its growth into commensurate welfare improvements for all its citizens. During the reform period since the late 1970s, China has increasingly adopted the foreign driven and export led growth strategy, which has an intrinsic tendency to breed social inequality, and consequently the persistence of deprivation (Patnaik, 2007), which the country has already experienced it in the recent

years. As Hart-Landsberg and Burkett have argued, systematic dispossession of workers and peasants, through the break-up of communes, massive layoffs in the state-enterprises, and other exploitative mechanism lie at the core of Chinese 'reforms'. They also argue that the country has witnessed a virtual collapse of health and education services (Hart-Landsberg and Burkett 2007).

As already mentioned, the higher growth rate has been achieved, increasingly, through dependence on foreign markets and Chinese economic activities are being dominated by (foreign-owned) transnational corporations. It is evident from some recent data that approximately 46 percent of foreign owned manufacturing production is exported, which is substantially higher than about 16 percent for domestically owned manufacturing firms; furthermore, the former have now come to dominate China's export activities; as their share in total exports grew from 2 percent in 1985, to 30 percent in 1995, and 57 percent in 2004. It is hardly surprising, therefore, that the ratio of exports to GDP has more than doubled, 16 percent in 1990 to 36 percent in 2003 (Whalley & Xin, 2006; Roach 2004, among others). External dependence on such a scale obviously implies that a significant external demand shock, or imposition of protectionist restrictions on Chinese goods in the market of advanced capitalist countries, can cause severe difficulties for sustaining high growth rate.

Essentially, China's 'success' in the recent years, particularly since the early 1990s, is reminiscent of a neo-mercantilist strategy, used by some of her successful East Asian neighbours in not too distant part, and earlier by Germany and Japan (among others). However, it is important to note that the Chinese neo-mercantilism is much more on an exclusionary trajectory than the South Korean one; in other words, exploitation of

workers and farmers in the Chinese case, is indeed is indeed a part of its success story, substantially more than what it was in the case of South Korea. But from this, one must not jump to the conclusion that bashing labour is the surest way of high and sustained growth rate. As careful observers of China have repeatedly pointed out, growth performance of China after the reforms has a lot to do with pre-requi sites created in the pre-reform period (Riskin, 1987, 2001; Nolan, 2004, among others). Also, since the early 1980s, there have been several measured steps towards structural transformation of the Chinese economic system, which must be accounted for in any explanation of its 'impressive' economic performances.

In any case, this paper is not concerned with an analysis of the complex interweaving of the critical steps in China's transition from a command system to relatively deregulated one, and the associated causal impulses for significant acceleration in its economic growth. Rather, our simple submission is that to reduce the story of China's 'impressive' economic performance to so-called labour market reforms is not only simplistic but even erroneous. **More importantly, we try to contest the claim, frequently mouthed by mainstream neoclassical economists, that economic reforms, in particular, the labour market reforms, generate good labour market outcomes.**

As is well-known from the theoretical as well as empirical literature, which we have surveyed elsewhere (Jha & Golder, 2007), the advocacy for labour market flexibility is very much on slippery grounds; nonetheless, the policy makers in China, (as indeed in almost every other country), appear to have been persuaded by the supporters of thoroughgoing flexibilisation of the labour market; the most eloquent expression of this strategy of flexibilisation, or what is euphemistically known as labour market reforms,

has been the setting up of the so-called special economic zones characterized by almost complete freedom of the employers to have their own way. It is well known that violations of labour laws are rampant in these SEZs (Athreya, 2004). The situation has been aggravated by the presence of a large number of migrant workers and huge layoffs from the state-owned enterprises, which contributes significantly to the increasing unemployment and consequently to the 'informalisation' of labour. Furthermore, it is important to note that such 'reforms' are not limited to only SEZs.

Sure enough, as indicated earlier, in the short run such a strategy is obviously helpful in capturing a greater share of any given market and China has managed to increase its share of the international market quite dramatically. During the last couple of decades, day-to-day household goods manufactured in China, such as consumer appliances, telecommunication equipments, textiles etc. have flooded the typical US and European department stores. However a strategy of increasing market share through wage compression may prove to be counterproductive in the medium to long run for the well known Keynesian reasons. Finally, going by recent debates by China, it would appear that there are dissenting voices within the official circles on pursuing the strategy of neoliberal bashing of its labour, for a variety of reasons. In the following, an attempt is made to examine important changes in policies towards labour in China and some of the relevant issues; we try to provide an account of the important recent trends in its labour market, in particular with reference to the employment scenario.

Labour's Landscape in Contemporary China:

Since the inception of reforms, the structure of China's labour market has been significantly transformed as may be seen from the Table 1 in appendix. Percentage of urban population has increased sharply in the period 1980-2002 although China still remains predominantly rural. Although the population growth has slowed in the recent years to just under 1 percent per annum, the labour force has tended to grow relatively faster, at about 1.5 percent per annum. The labour force participation rate hovered around 80 percent throughout the 1990s (see Table 1 in Appendix).

Around 1980, i.e. in the early years of reforms, an overwhelming majority of the labour force was either employed as agricultural workers in rural communes or as employees in urban state-owned enterprises (SOE), with virtually no labour flows between the rural and urban sectors. By 2002, however, over a third of the rural labour force had moved into non-farm activities, mainly in town and village enterprises (TVEs), and more than two third of the urban labour force had found employment outside of the state sector, in urban collectives, joint ventures and private enterprises (see Table 2 in Appendix). Clearly, a drastic decline in employment opportunities in the State Units is among the most significant changes in the recent years.

