

LABOUR MARKET REFORM IN CHINA'S STATE-OWNED ENTERPRISES: A CASE STUDY OF POST-DENG FUSHUN IN LIAONING PROVINCE

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INTRODUCTION

State-owned enterprises (SOEs) were once the backbone of China's economy; however, over time the state-sector has become a drag on China's financial resources. In 1990 27.6 per cent of SOEs were making losses; this figure increased to 41.9 per cent in 1999. The average debt-to-asset ratio of these firms was 47.2 per cent in 1990; this amount increased to 68.8 per cent in 1998 (Hu 2000: 644). The problem is even more serious in China's Northeastern provinces such as Liaoning because of the large numbers of SOEs. In Liaoning 55 per cent of all SOEs and 66.4 per cent of large and medium-sized SOEs were making losses in 1998 (Hu 2000: 644). The average debt to asset ratio in Liaoning's 60 "key large enterprises", concentrated in strategic sectors, was 61.6 per cent in 1998 with accumulated interest arrears of 8.1 billion RMB (DRC 1999, 2000).

Since 1994 China's central government has focused on the corporate reorganisation of SOEs. The central component of the enterprise reforms,

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which were endorsed at the fifteenth Communist Party Congress held in September 1997, is *zhuada fangxiao* (“grasping the big, enlivening the small”). The first component of the reforms is that large SOEs in the main strategic sectors are to remain under state ownership and be developed as a part of large groups of enterprises (“grasping the big”). The second aspect of the reforms has been either to merge or privatize small and medium sized SOEs or let them go bankrupt (“enlivening the small”). In order to be cost-effective, most SOEs started to reduce their workforce. With the job security of workers under threat, the right to work ceased to be recognised by the state, and workers were forced to go “off-duty” or *xiagang*.

The term *xiagang* in China does not have an official definition, but popularly refers to workers who are redundant, but still maintain ties with their enterprise (Qiu & Zheng 1998). While China’s official unemployment rate is quite low, the true situation is much worse mainly because there are large numbers of *xiagang* workers who are not counted when measuring the unemployment rate. The growth in the number of *xiagang* workers poses a number of issues for China’s enterprise reforms. These include: how do these workers find alternative sources of income? What incentives are there for these workers to cut ties with their enterprise? What role does society play in supporting these workers when the state retreats from its welfare commitments? What are the economic and political implications of this growth in societal support? (Chan & Qiu 1999).

These questions are intertwined with the changing nature of state-society relations in China. Prior to the most recent round of reforms China’s SOEs provided lifetime employment and “cradle to grave socialism”. As a result, the traditional relationship between state and society was very close. These traditional relationships, however, are increasingly seen as obstacles to further market reform (Chao 2000). Thus, there is wide acceptance in the literature that old relationships between the state, SOEs and society had to be revised (see eg Yu 1998; Chao 2000). The provision of lifetime employment and social welfare services meant that SOEs were disadvantaged compared with non-state enterprises. Once it is accepted that traditional state-society relations are incompatible with market-oriented reform, an important issue in reforming the labour market concerns the opportunities that redundant workers have to seek help from social networks as opposed to state structures and the uses they make of these alternative avenues.

Based on a study of *xiagang* workers in Guangzhou, Chan and Qiu (1999) suggest that informal social networks and private job-search and social support agencies have filled the void in state-society relations. Chan and Qiu argue that social networks reduce workers’ dependence on the state and create a social buffer for the transformation of state socialism into market socialism. However, others have reached different conclusions about the separation of the state and enterprise. For example, Hu Xiaobu states:

Although viewed as progressive by many China watchers, the post-Deng reform drive that began in 1997 has not been able to break the ties between state and enterprises. If the central government’s policy has been to reform state-enterprise relations and devolve some social responsibilities to society, then the results have been rather contradictory. There is a clash between the state’s goals of

withdrawing from the economy and creating one based on market principles on one hand, and the government's actual policies, which have kept it entrenched in both the economy, and much of society, on the other" (Hu 2000: 642).

This article examines recent developments in labour market reform in China's state-owned sector through a detailed case study of Fushun in Liaoning Province. It has two main objectives. The first is to describe the problems facing laid-off workers in Fushun and the policies which have been implemented to address these problems. A case study of Fushun, which suffers severely from the problem of *xiagang* workers, should provide useful data to better understand the issues involved in labour market reform. There is a burgeoning literature on China's laid-off workers (see eg Qiu & Zheng 1998; Gu 1999; Hu 2000; Lee 2000). There are, however, few case studies of the policies implemented in specific localities and those which do exist tend to focus on re-employment projects in the populous coastal cities such as Shanghai (see eg Chen 2000). While studies for cities such as Shanghai are important because of their strategic economic importance, the *xiagang* problem is more manifest in cities in the "rust belt" of China's Northeast.

Our study focuses on Liaoning because it provides a textbook example of the problems associated with labour market reform in China's Northeast. Prior to the introduction of economic reforms in the late 1970s, Liaoning was China's major industrial province. It had the largest number of SOEs and received the biggest share of state investment. Since the late 1970s, Liaoning, together with the other Northeastern provinces – Heilongjiang and Jilin – have posed the greatest difficulties in terms of SOE reform. Fushun is one of the biggest cities in Liaoning. In the 1950s and 1960s it was one of the major strategic cities in China in terms of heavy industry and was a major contributor in terms of industrial development. However, it now has a number of sunset industries, such that its importance in the Liaoning and Chinese economies has been declining over time.

The second objective is to investigate the impact of labour market reform on changing state-society relations. We examine the alternative channels open to *xiagang* workers and those who have cut ties with their enterprise in Fushun, with the objective of drawing some conclusions about the extent to which intermediate social organisations have created a social buffer as opposed to workers remaining dependent on the state. Our findings support Hu's (2000) observations cited above. We found that state and enterprise sponsored avenues of re-employment have been important in Fushun, while independent intermediate social organisations have played virtually no role. We suggest that this outcome results from a contradiction between the objectives of reforming enterprise-state relations and the means used to realize these aims. The reforms have not been successful in separating the state and its enterprises. Instead, the state's continuing role in state-society relations now extends to new enterprises such as state-sponsored re-employment agencies, which are themselves an outgrowth of the reforms.

The article is set out as follows. The next section provides an overview of enterprise and labour market reform in Liaoning. It discusses the separation of enterprise and state and state-society relations in the case of laid-off workers. Section three presents a case study of Fushun, which is mainly based

on interviews and newspaper reports. We first outline our methodology and provide background information on Fushun. Following this, we review the labour market situation and the alternative avenues of re-employment open to redundant workers. In section four we discuss the contradiction between the government's aim of withdrawing from the economy and its actual policies, which mean that it has retained a central role in workers' and redundant workers' social lives including their career choices. The final section contains the conclusion.

ENTERPRISE AND LABOUR MARKET REFORM IN LIAONING

The Separation of Enterprise and State

Table 1 (see appendix) presents some statistics that compare basic economic indicators for Liaoning with China. The figures for China as a whole are given in parenthesis. Per capita GDP is higher in Liaoning than in China as a whole, although per capita urban income is lower. The importance of the state-owned sector in Liaoning is reflected in the fact that the gross industrial output value of SOEs and the number of workers in SOEs have been higher in Liaoning than in China in percentage terms. The decline in the financial performance of SOEs has also generally been more severe in Liaoning than in China. The profit rate in industrial SOEs in Liaoning has been consistently lower than the average for China and, in most years, the percentage of loss-making firms has been higher. The loss-profit ratio is also much higher in Liaoning than China. The loss-profit ratio in industrial SOEs in China as a whole increased from 23.2 per cent in 1990 to 41.9 per cent in 1999, but in Liaoning it increased from 43.7 per cent in 1990 to 75.8 per cent in 1998.

The poor financial position of SOEs in Liaoning reflects the fact that the "iron rice bowl" mindset persisted longer in Liaoning than in most other provinces and thus Liaoning was much slower to grasp reform. Schueller attributes this to the strategic importance of the province to the planning process, which resulted in an industrial structure shaped to the needs of the central plan (1997: 101-102). In the 1950s and 1960s in Liaoning a few thousand large and medium-sized enterprises belonging to the central or provincial government were the backbone of the planning apparatus. Most of the "hardware" in these enterprises was outdated, built in accordance with abundant natural resources, geographical location and favourable transport in the First Five-Year Plan.

The approach to enterprise reform in Liaoning depends on the size of the enterprise. Consistent with the "grasp the big" policy articulated at the 15th Communist Party Congress, privatization is not considered a viable solution in the case of large SOEs, because these enterprises are in strategic sectors. As a result, in Liaoning, 90 per cent of large enterprises are still owned exclusively by the state (Hu 2000: 645). Since 1988 Liaoning has given special assistance to 60 large enterprises in strategic sectors. These enterprises account for 71 per cent of gross output value, 82 per cent of sales and 90 per cent of pre-tax profits in the state-owned sector in Liaoning (DRC, 1999a). It has also started to introduce modern accounting standards in some

large and medium-sized SOEs. At the end of 1999, 174 or 41.5 per cent of large and medium-sized SOEs in Liaoning had introduced modern accounting standards (DRC 1999a; Wu 1999).

