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ENTERPRISE REFORM AND EMPLOYMENT CHANGE
IN SHAANXI PROVINCE

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The reform of state enterprises has been on the agenda in China since 1978. Indeed, the perception of a need to improve enterprise efficiency was part of the debate during the mid to late 1970s which led to the emergence of Deng Xiaoping as the architect of change. As a result, the separation of government and enterprise has been one of the major policy goals since the very early phase, though in reality little progress has been made towards it and the constellation of party and government management has remained central to the operation of state-owned enterprises (SOEs).

Nevertheless, the reform process during the 1980s radically changed the environment within which enterprises operate and the behaviour of enterprise managers. Market allocation of inputs and outputs, the use of profit and tax targets, and pressures on prices and quality forced enterprise managers to make profitability an important goal, and there is much evidence to suggest that SOEs have gradually improved the productivity and efficiency with which they operate. The potential for Chinese SOEs to ‘grow out of the plan’ has thus been one of the outcomes of the gradualist reform process.

During the 1990s, the continued rapid growth of the vibrant township and village enterprises (TVEs) and the non-state sector (NSS) as a whole brought the bleak performance of the SOEs into even sharper relief. The deflationary policies adopted after 1993 exacerbated their problems. Their low efficiency, stocks of unsaleable poor quality products, high levels of debt which threatened the financial system, and mounting losses, which in 1996 created an overall deficit for state sector for the first time, became the stereotype. At the same time, the

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inability of the budget and banking systems to generate the capital flows needed to sustain them meant that a new capital and asset structure had become essential to any efforts to reinvigorate the SOEs. By the mid 1990s, therefore, the discourse of enterprise reform was dominated by debate over the nature of corporate re-organisation, the types of share systems which could be introduced, and the reform of employment and labour management. The need for urgent change became obvious and the trend of policy had shifted towards the position advocated by economists like Wu Jinglian who from the late 1980s had argued that nothing short of a radical change in the systems of ownership and full exposure to market risk will solve the problems confronting SOEs.4

The theoretical basis for the SOE reform program in the 1990s has been grounded in western property rights theory which argues that enterprises require clearly defined property rights in order to operate efficiently in the market place. Clear property rights are seen as a way of ensuring that the interests of the owners and managers become sharply identified with the efficiency with which the assets of the firm are used. Although some prominent economists in China have pointed out that property rights alone are not the sole issue and that attention needs to be given to factors such as the principle-agent relationship between owners and managers,5 by 1997 asset restructuring and ownership reform through the adoption of forms of shareholding had been accepted as the key to both improving enterprise efficiency and solving the problem of separating government and enterprise. The corollary of this view is that an open labour market is a necessary condition for enterprise flexibility.

The decisions of the 15th Party Congress6 followed a period of intensive analysis of how to realise the target of ‘grasping the large and releasing the small’. Key large enterprises, especially those which are part of the economic infrastructure or ‘natural’ monopolies are to be retained under dominant state ownership, though restructured as limited liability or share companies in line with the legal framework which has been built up during the 1990s. Most medium and small enterprises are to be fully reorganised through mergers, closures, selling off, and the formation of share companies or shareholder cooperatives. The key elements of

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5 Lin Yifu, Cai Fang and Li Zhou, Chongfen Xinxi yu Guoyou Qiye Gaige [Sufficient Information and State-Owned Enterprise Reform], (Shanghai Sanlian Shudian: Shanghai Renmin Chubanshe, 1997).

the strategy involve: defining property rights; the implementation of the company system through the establishment of shareholder and limited liability companies; the ‘modernisation’ of management; implementing state ownership through management of capital assets rather than direct management of enterprises; associated financial system reforms; complementary changes to the housing, pensions and welfare systems; and the consolidation of the labour market system.

While the targets of the reform package are clear, the precise steps to implement them remain full of risk and uncertainty. The policy is one of sustaining state ownership through various forms of asset management organisations, but it is highly likely that the ultimate result, especially for the medium and small enterprises, will be a form of privatisation. The way assets are restructured and the share systems are established will thus influence how that final step occurs and who benefits. The lack of a developed share market system, the dearth of experience in share company organisation and management, the absence of strong auditing and accounting systems to establish asset worth and to manage their restructuring, and the decentralisation within the economic system have combined to generate considerable local diversity in the problems faced and in the approaches to the implementation of the policy. The regional imbalances in the distribution of state enterprises and in the rates and levels of development during the reform period also mean that the problems generated by the final stages of reform are not shared equally among the provinces.

In this paper I focus on the impact of enterprise restructuring on employment in Shaanxi province. It will be argued that the example of this province demonstrates how the process of asset restructuring and labour market reform are closely inter-related. Assets restructuring is concentrating control over resources, and the owners of those resources are developing a new relationship with their employees. Nevertheless, the particular difficulties faced by Shaanxi serve to modify the social outcomes of that process as a result of a complex hierarchy of employee categories and of the economic constraints in the province.

Shaanxi is one of the interior provinces which has seen a major decline in its economic significance as a result of the priority given to coastal development and the shift to a market-

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7 This was explicitly stated by members of the Shaanxi Structural Reform Commission, interview, 25 February 1998.
oriented economy. The province was a major beneficiary of the planned system. It received considerable investment during the First Five-year Plan and under the Third Front strategy. This support continued until the early 1980s and led to a substantial concentration of military, machinery, textile, aircraft and electrical industries. The relative backwardness of its agriculture and the dominance of the central Guanzhong region, however, meant that there was an underlying imbalance in its development. By the mid-1990s, Guanzhong had about 60 percent of the population, three quarters of GNP and fixed assets and over 80 percent of industrial output. Northern and southern Shaanxi were both much poorer.

The introduction of market forces in the early 1980s was slow to take effect in Shaanxi which, like much of the interior, can be characterised as conservative and reluctant to change. The shift to the coastal development strategy also meant an end to the flow of central funds towards the province and the beginning of a relative neglect of its established industrial structure, a policy which economists in Shaanxi criticised:

The current division of the distribution of China's productive forces into east, centre and west, and the strategy of gradual development moving from east to west does not correspond to the actual distribution of productive forces and, therefore, does not benefit the development of the Chinese economy.

The end result of the reforms has been an erosion of the province’s position. Its industries and skills have become uncompetitive and obsolete in the face of the investment along the coast. Its income levels and national ranking have declined substantially, its rate of growth has fallen far behind, and one of the ‘princesses’ of the plan system has found itself increasingly burdened with a large state sector which is uncompetitive in the new market environment.

The final stages of SOE reform thus present Shaanxi with a greater challenge than many other parts of China. Much of its industry and employment is bound up in sectors which are

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less and less competitive. At the same time, the fact that Shaanxi has not experienced the same level of economic diversification as has occurred along the coast means that its non-state sector is less developed. Foreign investment is small, and the budget is in deficit. As a result, the capacity to absorb old SOE assets and labour into new areas of production is limited, and the resources to develop new employment opportunities are constrained.

Given this context, it is not surprising to find that the provincial governor, Cheng Andong, in a speech in 1996 issued clear warnings of the threats to economic and social stability involved.\textsuperscript{11} He noted that per capita GDP was among the lowest in the country and that, since incomes were also well below the national average, 'even small fluctuations in prices can influence social stability'. He also reported that at the time some 40 per cent of state enterprises in the province were in difficulty and that 'over 100,000' state enterprise workers and 'over 200,000' rural enterprise workers were not getting their full wages. The acceleration of SOE reform in 1997 and 1998 thus brings challenges to Shaanxi that are not felt in many other parts of China.

In the following sections, I shall first address some of the general underlying economic, political and social issues involved in this process. In the subsequent sections I shall then turn to the particular features of SOE and employment reform in Shaanxi and present data on the problems of unemployment that have arisen. In the final section I shall draw some conclusions on the nature of the changes taking place.

\textsuperscript{11} Cheng Andong, 'Cheng Andong shengzhang tan Shaanxi jingji fazhan wenti' [Governor Cheng Andong discusses issues in Shaanxi's economic development], \textit{Shaanxi Xin\u65ab\u6709} [The Shaanxi Reporter], 18 January 1996, p. 1 and p. 5.
Basic issues in enterprise reform: ownership, welfare and the labour market

The problems of China’s SOEs are the consequence of years of soft-budget constraints and administrative intervention, lack of reinvestment to replace obsolete equipment, internalised housing and welfare costs, and enforced over-employment. The economic rationale for further reform is obvious, and an inter-related set of ownership, welfare, and labour reforms have to be addressed. Although over the years the gradual reform process has reduced the significance of the SOE sector in the economy as a whole and has generated greater economic diversity, making the final stages of reform easier to resolve, there are still substantial adjustment costs to be borne, particularly in terms of the loss of employment for SOE workers.