Between 1990 and 2002, employment growth was concentrated mainly in the urban areas where the number of jobs increased at an average rate of 3 percent per annum (or 6.5 million p.a.); this has happened in spite of the fact that the State-Owned Enterprises (SOEs) have gone for a huge layoff of its workers, as is evident from (Table 2). Although, employment in collectives also declined sharply from 1995 onward, the job losses⁴ at SOEs and collectives were more than offset by the total job created. This was due to the growth in the private sector (including foreign-funded enterprises), which

created 17.5 million jobs in the six years ending with 2001, along with an unexplained increase of 75 million jobs over the same period (Brooks and Tao, 2004). This significant unexplained increase was ostensibly in the informal sector which includes street vending, construction and household services, among others, and many of these are not well covered by the official statistics. Therefore it is reasonable to conclude that the supply of quality job was hardly impressive although, in the aggregate, employment in the urban areas clearly went up significantly between 1980-2002.

It is also worth noting that the job growth in the later years of 1990s was largely concentrated in particular sectors and some coastal provinces, especially Fujian, Guangdong, Shandong, and Zhejiang (Brooks and Tao, 2004). In these provinces, the private sector (driven substantially by foreign direct investment) has flourished since the government started opening up special economic zones in the 1980s and adopted several preferential policies towards export oriented industrial growth.

It is quite clear that the pace of employment generation has slowed down considerably as the labour market flexibilisation picked up momentum. In a recent paper, Zhu (2007) shows that employment growth⁵, as well as employment elasticity of output, was much lower in all the broad segments- i.e. primary, secondary and tertiary sectors- during the decade 1990-2000, compared to 1980-1990 (see Table 3). In fact several other employment related indicators, with reference to China's labour market, suggest quite a dismal story, as may be seen from Table 4. It is hardly surprising that the recorded unemployment rate has tended to creep up in the recent years. The registered unemployment rate, as reported by the Ministry of Labour and Social Services (MOLSS), was almost constant at around 2.5 -3 percent during most of the 1990s, but it rose to 4.0

percent by the end of 2002 (Table: 1). Even those with university education are finding it increasingly difficult to get employed (see Table 5).

In the early years of China's reforms process, town and village enterprises (TVEs) developed rapidly to meet a built-up demand for consumer goods in rural areas, and also to take advantage of a vast pool of cheap rural labour force. As a consequence, the rural employment growth was rapid in the 1980s and early 1990s. However, the situation has change significantly since the mid-1990s, when the TVEs began to face financial problems (Brooks & Tao, 2004), as well as growing competition from the private sector; consequently, the absolute level of employment in these enterprises was almost stagnant between 1995-2001, it accelerated the exodus of workers from rural to urban areas, particularly to the faster-growing areas in the eastern provinces (Brooks & Tao, 2004)⁶.

Most recent accounts suggest that the outflow of labour from the rural area have increased enormously. As per the estimates of the China's National Bureau of Statistics, there were about 80 million permanent migrants (i.e., those living in urban areas for more than six months) between 1990 and 2000. However, the estimates for the number of temporary migrants, had a wide range, e.g. 30-75 million (between 1990-2000) and for the more recent years, this number in the range of 120-180 million. Nonetheless, it is worth highlighting that, inspite of massive exodus from the rural areas, the problem of surplus labour is an acute one.⁷

Essentially, many of the features of China's labour market today are obvious outcomes of the country's transition to the market economy and widespread adoption of capitalist labour practices by firms of all ownership types in the period of reforms (Gallagher, 2004). Labour relations have been fundamentally changed with the country's

gradual movement towards privatization and in the recent years, particularly since the early 1990s, there have been rapid shifts towards thoroughgoing flexibilisation of the labour market along with the increases in the autonomy of the firm and managerial control of workers' organizations. In a recent paper, Brooks and Tao provide a neat summary of the important steps towards labour market flexibilisation in China which is reproduced as Box: 1 in the Appendix. Once the transition to market economy gathered momentum, the central government's attempt to maintain some features of socialist labour relations such as greater employment stability, longer-term employment relations, and active worker organizations etc. were weakened considerably.

Capitalist practices have been encouraged through ownership expansion, i.e. the introduction of new types of firms, and ownership recombination, which is the fusing of the public and non-state sectors through novel forms of organization. Initially the transformation of labour relations began in core sectors of public enterprise in the cities but subsequently it spread to rural areas as well through the much talked about Special Economic Zones, which were set up as hubs for foreign direct investment, and in township-village enterprises (TVEs) which played a major role in soaking up surplus labour created by agricultural reforms. As Gallagher (2004) points out, reform of the industrial system is virtually synonymous with the death of state industry and socialist labour practices, along with the adoption of capitalist labour practices; furthermore, a decent regulatory regime that can mitigate the excesses of capitalism is yet to be put in place.

The policy creating Special Economic Zones have also had far-reaching implications for labour in China. To begin with, four Special Economic Zones came into

being in 1980, in underdeveloped coastal regions close to Hong Kong and Taiwan Province of China, and it was extended gradually to other coastal cities, and finally to all 31 provinces. Since the early 1990s number of such economic zones has increased very rapidly; in fact between 1991 to 1993 itself this number went up from 100 to 8000 zones for the country as a whole, although there was little chance of substantive flows of foreign capital in several of these zones (Zweig, 2002: 93-94; Yang, 1997). In these special economic zones, local governments often pushed for greater liberalization for the benefits from large inflows of foreign capital and more linkages to the international economy. Besides, local firms also obtained flexibility and autonomy when they found any foreign partner and they were subject to different laws and regulations than those of the core public sectors in China's cities. Essentially these have led to exploitation of workers⁸ through wage depression, lengthening working hours without compensation etc.; hence it is hardly surprising that special economic zones have often being viewed as 'Special Exploitation Zones' in popular perceptions as well as by several researchers.