With respect to small and medium sized SOEs, two approaches are common in Liaoning. First, since 1998 it has focused on reforming profitable SOEs through auction, merger, outright sale, shareholding cooperative reform and joint venture – described colloquially as *liang niu xian jia* (to marry off the attractive ones first) (Hu 2000: 644-645). Reports suggest that about 80 per cent of small and medium SOEs in Liaoning have been reformed through these measures (DRC 1999a). Second, unprofitable SOEs are being disposed of through other means such as bankruptcy. Up to June 1994, only 50 enterprises, nine of which were state-owned, had gone bankrupt (Schueller 1997: 104); however, the number of bankruptcies has since increased. In 1996 and 1997 167 SOEs went bankrupt (Song & Shen, 1998). While bankruptcy has traditionally only been seen as an option for small SOEs, there are spasmodic news reports that some large and medium SOEs have also gone bankrupt. For example, one report states that in 1997 26 large and medium-sized SOEs were declared bankrupt (Tong, 1998).

State-Society Relations: The Labour Market Situation

At the end of 1999 the urban unemployment rate in China was 3.1 per cent and in Liaoning it was 3.5 per cent (see Table 1). The proportion out of work, however, is much higher than this figure suggests because the official rate does not include *xiagang* workers who have been laid off from poor performing enterprises or migrant workers without an urban *hukou* (urban registration) (Zhu & Dowling 2000: 87). Statistics on the number of *xiagang* workers in China are incomplete and vary by source (reported from the labour bureau, statistical bureau or the enterprises themselves) (Cao *et al*, 1999: 113). One source, which is reported in Cao *et al*, suggests that nationwide the total number of *xiagang* workers in 1996 was 8.9 million, of which 63 per cent were from SOEs with the rest from urban collectives (1999: 113). An official source states that there were 11.7 million *xiagang* workers in 1999, of which two-thirds were from SOEs.⁴ However, well-known economist Hu Angang suggests that a more accurate estimate of the number of *xiagang* workers at the end of 1999 was 15 to 16 million (Hu 1999).

Of the lay-offs from SOEs, 70 per cent are from loss-making enterprises and 40 per cent are from large and medium-sized enterprises (DRC 1999b). The sectors that have the highest number of redundant workers are the coal, defence, machinery, textile and timber industries. For instance, in the textile sector *xiagang* workers account for 18 per cent of workers in SOEs and in the timber sector the figure is 26 per cent (NETC 1999). The labour market situation is worse in the three Northeastern provinces than in the rest of China. At the end of 1998 one-quarter of the *xiagang* workers in China were in Heilongjiang, Jilin and Liaoning (Chen 1999). Of the three provinces,

⁴ Xinhua News Agency, Beijing, in English, 0755 gmt, March 7, 2000; reproduced in *Summary of World Broadcasts (Asia Pacific)* (SWBAP) March 9, 2000.

Liaoning has the highest proportion of *xiagang* workers in China. At the end of 1998 21.4 per cent of workers in the state-owned sector in Liaoning were classified as *xiagang*, while for China as a whole the comparable figure was 17 per cent (Pi, 1998; Hu 1999a).

Workers who are made redundant from SOEs are confronted with a myriad of problems in their everyday lives. First, most workers who are laid off are middle-aged with just basic skills. Of workers who are laid-off in China; 60 per cent are aged 35 to 50, 60 per cent are female, 70 per cent left school after junior high school or before and 70 per cent are unskilled (NETC 1999: DRC 2000a). In Liaoning the statistics are similar. Of workers who are laid-off in Liaoning, people aged 30 to 44 account for 71 per cent, workers who have not finished higher than junior middle school make up 70 per cent and 84 per cent of laid-off workers are unskilled (LCPCLPGIG 1999: Chen 2000). It is difficult for these people to find new jobs because they do not have the education or skills to compete in the non-state labour market with much younger new graduates. Policies designed to give workers new skills seem to be the obvious answer, but there is often much resistance to re-training schemes. For instance, in a typical survey of workers laid off from 37 SOEs in Beijing, just 6 per cent said that they would be prepared to undertake re-training to get a new job. Most of the respondents were either waiting for their work unit to find a new job for them (47 per cent) or contemplating retirement (20 per cent).⁵

Some Western academics have argued that the service sector will absorb redundant workers. For example, Song and Chu suggest “the service sector ... will create many job opportunities and absorb many workers. ... The big floating population of peasants in Chinese cities not only indicates a big labor surplus in rural areas, but also suggests a strong demand for labor in urban areas” (1997: 88). The service sector provides 60 per cent of employment in developed countries and 40 per cent of employment in developing countries, but less than 30 per cent of employment in China (NETC 1999). As a result the Chinese government expects that most new jobs will be in the service sector, in particular the fast growing information technology sector. But the view that a growing service sector in itself represents a viable solution to China’s labour problems is naive because redundant workers do not have the skills to be successful in areas such as computer software. For instance, one survey conducted by the Beijing Labour Department found that 70 per cent of redundant workers lacked the skills to move into occupations in the service sector where there is room for expansion such as information technology.⁶

A related problem is that because workers in SOEs held privileged positions for a long time, it is difficult to adjust to being forced to compete in the non-state sector labour market. Surveys have found that state sector workers see workers in the non-state sector as inferior. For example, according to one finding, 72 per cent of state sector workers in Beijing “look down” on the non-state sector.⁷ As a result, often a significant gap exists between the expectations of redundant SOE workers as to the jobs they prefer

⁵ *People’s Daily* 16 December 1997, p. 1.

⁶ *Ibid.*

⁷ “Briefs” *China Daily* January 10, 1998.

and the sorts of jobs that are available. It has been estimated that for two-thirds of redundant workers from SOEs the gap between their expectations and what is realizable is so large that they do not accept job offers, even when positions are available (Liu 2000). Studies of workers displaced from the state sector have consistently found that most would prefer to be re-employed in the state sector rather than the non-state sector.⁸ Observers such as Edward Gu have referred to this as the “laid-off workers state-ownership complex” (1999: 298).

Prior to the introduction of market reforms, workers in SOEs were dependent on their units (*danwei*) for welfare services. Such “organized dependence” was founded on the state’s monopoly over people’s livelihood and political control within the enterprise (Lee 1999; Chao 2000). The reasons *xiagang* workers are reluctant to terminate ties with their enterprise is rooted in this dependence because once they cut their ties, they lose the backing of the enterprise. The Development Research Centre conducted a survey of 1000 *xiagang* workers in 20 cities across six provinces (DRC 2000a). In response to the question, ‘what is the main reason you do not want to terminate the labour relationship with your original enterprise?’ 74 per cent said they were afraid of losing their medical and retirement insurance. When answering the question, ‘under what condition will you agree to terminate the labour relationship with the original enterprise?’ 67 per cent said they would do so if the original enterprise continued to pay premiums for medical and retirement insurance. Some *xiagang* workers also have wages owing or are waiting for compensation for contributions to pension funds or unemployment insurance. This has resulted in social unrest in some cities in Liaoning. For example, in May 2000, 5000 workers and retirees from the Liaoyang City Ferroalloy Factory in Liaoning blocked Zhenxing Road, the most important city highway leading to Shenyang. The protestors were demonstrating because current workers, *xiagang* workers and retirees had not been paid for 18-months.⁹

A CASE STUDY OF FUSHUN CITY

Background Information and Methodology

Our objective was to investigate the above issues through an in-depth study of Fushun. Fushun is located 45 kilometres northeast of Shenyang, the capital of Liaoning.¹⁰ It has an area of 10,800 square kilometres, of which 675 square kilometres constitutes the city proper. It has a total population of 2.27 million people and a non-agricultural population of 1.49 million people. Fushun has

⁸ For example, see the editorial in *People’s Daily* 12 December 1997, p. 2.

⁹ Information Centre for Human Rights and Democracy, Hong Kong, in Chinese, May 16, 2000; reproduced in *SWBAP*, May 17, 2000; RTHK Radio 3, Hong Kong, in English, 1000 gm, May 16, 2000; reproduced in *SWBAP*, May 18 2000.

¹⁰ All the information on Fushun in this paragraph and the next paragraph are taken from documentation provided by the Fushun government and LTN (1999, 2000).

four urban districts – Wanghua, Xinfu, Dongzhou and Shuncheng; three rural counties – Fushun, Qingyuan and Xinbin; and two economic development zones. It has a heavy state-owned industrial base, including three petrochemical processing plants, two steel mills, one aluminum plant, three coal mines, and eight chemical plants. Most of the state-owned heavy industries are located in the Wanghua District, while the coal mines are mainly in Dongzhou District. As a result, these have been the worst affected districts in terms of labour shedding.

Fushun's strategic importance in the 1950s and 1960s is evident in the fact that for a short period after the founding of the People's Republic in 1949, it was a municipality directly under the control of the central government. Between 1953 and 1962 the state allocated 2.35 billion RMB to Fushun for eight key projects out of 156 in the nation, representing one-third of the funds allocated to Liaoning. However, its strategic industrial importance in China has declined over time. Because it now has a number of declining industries, particularly coal mining, in recent times it has been difficult to attract investment – either central government investment or foreign direct investment – to the city.