As noted above, discussion of ownership issues in China are structured primarily within a property rights framework. Western economic theory argues that clearly-defined property rights, whereby the interests of the owner are directly related to the performance of the enterprise, are essential if the enterprise is to achieve efficient behaviour in a market environment. It is argued that in the absence of well-defined owners with exclusive property rights who can control the residual income accruing to the assets and are free to determine the disposal of those assets, firms will tend to operate inefficiently. Potential problems include such things as ‘soft budget constraints’ where there are no clearly identified owners who have to bear the risks of mistakes; lack of pressures on managers to make efficient decisions; and lack of incentives to enforce decisions to protect the assets. Many of these ideas have been broadly accepted in the debate within China in respect of ownership reform, both for SOEs and for TVEs.

The reforms adopted for SOEs focus on the development of shareholding systems in limited liability or shareholder companies. It is proposed that in large or key enterprises, including natural monopolies, the state will retain total ownership, and that ownership will be exercised through forms of asset management organisations or through the state having the controlling shares. In small or medium enterprises, the state will reduce its ownership role and allow

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12 For a useful summary of the theoretical issues involved see Martin L Weitzman and Chenggang Xu, ‘Chinese township-village enterprises as vaguely defined cooperatives’, in Journal of Comparative Economics, No. 18, 1994, pp. 121-145.
much greater managerial independence. In practice this is likely to lead to the emergence of a small number of large publicly-owned companies such as exist in many market economies and of a large number of medium and small companies where the level of state ownership is reduced by the establishment of share ownership systems, by selling off SOEs to other enterprises or private individuals, or by closing down those unable to survive. What is more, the value of the state assets in the restructured enterprises may well tend to decline over time, as the value of the other assets owned by the new investors will increase. In effect, the stage is set for a process of privatisation. The similar process of asset restructuring and ownership reform taking place in TVEs is also likely to lead to greater privatisation in that sector as well.\textsuperscript{13} In effect, therefore, property rights reform is occurring in both the SOEs and TVEs in ways which will eventually make reduce the ownership distinctions between them.

An important aspect of this process of asset restructuring and associated clarification of property rights is the need to externalise the age pension, housing and medical welfare provisions.\textsuperscript{14} This separate reform process has been under way for some years, though it only applies to those employees who form part of the official urban enterprise work force. Unified retirement pension schemes at city or other levels based on a levy on all enterprises as a ratio of their total wages bill and a small percentage paid from the workers themselves have been introduced in many areas of China.\textsuperscript{15} Such a system covered all SOEs in Shaanxi after 1992.\textsuperscript{16} The current problem is that these funds have only been evolving for a small number of years and the sudden closure of many SOEs might throw a larger number of retirees onto the funds than they can immediately sustain. Housing reform has also been under way for some years, and the process of selling partial or full property rights to employees, while weakened by the continuing ‘welfare’ level of rents which makes purchasing uneconomic

\textsuperscript{13} Cai Fang, ‘Xiangzhen qiye chanquan zhidu gaige de luoji yu chenggong de tiaojian [The logic of reform of the TVE property rights system and the conditions for success]’, Jingji Yanjiu [Economic Research], No. 10, 1995, pp. 35-40 and 69.
\textsuperscript{14} This need is discussed by Hu Xiaoyi, the Director of the Social Security Department in the Ministry of Labour in ‘Reducing state-owned enterprises’ social burdens and establishing a social insurance system’ in Harry G. Boardman (ed), Policy Options for Chinese State-Owned Enterprises, (Washington DC: World Bank, 1996), pp. 125-148.
\textsuperscript{15} Ibid.
\textsuperscript{16} Interview, Shaanxi Structural Reform Commission, 25 February 1998. The rate was originally set as a levy of 18 percent of the enterprise wage bill and 2 to 3 percent on the employees.
from the consumer’s point of view, is accelerating.\textsuperscript{17} Medical welfare schemes, however, are as yet not broadly developed and are still largely dependent on enterprises. In many declining SOEs, coverage of major illness may be at only 60-70 percent of cost, and ordinary medical care may be catered for by an annual payment to the employee which is used at the employee’s discretion but which is not supported by further payments.\textsuperscript{18}

While the nature and extent of these various reforms is still subject to many local variations and a stable national system is yet to emerge, the underlying point is that there is a general acceptance within China of the view that the provision of these services has to be separated from the enterprise. The internalisation of welfare undermines enterprise efficiency by increasing managerial costs. It also diverts enterprise assets to non-productive uses, leads to duplication of pension, medical, and educational resources which might be underutilised or wasted, and builds a nexus between production, employment and welfare such that capital and labour cannot flow freely in response to changes in the economic environment. While such an interlocking system might survive in a planned economy, it clearly cannot do so in the new market environment. The reforms are thus central to the development of an open and flexible labour market.

The final, and in many ways the most fundamental, underlying issue is thus that of the growth of an open labour market. This is the product both of changes within the state enterprises and of changes in the relationship between the urban and rural economies.

The focus on the efficiency of capital use and the freedom for enterprises to respond to market pressures inevitably requires the freedom for managers to adjust their use of labour. In terms of the legacy of the state enterprise system, this change precipitates two problems. The first is the perceived need to introduce management and discipline systems which reward labour for increasing output and penalise it for being inefficient. The result is a shift away from the mobilisation and participatory ideas of the pre-1978 structure towards more Taylorist or managerial styles of authority. There is considerable evidence in changes to


\textsuperscript{18} This was the situation in Shaanxi in early 1998, interview, Xi’an Labour Bureau, 27 February 1998.
contract employment, wage and bonus systems, and workshops management practices to show that this process has been occurring.\(^{19}\)

The second problem is that of surplus labour. The previous full employment policies for the urban population meant that, particularly during the 1970s when population growth began to produce ever-increasing numbers of new workers, state enterprises had to absorb large numbers of excess workers.\(^{20}\) What is more the lack of technological and skill improvement in many SOEs means that many of the older employees are not able to adjust to making new products or to compete in the market environment. Current estimates suggest that the surplus could be as much as 30 percent of the urban SOE work force, with some observers even going as high as 50 percent.\(^{21}\) In effect this means that around 30 million employees are surplus to requirements. As asset restructuring occurs and market efficiency becomes more vital for enterprise survival, these employees are likely to be laid off or become unemployed. These figures, like all unemployment figures in China, also ignore the estimates of around 150 million ‘surplus’ labourers in the rural economy. The trend to restructure government departments also means that large numbers of public servants may soon also join these ranks.

The other major process taking place is the gradual integration of the rural and urban labour forces. In many ways, this process is one of the fundamental forces driving the reform of the SOE system.\(^{22}\) The original rigid separation between urban and rural labour and the privileges given to urban workers are being eroded by the competition between TVEs and SOEs and by the movement of migrant labour. Under the plan system, household registration, grain rationing, planned employment and the state enterprise system delivered substantial privileges to the urban work force and kept the peasants locked in the countryside. Urban

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\(^{19}\) See, for example, Minghua Zhao and Theo Nichols, ‘Management control of labour in state-owned enterprises: cases from the textile industry’, The China Journal, No. 36, July, 1996, pp. 1-21.


\(^{21}\) Ibid, p. 59. See also the report by Bo Qiangzhong translated in Summary of World Broadcasts, Part 3, Asia Pacific, (hereafter SWB), 9 August 1997, FE/2993/s1/1-4 which talks of 35 to 50 million surplus in the total urban work force of 170 million.

labour thus had higher wages, guaranteed employment, subsidised food, housing and welfare, and a range of educational, cultural and social opportunities that were not available to peasants. The rural reforms unleashed the dynamism of the TVE sector and freed the peasants to travel in search of work. The TVEs now compete effectively with SOEs for resources and markets. Migrant labour has also moved to cities to undertake the dirty, dangerous or low-paid tasks that urban labour is unwilling to perform. In effect, rural labour competes with urban labour on the basis of cheapness and willingness to work long hours, with few benefits and protections and in conditions which urban workers would be unwilling to accept.\(^{23}\) The current surge in lay-offs and SOE closures, however, means that the urban workers may well now have no choice other than to compete with the peasant labour and accept lower pay and conditions in order to find work. Defence of urban privileges can only come at the cost of further advancement of the rural work force.

As Jefferson and Rawski have argued, if labour flexibility is to be accomplished with a minimisation of the adjustment costs involved, the change will require a set of policies to relax labour market restrictions so that there is greater mobility of labour, to reverse the ‘anti-employment policies’ of the SOE system which they see as the result of the relatively high costs of urban employment and the bias against services and the NSS, and to put in place institutions which make it easier for people to find employment and which support those who are unemployed.\(^{24}\)

In practice, many of the changes have already begun to emerge. The reforms to employment conditions since the mid-1980s has already begun to erode the security that urban workers had in the past. The urban contract labour system, while at first appearing to bring little difference to the status of permanent employment, has over time increased the numbers of workers who do not have long-term rights.\(^{25}\) By 1998 this has led to a situation in Shaanxi where different types of SOE employees enjoy different rights and conditions. The contract workers taken on the 1980s still have many of the benefits and expectations of permanent

\(^{23}\) Tong Jingchen, ‘Beijing ren hui he way di ren qiang fanwan ma? [Can Beijing people struggle for their food with outsiders]’, in Zhongguo Xinxi Bao [China Information], 11 February 1998, p. A3, provides a brief example of the unwillingness of established urban workers to compete for jobs with lower pay, hard or illegal conditions and no benefits.


workers. Furthermore, in line with the new Labour Law, all of the permanent workers were also transferred to the same status after 1995. New contract workers, however, now known as ‘negotiated’ (xieyi) contract workers, have far fewer benefits and are not guaranteed re-employment. In addition there are various categories of temporary and casual workers. SOEs thus now have a mixed labour force involving contract workers with reasonable high levels of rights and benefits, negotiated contract workers with lesser rights and then various forms of temporary and casual workers, largely consisting of rural labour, which might have reasonable wages but have almost no long-term benefits or employment expectations.