Different nongovernmental organizations report that enforcement of legal protections for workers, especially at the enterprises driven by foreign investment, is near-nonexistent. In 1997, the Hong Kong Christian Industrial Committee reported that 70 percent of all industrial deaths occur at such enterprises (Athreya, 2004). In 1998, sociologist Anita Chan noted that labour right violations like working two or three hours overtime on a normal workday, with only one or two days off for every month, practices of corporal punishment, hazardous health and safety conditions, and schemes to cheat the workers out of payment of even the minimum wages through enforced overtime and financial penalties are very common in these manufacturing enterprises (Athreya, 2004).

It is well-known that the liberalization of the foreign investment and trade regime was not uniform across the country. Essentially, policy of SEZs sparked regional competition for inflows of both foreign and domestic capital, which further enhanced the bargaining power of capital⁹. An obvious outcome of the rapid expansion of SEZs was significant shrinking of land available for agricultural purposes in rural areas, leading to rising discontent.¹⁰ During 1996-2005, for the so called 'development' purposes, that is, mainly for highways, industries and SEZs, more than 21 percent of arable land was diverted to non-agricultural uses. Furthermore, between 1992 and 2005 around twenty million farmers had to leave agriculture due to land acquisition for such activities. Cultivable land-holding now stands at a meager 0.094 hectares per capita (Goswami, 2007).

As is well-known, during the pre-reform era, Chinese workers, especially those employed in the SOEs and collectives, were under the coverage of various workers' welfare schemes. Besides, there were specific policies towards livelihood, health, education etc. for all citizens. Gradually the situation has changed substantially in the post-reform period, with the shrinking of employment opportunities in the SOEs and collectives, the expansion of the private enterprises, growing informalization, and disregard for workers' rights¹¹. As is to be expected, growing informalization of labour market has reduced the range of social security coverage to a great extent. The shift to contract system has made layoffs and termination of employees relatively easier and large number of laid-off workers from state-owned enterprises have simply gone out of the purview of various employment related welfare schemes¹².

The vulnerability of the migrant workers is emerging as a major issue and the situation appears to have aggravated in the recent years. According to the official census of China in 2000, which is supposed to be the most comprehensive data on migrants and migratory patterns, 131 million people, that is about one-tenth of the country's population, were residing outside their places of household registration¹³. A recent study by Li Shi, puts the number of rural migrant workers at staggering range of 130-150 million in 2006 (Li Shi, 2007) (see Table 6 in the Appendix).

Based on surveys done by the Chinese Academy of Social Sciences, Li Shi reports that most of these migrant workers did not have any job security; in fact 79% of them had not even signed labor contract¹⁴ with their respective employers in 2004, and more than 82% had to work 7 days a week (2002) (Li Shi 2007). Furthermore, they did not have fixed working hours, and worked longer than a 'normal' working day. Around 33 percent of them reported to have worked 9-10 hours a day and 25 percent had worked 11-12 hours per day. Another 12 percent of them worked more than 13 hours per day.

The same study also found that any kind of social protective coverage was almost negligible for the migrants. Only 5 percent of them had access to pension facilities, less than 2 percent were covered by unemployment insurance, and with respect to access to healthcare, these workers were exposed to extreme vulnerabilities.

In a recent paper by Tuñón , it is suggested that tens of millions of China's rural labour migrants have been 'instrumentalized' to fuel urban and rural development and they are suffering as second-class citizens, enduring informal employment without rights, social protection and access to social services (Tuñón, 2006). Occupational safety and health (OSH) is a huge problem facing China's workforce, and especially the prevalence

of migrants in dangerous jobs ensures a high incidence of work-related illnesses, injuries and deaths. It seems that the situation has deteriorated significantly in the recent years; in 2004, there were 136000 reported fatalities from workplace accidents, and this figure was substantially higher than the reported figure of 100,000 in 2000. The migrant workers accounted for 80% of the deaths in mining, construction, and chemical factories. Approximately 90% of patients suffering from workplace-related diseases are migrant workers (Tuñón, 2006).

Another reason for the migrants crowding into vulnerable jobs is relatively inadequate skill attainments. As regards the educational background of migrants, 18 percent reportedly had only the primary or below primary level of education and another 65 percent had lower-middle educational attainment. Given their skill and education background, it is obviously difficult for the overwhelming majority to find quality jobs. It is true that many among them might earn higher incomes compared with what they earned before their migration, but obviously they do not have any employment stability and are saddled with inhospitable working conditions. Furthermore, those who do not have residence permit in the areas where they work, miss out on a range of public goods. Less than 10 percent would avail of the publicly provided facilities such as housing, health and education facilities. One of the most worrisome issues has to do with the access to educational institutions (Tuñón, 2006). 87 percent of the children of the migrant parents, aged below 7 years, were not in the kindergarten. Of the total 7-8 million migrant children in the age group of 7-14 years, 67 percent reportedly paid higher fees, and about 16 percent were out of school. Obviously, many of them have joined the labour market, and child labour is emerging as a significant issue. As per the recent reports, the use of

juvenile labour is relatively more prevalent in the following industries: toy production, textiles, construction, food production, and light mechanical work. It has also been found that although poverty is main cause of child labour, the inadequacies of China's mandatory education system raised the potential for child labour (China Labour Bulletin, 2006).

Given such dramatic changes, it is hardly surprising that discontent among workers has been on the rise, and according to one estimate, in 2000 alone the reported cases of disputes added up to 135386 (see Table 7 in the Appendix).