Most of the re-employment issues in Fushun are representative of other cities in Liaoning, although the issues are magnified to the extent that Fushun has the highest proportion of *xiagang* workers in Liaoning. This reflects the sunset nature of its industrial base. It is also one of the most heavily polluted cities in Liaoning, which makes it difficult to attract skilled labour. In other respects, though, it is fairly typical. Table 2 (see appendix) gives statistics on some basic indicators for Fushun and other major cities in Liaoning. In Fushun 90.8 per cent of workers are employed in either collective-owned enterprises (COEs) (most of which are urban COEs) or SOEs and SOEs are responsible for 88.5 per cent of gross industrial output. Fushun has never been used to experiment with enterprise reforms and is not part of the capital optimization reforms. Since the economic reforms started in China in the late 1970s Fushun, as a whole, has also never received any preferential policy treatment from the central or provincial governments, although some enterprises in Fushun have received special government support as part of broader reform programs.

Our fieldwork in Fushun was conducted between June and November 2000. Over this period we interviewed (a) government officials in the Fushun municipal labour bureau, (b) government officials in the Wanghua District labour bureau, (c) senior managers (either general managers or vice-general managers) in several SOEs in Fushun, (d) academics and (e) retired officials and workers in Fushun. In each case the interviews were based on a series of mostly open-ended questions, which were prepared beforehand and focused on various aspects of the labour market situation in Fushun. During the actual interviews we took shorthand notes of the responses and after each interview, on the same day, more detailed notes were prepared. In each case, every informant was given a number, and his/her position was recorded, together with the date of the interview. This information is referred to in the following discussion.

Each informant was told that the purpose of the interviews was independent research and most of the time they were forthcoming and open in responding. As a result we are confident that the information provided in the

interviews is accurate. Where possible we cross-checked the information we received by asking different informants the same questions. We also supplemented material that we obtained from interviews with information gathered from newspaper reports and official sources such as yearbooks and unpublished printed material provided by the Fushun municipal government.

The Labour Market Situation in Fushun

Most estimates suggest that the surplus workforce in the state-owned sector in both Liaoning and China as a whole is about one-third (Xia 1998; Chen 2000). One news report suggests that the surplus workforce in Fushun is about 20 per cent. An estimate in the range of 20 to 30 per cent is consistent with the figures we were given at firm interviews.¹¹ For example, one non-ferrous metals firm that we visited claimed to have 20 per cent surplus labour and a steel firm that we visited claimed to also have 20 to 30 per cent surplus labour.¹² However, it is likely that this substantially underestimates the true figure. A senior local government official told us that in Fushun, out of a total workforce of 700,000 in the collective and state sectors, in his view, just 200,000 were needed. This gives a surplus labour force of over 70 per cent.¹³ The same senior government official, who had a long association with the steel firm before entering local politics, suggested that 20-30 per cent underestimated the true amount. He considered that the workforce at the steel firm could be reduced from its current level of 21,000 to 2,000 without production loss, which implies a surplus labour force of 90 per cent.¹⁴

The urban unemployment rate in Fushun is 2.6 per cent, which is one of the lowest of the major cities in Liaoning (see Table 2). This figure, however, is misleading because *xiagang* workers from COEs and SOEs account for 42 per cent of total workers in COEs and SOEs in Fushun, which is the highest of any city in Liaoning.¹⁵ Thus, the real or effective unemployment rate is much higher. Consistent with provincial and national estimates, females constitute 60 per cent of *xiagang* workers in Fushun.¹⁶ In order, the industries with the largest number of *xiagang* workers in Fushun are coal, textiles, light industry, electronics, machinery and chemicals, which is broadly consistent with the worst affected industries in China.¹⁷ We were told at the municipal labour bureau that there are no figures on the number of *xiagang* workers in different industries in Fushun, although according to a news report, of the 71,000 workers in COEs in the coal sector in Fushun, 35,000 or 49.7 per cent

¹¹ *Fushun Daily* June 22, 2000.

¹² Informant 1, Vice General Manager of a Fushun Non-ferrous Metals firm, June 2000; Informant 2, General Manager of a Steel Firm in Fushun, June 2000.

¹³ Informant 3, Vice-Chairman of the Fushun People's Political Consultative Committee, June 2000.

¹⁴ *Ibid.*

¹⁵ LTN (2000) gives a figure of 41.93 per cent. This is the figure used in Table 2. In an interview in November 2000, informant 4, Director of the Fushun Municipal Labour Bureau, stated that 42.35 per cent of workers in COEs and SOEs were classified as *xiagang*.

¹⁶ Informant 4, *Ibid.*

¹⁷ *Ibid.*

of the workforce are classified as *xiagang*.¹⁸

The Fushun municipal labour bureau uses only two categories to classify redundant workers – those who have cut their ties with their enterprise and are officially unemployed and those who are *xiagang*.¹⁹ Thus the true labour market situation is relatively easy to determine. At the district and firm level, however, the true position is confused by the label that the district authorities and firms give to the excess workers. For example, in the Wanghua District in Fushun, the district government uses a range of categories to classify workers who use the district re-employment centre, but retain ties with their original enterprise. These are (a) *xiagang*, which is defined at the district level as those on long-term leave; (b) *fang jia*, which covers workers on temporary leave if the enterprise is not producing at full production; and (c) *tui yang*, which refers to workers who have taken voluntary early retirement.²⁰ These categories all come under the general label *xiagang* or “off-duty” as the term is used at the municipal level.

The firms we interviewed also preferred to use what appeared to them to be less problematic categories. This is typical of other firms in China. Weller and Li found that in their study of “City Steel” in Sichuan, none of the excess workers were classified as *xiagang* (2000: 87). Instead the firm used labels such as “long-term rest” (*changxiu*) or “left their posts” (*li gang*). Of the firms that we visited, the only one which admitted to having sizable numbers of *xiagang* workers was a steel firm. It has 5000 workers in this group, which is just under 25 per cent of its total workforce.²¹ We conducted interviews at four petrochemical firms, all of which are subsidiaries of Fushun China National Petroleum Corporation (CNPC). Each of the petrochemical firms claimed to have few or no *xiagang* workers.²² However, Fushun CNPC was restructured into eight production and 17 service companies towards the end of 1999. During the restructuring of Fushun CNPC, in one-week alone 7100 workers were classified as *li gang* and, at the end of restructuring, the Fushun CNPC production companies had 7600 *li gang* workers.²³

Income Support for Redundant Workers

In China, allowances paid to workers who are classified as *xiagang* vary according to local conditions (Li 2000; Lee 2000). The standard wage for *xiagang* workers in Fushun is 200 RMB per month. In Fushun, as in the rest of China, the enterprise pays one-third, the local government pays one-third and the central government pays one-third of this amount. If the enterprise

¹⁸ *Fushun Daily*, January 28, 1999, p. 3.

¹⁹ Informant 4, above note 15.

²⁰ Informant 5, Vice Director, Wanghua District government, November 2000.

²¹ Informant 2, above note 12.

²² Informant 6, General Manager of Fushun Petrochemical No. 1 Enterprise, June 2000; Informant 7, Vice General Manager of Fushun Petrochemical No. 2 Enterprise, June 2000; Informant 8, Vice General Manager of Fushun Petrochemical No. 3 Enterprise, August 2000; Informant 9, Vice General Manager Fushun Catalytic Plant, November 2000.

²³ Informant 10, Middle manager of Fushun CNPC, November 2000

has the ability to meet its one-third contribution, but does not, payment of the salary of the general manager and human resources manager will be suspended. The enterprise will also not be permitted to give bonuses to its workers.²⁴ Many enterprises, though, are not able to meet their one-third contribution because of financial difficulties. Nationwide, in 1998 SOEs only provided 14.1 per cent of the allowance to *xiagang* workers, which is much lower than the one-third prescribed in central government regulations (Yang 2000). This is similar to Fushun, which means that many laid-off workers do not receive basic living expenses. The situation is worst in the sunset coal industry in Fushun, where SOEs are in the greatest financial trouble. Of the 35,000 laid-off workers from state-owned coal mines in Fushun, 33,000 do not receive basic living expenses, because their enterprise is not contributing.²⁵

Fushun CNPC does not follow the practice of paying its *xiagang* workers a blanket 200 RMB per month.²⁶ At Fushun CNPC, about 3 per cent of its workforce are classified as *xiagang*, but most of these workers are not “off duty” as such. Rawski (1999) notes that in some SOEs in China the label *xiagang* is used as a disciplining device designed to improve performance. This is the case at Fushun CNPC, where the term *xiagang* is applied to “the poorest performing workers” or “undisciplined workers” who are sent for “reeducation” and “retraining”. These “*xiagang*” workers receive an allowance, which is calculated according to a formula. When sent for retraining, their wage is reduced 20 per cent each month for five months. After five months, if still in retraining, they receive a subsistence allowance that is set at less than 200 RMB per month.