This increasing flexibility in the SOE system means that the urban sector now encompasses a wide range of employment conditions across the state, collective, private and informal sectors, and that the previous strict separation between urban and rural employment is being replaced by continuum of employment conditions. The collective, private and informal sectors have grown substantially, and there is some evidence to suggest that the official figures underestimate their actual level of employment by a factor of 4 or 5. Dorothy Solinger has argued that this NSS employment can be analysed in terms of three main categories: 1) state-influenced through various forms of contractual relationships with SOEs, 2) native place-influenced in which relationships between employer and employee are shaped by various forms of social or native place obligations such as in the famous ‘Zhejiang village’ in Beijing, and 3) unconnected employment in which there are no external factors influencing the relationship between employer and employee or providing support to the worker. Her analysis shows that these categories tend to vary by economic sector and by levels of economic formality and informality. NSS employment with links to the state sector, which includes the temporary employment mentioned above, might well enjoy reasonable working conditions and rates of pay. Employment in the totally informal sector, however, might involve extensive exploitation, with dangerous conditions, illegal arrangements and very low pay.

Taken overall, therefore, the current phase of enterprise reform marks a further stage in the erosion of the boundary between urban and rural labour. The externalisation of welfare costs reduces the cost of labour to the urban enterprise. The changes in employment tenure provides greater flexibility in hiring and firing labour. The reform of wage and employment conditions means that the pay and benefits for labour, especially unskilled labour, are becoming less secure. At the bottom end, therefore, the surplus and unemployed urban workforce is now facing the prospect of competing with rural labour for work. Indeed, among the strategies for solving the problems of laid-off workers adopted in some cities are attempts to restrict job access to rural labour or even, ironically, to send unemployed urban labour to suburban areas in order to take up farming to survive. The segregated urban and rural labour market is thus becoming a graded one in which differences of status, benefits and rights still exist between different categories of workers but also in which the boundary between urban and rural labour, especially at the lower-paid end, is beginning to disappear. Over time, therefore, competition from cheaper rural labour is leading to a decline in the privileges for urban workers which will reduce SOE costs, and to the emergence of a labour market where skills and performance will tend to play an increasing role in determining who obtains well-paid and secure employment and who has to compete with rural labour.

Within this set of issues, the two with particular significance for the political and social outcomes of the process are the changes to asset ownership and to employment. The restructuring of assets is the foundation for the emergence of new groups who will control the capital assets of China’s enterprises. While these will include the state, the enterprises themselves, the managers, the employees and private individuals, some will eventually gain greater ownership rights than others. At the same time, in response to market pressures, these owners now have increasing flexibility in their control over the hiring and firing of workers in their enterprises.

The political and social dimensions

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29 Yao Fuchun, ‘Lun qiye fuyu renyuan, xia gang yu zai jiuye gongcheng [On surplus personnel, lay-offs and the re-employment project]’, Jingji Lilun yu Jingji Guanli [Economic Theory and Economic Management], No. 6, 1997, p. 63 reports efforts to organise workers to go to TVEs and to take up farming.
The preceding section has addressed some of the economic factors underlying the need for changes to the SOE system. In political and social terms, the process taking place is one which embodies a redistribution of power and authority. Anita Chan has typified this as the emergence of a new form of societal or market-based corporatism to replace the state corporatism of the plan system. During the plan period, all episodes of conflict between workers and the trade unions and the state and party were resolved in favour of the latter, and the trade unions formed one of the institutions which maintained the established structure. Chan argues that the reforms offer the choice between a new form of technocratic managerialism representing the interests of reformers, managers and technocrats and a conservative form of state corporatism representing the interests of the remnants of the old power elite. The potential for the trade union system to grow into an independent body to protect the interests of the workers is limited and would pose a threat to the state structure.

The process of state enterprise reform endorsed in 1997 would tend to support that interpretation and implies a growing strength for the technocratic and managerial elite. The party had adopted policies for ownership and labour management reform which aim to develop a market-based enterprise economy based on a transformation of the system of asset ownership. These policies will enhance the significance of capital asset performance for enterprise survival and open the way to greater privatisation of ownership. The state administration is developing the laws and procedures to implement those policies and enhancing the role of management in enterprise decision-making. Meanwhile the trade union system, although called upon to represent worker interests in such things as contract and wage negotiations, supervising working conditions, resolving conflicts and approving asset restructuring proposals is supporting these changes and focusing on ways to ease the consequences for workers who become laid off or unemployed. Overall, therefore, the process is one in which the various sets of political, administrative and social hierarchies are combining to ensure that the policies are implemented and a market-oriented enterprise system evolves.

Nevertheless, within that model, there are a number of specific issues which reflect the cultural and historical legacy of China’s enterprises and which serve to modify the social outcomes. As Elizabeth Perry has pointed out, the Chinese labour movement has long been

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30 Anita Chan, ‘Revolution or corporatism? Workers and trade unions in post-Mao China’, in The Australian
characterised by fragmentation, with the result that different groups within the working class have in the past formed different types of alliances with different parts of the state and political system. The analysis of the employment structure presented above also stresses that there are now different categories or grades of workers with varying levels of pay and conditions. These categories also have different opportunities for continued employment and for access to ownership rights over former state assets. As a result, they can be expected to take different positions on the reforms taking place. Contract workers with access to share ownership and to more stable employment rights could be expected to support many of the changes taking place. Peasant labourers, with minimum rights and expectations, might well favour the removal of the remaining barriers to competition between themselves and urban labour and also the opportunity to gain greater access to more ownership and welfare rights. In contrast, the employees who loose out in the changes might well prefer to call for a retention of the privileges of the past.

Another important feature of the social process which is modifying its implementation is the fact that SOEs are seen to have responsibilities towards their workers, both those that remain in employment and those that are laid-off or made redundant by SOE reform. Those remaining in employment are being offered opportunities to obtain employee shares and a stake in the assets of their enterprise. For those laid off, as discussed below in respect of Shaanxi, SOE obligations includes such things as the expectation that workers will continue to receive some form of income from enterprise earnings or assets, will have preferred access to new jobs and will retain some housing and pension support. Even in cases where an enterprise goes bankrupt, any residual income from its land or assets is supposed to go to the employees in the first instance. In cases where the enterprise has little hope of survival in its current form, the debts might even be laid aside and the employees might be given some opportunity to take over and restructure the enterprise in an attempt to trade on. In many instances, therefore, the practical solutions to the problems of enterprise reform involves the adoption of mechanisms which respond to the needs of the employees rather than a simple decision about the capital assets themselves.


A further factor is the extent of regional variation in the process. The highest levels of enterprise failure and lay-offs occurs in those areas with concentrations of the old plan economy enterprises (textiles, machinery, military and old-fashioned electrical and consumer goods) and in areas of much slower economic growth.\(^\text{32}\) In contrast, the areas with the new growth industries, large amounts of foreign investment and rapid growth face a much easier task. In the coastal provinces, where buoyant economies and diverse sources of employment exist, the potential for re-employment for displaced SOE labour is large. The funds to ease the process are also extensive. As a result, even though former SOE employees find that they no longer have guaranteed employment or benefits, they might well be able to switch to a new and even more highly-paid job very quickly. In Shaanxi, the lack of funds and of alternative employment, combined with the higher proportion of old-fashioned SOEs in the economy as a whole mean that the reform is not only more difficult to manage but also threatens greater social unrest if not handled appropriately. One simple example underlines the differences involved. It was reported that in Shanghai in 1996 funds of 210 million yuan were available to help solve the re-employment problems of around 100,000 workers from the textile and meters and electrical (yi-dian) industries. The city government, the labour department and the enterprises each supplied one third of these funds. In contrast in 1996, Shaanxi province as a whole only had 30.57 million from the unemployment insurance fund to cater for the re-employment needs of 316,200 laid off workers.\(^\text{33}\) Given that difference, it is to be expected that the provincial government there will attempt to find ways to ease the process or to maintain some level of support for the maximum number of workers that it can in order to reduce the social costs of the transition. The potential for worker protest is high, and demonstrations and appeals for help (shang fang) are already commonplace in Shaanxi.\(^\text{34}\)

Although these considerations do not negate a corporatist interpretation of what is happening, they indicate that the impact of a segmented labour force, of social expectations about the residual responsibilities of enterprises towards their workers and of regional variations will modify the practical outcomes of the transition. There is likely, therefore, to be diversity in the way the new enterprise system emerges and grows. The following discussion provides an


\(^\text{33}\) Kang Shibing and Jing Kuanyou, ‘Jiada jie kun he zaijiuye gongzuo lidu [Increase the work efforts to ease poverty and provide re-employment]’, in *Shaanxi Gongren Bao* [Shaanxi Worker’s Daily], 26 July 1997.