Clearly, the rising discontent¹⁵ has put pressure on the government to take (or at least appear to take) some corrective actions. The 1994 Labour Law¹⁶ proclaims to "protect the legitimate rights and interests of labourers, readjust labour relationship, establish and safeguard a labour system suited to the socialist market economy, and promote economic development and social progress" (Chapter 1 of the law). Sections 2 and 3 specify that the law as a whole applies to all employers ("enterprises and individual economic organisations") and their employees, and that workers have "the right to be employed on an equal basis." In the new regime, for implementation of the laws, responsibilities fall upon the labour bureaus of central, regional and local governments down to the county level. On the face of it, the said Labour Law offers comprehensive coverage for labour related issues such as promotion of employment (Chapter 2), working time and holidays (Chapter 4), minimum wages (Chapter 5) employment of youth aged 16-18 and women (Chapter 7), social insurance (Chapter 9) arbitration committees (Chapter 10), the labour inspectorate (Chapter 11) and so on. In Chapter 9 i.e. for provision of social insurance it is acknowledged that "workers have a right to public

social insurance covering retirement, illness, occupational injury and disease, unemployment and maternity".

The process of eliminating the two-tiered urban labour market that legitimizes the exploitation of migrants was initiated with two landmark policy documents from the State Council - Document Number 2 of 2002 and Document Number 1 of 2003. These lists of recommendations specifically called for "fair treatment, reasonable guidance, improvement of management, and better services" for migrant workers and may have resulted in some improvement in workplace regulations and social security provisions in select pockets.

When compared with many other developing countries, China's 1994 Labour Code is relatively progressive. However, even though an impressive set of provisions is supposed to be operational since the mid-1990s, implementation and enforcement of these mostly protective codes have lagged far behind¹⁷. Clearly during the reform period, the State's capacity and willingness to supply legal institutions and robust regulatory frameworks that can adequately protect the individual workers have been weak. Presence of a large and growing number of migrant workers, contract workers, and a range of informal workers makes it difficult for enforcement of many of the legal provisions (Gallagher, 2004).

Towards the end of 2005, the State Council issued a policy paper that emphasized the need for on further strengthening of employment and reemployment efforts. Circular No. 36 reiterated the need for an improved environment for migrants working in towns and cities, and also called for 'a deepening of reform' of the labour market including an end to urban-rural and regional segregation. Since the National Peoples' Congress in

March 2006, a new national policy has been accepted by the State Council which aims to improve the social security system for migrant workers. Based on two years of investigation, the Central Government has promised concrete measures to expand social security coverage to migrant workers¹⁸.

Possibly there have been small achievements with regard to social insurance system, which has gradually been evolving during the last ten years. At present, five contribution-based programmes with "socialised" management - no longer controlled by employers - are now in place, although their implementation in practice has been gradual. After several pilot experiments, the schemes like Maternity insurance (1994), Work injury insurance (1996), Pension insurance (1997), Medical insurance (1998), and Unemployment insurance (1999) are being put in place, nationwide. In principle, social insurance (see details in Box 2 & 3 in appendix) is now compulsory for urban employees and voluntary for the self-employed; from 2003 it has been a national policy to promote the enrolment of rural migrants under the scheme.

The coverage of the total population under those schemes remains low by international standards. The coverage under pension insurance was 16% of the employed in 2003, or 21% including civil servants. Of the relevant population, coverage under other schemes was as follows: (a) unemployment insurance, 14%, (b) medical insurance, 11%, (c) work injury insurance, 6%, (d) and maternity insurance, 5%. Moreover expressed as a percentage of employment in urban areas (including rural migrants), both pension insurance and unemployment insurance had similar or slightly lower coverage in 2003

than in 1995, while only medical insurance of the three biggest programmes increased between 2000 to 2003 (Reutersward, 2005).

The other factor which probably has been of some help to workers in China is its education¹⁹ and health legacies from the socialist days, that is the provisioning of basic social infrastructure as well as targeted policies for improving the quality of the human capital of the workforce. There are a few proactive employment promotion measures to address the issues of the unemployed, workers laid off, new graduates and the surplus labour force in rural areas. Vocational training²⁰ is provided in parallel with regular education in China and it includes pre-employment training, training for people who are already employed, and training for people transferred to new occupations, covering elementary, intermediary, and advanced vocational qualification training for technicians and other types of training to help people acquire skills and adapt to different job requirements. As of December 2003, there were altogether 3167 technical schools in China (including 274 advanced technical schools) with a total of 1.91 million students attending the schools, and, in addition to these students the schools offered different types of training to another 2.2 million people from various social sectors in 2003. There were 3465 governmental employment training centers, and 17350 non-governmental training institutions, in 2003, and 10.71 million people trained through the year. Of course, given the enormity of the challenges, these numbers are obviously far from impressive. Nonetheless, it may well be the case that the policy makers in China are seized of the importance of active labour market policies.

In fact, in this respect, within the Asian continent, China is closer to the East and South East Asian Economies which have a clearly better record than South Asia, and is reflected in a whole range of indicators, such as literacy levels of workers, proportion of workers with secondary education, mean years of schooling, access to programmes for skill upgradation and training etc²¹ (for details, see Khan, 1994; Khan, 2001; Islam, 2001; Islam, 2003; ADB, 2005).