As noted above, there are a number of workers at Fushun CNPC categorised as *li gang* or *tui yang*. These terms are used interchangeably and refer to workers who have taken voluntary early retirement. At Fushun CNPC, women can apply to be classified as *li gang* if they are 45 years or older and men can apply to be classified as *li gang* if they are 50 years or older. At Fushun CNPC *li gang* workers are in a much better position financially than workers classified as *xiagang*. At Fushun CNPC, the *li gang* workers receive 80 per cent of their base wage and full social welfare entitlements until they reach the official retirement age, but do not receive bonuses.²⁷ In some cases *li gang* workers also receive other benefits paid by the firm. For example, the Fushun Catalytic Plant is a profitable service company under the control of Fushun CNPC. At this enterprise, workers classified as *li gang* not only receive 80 per cent of their base wage and all social welfare benefits, but also have private property insurance and private medical insurance with coverage for serious diseases paid by the enterprise.²⁸ In contrast to *xiagang* workers, where the cost is shared between the enterprise and government, the full cost of funding *li gang* workers is funded by the enterprise. In the case of Fushun CNPC, if the enterprise cannot pay it can get a loan from Beijing CNPC, which it has to repay at a later date.²⁹

²⁴ *Fushun Daily*, June 5, 1999.

²⁵ *Fushun Daily*, January 28, 1999, p. 3.

²⁶ Information in this paragraph on Fushun CNPC comes from informants 6, 7, 8, 9, 10, above.

²⁷ Informant 10, above note 23.

²⁸ Informant 9, above note 22.

²⁹ Informant 10, above note 23.

Most of the relatively small proportion of workers who cut ties with their original enterprise, but cannot find a job are entitled to receive unemployment benefits. Fushun has implemented the national guidelines on unemployment insurance articulated by the State Council (1999).³⁰ Enterprises contribute 2 per cent of their wage costs and workers contribute 1 per cent of their salary into an unemployment insurance fund. In Fushun, it is claimed that this fund covers 97 per cent of all enterprises in the city.³¹ If an individual is officially unemployed he/she is entitled to 200 RMB per month from this fund. The national guidelines prescribe conditions and a phase-out for receiving unemployment benefits depending on contributions. Workers who contributed to the fund less than 12 months before becoming unemployed are not entitled to benefits. Individuals who contributed to the fund for between one and five years are entitled to benefits for up to 12 months. People who contributed to the fund for between five and 10 years are entitled to benefits for up to 18 months and individuals who contribute to the fund for more than 10 years are entitled to benefits for up to two years (State Council 1999).

Low-income individuals who are not entitled to unemployment benefits or who receive no allowance from their original enterprise are eligible to receive funding from a safety net allowance. The threshold for assistance is currently 156 RMB per month, but is expected to be increased in the near future.³² It is funded by the municipal government and distributed at the neighborhood level. It is questionable whether 156 RMB per month is enough to live on. There are a number of reports of neighborhood committees who have complained that it is not enough (eg Liu and Wang 2000). It is widely known in Fushun that many people supplement the allowance through moonlighting in the non-state sector, which they do not report to authorities. In some cases, this has caused resentment among low-income earners who do not receive the safety net allowance. For example, one low-income person we spoke to, who did not receive the safety net allowance, thought he was more deserving than many people he knew who did get it. This is because their real income, obtained through moonlighting in the non-state sector, but not reported to the authorities, was much higher than his income.³³

Previous studies suggest that moonlighting is a common practice in other parts of China as well. For example, a survey of 50 SOEs in Nanjing found that while subsistence payments were low covert employment of laid-off workers was common. In one enterprise laid-off workers received just 80 RMB a month, but they all had second jobs. At another firm out of 121 workers who were laid-off, just 11 turned up for retraining with the rest finding second jobs in the private sector (Zhao 1998). These stories are also common in Fushun; however, opportunities to moonlight in the non-state sector tend to be transient and unstable. The size of income from moonlighting also varied.

³⁰ Informant 4, above note 15.

³¹ Ibid.

³² Informant 5, above note 20.

³³ Informant 11, low income redundant worker, August 2000.

Avenues for Re-employment in Fushun

A) The Government Re-employment Structure

For redundant workers in Fushun the main avenue available to find new jobs is the municipal government re-employment structure. The state apparatus consists of a series of services offered by different levels of government; namely, municipal, district, street, neighborhood and group. At the group level, the head of each group monitors the circumstances of each family. At the neighborhood level, officials go to the home of redundant workers and help them to fill in an application form, which includes information on financial circumstances, previous occupation and preferred future occupation. At the street and district level all relevant information is stored on personal computers.³⁴ At the start of 1999, more than 600 neighborhood committees had installed “telephone hotlines” where redundant workers, potential employers and others such as workers’ relatives can phone to find out about re-employment opportunities.³⁵

As at the national level, in Fushun, government sponsored re-employment centres are the main channels offered within the government re-employment structure. These re-employment centres offer a range of employment information and are open to a wide cross-section of people. There are five categories of people that use the Wanghua district re-employment centre.³⁶ These are workers categorised as *fang jia*, *xiagang*, *li gang*, officially unemployed and those entering the workforce for the first time. Most of the people who use the centre are in the first two categories and, as discussed above, the first three categories (*fang jia*, *xiagang* and *li gang*) fall under the broader definition of *xiagang* as used at the municipal level. In some cities in Liaoning, such as Shenyang, some employment centres charge a fee (Hu 2000: 652). In Fushun, however, all services provided by re-employment centres are provided free of charge to users.³⁷

There are several problems that hinder the effectiveness of re-employment centres. These are generally the same as the problems at the provincial and national level discussed earlier. One of the main problems is that a high proportion of redundant workers from COEs in Fushun are female.³⁸ It is much more difficult to find jobs for women who have been made redundant in Fushun. This is the same as in other parts of China. Even for street cleaning jobs, one has to be less than 35 years old, while 70 per cent of female *xiagang* workers are around 40 years old (Lee 2000: 932).

A second problem is that many people who use the re-employment centre are selective and choose not to take the jobs available. The Vice-Director of Wanghua District told us that if people using the centre were “not fussy”, they could find a new job within five days.³⁹ However, at the time of the interview (November 2000), there were 1,600 jobs on the computer screen

³⁴ Informant 5, above note 20.

³⁵ *Fushun Daily* February 13 1999, p. 3.

³⁶ Informant 5, above note 20.

³⁷ Informants 4 and 5 above.

³⁸ Informant 5, above note 20.

³⁹ *Ibid.*

in the centre that could not be filled because no one wanted to do them. This is also similar to other cities in Liaoning and China. For example, in Dalian the labour bureau claims that if workers are “not choosy” they can find new jobs within 48 hours, but most *xiagang* workers refuse to do such jobs (DRC 2000a). In Suzhou, in Jiangsu Province, there are about 33,000 *xiagang* workers, but 10,000 job places remain unfilled because *xiagang* workers find them undesirable (Lee 2000: 932).

There are several reasons for this situation in Fushun. One reason is that the wages are not high enough in the jobs that cannot be filled. Some news reports in Fushun suggest that the average wage is 200-300 RMB per month, although this is probably an underestimate.⁴⁰ The Fushun municipal labour bureau estimates that on average *xiagang* workers can earn about 400 RMB per month, when re-employed in the non-state sector.⁴¹ Our experience suggests this is likely to be more accurate, although it is still fairly low.

A second factor is that the work in some of the jobs on offer is thought to be too hard. Similar to the policies implemented in cities such as Beijing, one policy used to create new jobs in Fushun is to fire workers from other regions.⁴² Previous studies suggest that in Beijing and Shanghai, the problem is that migrant workers will work for much less than local workers. As a result, enterprises are more inclined to hire migrant workers, particularly for low-skilled jobs, thus crowding out *xiagang* workers. For example, in his case study of the re-employment project in Shanghai, Chen Feng reports that the average cost of hiring a migrant worker in Shanghai is 450 RMB per month, while the average cost of hiring a local worker is 1,600 RMB per month (2000: 182). In Fushun, though, the problem is not so much that migrant workers will work for much less than local workers, but rather that local workers often refuse to do the jobs which migrant workers perform because of the conditions. For example, the Vice-Director of Wanghua District told us that in the coal mines in Wanghua District migrant workers from Hunan and Jiangxi can earn 700-800 RMB per month making coal powder, but there are redundant workers in the same area who refuse to do this job.⁴³ An amount in the range 700-800 RMB per month is a relatively good income in Fushun and certainly higher than the average *xiagang* worker can earn, but working in the mines is considered too hard.

A third reason is that *xiagang* workers in Fushun are reluctant to take new positions in the non-state sector if this entails cutting ties with their original enterprise, particularly if their new income source is unstable. In one survey of the concerns of 100 *xiagang* workers who had been re-employed in Fushun, 80 per cent replied that their income was not stable, 15 per cent were concerned that they would have no money if they became ill and 12 per cent were worried about old-age security.⁴⁴ In an attempt to address concerns about income instability, the allowance of 200 RMB per month is not automatically stopped when *xiagang* or unemployed workers are re-employed. Instead, whether this allowance is phased out depends on how stable the

⁴⁰ *Fushun Daily*, August 26, 1998.