\(^\text{34}\) Ibid, It was said by one informant that in 1996, appeal meetings outside the provincial government offices involving 100 or more workers occurred three or four times a week.
example of developments in Shaanxi, where slower growth and a larger legacy of SOE burdens present major problems for enterprise and employment reforms.

A case study of Shaanxi

The economic context

As has been noted above, Shaanxi faces a number of problems in the context for SOE reform that are not found in more developed regions. Reference to a few economic indicators will underline this fact. It is much poorer and its economic structure has changed less as a result of the reforms. Its GDP ranked 21st among all provinces in 1994 and in per capita terms it ranked 27th. Its urban incomes are generally 150 to 230 per cent below those of the coastal provinces. Furthermore, as shown in Figure 1, its position has tended to decline over time. Its per capita GDP, urban and rural incomes have all declined as a ratio of the national average. In 1995, it ranked 21st in the level of urban residents’ per capita income available for living costs, with 3,048 yuan against the national average of 3,893 yuan. Peasant per capita net income was equal to the national average in 1978 but was only 60.5 per cent of it in 1996.

As shown in Figure 2, in terms of the sectoral composition of GDP, in 1985 the structure of the Shaanxi economy was very similar to that of the national economy. By 1996 the primary sector had declined but slightly less than the national average. Meanwhile, the secondary sector had also declined at a time while the national average had grown substantially, and the ratio of Shaanxi’s tertiary sector had risen to a ratio well above the national figure. This change underlines that the province has yet to develop the same level of light industrial and labour-intensive manufactures as other parts of the country. The large ratio of the tertiary

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38 Shaanxi Statistical Bureau, Shaanxi Tongji Zhaiyao 1996 [Shaanxi Statistical Summary 1996], (Xi’an: Shaanxi Statistical Bureau, 19960.
sector, therefore, underlines the relative failure to develop manufacturing rather than a major
growth in services.

Figure 3 gives the ratio of urban industrial output value by ownership. At the national level,
there has been a dramatic transformation of the role of state-owned enterprises which have
shrunk from around 79 percent in 1985 to less than 54 percent in 1996. In 1985, Shaanxi
state-owned industry was slightly above the national average at 84 percent. By 1996, the
state sector had declined but still remained above 70 percent. Meanwhile the collective
sector had grown to 18 percent, a little above the national average of 15 percent, but the other
sectors (including private and foreign investments) lagged some 20 points behind the national
average (11 percent compared with 31 percent). Figure 3 also shows that the changes in
Shaanxi only began to accelerate after 1992, many years after the economy as a whole. The
Shaanxi economy had therefore not developed the individual, private and foreign sectors at
the same rate as the developed coastal provinces. This underlines that its urban industrial
structure is thereby more heavily burdened by the problems of transition that state enterprises
now face.

As noted above, the foundations of this industrial structure were laid during the plan period,
when Shaanxi was given special emphasis in the development of large and medium state
enterprises and military industries. By 1985, some 68 per cent of manufacturing industrial
output value was concentrated in military, electronic, machinery and textile enterprises.\(^{40}\)
This structure not only meant that there was a large state sector, but also resulted in a large
ratio of industries owned by the central authorities and the military system compared to those
owned by the local state. In 1985, some 72 per cent of the province's then 291 large and
medium enterprises were centrally-owned, and there were nearly 100 military enterprises,
making Shaanxi the second largest military industry province.\(^{41}\) In 1993, the gross value of
output of industries under central departments still accounted for 39.7 per cent of the total
state enterprise output in the province. The same type of concentration also applied to
scientific, technical and educational personnel, with very high proportions of them under the
management of central departments. In 1995, for example, military industries had 20 per

\(^{40}\) Wang Ziyi, 'Shaanxi quanmin qiye gaige mubiao moshi tantao [A discussion of the target model for the
reform of enterprises owned by the whole people in Shaanxi]', *Shaanxi Shifan Daxue Xuebao (Zhexue Shehui
Kexue Ban) [Journal of Shaanxi Normal University (Social Science)],* No 3, 1989, p. 40.

\(^{41}\) Ibid. The central enterprises also had over half of enterprise fixed assets, He Jinming (ed), *Shaanxi Xian
cent of the province's state enterprise fixed assets, employed 42 per cent of its scientific and technical personnel, but only had a 40 per cent equipment utilisation rate. There is thus a perception within Shaanxi that the province has been too dependent on central investment for its growth, and the large ratio of centrally-owned enterprises demonstrates that the locally-resourced economy is relatively underdeveloped.

Ultimately, therefore, Shaanxi shares a number of constraints and problems with other provinces which were developed during the plan period. These include Heilongjiang, Liaoning, and Jilin in the northeast, and Hubei, Sichuan and Gansu in the centre and west. The features that gave them advantages in the plan period have, in the course of the reforms, become constraints on their growth. As such, they can be expected to prefer policies designed to ease the pressures on state enterprises and to look for central support in handling their difficulties in the transition to a socialist market economy. They can also be expected to be less enthusiastic about policies which promote a regional bias towards the coast. Furthermore, the relative lack of diversification into dynamic new sectors makes their economies more reliant on centrally-funded projects as a way of stimulating local growth.

This basic economic situation is also reflected in the structure of employment. As shown in Figure 4, Employment in Shaanxi remains heavily weighted towards the state sector. Employment in SOEs at 73.5 percent in 1996 was well above the national average of 56.7 percent. Meanwhile both the collective (11.8 percent) and non-state sectors (14.7 percent) were well below the national picture at 15.2 and 28 percent respectively. These simple ratios eloquently underline the challenge facing the province now that SOE reform is being accelerated

_Employee reform in Shaanxi_

As in the rest of China, the need to reform the SOE system became clear during the 1980s, and by the late 1980s there were local calls for reform of property rights, the introduction of

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43 The sharp change in the national figures for 1990 may well reflect a statistical rather than an actual change.
shareholding systems and the leasing, merger or bankruptcy of enterprises.\textsuperscript{44} The fluctuations in reform policies and inherent problems facing Shaanxi, however, meant that it was not until the mid-1990s that the process began to accelerate. In the case of Shaanxi, by late 1997, the reform of SOE ownership was well under way.\textsuperscript{45} Some 80 percent of small to medium enterprises had completed or were undertaking asset restructuring or ownership reform and up to a quarter of the large SOEs. The latter were mainly establishing limited liability companies in which various arms of the state retained full ownership of the assets, and the structure of management involved a board of directors appointed by the shareholders and a general manager and management system.

In the case of the small enterprises, a large variety of changes were under way. The aim was to ‘get state assets out of the cage’ by transferring responsibilities and rights downwards and by giving enterprises and their employees independent decision-making power. Property rights reform involved three main dimensions: evaluation and restructuring of assets to remove non-performing assets and to clarify hidden losses and debts; the separation out of obligations for health, welfare and pensions from the enterprise; and the selling of assets at market price. The selling of assets involves such things as sales to employees at a discount or on a deferred payment basis, to other enterprises or ‘legal persons’, or to ‘natural persons’ (private individuals). The state might also retain some shares where appropriate. In all instances, the interests of the employees were to receive major consideration and the idea of shareholder co-operatives (combining both share ownership and cooperative management) was to be promoted, though in early 1998 not many enterprises had adopted that format.

In the case of weak enterprises or those with no real assets or debts greater than assets, a number of strategies are being pursued. Enterprises might be leased or contracted out and the lease payments could be used as a way of paying off the value of any assets derived from the

\textsuperscript{44} Wang Ziyi, ‘Shaanxi quanmin qiye gaige mubiao moshi tantao [A discussion of the target model for the reform of enterprises owned by the whole people in Shaanxi]’, \textit{Shaanxi Shifan Daxue Xuebao (Zhexue Shehui Kexue Ban)} [Journal of Shaanxi Normal University (Social Science)], No 3, 1989, pp. 40-44.

original state ownership so that the enterprise eventually becomes private. Where possible
the assets might also be given to the employees to operate and the debts might be left hanging
to be paid from the income tax of the enterprise if it was able to survive. Mergers or closures
might also be used. In all such cases, preferential policies in terms of rapid rates of
depreciation, payment of rents or leases before tax and reductions in local taxes might be
used to enable the enterprise to survive. In the case of bankruptcy, the interests of the
employees were to receive priority so that any income for the sale of assets or the rent of land
of original enterprise was to go to the employees in the first instance.