A Concluding remark:

China's transition to a market economy, for more than three decades now, has resulted in major changes in the world of work and the provision for the well-being of workers. In particular, employment generation has tended to slow down in the recent years and the quality of employment has been affected in several adverse ways; a huge mass of footloose migrant labourer are possibly among the worst off in this respect. As in most other parts of the world, Chinese policy makers have been persuaded by the logic of those advocating complete flexibilisation of labour market. In the process, workers' rights and entitlements have severely been affected, leading to the rising discontent among them. To address some of the problems, China put in place labour code in 1994, and further provisions in later years which are being implemented gradually; there have been small initiatives to build up social safety nets through various schemes. Obviously one of the major objectives of the Chinese government is to contain the discontent of workers and to keep in check the growth of social tensions. However, on the positive side, some of the measures adopted in the area of the provisioning of social insurance and active labour market policies may have useful lessons for policy makers in developing countries.

Appendix

Table: 1 Population, Labour Force, and Employment, 1980-2002 (in millions at the end of the year)

	1980	1990	1995	2000	2001	2002 (Est.)
Population	987.1	1143.3	1211.2	1265.8	1276.3	1284.5
Urban	191.4	301.9	351.7	458.4	480.6	502.1
Rural	795.7	841.4	859.5	807.4	795.6	782.4
Urban (percent of total)	19.4%	26.4%	29.0%	36.2%	37.7%	39.1%
Rural (percent of total)	80.6%	73.6%	71.0%	63.8%	62.3%	60.9%
Working Age Population (15 - 64)	594.1	763.1	829.0	888.0	894.3	903.0
Labour Force^a	429.0	653.2	687.4	739.9	744.3	751.3
Participation Rate (in percent) ^b	72.2	85.6	82.9	83.3	83.2	83.2
Employment^c	423.6	647.5	680.7	720.9	730.3	737.4
Unemployment^d	5.4	5.7	6.7	19.1	14.1	13.9
As percent of total labour force	1.3%	0.9%	1.0%	2.6%	1.9%	1.9%
As percent of urban labour force	4.9%	3.2%	3.4%	7.6%	5.6%	5.3%
Urban						
Employment	105.3	170.4	190.4	231.5	239.4	247.8
Unemployment						
Registered	5.4	3.8	5.2	6.0	6.8	7.7
Laid-off workers (xiagang) ^e				9.1	7.4	6.4
Registered unemployed and xiagang				15.1	14.2	14.1
Unemployment rate (in percent)						
Registered	4.9%	2.5%	2.9%	3.1%	3.6%	4.0%
Registered unemployed and xiagang ^f				6.0%	5.6%	5.4%
Rural						
Employment	318.4	477.1	490.3	489.3	490.9	489.6

Source: As estimated by Brooks and Tao (2003) from *China Statistical Yearbook*, various years; and CEIC database. Notes: (a) From the labour force survey, defined as economically active persons 16 years and older, either working one hour or more in the reference week or looking for work. (b) Labour force as percent of working age population. Data for the working age population defined consistent with the labour force (16 years and older) are not available. (c) From the labour force survey, defined as those working for one hour or more in the reference week. (d) Defined as difference between labour force and employment. (e) Those *xiagang* remaining attached to re-employment centers, at the end of the year. (f) Calculated as percent of the urban labour force.

Table: 2 Employment by Enterprise Ownership, 1980-2002

	1980	1990	1995	2000	2001	2002 (Est.)
	(In million at the end of the year)					
Total Employment	423.6	647.5	680.7	720.9	730.3	737.4
Urban Employment	105.3	170.4	190.4	231.5	239.4	247.8
State units	80.2	103.5	112.6	81.0	76.4	75.1
<i>Of which:</i> SOEs	67.0	73.0	76.4	43.9	39.5	
Institutions	22.0	21.6	26.1	26.4	26.2	
Governments	4.7	8.9	10.1	10.7	10.7	
Collectively owned	24.3	35.5	31.5	15.0	12.9	12.5
Joint units ^a	0.0	1.0	3.7	13.4	15.2	
Foreign funded	0.0	0.7	5.1	6.4	6.7	
Private units	0.8	6.7	20.6	34.0	36.6	
Residual	0.0	23.1	16.9	81.6	91.6	
Rural employment	318.4	477.1	490.3	489.3	490.9	489.6
TVEs ^c	30.0	92.7	128.6	128.2	130.9	133.0
Rural privately owned		1.1	4.7	11.4	11.9	
Self-employed		14.9	30.5	29.3	26.3	
Residual	288.4	368.4	326.4	320.4	321.8	
	(In percent of total)					
Urban Employment	100.0	100.0	100.0	100.0	100.0	100.0
State units	76.2	60.7	59.1	35.0	31.9	30.3
<i>Of which:</i> SOEs	63.7	42.8	40.1	19.0	16.5	
Institutions	20.9	12.7	13.7	11.4	10.9	
Governments	4.4	5.2	5.3	4.6	4.5	
Collectively owned	23.0	20.8	16.5	6.5	5.4	
Joint units ^a		0.6	1.9	5.8	6.4	
Foreign funded ^b	0.0	0.4	2.7	2.8	2.8	
Private units	0.8	3.9	10.8	14.7	15.3	
Residual	0.0	13.6	8.9	35.3	38.3	
Rural employment	100.0	100.0	100.0	100.0	100.0	100.0
TVEs ^c	9.4	19.4	26.2	26.2	26.7	27.2
Rural privately owned		0.2	1.0	2.3	2.4	
Self-employed		3.1	6.2	6.0	5.4	
Residual	90.6	77.2	66.6	65.5	65.6	

Source: As estimated by Brooks and Tao (2003) from *China Statistical Yearbook*, various years; and CEIC database. Notes: (a) Joint owned, limited corporations, and shareholding units. (b) Includes Hong Kong SAR, Macao SAR, and Taiwan Province of China funded. (c) Town and village enterprises.

