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State-sector shrinkage and workforce reduction in China

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Abstract

Restructuring of the state sector in China in the late 1990s reduced the workforce by an estimated 30 to 40 million. This paper uses firm-level data from a survey of 800 enterprises in China to test various explanations for job loss and firm exit among state-owned enterprises (SOEs). The results, based on OLS and binary logistic regression models, suggest that small firms (by output and tax remissions) in labor-intensive sectors, and those in coastal Jiangsu province, had greater likelihoods of firm exit and of workforce decline during the late 1990s. Surviving SOEs continued to report only small reductions in payroll size in comparison to firms under other forms of ownership.
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1. Introduction

In the late 1990s, the state sector in China underwent a massive labor force reduction. Official employment data show that state sector employment peaked at about 109.5 million employees in 1995 before falling to 69.2 million at the end of 2002. The number of workers employed by state industrial enterprises (denoting the manufacturing, mining, and utilities sectors) fell from 44.0 million in 1995 to 15.5 million in late 2002, a 65% decline (SSB and MOLSS, 2003: 23). Urban industrial collectives, firms that are often subsidiaries of state enterprises yet separated for administrative and statistical purposes, saw an equally severe decline in employment, from 14.9 million in 1995 to 3.8 million in 2002 (SSB and MOLSS, 2003: 25).

The fall in industrial jobs in the state and collective sectors was only partially offset by increases in the number of industrial workers employed in other ownership sectors. As Table 1

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Table 1
Employment changes in industrial enterprises, 1995–2002 (millions)

Ownership form	1995	2002	Net employment change	% Employment change, 1994–1999
State	44.0	15.5	−28.5	−64.8
Collective	14.9	3.8	−11.1	−74.5
"Other"	7.1	18.0	10.9	153.5
Private	3.5	6.4*	2.9	82.9

Sources: SSB and MOLSS 2000, 2003.
* 2000 data.

shows, industrial employment rose from 7.1 to 18.0 million between 1995 and 2002 in a category of ownership that includes state enterprises converted into shareholding and other corporate entities, as well as foreign-invested (including Hong Kong, Taiwan, and Macao) enterprises. In private-sector industry, the number of employees rose from 3.5 million in 1995 to 6.4 million in 2000 (SSB and MOLSS, 2001: 27). Thus, the 13.8 million workers added to payrolls of private and "other" (corporatized and foreign-invested) industrial firms did not compensate for the 39.6 million jobs lost in industrial firms of the state and collective sectors. Even if we include government and service sectors to these job figures, the net job loss is about 23.5 million.[1] State enterprises shed 40.3 million jobs between 1995 and 2002, while the firms in the "other" and private sector categories increased their payrolls by 16.8 million.

This politically sensitive policy of state sector job destruction took place as state-owned enterprises (SOEs) were privatized, sold off, shut down, and converted to shareholding entities (Cao, Qian, Weingast, 1999; Cai, 2002a). The number of industrial state enterprises fell from 110,000 in late 1997 to 53,489 by late 2000, a precipitous decline of 54.7% in just three years. Central government leaders endorsed in the late 1990s a policy to shed small firms from the state sector and to retain partial or full state ownership in the large-scale, heavily capitalized state firms. In 1997, this policy of transforming the state sector based on the scale of a firm was given voice in the slogan, "retain the large, release the small" (*zhuada fangxiao*) (McNally and Lee, 1998). Thus, the decline in state sector employment and the "release of the small" were major contributing factors to the decline in employment in the state sector. Local governments, having received tacit approval from the center, engaged in a wave of mass privatization in which they sold off or shut down small state firms (Cai, 2002a).

Given the disappearance of both state firms and the number of state employees in the late 1990s, it is likely that much of the job destruction in China's state sector was accomplished through either firm exit or conversion of state firms to new ownership forms. This observation raises several important questions related to the sources of job destruction and creation among Chinese firms. Do constraints still exist on the ability of state-owned firms to reduce excess labor, and if so, why? Do SOEs that underwent conversion to shareholding and other corporate forms enjoy more flexibility in making adjustments to the labor force? If state sector workforce reduction was achieved through a policy of firm exit, what were the traits of closed down SOEs versus those allowed to continue operations? More generally, what was the economic and political rationale behind the shrinking of the state sector?

[1] As a result, the number of jobless in China has soared since the mid-1990s. While it is very difficult to estimate the numbers of jobless, estimates cluster around 30 million, a figure that includes those classified as "unemployed," "laid off," and an even more difficult to measure category of jobless rural migrants in urban areas. (Solinger, 2001, 2003) The Chinese government estimated that state-owned enterprises had shed 11.7 million workers in 1999 alone (Xinhua, 2000), and that about half of these were successfully finding re-employment. (Xinhua, 1999).

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