⁴¹ Informant 4, above note 15.

⁴² *Fushun Daily* December 15 1998.

⁴³ Informant 5, above note 20.

⁴⁴ *Fushun Daily* December 18 1997. Respondents could express more than one concern.

person's income is.⁴⁵ This approach, however, has done little to change the mindset of redundant workers because the guidelines on how long income support will continue are not clearly specified.

A fourth reason is that if the financial position of the redundant worker's family is good, he/she might not be eager to find a new job. At the national level, family is the major source of support for *xiagang* workers and workers who are unemployed. One estimate suggests that 69.7 per cent of unemployed people receive at least some income support from their family, while 7.4 per cent receive income support from friends and relatives (DRC 1999b). A fifth reason is that the problem could be on the employer side. In some cases the job advertisement specifies that the applicant should be under a certain age and/or should possess certain skills or experience. In these circumstances the applicant knows that it is pointless applying for such jobs if he/she is not suitable.⁴⁶

This points to the more general problem discussed earlier that redundant workers often lack the skills that are needed in the non-state sector. Among the laid-off workers who have registered at re-employment centres in Fushun, 50 per cent are middle-aged. Only 50 per cent of these middle-aged workers find jobs because of age and lack of education and skills.⁴⁷ To address this issue training bases have been set up at different levels. The re-employment centres themselves offer retraining. For instance, at the Wanghua District Re-employment Centre roughly one-third of workers using the centre undertake retraining. The courses offered are targeted to meet market demand. The centre collects information on changes in market demand informally through the government re-employment network from the group through to the district level.⁴⁸

In addition, as a separate initiative to the re-employment centres 50 training centres at the municipal level and 70 training centres at the district level have been established. These are open to all *xiagang* workers and are free. To the end of October 2000, 36,000 laid-off workers received retraining at these centres, of which 50 per cent have been re-employed. Some retraining courses have been established at the street level and below.⁴⁹ These are often organised in conjunction with intermediate social organisations such as labour unions or women's federations.

There are numerous examples of these sorts of ventures in the local press in Fushun. For example, one report states that 173 training classes were set up by the Xinfu District Labour Union, co-organised with the street committees of Fu, Fumin, Huashan and Shuncheng streets. The courses covered pickled vegetable processing, hairdressing and tailoring.⁵⁰ Another report notes that Xinhua Street in Shuncheng District and the Fushun Female Vocational School co-sponsored a retraining program in hospitality. A total of 81 laid-off workers participated in this program. When the course was finished most set up street stalls and small restaurants in their local communities

⁴⁵ Informant 4, above note 15.

⁴⁶ Informant 5, above note 20.

⁴⁷ *Fushun Daily*, July 3 1998.

⁴⁸ Informant 5, above note 20.

⁴⁹ *Fushun Daily* November 24, p. 8.

⁵⁰ *Fushun Daily*, January 4, 1999, p. 2.

producing cheap rice and noodle dishes.⁵¹

As a complement to government sponsored re-employment centres, some SOEs with large numbers of *xiagang* workers have set up re-employment centres in the enterprise. All SOEs with more than 30 *xiagang* workers in Fushun are supposed to set up a re-employment centre which is funded by the individual enterprise.⁵² However, there are only 530 enterprises with re-employment centres in Fushun.⁵³ Thus, in practice not all SOEs with more than 30 *xiagang* workers have followed this regulation. This is because some have financial difficulties. The situation is also confused by the label that the enterprise gives to its redundant workers. As discussed above some enterprises prefer to use other labels for redundant workers and thus claim to have few *xiagang* workers. The sketchy evidence that is available suggests that re-employment centres within enterprises are generally not effective in resettling redundant workers. An investigation of the Fushun General Union found that only 19 per cent of laid-off workers using enterprise re-employment centres found new jobs and just 13 per cent received retraining. The main problem is that redundant workers are reluctant to use the centres because they are afraid that their labour relationship with the enterprise will be terminated.⁵⁴

Similar to other cities in Liaoning, such as Shenyang, the Fushun municipal government issues certificates to *xiagang* workers. Anyone who applies for a job advertised by the labour bureau or to get retraining needs one of these certificates. However, *xiagang* workers often secretly moonlight in the non-state sector. In these circumstances the *xiagang* worker does not need a certificate because he/she already has a new job and therefore has no need for the services of a re-employment or retraining centre. We do not have figures on the number of *xiagang* certificates that are actually taken up in Fushun. One news report, though, states that in Shenyang the municipal government prepared 300,000 *xiagang* certificates, but only 30,000 were issued to *xiagang* workers, which was far short of what was expected. The reporter interviewed several *xiagang* workers who had not taken out a certificate and asked about their reasons. In each case the workers had found new jobs in the non-state sector, but were concerned that the job was not stable. Each was concerned that if they accepted a *xiagang* certificate, government regulations might change, stopping them from returning to their original enterprise.⁵⁵

Government sponsored labor fairs provide another alternative to re-employment centres. Labor markets are similar to re-employment centres, but do not offer retraining. About 25 per cent of those finding re-employment in Fushun do so through job fairs sponsored by government at different levels.⁵⁶ The municipal government, district governments and re-employment centres all organize job fairs of varying sizes. For example, the Wanghua District sponsors a job fair on the 20th of each month, which is designed to bring

⁵¹ *Fushun Daily* June 13, 2000.

⁵² *Fushun Daily* December 15 1998.

⁵³ Informant 4, above note 15.

⁵⁴ *Fushun Daily* January 28 1999, p. 3.

⁵⁵ "Why the *xiagang* workers are not willing to accept *xiagang* certificates" *People's Daily* June 7 1998.

⁵⁶ Informant 4, above note 15.

together potential employers and employees. The employers might appear in person or ask the district government to act on their behalf. Individuals who attend the fairs include (a) redundant workers looking for jobs, (b) relatives of redundant workers with an interest and (c) people who have a job, but want a new job because their income is unstable. Between the beginning of 1997 and the end of 1999, 15,000 job-seekers filled in applications and 12,500 positions were advertised at job fairs in Wanghua District. However, less than 5,000 people found jobs through job fairs.⁵⁷ This suggests a mismatch between the expectations of job seekers and the jobs that were available.

B) Non-State Employment Service Providers

The state has a virtual monopoly over the provision of re-employment services, which has crowded out independent providers. In Fushun, there are approximately 80 registered non-state employment service providers (30 in each of the Xinfu and Wanghua Districts and 20 in the Dongzhou District). These provide an alternative to the government re-employment service structure on a small-scale, but there are substantial opportunities for growth.⁵⁸ The non-state employment service providers usually couple job search with other intermediary services such as helping people to find housing or arranging partners for marriage. In contrast to the government-sponsored re-employment centres, private operated employment centres charge for their services. When private employment service providers are successful in finding someone a job the charge is 50 RMB, consisting of an initial registration fee of 20 RMB and a placement fee of 30 RMB.

There are a number of difficulties which have impeded the emergence of non-state providers in Fushun. One of the main problems is that the information provided through non-state providers is often misleading. In some cases this is because employers provide inaccurate information to the non-state employment service providers. For example, the employer might tell the non-state provider that the monthly salary is 300 RMB, while the actual salary is only 250 RMB per month. In other cases, in order to get the placement fee, non-state providers will exaggerate the benefits of the job or collude with employers in order to increase the number of placements and hence the amount of commission. The problem, here, is that non-state service providers are ultimately not responsible for the accuracy of the information they provide. There are anecdotal stories in Fushun of cases where people have paid the 50 RMB fee to the non-state provider, but within a few days of starting their job been fired for no apparent reason. In this situation, it is difficult for the individual to recover the fee he/she paid to the non-state provider.

This raises the more general problem that there are a lack of effective

⁵⁷ Informant 5, above note 20.

⁵⁸ Informant 12, Director of the Intermediary Service Committee of the Fushun Private Business Association, November 2000. All information in this section on non-state employment service providers in Fushun is sourced from informant 12, unless indicated otherwise.

regulations governing non-state re-employment providers and the employers who use them. At the provincial level, in 1997 the Liaoning government passed a document on the administration of the non-state labour market.⁵⁹ This laid down a number of stipulations governing the operation of non-state re-employment service providers. One of the provisions in that document is that employers should sign contracts with the service providers. However, in Fushun, in most cases the employers and service providers do not take the regulations seriously. For example, employers are unwilling to sign contracts with the service providers to avoid adverse repercussions if things do not work out. At the same time, service providers are reluctant to ask employers to sign contracts because the employers will use alternative providers and therefore they will lose business.

What Specific Policies has the Fushun Government Followed?