Table: 3 Decreasing Employment Elasticity

		Employment Growth	Employment Elasticity
1980- 1990	Primary Industry	2.8	0.45
	Secondary Industry	5.9	0.62
	Tertiary Industry	7.9	0.65
	Total	4.1	0.44
1990-2000	Primary Industry	-0.8	-0.21
	Secondary Industry	1.6	0.12
	Tertiary Industry	5.1	0.56
	Total	1.1	0.11

Source: Zhu (2007)

Table: 4 Some Labour Related Statistics, 1981-2001 (percent)

	6 th Five Year Plan (1981-85)	7 th Five Year Plan (1986-90)	8 th Five Year Plan (1991-95)	9 th Five Year Plan (1996-00)	1981- 1995	1996- 2001
SOE employment Growth	2.34	2.85	1.72	-6.15	2.3	-6.08
City Collective enterprise employment growth	6.64	1.33	-2.33	-13.14	1.88	-13.26
Staff and workers employed by manufacturing sector, growth	3.2	2.81	0.51	-9.42	2.17	-9.03
Total staff and workers, growth	3.43	2.62	1.19	-5.29	2.41	-5.1
Total employment growth	3.32	5.51	1	1.15	3.28	1.18
Share of employment in formal sector	97.89	93.12	81.02	60.67	90.68	58.07

Source: Zhu (2007)

Table: 5 Graduates from higher education institutes, employment ratio, employment (10000 or %)

	Total Graduates	Employment Ratio	Unemployed
2000	107	86.39%	30
2001	115.02	89.40%	34.5
2002	145	85.00%	52
2003	212	83.00%	70
2004	280	73.00%	75
2005	338		

Source: Zhu (2007)

Table 6: Number of Migrant Workers during 1978-2006.

Year	Number of rural out-migrant workers (in millions)
1978	2
1989	30
1993	62
2001	78
2002	94
2003	110
2004	120
2006	130-150

Source: Li Shi (2007).

Table 7: Labour Disputes in China in 2000.

Labour Dispute Issues, 2000		
Issues	Number	Percent of total
Wages	41671	30.8
Labour Contract	35974	26.3
Social and Insurance Benefits	31350	23.1
Remedy for injury suffered on the job	13008	9.6
Training	12549	9.2
Others	834	0.6

Source: Athreya (2004).

Box: 1 Labour Market Reforms: Steps toward Labour Market Flexibility

- "In 1980, China's first national work conference on labour market issues adopted a more flexible labour market strategy. Urban job-seekers were allowed to find work in the state, collective, or newly-recognized private sectors, and enterprises were granted more autonomy in hiring decisions. The authorities, however, continued to formulate a labour plan, but instead of unilaterally allocating workers to enterprises, labour bureaus began to introduce workers to hiring units.
- Wage flexibility has been increased gradually. From 1978, firms were allowed to reinstitute bonuses (subject to ceilings) and piece wages. In 1994, the introduction of a new Labour Law also gave management more discretion over wage determination. As a result of these reforms, the share of bonuses in total wages for all enterprises rose from 2 percent of the wage bill at the start of the reforms in 1978 to about 16 percent in 1997.
- A labour contracting system was introduced in the mid-1980s. This signaled a marked shift away from the system of lifetime tenures with its potentially distorted work incentives. The initial steps were modest and resulted in only moderate growth in the share of employees under contract, but further reforms in 1994 gave new impetus to labour contracting. As a result, the share of workers on contracts almost doubled from between 1994 and 1997, to about one-third of urban workers. Restrictions on movements of workers across firms were also removed, in an attempt to reduce the scale of the mismatch of labour inherent in the pre-reform system.
- SOEs gained the right to lay off permanent workers. Those employees without contracts had lifetime tenure with SOEs, but in the mid-1990s, this tenure was eroded. SOEs, however, were required to establish so-called "re-employment centers" (RECs) for laid-off workers ("*xiagang*"), which provide retraining and job search assistance and pay unemployment benefits. If the laid-off worker remained unemployed for more than three years, the employer could sever the relationship. From 2002, newly laid-off workers receive only unemployment benefits, and the RECs will be phased out by 2004."

Source: Brooks and Tao (2003).

Box: 2 The public pension system

"Urban workers

Three pension tiers, of which the first two are mandatory for employees in all enterprises, but voluntary for the self-employed. Transitional rules for those who contributed before 1997.

First tier: A pay-as-you-go defined-benefit programme

Financing: Employer contributions vary around a national standard of 20%, of which 17 percentage points for the first tier. Pooling mostly at prefecture (city) level, sometimes by province or by county.

Benefits: After at least 15 years of work, the benefit is 20% of the local average wage. The pension age is 60 (men) and 50 (most women). No first-tier benefits with under 10 contribution years.

Second tier: A defined-contribution programme with individual saving accounts

Financing: Employee contributions, now usually 7% of the wage, to be raised to 8%. In addition, 3 percentage points of the employer contribution go to the individual accounts.

Administration: The government can either invest the money, mostly in bank accounts and bonds, or use it on a pay-as-you-go basis. In the latter case, which is most common, the government pays a certain rate of interest to the notional accounts.

Benefits per month: $1/120$ of the fund as accumulated on retirement. Thus, the programme assumes an average life expectancy of 10 years on retirement, but pensions are paid until death.

Workers who stop contributing after less than ten years in a locality (pooling unit) can withdraw the individual accounts. But they receive no first-tier pensions.

Third tier: Voluntary pension saving

Mostly enterprise pensions for employees.

Rural workers

Entirely voluntary saving, possibly with some support from communities. Benefits according to the accumulation on individual accounts."