Given the decentralised way in which the reform is being carried out, the outcome within
each enterprise will represent the balance of the various forces at work. The potential for
local governments to retain forms of control in profitable enterprises through ownership of
state shares remains strong. On the other hand, the potential for individuals to obtain large
shareholdings or for corporate bodies to emerge with a portfolio of assets is also strong,
especially if in the course of asset restructuring, old and bad debts can be set aside or vested
in part a new company grouping which can then be allowed to go bankrupt, while the more
profitable assets remain part of a restructured and competitive enterprise.

An example of this process can be found in Shaanxi’s textile industry sector. This sector has
been facing problems for a number of years.\textsuperscript{46} It was having difficulties obtaining raw
materials and competing with the TVE sector. It was also burdened with lots of obsolete
equipment left over from the 1950s and was challenged by the over-capacity of spindles that
resulted from the surge in textile investment during the 1980s.\textsuperscript{47} As a result, the large
number of cotton textile plants spread across the cities of the Guanzhong area were finding it
difficult to sustain production and, at the time of my visit in February 1998, a number had
already closed or faced closure. A common joke in Xi’an at the time was that workers in the
eastern suburb where the textile mills were concentrated would greet each other with the
phrase: ‘Have you been laid off yet?’

\textsuperscript{46} See Qiao Guangqi, ‘Shaanxi fangzhi qiye qiye de chulu [The way out for textile enterprises in Shaanxi], Parts 1
and 2, in Jingji Gaige [Economic Reform], No. 3, 1997, pp. 4-9 and No. 4, 1997, pp. 4-9, and ‘Shaanxi
fangzhiyi: ruhe dong shan zai qi [Shaanxi’s textile industry: how to make the eastern mountain rise again], in
\textsuperscript{47} Hu Weilie, ‘1996-1997 nian Zhongguo jiuye zhuangkuang de fenxi yu yuce [An analysis and forecast of the
employment situation in China 1996-1997]’, in Jiang Liu, Lu Xueyi and Dan Tianlun (eds), 1996-1997 Nian
Zhongguo Shehui Xingshi Fenxi yu Yuce [An Analysis and Forecast of China’s Social Situation 1996-1997],
(Beijing: Zhongguo Shehui Kexue Chubanshe, 1997), pp. 185-193 reports that nearly a quarter of the 42 million
spindles were to be closed down during the Ninth Five-Year Plan.
One of the enterprises which had managed to survive so far was the Number 5, Northwest Cotton Textile Mill, and it had only done this through a process of asset restructuring. The Mill had been selected as a site for shareholding experiments in 1988. It had gone through two processes of share re-organisation in 1988 and in 1992. These had given increasing independence to the Mill management. During 1996, however, the Mill had suffered a crisis as a result of the efforts of the previous party secretary who had used its assets to invest in real estate, to develop a hotel in Hainan, to invest overseas and to buy an aeroplane for enterprise use. The Mill had temporarily ceased production and the work force of around 10,000 had been laid off.

Subsequently a new leadership team had been appointed who had restructured the mill assets under the name, Five Rings Group. This now had three main components: the Five Rings Limited Liability Company in which the most modern and productive equipment and about 1,800 of the work force had been concentrated; the original textile mill which retained all the old equipment and employed about 7,000 workers; and a mixture of smaller diversified undertakings, some of which were linked to textiles and some of which were running the real estate and hotel operations. All the sub-units were independent enterprises with their own accounts. The limited liability company, for example, has 150 million shares, some 45 percent of which are owned by the old mill and the rest by the employees and by outside investors. It was now planned to take this company into the share market. In the textile operation, although the new and old companies were distinct in terms of shares and accounts, the workshops still remained side-by-side in the old compound and there was no distinction in wage and employment conditions between the two work forces.

At the same time as the asset restructuring had been carried out, the group had shed around 1,700 staff. It was now planning to further reduce administrative staff by around 360 (20 percent of the total). The wage system had changed to use of norms in defining the expected output per workshop for the resources used and of output-related payments to individuals. All workers had become contract workers on 1, 3 or 5 year contracts and about 7,000 of the total had regular contracts and 2,000 had the less secure ‘negotiated’ contracts. It was anticipated that over time the negotiated contract system would become the norm. Workers

are assigned to posts which have output targets, performance rules, time definitions, quality norms and associated wage standards. The top wages are now around 4,000 yuan a month and the lowest around 200. Apart from a small number of demobilised soldiers and tertiary graduates which it is still obliged to employ each year, the enterprise no longer had any labour assigned to it by the state system.

The Mill had moved rapidly to sell its housing to the employees and to require its school and medical services to become independent by generating their own income. While these processes were not yet complete, they had already begun.

As a result of these efforts the Mill was now back in production, and was able to sustain a basic turnover. It was said that the workers were keen to find themselves in stable employment again and were anxious to maintain productivity.

The Mill is an example of a major state enterprise which has already advanced some distance along the path of asset and employment restructuring. Compared with the large number of textile mills already closed or threatened with bankruptcy or merger, it appeared to have found a mechanism for survival, at least in the short term. The most significant aspect of this process, however, is the flexibility that this restructuring gives the group to respond to further challenges. The Limited Liability Company employs less than 20 percent of the work force but has the best equipment and produces over two thirds of current output value. The old textile mill has more than 80 percent of the work force and only produces less than one third of output value using old and inefficient equipment. As the reform process proceeds, the group is in a position to run down or close the less efficient asset, which would take with it the accumulated debts and problem accounts. The more efficient asset would then be in a position to float on the share market to raise capital and to compete more effectively in the market. Asset restructuring has thus provided a mechanism for the survival of the best elements within the enterprise. In addition, the fact that the old Mill has a 45 percent stake in the shares of the new company means that it would maintain an income stream with which to assist the workers laid-off or made redundant by any closures.
While this prospect may not be the actual long term plan of the Group management, which is working hard to preserve and sustain a production community at a moment of sectoral crisis when similar plants are closing down around it, it is an example of how the process of asset restructuring can create a way for the SOEs to manage the process of change. Those with employment or ownership rights in the ‘good’ company can begin to compete more effectively in the market, while those who are not maintained in employment may obtain some benefits from the parts that survive. At the other extreme, however, such reorganisation in small enterprises could well lead to some people or corporate bodies gaining ownership of worthwhile assets, while the poor assets, unwanted employees and accumulated debts are made bankrupt.

Employment reform and unemployment

Uncertainties over employment generation and the spectre of unemployment have long been present in Shaanxi. Problems of rapid population growth and a surge in the number of job-seekers, combined with the low educational and skill levels of many labourers, have meant that the difficulty of providing increasing employment opportunities has been recognised throughout the reform period. Furthermore, structural economic change associated with growth in output and incomes can also be expected to require changes in the nature of production and employment. By the late 1980s, the proposed solutions to the problems of employment generation included greater flexibility in labour management to allow movement across sectors and regions, the opening up of the labour market, the diversification of ownership systems and employment opportunities, more flexible types of employment and better training for prospective workers and the unemployed.

In fact serious employment problems first emerged in Shaanxi in the late 1970s when the combination of youths returning from the countryside and new job-seekers who were the children of the work force built up through planned investment during and after the 1950s began to reach employment age. In 1979, the Shaanxi authorities responded by establishing

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52 Interview, Xi’an Labour Department, Labour Service Company Administration Bureau, 27 February 1998.
Labour Service Companies which employed these people in labour intensive and service activities until they could obtain full-time enterprise employment. These companies generated income and also provided experience and training. Many were established with investment from the Labour Bureau, from the youths themselves and from associated enterprises, which often tried to provide employment for the children of their employees. In the latter cases, the Labour Service Company was able to obtain support and sub-contact work from the parent enterprise.

The Shaanxi experiment was, in fact, considered a great success and was used as a national model for the development of such centres at the national work conference on labour employment held 2 to 7 August 1980. During the early 1980s these Labour Service Centres helped overcome the employment problems emerging from the 1970s and subsequently became a reservoir in which the youths ‘awaiting employment’ could be placed until jobs could be found. The aim of the system was to ensure that the unemployment rate remained below the target of 3 percent. By 1997 in Xi’an there were about 3,600 individual accounting units in the system. Their total income was around 2 billion yuan, with an industrial output value of about 880 million yuan and value-added of about 240 m. The average employment was 25-28 people per unit. The year-end total employed in this way was around 95,000, which represents the residual after new entrants are taken in and others find jobs. In the province as a whole, it was reported that there were over 7,000 enterprises in the system and that between 1980 and 1997 they had provided employment some 840,000 person/times.