In addition to providing the state-sponsored re-employment apparatus, the Fushun government has implemented a number of specific policies to assist redundant workers to find new jobs. The approach of the Fushun government to resettling workers has two dimensions. The first is to “export” redundant labour to cities in other parts of China.⁶⁰ Because Fushun has an old industrial base, some redundant workers in industries such as petrochemicals and steel have skills which are useful in other parts of China. Major re-employment centres such as that operated by the Wanghua district are using the internet to market these skills.⁶¹ The municipal government is also implementing preferential policies to encourage the relocation of labour. In Fushun there are some employment agencies which arrange for people to work outside the city. Firms, for which 50 per cent or more of their clients are *xiagang* receive an exemption for tax on income from outside the city for three years. In addition the original enterprise of *xiagang* workers who get re-employment outside Fushun are not allowed to ask for any form of payment.⁶²

However only a small proportion of redundant workers are able to get re-employment outside Fushun. Thus, the second component of the strategy, which is the creation of new job opportunities in Fushun, is more important in practice. An important aspect of the second component is setting up redundant workers as household entrepreneurs. This is consistent with the move towards a market-based economy. This includes the creation of new markets (such as street markets), the creation of new enterprises and preferential policies for non-state firms that hire redundant workers.

An integral part of this approach has been the creation of mini-enterprises (*weixing qiye*) and micro-enterprises (*wangdian qiye* meaning

⁵⁹ “Stipulations on the Management of the Labour Market in Liaoning Province” (in Chinese) accessible at <http://www.ld.ln.gov.cn/fifg/di-fang/l-rbf199720.htm>

⁶⁰ Informant 4 above note 15 and Zhou Yunxiao (Mayor of Fushun City), unpublished transcript of a speech at a meeting on Social Security and Medical Insurance, Fushun, November 18, 2000.

⁶¹ Informant 5, above note 20.

⁶² *Fushun Daily* June 5 1999.

literally “a spot in the network”). Mini-enterprises are defined as firms which employ between 5 and 30 people and micro-enterprises are enterprises with up to three employees. In 1998 and 1999, Fushun established 4,000 mini-enterprises, providing employment for 28,000 redundant workers from COEs and SOEs. About 60 per cent of workers in mini-enterprises are laid-off workers. Over the same period, Fushun set up 8,000 micro-enterprises, which provided employment for another 20,000 redundant workers. Almost all of the workers in micro-enterprises are laid-off workers.⁶³

What assistance has the government offered to budding household entrepreneurs? Mini-enterprises benefit from a number of preferential policies. The main policies are fee reductions, tax exemptions and government sponsored “soft loans”.⁶⁴ In Fushun, mini-enterprises can borrow up to 30,000 RMB for 12 months at below market rates of interest. In 1999, mini-enterprises in Fushun borrowed 5.8 million RMB through mortgaging plant and equipment and a further 4.3 million RMB in government sponsored loans.⁶⁵ Micro-enterprises receive the same preferential treatment as mini-enterprises plus the additional benefit that they can operate for six months without registration.⁶⁶

Most micro and mini-enterprises are focused on providing services to the local communities in which they are established. For example, one report notes that in Xinfu District several mini and micro-enterprises have been set up, which are engaged in building maintenance, maintenance of hygiene standards and security, for which they charge a fee for their service. They are also involved in broader community functions such as fruit and vegetable stores, hairdressing, kindergartens and nurseries.⁶⁷ Another report states that in Xinhua Street in Shuncheng District, 154 micro-enterprises have been established in the service sector re-employing almost 400 laid-off workers. These enterprises are involved in cleaning, house removal and electrical maintenance.⁶⁸ Laid-off workers and mini and micro-enterprises employing laid-off workers involved in community services receive additional benefits. These include exemptions from income tax and various arbitrary fees such as the city beautification fee, building fee, commercial and industrial administration fee, cultural fee and street fee for three years.⁶⁹

Existing non-state enterprises which re-employ laid-off workers also receive preferential policies. These operate at two levels. According to central government regulations, if the proportion of laid-off workers is greater than 60 per cent of the enterprise’s total employees, it is exempt from business tax for the first three years and only has to pay half of its business tax for years four and five.⁷⁰ At the municipal level, the Fushun government offers different amounts of tax relief on a sliding scale to enterprises that do not qualify under

⁶³ Informant 4, above note 15.

⁶⁴ Ibid.

⁶⁵ *Fushun Daily* December 18 1999.

⁶⁶ Informant 4, above note 15.

⁶⁷ *Fushun Daily*, December 1 1999, p. 2.

⁶⁸ *Fushun Daily*, June 13, 2000.

⁶⁹ *Fushun Daily* April 21 1999 p. 8, *Fushun Daily* June 5 1999.

⁷⁰ Informant 4, above note 15. The central government regulations on this issue are also explained in “Laid-off Workers who find jobs get special treatment” *People’s Daily* January 17, 2000.

the central government regulations, but whose workforce has at least 10 per cent laid-off workers. Previous research has found that rorting of such schemes is relatively common. For example, Chen Feng found that in Shanghai: “Some private enterprises hired *xiagang* workers on a probation basis for three to five months at very low pay, and then laid them off before they had to be employed as regular workers” (2000: 189). When we interviewed the Director of the Fushun municipal labour bureau we asked whether abuse of these sorts of subsidies by employers in Fushun was a problem. He pointed out that a phase-in period of five years is much longer than five months as in the Shanghai scheme and claimed that rorting was almost non-existent because after five years most enterprises are successful and former laid-off workers are well established.⁷¹

How Successful have these Policies Been?

The Fushun government claims to have had considerable success using these policies. The official figures are that between 1995 and 1999, 208,000 *xiagang* workers were re-employed in Fushun.⁷² And from January to the end of October 2000, 68,200 redundant workers were re-employed in Fushun, of which 59,100 were *xiagang* workers.⁷³ Table 3 (see appendix) presents unpublished statistics on re-employment in Fushun for the first 10 months of 2000, which were supplied by the Fushun government. However, it is questionable whether these statistics give an accurate picture of how successful the government has been. In each case in Table 3 the objective and realised figures are given. The fact that on almost every occasion the realised figure exceeds the objective, and in most cases only by a small amount, suggests that the official statistics should be viewed with caution.

The problem with placing too much faith in the official statistics is that a strong incentive exists in Fushun, as elsewhere in China, for officials to at least be seen to be meeting targets. In Fushun criteria exists to evaluate the performance of government officials at different levels. At each level there is a nominal 1000 points, of which initiatives related to re-employment count for 320. Allocation of these points at each level depends on meeting targets for objectives such as re-employment, the creation of new enterprises and retraining as set out in table 3. The basic requirement is 160 out of 320 marks. If the officials at each level receive more than 160 marks they get a bonus on a sliding scale for each point over; however, if they score less than 160 they face punitive measures such as wage reductions. In practice few officials receive less than 160 marks. The best performers score 190 to 210 marks with the average a little over 160 marks.⁷⁴

In reality it is difficult to know who among the laid-off workers have in fact found re-employment and therefore accurately assess the government's

⁷¹ Informant 4, above note 15.

⁷² Informant 4, *ibid.*

⁷³ Feng Zhouliang (Vice-Mayor of Fushun City), unpublished transcript of a speech at a meeting on Social Security and Medical Insurance, Fushun, November 18, 2000.

⁷⁴ Informant 5, above note 20.

policies. If the official figure that 208,000 *xiagang* workers were re-employed in Fushun between 1995 and 1999 is correct, this implies that more than 75 per cent of *xiagang* workers were re-employed. It is highly likely though, that this overstates the true figure. Most official sources suggest that for China as a whole only about 50 per cent of *xiagang* workers find re-employment (Lee 2000: 928).⁷⁵ And the actual re-employment rate in China is likely to be lower than this. For example, in a survey of 54,000 laid-off workers in China, which is one of the most comprehensive ever carried out by the Chinese Federation of Labour Unions, just 18 per cent of those surveyed had found new jobs (Lee 2000: 928).

It is unlikely that the re-employment rate for *xiagang* workers in Fushun is higher than that for China as a whole. The main reason is that given the traditional dominance of state-owned enterprises the non-state sector is underdeveloped in Fushun relative to most parts of China. Thus there simply are not the same opportunities for laid-off workers to become household entrepreneurs in Fushun as there are in many other parts of China. The Fushun government has tried hard to attract foreign investment to promote the non-state sector. It has set up three development zones and offers a number of preferential policies to foreign investors including tax concessions. However, it is widely known in Fushun that attempts to attract foreign investment have been unsuccessful. This is due to a number of factors including poor location, high levels of pollution and that Fushun has a high proportion of sunset state-owned industries that deter potential investors.

We suspect that the official figures for Fushun are inflated through double counting. Thus every time an individual *xiagang* worker is re-employed it is counted even if he/she only holds the job for a short time so one *xiagang* worker might be re-employed several times in the statistics. It is difficult to be definitive, though, because the situation is complicated by the existence of hidden employment of *xiagang* workers. It is estimated that about one-third of laid-off workers in China have found such work.⁷⁶ Some of these workers do not report this fact to their original units and thus continue to receive subsidies. In such instances their new employers also do not want to sign a formal contract in order to avoid the responsibility of having to pay fringe benefits (Lee 2000: 927). These individuals obviously will not show up in the official statistics.

FROM STATE TO SOCIETY OR STATE TO STATE?

Contradictions between the Objectives and Realities of Reform

The experience of Fushun with re-settling redundant workers from SOEs and COEs suggests that there are a number of problems that hinder the operation of re-employment centres. The government has not been able to break the

⁷⁵ According to informant 4, between 1995 and 1999 271,400 workers were registered as *xiagang*. This figure is consistent with 42.35 per cent of workers in COEs and SOEs being classified as *xiagang* – see footnote 15.