Source: (Reutersward, 2005)

Box 3: Social insurance on special conditions for rural migrants: two examples

"Chengdu, Sichuan introduced an optional low-cost insurance package for migrants in March 2003, covering second-tier pension insurance, work injury insurance and basic medical insurance (hospitalisation).

Flexible contributions calculated on a "base wage", defined as the previous year's average wage in the city times one of the following multiples: 60%, 70%, 80%, 90%, 100%, 120%, 150%. The employer chooses a multiple for each worker, with effects on benefits as well as on contributions.

The contribution rate, applicable to the chosen "base wage", is 14.5% for the employer and 5.5% for the employee. For the self-employed, it is 20%.

At the end of 2003, this scheme covered 84 000 workers, or 10% of the rural migrants in Chengdu.

Note: For urban workers in Chengdu, the standard contribution rates for pension, work injury and medical insurance are, respectively, 20%, 0.6 to 2% and 7.5% for employers and 8%, 0% and 2% for workers. In other words, rural migrants and their employers contribute at about half of the rates that apply to urban workers.

Chengdu also gives employers in the urban private sector a 3 percentage-point rebate on their pension contributions, down to 17%. This affects the city's revenues to the pay-as-you-go first tier, not the individual accounts. Such workers get the full insurance package despite the rebate.

Xiamen, Fujian offers reduced contributions to rural migrants and their employers in the standard social insurance. Contributions are then calculated on the basis of the city's minimum wage, and employers are offered an 8 percentage point rebate on the pension contribution rate, down to 6% compared with Xiamen's standard rate of 14%. The employee contribution rate (for second-tier pensions) is the same as for urban workers: 8%.

The rebate only affects the city's revenues in the first-tier pay-as-you-go pension scheme."

Source: (Reutersward, 2005)

Notes:

1. There is a strong case for rationalization of the existing laws, many of which are counterproductive; however, we need not address this issue here.
2. It is also generally acknowledged that instead of big-bang approach, China's strategy of reforms is piecemeal, partial, incremental and often experimental (Gallagher, 2004).
3. Krongkaew (2003) reports that the per capita income Gini ratio in the whole of the China has been increased gradually in the whole period of reforms. Per capita income Gini ratio which was 0.29 in 1981, and to have risen progressively to 0.30 in 1984, 0.35 in 1989, 0.39 in 1995, and 0.46 in 2000. Again, some researchers have claimed that China possibly has the largest income gap between the rural and urban sectors in the world (e.g., see Lin 2003).
4. "Under this arrangement, the workers who lost their jobs but enjoyed their unemployment benefits were not included in the data of registered unemployed workers in cities and towns" (Fang & Miyeng, 2004).
5. On the whole, most researchers take a dim view of the employment prospects in contemporary China. However, there are differences as regards the pace and prospects of employment generation. For instance, Fang and Meiyang (2004) argue that employment growth has been substantial, mainly through the irregular channels; and according to them, "actually, the overall employment in China did indeed increase, and only regular employment in cities and towns was reduced. The employment number in work units in China's cities and towns has been gradually decreasing since 1978, while the employment number outside work units has been increasing. That is to say, employment in irregular sectors has been increasing. In the period 1996 to 2001, the ratio between the employment number in irregular sectors and work units increased from 1 : 4 to greater than 1 : 2. Therefore, from the perspective of using general statistical data to observe the employment situation in China, it is usually easy for people to underestimate the actual growth of employment". But most other researchers take the view that the pace of employment generation has declined intertemporally, particularly since the early 1990s.
So-called irregular employment refers to employment in irregular sectors, which include self-employment, family enterprises, and micro-enterprises.
6. "The largest concentrations of migrants are found in the Pearl River Delta (Guangdong) and Yangtze River Delta (Shanghai and Jiangsu), where average GDP per capita is 4 to 10 times that in poorer rural provinces such as Gansu and Guizhou. Estimates of the migrant population vary, ranging between 80 million and 150 million" (Brooks and Tao, 2003).
7. "Despite increased migration, considerable surplus labour persists in the rural areas. The Organization for Economic Cooperation and Development (OECD) (2002) estimates that if the average GDP contribution per worker in nonagricultural jobs is used as a benchmark, rural hidden unemployment can be estimated to represent around 275 million (where hidden unemployment is defined as low-productive employment regardless of working time). If the benchmark is set more modestly at one-third of the productivity of nonagricultural workers (in line with other Asian countries), rural hidden unemployment would be around 150 million" (Brooks and Tao, 2003).
8. "Many migrant workers are not even being paid what they are owed. At least one government survey found that 72.5 percent of the country's nearly 100 million migrant workers are owed wages, especially those employed in the construction and coastal export sector. Non-migrant workers employed by state-owned enterprises are not immune from these developments; they are routinely told by their managers that 'they must accept a decline in conditions and welfare or to be replaced by migrant workers from the countryside.'" (Hart-Lansberg & Burkeet, 2007, p. 26).
9. It is worth emphasizing that in many of these zones migrant labourers had a great role in China's industrial transformation in the non-state sector, especially TVEs and in the export zones and coastal factories funded by foreign and private capital (Solinger, 1999; OECD, 2002).
10. Recently in rural China protests against land acquisition and deprivation have become a common feature especially in the provinces of Guangdong (south), Sichuan, Hebei (north), and Henan province. The government admitted that in 2004, there were 74,000 riots in the countryside, a seven-fold jump in ten years and these are directly or indirectly related to those policies. Livelihood of a large section of population and Social stability is now a serious concern in these areas. In April 2004, the State Council, China's cabinet, halted the ratification of farmland for other uses and started to rectify the national land market. The Minister of Agriculture, Du