Table 1 Official Figures for Urban Unemployment in Shaanxi

<table>
<thead>
<tr>
<th>Year</th>
<th>Total</th>
<th>Of which</th>
<th>Year-end Unemployed</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>Of which</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Youth</td>
<td>Females</td>
</tr>
<tr>
<td>1980</td>
<td>373 083</td>
<td>373 083</td>
<td>216 209</td>
<td>7.1</td>
</tr>
<tr>
<td>1981</td>
<td>329 485</td>
<td>258 476</td>
<td>150 086</td>
<td>4.8</td>
</tr>
<tr>
<td>1982</td>
<td>274 538</td>
<td>226 024</td>
<td>113 209</td>
<td>3.5</td>
</tr>
<tr>
<td>1983</td>
<td>229 969</td>
<td>193 687</td>
<td>141 522</td>
<td>3.2</td>
</tr>
<tr>
<td>1984</td>
<td>213 579</td>
<td>190 530</td>
<td>120 580</td>
<td>2.1</td>
</tr>
<tr>
<td>1985</td>
<td>201 841</td>
<td>182 757</td>
<td>111 302</td>
<td>1.9</td>
</tr>
</tbody>
</table>

54 ‘Wo sheng fuwu qiye chengwei anzhi jiuye de zhongyao qudao [The province’s labour service enterprises have become a major channel for providing employment]’, in Shaanxi Ribao [Shaanxi Daily], 3 May 1997.
Unemployment rate is officially calculated as the ratio of unemployed to the sum of employed and unemployed.

As shown in Table 1, the official figures for the unemployed in Shaanxi are predominantly based on the youths coming onto the market and falling within this system. They only include a very small number of people who are truly out-of-work as a result of dismissal for various reasons or because of the total collapse of their original unit. They also exclude rural and migrant labour, and workers who are laid off and therefore technically not unemployed. The result was that, as shown in Figure 5, the Shaanxi figures for unemployment, while slightly above the national average, tend to follow the same pattern. The marked decline in the early 1980s reflected the success in dealing with the youths returning to the cities from the countryside, and the slow increase after the mid-1980s reflected the increasing pressures on the urban employment system to provide jobs for the growing number of job-seekers entering the market.

With the acceleration of enterprise reform during the mid-1990s, however, the Labour Service Centre system was facing new challenges. On the one hand it could no longer rely on subsidised support and loans but had to compete in the market alongside everyone else. On the other hand the type of work undertaken now faced increasing competition from workers laid off by other enterprises. It was anticipated that the Centres would themselves undergo an ownership reform to become shareholding cooperatives and that any new centres would be established as such from the outset.

* Lay-offs
Clearly these centres exist primarily to solve the problems of new labour entering the market. The term *daiye* (awaiting employment) has now been abandoned and replaced by *shiye* (unemployed) but the official statistics for the most part only encompass this particular category. The surge in lay-offs and redundant workers associated with enterprise reform thus requires a new set of institutions and mechanisms for job provision and unemployment.

The numbers of workers that have been laid-off or made redundant from SOEs in Shaanxi is difficult to measure and Table 2 provides some estimates of the figures in Shaanxi over the past two years. One of the problems is that of terminology. The employees affected are variously referred to as laid off (*xia gang*), awaiting work while at the post (*zai gang dai ye*), resting from work (*xi gong*), awaiting post assignment (*dai gang*), on holiday (*fang jia*), re-deployed to other work (*fen liu*) or on early retirement (*tiqian tuixiu* or *tuiyang*). Each of these can involve different expectations about the length of time to be laid off, the rights for future employment by the enterprise, and the residual level of support provided by the employing unit. In fact one of the key concepts behind the status of these employees is that they are not ‘pushed onto society’ and can expect some form of support from their enterprise. In other words, they are technically not considered to be ‘unemployed’ and, for the moment at least, are not included in the unemployed statistics.

The other problem is the potential for fluctuations in the situation, with some enterprises being closed down for a period of time and then re-opening, such as happened with the textile mill described above. Many laid-off workers are also able to find second jobs or temporary work, so they may not be unemployed in the strict sense, even though they no longer have the stable employment that they once had.

Clearly there are many uncertainties in these figures. Nevertheless, it seems reasonable to assume that levels of around 350,000 to 400,000 per year are close to the mark. This implies an annual lay-off rate of around 10-15 per cent of the total provincial urban employment of around 3.9-4 million.\(^{55}\) Furthermore, the provincial Structural Reform Commission anticipated that an additional 400,000 would be laid off in 1998. Another report from Xi’an stated that in 1996 there were 300,000 surplus workers (21 percent of employees), that there were 188,000 workers laid off (13 percent), the fully unemployed were 35,300 and about
250,000 employees faced economic hardship (17.8 percent). In the 516 enterprises that were closed or on part-time work, about 77,400 employees had reduced wages or no wages at all.\textsuperscript{56}


\textsuperscript{56} ‘Xi’an Shi jiada lidu quanmian shishi zaijiuye gongcheng [Xi’an City strengthens its efforts to implement the re-employment project], Shaanxi Gongren Ribao, 21 June 1997.
Table 2  *Laid off Workers in Shaanxi Province 1996-97*

<table>
<thead>
<tr>
<th></th>
<th>1996</th>
<th>1997</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>a) Shaanxi Structural Reform Commission</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total unemployed</td>
<td>316,000</td>
<td>446,000*</td>
</tr>
<tr>
<td>Of which:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>unemployed</td>
<td>87,900</td>
<td>57,200</td>
</tr>
<tr>
<td>lay-offs</td>
<td>228,200</td>
<td>389,700</td>
</tr>
<tr>
<td><strong>b) Shaanxi General Trade Union</strong></td>
<td></td>
<td>ca 300,000</td>
</tr>
<tr>
<td>Laid-off workers</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>c) Xi’an City</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Laid-off workers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oct 96 to Aug 1997</td>
<td></td>
<td>&gt;300,000</td>
</tr>
<tr>
<td><strong>d) State and Collective Enterprises</strong></td>
<td></td>
<td>360,000</td>
</tr>
<tr>
<td>Provincial workers on no or reduced wages</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>e) Provincial total</strong></td>
<td></td>
<td>ca 180,000</td>
</tr>
<tr>
<td>Year-end lay-offs</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>f) Provincial total</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Year-end lay-offs and unemployed</td>
<td>316,200</td>
<td>346,600**</td>
</tr>
</tbody>
</table>

* reported to be 13.6 percent of total SOE and collective enterprise labour
** first half only

Sources:
- a) Interview, 25 February 1998
- b) Interview, 26 February 1998

While figures of this kind suggest a dramatic employment crisis, they first need to be balanced against the numbers for those that are laid off and find subsequent re-employment. According to the Structural Reform Commission, of the 389,000 laid off in 1997, 132,500 got
new jobs. Of the 316,000 lay-offs for 1996 reported above, some 101,800 were said to have been re-employed.\textsuperscript{57} The Xi’an source quoted above also said that in 1996 about one third of the 188,000 laid off had found new jobs. The target for 1998 is to achieve a re-employment rate of around 50 percent and to try to restrict the official unemployment figure to around 3.5 percent.\textsuperscript{58} Given that the latter only covers new labour coming onto the market which is handled through the Labour Service system, this still leaves as many as 200,000 laid-off workers without proper employment and subject to low and uncertain incomes. While it is widely reported that a significant number of those remaining unemployed are holding out in order to get a ‘proper’ job in a state enterprise with full benefits and are unwilling to accept lesser conditions,\textsuperscript{59} there are clearly limits to the capacity to generate new employment in the labour intensive and service sectors to absorb such large numbers. With the prospect for several more years of lay-offs to occur as the SOE system reforms, the potential for a large number of these to end up as fully unemployed or in need of social support is very large.

In the view of the Shaanxi General Trade Union, the problem is a transitional one which is the inevitable result of the SOE reforms.\textsuperscript{60} It was anticipated that over the next few years, the pressures would be intense but that as economic growth continued and the structure of the economy diversified, alternative employment opportunities would arise which would help to ease the crisis. In many ways, this would appear to be a logical position. The experience of the past 20 years has demonstrated how reform has expanded the range of jobs available and generated many new employment areas. Similar changes in employment structure have occurred in other parts of Asia as growth has taken place. Nevertheless, in the case of the Xi’an work force, this does mean accepting greater flexibility in the market and greater employment risks. The pressures from rural labour and from new job-seekers also mean that growth at levels below the national average is unlikely to generate sufficient opportunities to meet demand.

According to the provincial Structural Reform Commission, laid-off workers can expect to get some income from their former unit. The official expectation is that they should receive

\textsuperscript{57} Gao Yingmin, ‘Renzhen xuexi guanche luoshi shiwu da jingshen, qieshi tuixing xia gang zai gong zaijiuye [Conscientiously study and implement to spirit of the 15th Congress, firmly promote the re-employment of laid-off workers]’, in Shaanxi Gongyun [Shaanxi Workers’ Movement], No. 12, 1997, pp. 9-10.
\textsuperscript{58} Interview, Structural Reform Commission, 25 February 1998
\textsuperscript{59} Sources
\textsuperscript{60} Interview 26 February 1998.
60 percent of the provincial minimum wage of 230 yuan per month.\textsuperscript{61} About 70 percent of lay-offs are said to have some form of income, but in practice payments may range from nothing to somewhere in the region of 70-100 yuan and very few get anywhere near the implied level of 130-140 yuan. In addition, they may be able to continue living in enterprise housing and retain some residual claims for medical and pension insurance, depending on the provisions that exist in their enterprise. These payments may be paid for several months, for a year or for several years (the oldest cases of laid off workers in Shaanxi go back three years or more) depending on the resources available to the original unit and the extent to which the administrative system to which it belonged can continue to provide some support. There is no standard expectation for the length of time a worker can be laid off. If a laid off worker gets a ‘proper’ job the lay-off payments are expected to cease. If they get an insecure or temporary job, they are often maintained. For some workers the net effect might be an increase in total income but a loss of job security. Nevertheless, it is also clear that the sheer volume of laid-off workers and the unlikelihood that the most bankrupt of SOEs can sustain any payments for long mean that other forms of support have had to be developed for the laid off. Local governments in China are thus the facing the need to develop effective welfare services for the quasi-unemployed.