⁷⁶ *Workers' Daily* July 29, 1999.

ties between state and enterprises, nor has fostered a separate space in which independent social organisations can emerge to complement state-run reemployment programs. There is a wide range of overwhelmingly state-sponsored and controlled organisations and services available to redundant workers in Fushun; however, this is not indicative of the extent to which their needs have been met. Instead, it reflects the extent to which the state has monopolised the provision of re-employment services. The stated aim of SOE reform is to shift responsibilities for surplus workers in the state-owned sector from state to society. However, because the government has virtually monopolised the provision of services it continues to be entrenched in the basic details of how economy and society operate. Thus, in practice responsibility has been shifted from state (state-owned enterprises) to state (the government). This has placed enormous pressure on the resources of the municipal government in Fushun given the severity of the problems facing laid-off workers.

Of course in the initial stages of transformation there is a good argument that state-sponsorship of re-employment programs is appropriate and indeed necessary when society as a whole is not well suited to meeting the needs of workers. In this respect, there is a public goods component associated with setting up a re-employment infrastructure. There is also a good argument that there is a greater role for government in performing this function in cities such as Fushun where the non-state sector is underdeveloped compared with the advanced coastal regions. This applies *a fortiori* to the worst hit industries such as the coal sector where the problems are most urgent.

The more general public goods argument is that the state should provide re-employment services because the non-state service providers are plagued by various problems. This means that those non-state service providers which do exist have a poor reputation and for this reason redundant workers are reluctant to use them. This argument, however, is fallacious at least in the medium term. The reason that the non-state labour market has a poor reputation is that the regulations governing its operation are not properly enforced. Under these circumstances the first best solution is to improve the monitoring and enforcement of existing regulations. With improved monitoring and further licensing of legitimate operators current problems in the non-state sector will be reduced and when this occurs, people will be more willing to use the services of non-state providers. For the state to maintain a virtual monopoly over the provision of re-employment services on these grounds is at best a second best solution, particularly given the problems the state-sponsored re-employment services have had in Fushun and in other parts of China.

Another argument is that if the state reduced its role, some workers might be excluded from non-state service providers because of the charges involved. As indicated above, government sponsored re-employment centres in Fushun do not charge for their services, but non-state service providers do. The problem of possible exclusion on the basis of cost, however, can be overstated. The current level of fees which non-state providers charge is not high. A fee of 50 RMB is about one-eighth the monthly salary a *xiagang* worker can earn in Fushun. If the individual can keep the job for three months, which is about the average in Fushun, the fee is reasonable. This, of

course, assumes that the job placement is a legitimate one, which brings us back to the issue discussed in the last paragraph; the regulations governing non-state providers need to be properly enforced.

The argument we are making is not that the state should transfer all of the responsibilities for assisting redundant workers to find new jobs to independent providers. It is not hard to think of cases where it is going to be difficult for some workers to find jobs even in a properly regulated non-state labour market. For example, there are some categories of redundant workers who would be unattractive to non-state service providers because of the high search costs to the provider in finding placements. There is an obvious case for the state to continue to assist these people through retraining and other forms of support.

The real issue, however, is how long is needed for the government to establish the institutional infrastructure and how soon should it begin transferring at least some responsibilities to properly regulated independent social providers. This is important because the extent of the *xiagang* problem in Fushun and the fact that the non-state sector is so underdeveloped means that the pressure on the municipal government from assuming the responsibilities of SOEs is also much more intense than in the coastal region. This is reflected *inter alia* in the Fushun government's largely futile attempts to attract foreign investment. In this respect, some might argue that the real problem hindering attempts to transfer large numbers of workers is not whether the state or non-state provides re-employment services, and on what scale, as much as the various economic and non-economic factors which influence people's choice.

These factors are those discussed earlier such as low wages in non-state jobs, ageism and a reluctance to cut ties with the SOE. If these factors dominate workers' re-employment choice, it might be argued that state-society relations are not important in re-employment services. However, we disagree with this view. Of course these various economic and non-economic factors are important considerations which make the whole process of finding jobs for redundant workers more complex, but precisely because of the complexities these factors introduce, the burden on the state is greater. In these circumstances it is reasonable for social organisations to assume some of the responsibilities provided by the state reemployment structure as early as possible.

Most commentators agree that the key to introducing market reforms is to free SOEs from their social functions and reestablish new relational forms between enterprises and society (see eg Chao 2000). This is the objective. To realize this objective the state needs to foster independent social organizations to assume the SOEs' former social functions including assisting redundant workers to find new jobs. In other words there needs to be a complete overhaul of state-society relations, but the problem is that China has barely any experience with the separation of state and society (Chao 2000). As a result, the danger is that instead of just setting up the institutional framework in which independent social organizations operate and fostering their initiatives as a complement to state activities, the government becomes an integral part of the institutional structure, which stifles the potential of independent providers. In this respect, the evidence from Fushun and other parts of Liaoning, which is documented in Hu (2000), suggests that government involvement in

intermediate social organisations continues longer than is needed.

Our interviews suggest that most of the senior officials in the municipal and district labour bureaus in Fushun are government officials. Writing about the situation in Liaoning more generally Hu Xiaobu makes the point that “The directors of some re-employment centres are government officials; others are no longer attached to their previous government unit, but are still on file there and draw salaries from them; and some are former government employees. Should any unwanted developments unfold in the intermediate social organizations, the government is likely to serve its own interests and contain them” (2000: 655). This threatens to derail the fragile nature of changing state-society relations in the early stages of the transition to market-based principles.

It also creates a contradiction between the government’s stated objectives (a reduced role in the economy) and what exists (a continuing pervasive role). The main dilemma confronting the central government is that it wants to reduce the burden on ailing SOEs, but is not willing to entertain the emergence of independent social organisations to assist with the transfer of responsibilities from state to society because it sees them as a threat to its control. As Chao puts it, “In political terms, although the separation of government administration from enterprise management is one of the key components in successfully reforming state enterprises, the attainment of this expected separation would also necessitate the loss of both the government’s and the party’s administrative intervention and control” (2000: 82). This is not acceptable to the Chinese government.

In Fushun, grass root social organisations such as labour unions and women and youth federations, which have the potential to represent independent social groups and therefore become a buffer in the transformation from state to market socialism, provide some services to laid-off workers such as retraining classes. The trade union movement, however, is state controlled and there is little or no sign in Fushun of the emergence of an independent labour movement. In addition, almost all of these organisations and programs are either financed or directed through government agencies and, hence, are not in any meaningful sense autonomous from government. Women and youth federations in Fushun (as elsewhere in China) receive all of their funding from government, while various levels of government operate almost all of the re-employment centres.

The extensive role played by government in providing re-employment services is not restricted to Fushun, but is also the case in other cities in Liaoning. There are almost 300 re-employment centres in Liaoning sponsored by different levels of government, which coordinate job placements and provide retraining. One important implication for the failure to separate state and society is that the extent of government financing, its personnel and the network that it represents means that it is difficult for firms independent from the government to emerge as alternative or complementary providers. Hu argues that in Liaoning this results from the fact that local government agencies and affiliated organisations have the political power to obtain the lion’s share of state aid, which they use for example to establish re-employment centres (2000 p. 657).

CONCLUSION

Particularly since the fifteenth Communist Party Congress, the central government has emphasised the need for greater efficiency in SOEs. In the case of small and medium sized SOEs, although not large SOEs, there has been a concerted effort to distinguish and separate the role of state and enterprise. The emphasis placed on greater efficiency has led to large amounts of labour shedding in COEs and SOEs. Because Fushun has an old industrial base with many declining industries, it has the highest proportion of *xiagang* workers in Liaoning. This article has discussed the labour market situation, income support and avenues open to redundant workers to find new jobs in Fushun.

The Liaoning government has expressed the desire that intermediate social organisations will emerge to relieve some of the burden from enterprises and the state and that this will allow the state to reduce its role in non-strategic sectors. However, the conclusion that emerges from our case study of Fushun, is that the government at different levels or government financed social organisations continue to play a pervasive role in providing re-employment services. One of the great ironies is that rather than reducing its role in state-society relations, the state has extended its involvement to new enterprises such as state-sponsored re-employment agencies that have emerged as part of the reforms.

This creates a fundamental contradiction between the objectives of reform and how it is realized because it effectively stymies the emergence of independent providers. As part of this process, market-oriented reforms necessitate that SOEs lose their existing close relationship with state and society in order to become more efficient. However, until the government starts to draw back from the provision of re-employment services and, at the same time, provide more effective financing arrangements it is difficult for autonomous providers to emerge thus facilitating a truly market-based system.