- Quinglin, promised "not to reduce acreage of basic farmland, change its purpose or downgrade its quality" (Goswami, 2007).
11. "In 2001, in cases of labor disputes that labor arbitration agencies have processed, the ratio of cases involving labor salaries in private enterprises was 143 percent higher than in the state sector; on issues relating to security and benefits, the number of dispute cases in private enterprises was 14 percent higher than in the state sector; on the issue of labor protection, the number of disputes in private enterprises was 221 percent higher than in the state sector. These private enterprises were relatively formal ones, and at least they were registered. As for enterprises that have not formally registered, the impact of their irregular nature on labor protection and so on is more obvious" Fang & Miyeng (2004).
 12. Among the urban unemployed labourers in 2002, there were 6.52 million laid off workers, which was the largest segment among the various categories of unemployed.
 13. The household registration (hukou) system was set up in the mid-1950s to control the movement of population and effectively constrained the development of a national labor market. An urban hukou was needed to stay in cities and gain preferential access to city services such as education, health, and social security. Moreover, urban enterprises were restricted from recruiting labor from another province unless labor could not be found locally. This registration system made migrant workers more vulnerable.
 14. Though urban enterprises are required by law to sign contracts with all their staff, when the Labour Department of Suizhou City in Hubei carried out random checks on 134 companies, not one had issued any contracts.³⁷ Recent research by the Jinan Daily showed that eight out of ten migrants did not even know what a labour contract was - and of the few who did know, most thought they were ineffective.
 15. The discontent arises not only among workers but also among some top officials, scholars, human right activists. Very recently they publicly challenge openly the decade long policies of Chinese government. "A rare open letter signed by 17 former top officials and conservative Marxist scholars ahead of a key party meeting accuses China's to leaders of steering the country in the wrong direction, pandering to foreigners, betraying workers' revolution and jeopardizing social stability" (2007, [http://www. maoflag.net](http://www.maoflag.net)).
 16. Labour Laws adopted at he Eighth Meeting of the Standing Committee of the Eighth National Peoples Congress on July 5, 1994, promulgated by Order No.28 of the President of the Peoples Republic of China on July 5, 1994, and effective as of January 1, 1995.
 17. It quite a irony that soon after promulgating the Lanour Law of 1995, "the 15th Congress merely set the ideological tone by officially acknowledging the need to clear out the redundant workforce and to allow the state to abandon its medium and small enterprises step by step" (Huchet, 1997: 18). In other words, the 15th Congress gave clear signals for the creation of a conducive environment to labor exploitation and to promote labor flexibility at the expense of workers' safety, health, and rights.
 18. Besides employment injury insurance, the scheme includes medical insurance to help cover the costs of treatment for serious diseases. But, for protect the workers' rights, new labour laws, which will take effect in 2008, is a landmark one. This will strengthen the workers union in China and also allow the collective bargaining for wages and benefits (Khan and Barboza, 2007). It would be worthwhile to mention here that workers and China's state-run unions had almost no involvement in setting the wages and other benefits presently. However, the Chinese workers might be fully benefitted through these new set of laws only if these laws are implemented properly along with the existing labour laws, as the violation of labour laws are rampant in China.
 19. In the reform period the quality of government schools is deteriorating, largely due to inadequate government expenditure and this has resulted in a mushrooming of private schools. From the late 1980s, private educational institutions have been growing rapidly (For details, see International Herald Tribune, 28th August, 2006).
 20. Labour Laws adopted at the Eighth Meeting of the Standing Committee of the Eighth National Peoples Congress on July 5, 1994, promulgated by Order No.28 of the President of the Peoples Republic of China on July 5, 1994, and effective as of January 1, 1995. the important provisions include:

Article 66 The State shall promote the cause of professional training through various channels and by various measures to develop the professional skills of labourers, improve their quality, and strengthen their employment and work abilities.

Article 67 Peoples governments at all levels shall include professional training into their programmes for social and economic development, and encourage and support enterprises, institutional organizations, social groups, and individuals to carry out professional training in various forms.

Article 68 The employer shall establish a system for professional training, extract and use funds for professional training according to State regulations, and provide labourers with professional training in a planned way and according to its specific conditions.

Labourers to be engaged in technical work shall receive training before taking up their posts.

Article 69 The State shall determine occupational classification, set up professional skill standards for specific occupations, and practise a system of professional qualification certificates. Examination and appraisal organizations authorized by governments shall be charged to carry out examination and appraisal of the professional skills of labourers.

21. A few examples may be instructive. "In 1976, Korea introduced, the Basic Law for Vocational Training that requires private firms with 150 or more employees to conduct in house training for a portion of its employees, or to pay a training levy equivalent to no less than 6% of its wage bill. This levy is used to promote vocational training through government-sponsored vocational training schools. Likewise, Singapore has a series of programmes such as the Vocational and Industrial Training Board, set up in 1979 and financed with a levy of 1% on wages to subsidize efforts to upgrade the skills and expertise of employees or retraining of retrenched workers. Other initiatives like the Basic Education and Skills Development program to teach basic skills in arithmetic and literacy to workers, the creation of the National Productivity Board in 1972, and the National Productivity Council 1982, were also undertaken to promote productivity consciousness. Elsewhere, in Malaysia, Training costs are also subsidized and the Penang Skills Development Centre puts together training courses contributed by multinational corporations to upgrade their suppliers' skills. Thailand grants a tax deduction (150) percent for training expenses" (ADB, 2005, p.79-80). Higher productivities in East Asian countries may be attributed to some extent to their human capital policies.

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