After 1995, therefore, a number of policies have been developed in Shaanxi to attempt to develop social back-up support for these workers.\textsuperscript{62} The first is a form of poverty support provided through the issue of ‘Poverty Cards’ (\textit{kunnan zhigong ka}). These are issued by the Trade Union system after investigation of the particular household. Priority is given to households where all members have worked for the same unit and are simultaneously thrown out of work or where illness and other factors have prevented the family from developing any other form of income. This card is meant to provide for a payment of 50 percent of the minimum wage from the Labour Bureau, though there is variation from city to city, depending on the level of local finances. In 1997 some 700,000 yuan were reported to have been issued by the Labour Bureau for this purpose. The funds are only available for the very poor.

For older workers who are made redundant, early retirement is also a way of transferring them to a different source of income. This makes use of the retirement funds that have been

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\textsuperscript{61} Interview Shaanxi General Trade Union, 26 February 1998.
developed in many cities. Most enterprises in Shaanxi are now part of the Old-Age Pension Insurance Fund (*Yanglao Baoxian Jin*). But the system is still not fully comprehensive and failing enterprises have not been able to meet their contributions. The large number of existing retirees within SOEs are also not fully covered by the new scheme and have long been dependent on their original work unit. For those enterprises with no fund and which haven’t paid employees for three months, the payments to retirees are supposed to be taken over by the Labour Bureau. In addition the provincial government has established a policy for guaranteeing the basic living expenses of retired personnel.63

Yet another approach is the ‘three supports policy’ (*san jia tai zhengce*). This is a fund made up of bank loans which are provided at subsidised rates through the Finance Departments, of funds from the administrative department in charge of the failed enterprise, and of contributions from the Trade Union system. It makes payments to households in difficulty at the New Year period in order to enable them to get through the holiday period. The target for this fund was 80 million yuan in 1997. It was, however, reported that not all the funds were made available as planned.

Additional sources of help also come from other types of policies and institutions. The Province has established an administrative responsibility system for dealing with poverty (*jie kun gongzuo zerenzhi*) which involves joint liaison across the labour, economic, trade union, finance, tax, banking and industrial and commercial systems to take responsibility for poverty policies and projects.64 It has instituted a special levy of 10 percent on luxury consumption such as quality hotels, restaurants, discos and theatres and also raised contributions from a number of other local charges and levies. This is intended to go towards a ‘Poverty Fund’ (*bang kun jijin*). In 1996, this fund made contributions totalling over 39 million yuan to some 50,000 households, said to be one third of those in difficulty.65 The Trade Union system has also established a ‘Warmth Project’ (*song wennuan gongcheng*). This has been run for the past five years. Since the Union has some of the best information on who are the poorest and also does research into their conditions, it aims to provide funds to those in

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62 Ibid
63 Kang Shibing and Jing Kuanyou, ‘Jiada jie kun he zaizhuiye gongzuo lidu [Increase the work efforts to ease poverty and provide re-employment]. in *Shaanxi Gongren Bao* [Shaanxi Worker’s Daily], 26 July 1997.
64 Ibid
65 Ibid.
desperate need. The provincial level of the Union has 13 million in this fund at present, and lower levels also have their own.

Despite these efforts it is likely that the bulk of the laid-off have to survive on their savings, by selling off their assets and through community support. One national survey in 1997 found that most (59 percent) of the laid-off relied on income from other family members still in work. Other sources were subsidies from their original unit (30 percent), odd jobs (16 percent), help from friends (12 percent) and dependence on social welfare (1.8 percent).^66

For those workers who end up fully unemployed, the main source of support is the Unemployment Insurance Fund (*shiye baoxian jin*). All enterprises are expected to pay 3 percent of their monthly wage bill to the government. This goes to the Unemployed Fund Administration Department (*Shiye Jijin Guanli Chu*) and forms the basis of the fund. Payments to the unemployed are supposed to be at the level of 50 percent of the minimum wage. Some of these funds are used to pay the unemployment benefit and some are used for job creation projects.

There were also expectations in Xi’an City that the Finance and Labour Departments and the Economic Commission would each put around 20 million yuan into the funds for unemployment support. In 1997, however, only the Labour Department met its commitment.^67 These problems reflect not only the difficulties of building up the welfare system but also the particular difficulties of Shaanxi in finding the resources to match the needs. The example contrasts strongly with the capacity of cities like Shanghai as noted above.

Apart from developing support for laid-off workers and the unemployed, one of the key approaches to the problem is that of providing re-employment. In this respect, the policies for levying funds, providing training and job introductions, and helping the unemployed which have been developed in Shanghai have been adopted as a model, though Shaanxi clearly lacks the financial resources and alternative employment opportunities available in

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^67 Interview, 27 February 1998.
Shanghai to solve the problems. The provincial re-employment project was, like the national program, launched in 1995 when it became clear that the avalanche of laid-off workers was on the way. It addresses solely those workers from SOEs and urban collectives who are laid off and does not include temporary or migrant labour with rural household registrations. It is managed through the administrative responsibility system described above and contains a number of elements.

1. Introduction to new jobs through re-employment service centres (zaijiuye fuwu zhongxin) with a register of workers and of employers seeking labour. There have also been 5 major re-employment conferences in the province attended by enterprises and the laid-off at which some 10,000 new job contracts were said to have been established.

2. New projects and developments in established enterprises are promoted to take on a proportion of workers from among the laid off.

3. Set-up funds consisting loans of 2,000 yuan per person have been provided to enable the laid off to develop their own small private businesses. A total of 2 million yuan was used for this purpose in 1997, with the money coming from the Re-employment Fund (zaijiuye jijin).

4. Industrial system support is provided by job centres and retraining services provided by major industrial systems for the workers laid-off within it.

5. Labour export service centres in places like Weinan have organised workers to go to other provinces for work, especially along the coast. Skilled workers have also gone to Sudan, South Korea and elsewhere.

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69 For a clear national statement see Renmin Ribao report on ‘Surplus labour in state enterprises’ 23 March 1995 in SWB FE/2309/G/4-6, 22 May 1995.
6. **Retraining** is an important element of the services provided in re-employment centres. It is also provided through other social organisations such as the Trade Unions and the Women’s Associations. The aim is to re-equip workers with the skills needed to compete for the new types of jobs that are available.

7. **Counselling** is seen as a way of helping workers change their concepts of employment and job security, which can no longer be shaped by the planned economy ‘iron rice bowl’ model. There are jobs available but many feel that the type of work is beneath them. They only want to work in state enterprises. All the media are mobilised to promote this change, and the laid-off are encouraged to accept NSS jobs rather than wait for an SOE (even though for many the risk of the wait is seen as worth it). 71

8. ** Preferential policies** are used to help the workers develop their own business including easier access to licences, the provision of market sites and reduced taxes. Similar policies are used to encourage businesses to take on laid-off workers, and those employing a large percentage might also be granted tax incentives.

Many local examples can be cited of aspects of these policies at work:

- By 1997, Xi’an City had established a Re-employment Fund (zaijiuye jijin) with a total of 40 million yuan made up of 10 million each from the Finance Department and the Unemployment Insurance Fund and 40 million in loans from the banks. 72

71 Some examples of the attitudes encountered are listed in ‘Zouchu zaijiuye wuqu [Leave behind mistaken ideas about re-employment]’, *Shaanxi Ribao* [Shaanxi Daily], 14 May 1997.

72 ‘Wei guo ji minsheng - Xi’an Shi zai fa tongzhi: Cu xia gang fenliu - zai jiuye chuanmian tuijin [Help the people for the country - Xi’an issues a further circular: Encourage the laid-off and re-deployed - make a comprehensive attack on re-employment], *Shaanxi Ribao* [Shaanxi Daily], 14 May 1997.
targets for training classes and getting people back into work. In addition it was also proposed that there might be transitional arrangements for laid-off workers moving into new units with fewer benefits. For example, housing, medical and schooling support might come from the old unit for periods of up to two years in cases where the new unit cannot provide. Retirement funds might also be transferred from the old unit and managed through the unified system.