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Appendix

Tables

Table 1
Basic Comparative Statistics on Liaoning and China

| | 1990 | 1995 | 1996 | 1997 | 1998 | 1999 |
|---|--------------------------|--------------------------|-------------|-------------|-------------|-------------|
| Real GDP Per Capita (RMB) | 2698 (1634) | 4626 (3164) | 4936 (3446) | 5278 (3571) | 5436 (3628) | 5523 (3504) |
| Real Urban income Per Capita (RMB) | 1551 (1510) | 2134 (2496) | 2310 (2682) | 2442 (2812) | 2498 (2911) | 2726 (3243) |
| Urban unemployment rate (per cent) | 2.7 (2.5) | 2.6 (2.9) | 3.6 (3.0) | 3.7 (3.1) | 3.4 (3.1) | 3.5 (3.1) |
| State-owned enterprises gross industrial output value (per cent) | 61.2 (54.6) | 41.8 (34.0) | 37.6 (28.5) | 35.3 (26.5) | 31.6 (28.2) | 30.1 (28.2) |
| Loss-making industrial state-owned enterprises (per cent) | 21.5 ^e (27.6) | 37.3 ^d (33.5) | NA (37.7) | 37.9 (38.2) | 47.5 NA | 41.6 (41.4) |
| Loss-profit ratio in state-owned industrial enterprises (per cent) ^a | 43.7 (23.2) | 44.4 (22.2) | 38.8 (28.9) | 39.2 (28.6) | 75.8 41.5 | NA (41.9) |
| Profit Rate in state-owned industrial enterprises (per cent) ^b | 15.1 ^d (12.4) | 4.1 (8.0) | 5.1 (6.5) | 3.8 (5.6) | 1.9 NA | 2.2 (3.0) |
| Number of workers in state-owned enterprises (per cent) | 58.0 (62.3) | 55.2 (59.0) | 55.6 (56.7) | 54.7 (54.7) | 49.2 (43.8) | 52.2 (40.8) |
| Real average wage in state-owned enterprises (RMB) | NA (2284) | 3223 (3395) | 3353 (3609) | 3480 (3816) | 4267 (4357) | 4734 (4893) |
| Number of state sector retirees (per cent) | 16.2 ^d (16.7) | 21.9 (21.9) | 23.2 (23.0) | 26.4 (24.5) | 30.7 (31.6) | NA NA |

Notes to Table 1

Figures in parenthesis are for China as a whole.

- (a) Loss-profit ratio = total losses/pre-tax profits.
- (b) Profit rate = pre-tax profit/ net value of fixed assets + working capital.
- (c) 1995 figure is for 1994.
- (d) 1990 figure is for 1989.

Real Liaoning GDP per capita has been deflated using Liaoning indices of GDP (1990=100).

Real China GDP per capita has been deflated using national indices of GDP (1990=100).

Real Liaoning urban income per capita has been deflated using the Liaoning urban CPI (1990=100).

Real China urban income per capita has been deflated using the national urban CPI (1990=100).

State-owned enterprise gross industrial output value is as a percentage of total gross industrial output value.

Loss-making industrial state-owned enterprises are as a percentage of total industrial state-owned enterprises.

Number of workers in state-owned enterprises is expressed as a percentage of the total workforce.

Number of state-sector retirees is expressed as a percentage of total retirees.

Real average wages in state-owned enterprises in Liaoning have been deflated using the Liaoning CPI (1990=100).

Real average wages in state-owned enterprises in China have been deflated using the national CPI (1990=100).

Sources:

State Statistical Bureau (SSB) Liaoning Tongji Nianjian (Liaoning Statistical Yearbook) (Beijing, China Statistical Publishing House, 1990, 1998, 1999, 2000); SSB, Zhongguo Tongji Nianjian (China Statistical Yearbook) (Beijing, China Statistical Publishing House, 1995, 1997, 1998, 1999, 2000); SSB, Zhongguo Laodong Tongji Nianjian (China Labour Statistical Yearbook) (Beijing, China Statistical Publishing House, 1996, 1998, 1999); SSB, Zhongguo Gongye Jingji Tongji Nianjian (China Industrial Economic Statistical Yearbook) (Beijing, China Statistical Publishing House, 1995, 1998); SSB, Zhongguo Tongji Zaiyao (China Statistical Abstract) (Beijing, China Statistical Publishing House; 2000); SSB Comprehensive Statistical Data and Materials of New China (Beijing, China Statistical Publishing House, 1999).

Table 2
Economic and Labour Market Indicators in Major Cities in Liaoning

| | Population (millions) ^a | Percentage of Workers in SOEs and COEs ^c | State-owned enterprises gross industrial output value (per cent) ^d | Average Wage in SOEs (RMB per year) ^b | Number of Retirees (per cent) ^b | Urban Unemployment Rate (per cent) | Number of "laid-off" workers) in COEs and SOEs (per cent) |
|---------------|------------------------------------|---|---|--|--|------------------------------------|---|
| Shenyang | 6.77 (4.26) | 84.96 | 87.68 | 8094 | 37.6 | 2.3 | 28.63 |
| Dalian | 5.45 (2.69) | 71.53 | 86.58 | 9555 | 33.4 | 2.3 | 13.28 |
| Anshan | 3.40 (1.71) | 94.42 | 69.65 | 7746 | 32.6 | 3.4 | 28.61 |
| Fushun | 2.27 (1.49) | 90.80 | 88.48 | 7218 | 31.4 | 2.6 | 41.93 |
| Benxi | 1.57 (1.02) | 89.18 | 94.94 | 7195 | 34.4 | 4.0 | 34.62 |
| Dandong | 2.41 (0.98) | 91.31 | 70.66 | 6082 | 31.0 | 3.8 | 39.57 |
| Jingzhou | 3.05 (1.07) | 90.14 | 82.23 | 6603 | 25.4 | 4.1 | 33.09 |
| Yingkou | 2.24 (0.87) | 90.05 | 48.98 | 5901 | 30.0 | 3.3 | 34.69 |
| Huxin | 1.91 (0.85) | 99.22 | 85.82 | 6021 | 34.4 | 5.9 | 31.71 |
| Liaoyang | 1.79 (0.75) | 93.61 | 82.41 | 7823 | 26.3 | 2.8 | 25.76 |
| Panjin | 1.21 (0.60) | 96.75 | 93.30 | 7987 | 13.8 | 3.6 | 7.98 |
| Tieling | 2.97 (0.89) | 83.93 | 90.86 | 6328 | 20.0 | 6.9 | 38.50 |
| Chaoyang | 3.32 (0.85) | 96.09 | 91.34 | 5584 | 22.0 | 3.0 | 29.11 |
| Huludao | 2.66 (0.73) | 96.91 | 92.99 | 6535 | 29.2 | 4.4 | 25.42 |

Notes:

- (a) Figures in parenthesis are non-agricultural population
 (b) Figures are for 1998
 (c) Figures in parenthesis is the percentage of workers in SOEs
 (d) Industrial gross output value of SOEs and enterprises with controlling shares held by the state as a percentage of gross industrial output value of all township and above independent accounting enterprises.

Sources

LTN (1998, pp. 88, 98, 478), LTN (1999 pp. 56, 78-81, 84-87, 92)

Table 3
Re-employment in Fushun From January to October 2000

| | Number Re-employed | | Mini-Enterprises | | | | Micro-Enterprises ("Spot in the Network") | | | | Export of Labour | | Retraining | |
|-----------------------------------|--------------------|----------|---------------------|----------|---------------|----------|---|----------|---------------|----------|------------------|----------|------------|----------|
| | Objective | Realised | Enterprises Created | | Re-employment | | Enterprises Created | | Re-employment | | Objective | Realised | Objective | Realised |
| | | | Objective | Realised | Objective | Realised | Objective | Realised | Objective | Realised | | | | |
| Wanghua District | 10,000 | 11131 | 220 | 223 | 1300 | 2036 | 580 | 617 | 2000 | 2834 | 1000 | 1009 | 4300 | 3953 |
| Xinfu District | 10,000 | 12030 | 260 | 317 | 1600 | 1915 | 600 | 724 | 2100 | 2527 | 1000 | 1287 | 5500 | 5432 |
| Dongzhou District | 10,000 | 11900 | 220 | 230 | 1300 | 1790 | 550 | 650 | 1900 | 1694 | 1000 | 1450 | 5000 | 5640 |
| Shuncheng District | 10,000 | 10909 | 260 | 248 | 1600 | 1743 | 600 | 819 | 2100 | 2597 | 1000 | 1283 | 5500 | 4031 |
| Fushun County | 3,000 | 3494 | 120 | 121 | 750 | 773 | 130 | 132 | 460 | 475 | 10000 | 1013 | 4100 | 4530 |
| Qingyuan County | 3,000 | 3165 | 70 | 59 | 450 | 458 | 200 | 186 | 700 | 564 | 1100 | 975 | 2300 | 2948 |
| Xinbin County | 3,000 | 3410 | 70 | 70 | 450 | 555 | 200 | 140 | 700 | 569 | 1100 | 1090 | 2300 | 1852 |
| Fushun Economic Development Zone | 1000 | 1478 | 30 | 32 | 200 | 362 | 75 | 67 | 280 | 315 | 200 | 182 | 500 | 437 |
| Shengli Economic Development Zone | 600 | 959 | 30 | 31 | 200 | 194 | 75 | 103 | 280 | 214 | 80 | 161 | 500 | 547 |

Source:
Unpublished statistics supplied by the Fushun municipal government