- Across the province as a whole in 1996 some 16.36 million yuan were used from the Unemployment Insurance Fund to help enterprises in difficulty to develop production and provide jobs and a further 14.21 million were used for re-training projects.\(^\text{73}\)

- During 1996 and 1997, Xi’an Industrial and Commercial Bureau made special arrangements to provide sites and support for laid-off workers to set up stalls and become traders. This included reductions of licence charges and fast-tracking applications.\(^\text{74}\)

- The provision of hourly-paid work for such things as child-minding, shopping and house-cleaning was encouraged, especially for laid-off women workers who were seen to be much better quality than rural labour.\(^\text{75}\)

- In Tongchuan, laid-off mine workers were retrained as rail workers and helped re-invigorate the local rail network.\(^\text{76}\)

- In May 1997, Baoji City instituted an employment registration system which integrated registration for unemployment, job-seeking and employer registration.\(^\text{77}\)

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\(^{73}\) Kang Shibing and Jing Kuanyou, ‘Jiada jie kun he zaijiuye gongzuodui lidu [Increase the work efforts to ease poverty and provide re-employment], in Shaanxi Gongren Bao [Shaanxi Worker’s Daily], 26 July 1997.

\(^{74}\) ‘Erwan duo xia gang ren xi de xin ye [More than 20,000 laid-off people find new jobs], Shaanxi Ribao [Shaanxi Daily], 30 April 1997.

\(^{75}\) ‘Xia gang ren zoujin zhongdian gong [Laid-off workers take on hourly paid work]’, Shaanxi Ribao [Shaanxi Daily], 27 August 1997.

\(^{76}\) Tongchuan ba bai kuang gong “zhuanye” wei tielu gong [800 workers in Tongchuan were re-employed as railway workers], Shaanxi Ribao [Shaanxi Daily], 30 April 1997.

One of the most sensitive issues in this process is the way in which those to be laid-off are selected. When an entire enterprise collapses, the issue does not arise but when some workers are laid off to enable parts of the enterprise to survive, there are particular problems to be faced. According to the Trade Union, the choice of whom to lay off depends on the changes made in production which may lead to particular workshops being closed down and on the skills and attitude of the individual workers. The implication of that, however, is that the ranks of the laid-off are likely to be dominated by those with lower skills or low likelihood of being competitive for alternative jobs. In this context, the groups which are facing the biggest challenge are the older workers and females.

According to the various officials interviewed in Shaanxi, while the ratio of females among the laid off is much the same as their ratio in the labour force as a whole, they are particularly concentrated in the older age groups. What is more, it is more difficult for females to become re-employed. Employers don’t want them because of perceptions of the costs to an enterprise of marriage, child-bearing, and other special requirements. Females thus not only form a higher ratio of the young unemployed but also face the prospect of becoming a higher proportion of the long-term laid-off. For many women, therefore, re-employment tends to lead to forms of service work associated with women (shop assistants, fashion and beauty industries and so forth) and casual employment (typing, house-cleaning, and child-minding). According to some reports and to discussion on the local talk-back radio, the situation is also putting pressures on marriages and social networks with a higher level of divorce among unemployed women. While further analysis of this issue is outside the scope of this study, the social consequences of the differential impact of unemployment by gender, age and educational level is also very significant.

Prospects

As the above discussion has shown, a broad effort is being made in Shaanxi to develop new jobs for the laid-off. Nevertheless, although the target is 50 percent re-employment, the figures cited above suggest that the actual achievement is only around one third. Given that the system also has to accommodate the annual intake of new labour and the surplus labour available in the countryside, the demand might well exceed the potential to generate enough

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78 Interview, 26 February 1998.
new jobs for all job seekers in the labour-intensive and service sectors. This problem is intensified in Shaanxi where financial resources do not enable the province to provide sufficient support and where the growth of the economy and the diversification of the NSS lags behind other areas. In the short to medium term, therefore, the impact of SOE reform will be much more intense in this province.

Conclusion

This paper has described the process of enterprise reform and employment change in Shaanxi in a context where both the low rate of economic growth and diversification and the large legacy of the planned economic system place severe constraints on the potential for solving the challenges involved. The basic problems of the SOE sector in Shaanxi are intense, and the resources available to the province to ease the process are much less than what is needed.

The economic rationale behind the reform focuses in three main areas, enterprise ownership, welfare reform and the growth of the labour market. This analysis has shown that in terms of the nature of the underlying issues, Shaanxi’s problems are no different from the rest of the country. It has been argued, however, that in general two key issues are combining to transform the relationship between the employer and the employee.

One is the restructuring of ownership and assets. This has the potential to redistribute control and ownership of assets to different groups in society and to led on to forms of privatisation. At the same time, it provides a mechanism for SOEs to concentrate their best assets and workers in a productive enterprise and to enable the old assets, excess workers and debts to be consolidated into a unit which can in future be discarded. At the very least, the emphasis on the efficiency of asset use is providing the rationale for changes in the management of labour and for greater flexibility in the labour market.

The second key issue is the gradual emergence of a more integrated labour market in which the urban work force is loosing some of its benefits and protections as a result of competition from the rural sector. Some urban workers retain considerable advantages and even those that are laid off can expect some support from their original units or from the urban

79 Interview Xi’an Labour Bureau, 27 February 1998.
authorities. Since the latter are not available to temporary and migrant labour, they can still be seen to be advantaged. But the hierarchy of urban employment which embraces various forms of secure contract work grading down to temporary and occasional work, the reductions in benefits for urban workers, and the need for employees to accept greater market risks are all pointing towards a sharper competition between rural and urban labour, especially in low-pay, low-skill jobs. From the point of view of the urban workers, these changes mark a significant change of status. To the extent that the flexibility in the flow of assets and labour created by the reforms stimulate new growth, the changes may be temporary and may be balanced by higher incomes in future. On the other hand, the pressures from rural labour and from the new labour coming onto the market mean that the transition may be slower to be realised.

The case study of changes in Shaanxi province has highlighted the way in which these two aspects are being addressed in the context of strong economic constraints. The evidence indicates a sharp awareness by the local leaders of the special difficulties faced. It also shows how a wide range of tactics are being adopted to try to ease the problems of those displaced. Nevertheless, the lack of a clear definition of the various categories of unemployment involved or of clear statistics on numbers of people affected and on their levels of income also hinders the development of an integrated program of relief. Much of the work is carried out at local urban and institutional levels and is subject to the unevenness of local budgets and resources. There is, however, a clear awareness across the province as a whole of the potential for social unrest if the issues are not handled effectively.

In terms of the social and political implications of these developments, it has been argued above that Chan’s definition of a technocratic - managerial corporatist state provides a useful model for typifying the process that is taking place. The constellation of party, state, enterprise management and social institutions such as the trade unions are combining to implement the property rights and employment changes. Nevertheless, it is also argued that the combination of a segmented labour force, with many different categories of workers, and of regional variations such as those experienced in Shaanxi is likely to modify the outcomes of the process. Some workers will gain from their access to ownership rights and from the freedoms to compete in markets according to skills and performance. These are likely to support the social outcomes of the transition. The rural labourers also will welcome the opportunity to compete against urban labour on a more even footing. Others who have to
bear the brunt of the transition and the risks of the market will be much more alienated by the changes and, if given the chance, are likely to try to find ways of expressing their objections.

The regional variations, such as those experienced in Shaanxi, are also likely to result in a slower pace of change and the adoption of more mechanisms to enable laid-off workers to retain some claims on their former unit. The greater potential for social unrest in less developed areas is also likely to result in greater sensitivity to the problems of the unemployed. In particular the need to develop various forms of unemployment and social welfare benefits will be much more important in areas where re-employment is harder to achieve.

Overall the cycle would appear to be one of asset restructuring accompanied by stricter demands on labour performance. This is then followed by mergers, closures, bankruptcy and the laying off of workers. Re-employment may be at higher or lower wages but, in general, is associated with lesser rights and conditions. Given the intense problems of the SOEs, however, there may be few viable economic alternatives. The key problem is that of building the institutions and raising the funds to ease the transition.
Figure 1  Economic Indicators: Shaanxi as a Ratio of the National Average

Sources: Shaanxi Statistical Yearbook, various years.
China Statistical Yearbook, various years.

Sources:
Figure 2: The Structure of GDP by Sector: Shaanxi and the National Average

Source: Shaanxi Statistical Yearbook, various years
China Statistical Yearbook, various years
Figure 3: The Structure of Urban Industry by Ownership: Shaanxi and the National Average

Structure of Urban Industry of Shaanxi Province (percent of GVO)

Structure of Urban Industry of China (percent of GVO)

Source: Shaanxi Statistical Yearbook, various years
        China Statistical Yearbook, various years
Figure 4: The Structure of Urban Employment by Ownership: Shaanxi and the National Average

Structure of Urban Employment of Shaanxi Province by Ownership

Structure of Urban Employment of China by Ownership

Source: Shaanxi Statistical Yearbook, various years
       China Statistical Yearbook, various years
Figure 5: The Urban Unemployment Rate: Shaanxi and the National Average

Source: Shaanxi Statistical Yearbook, various years
China Statistical Yearbook, various years
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