Adecco Institute White Paper – December 2007

China's future labor market and the impact of new (globally inspired) labor laws

Adecco Institute

About the Adecco Institute

The Institute is committed to facilitating discussions among all stakeholders, from governments and academics to employers, unions and employees, on the broad topic of work and how work impacts our society.

Through primary and secondary research as well as thought pieces, conferences and events, the Institute provides a forward-looking and fact-based perspective on innovative approaches to help organizations and regions raise employability, productivity and employee satisfaction at work.

Adecco's worldwide reach enriches the Institute's views. With over 6,600 offices in more than 70 countries and territories, and managing a workforce of over four million individuals each year, Adecco employees every day face economic and demographic realities that both challenge and foster clients' business goals.

The Adecco Institute comprises a board of advisors and is managed and run out of London, UK. The institute is able to draw on the full resources of the Adecco Group.

About our work in China

The Adecco Institute has a strong interest in Chinese work-related developments and in the country's dynamic and fast-growing business links with the developed economies.

We actively facilitate research on the Chinese labor market, and disseminate the results. For the past three years, we have funded academic research at the *University of Warwick*[1] (United Kingdom) into labor law reforms in China, sponsored post-graduate scholars from China, and funded academic exchanges, high level discussions and labor-related publications in China. We have also commissioned research by the *Shanghai Academy of Social Sciences* (SASS[2]) to study local labor market trends and make projections on skills and talent availability.

The Institute has already shared some early findings at business events, such as addressing the HR working group of the European Chamber of Commerce in China during July 2007.

This White Paper aims to contribute further to international understanding and debate of labor market developments in China and their implications for business and society in Europe, North American and advanced Asian economies.

1 Warwick's China labor law research team is led by Professor Alan Neal and the Adecco Institute-sponsored doctoral student Yan Dong. The Adecco Institute is sponsoring additional post-graduate students from China in 2007/2008, focusing on labor market questions.

2 SASS research contributors are Hen Quan, Pingfang Zhu, Shejian Liu, Guanglin Xu, and Yihai Li, with substantial input by Shamus Mok, head of McKinsey & Company's *China Knowledge Center* (CKC) Shanghai, and Ellen Mo, a research analyst at the CKC.

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Executive Summary

Foreign observers watch China's economic growth with a (shifting) mix of fascination, awe and concern. China has averaged nearly ten per cent annual GDP expansion for the past decade, and yearly growth is nearly 12% for 2007. Beyond the macro economic picture, China's stunning rise is clear in so many ways, from massive infrastructure investments and foreign currency reserves, to hugely well choreographed preparations for the 2008 Olympics and 2010 World Expo, and fast-rising "soft power" through cultural, foreign aid, investment and political influence in Asia, Africa and elsewhere.

Few expect that Chinese economic growth will slow sufficiently to change these trends. Meanwhile, we increasingly hear about the loss of competitiveness and living standards in the advanced economies. Perhaps not surprisingly, "China" has become a fear in itself for many in the United States, Europe and elsewhere. Given such over-dramatic assessments, we want to share a more nuanced view of China's context and trajectory and – the purpose of our report – to facilitate understanding of the future impact of Chinese labor market reforms on the workforce and on foreign and Chinese businesses.

While China is indeed changing our world, we must be aware that it faces multiple big concerns of its own. Each of these factors – massive economic transition, increasingly unequal income distribution, high unemployment, economic imbalance such as rising inflation, and a fast ageing workforce – already undermine the national labor market and, in combination, can significantly limit Chinese economic growth over time.

Of all China's worries, there is little doubt that the growing shortage of skilled workers – leading to severe recruitment and retention problems – is one of the most pressing, and certainly is at the very top of foreign and local business concerns. Continued economic growth in China, and the success of foreign and national firms, will depend to a large extent on well functioning labor markets, as well as productivity improvements.

China faces a severe dearth of qualified personnel across a huge range of activities, from basic manufacturing to professional services and more basic tertiary activities. Skill shortages in middle and senior management and other key areas have become the true "pacing item" for business growth in China despite its huge workforce. Effectively, China is at full employment for skilled, technical and managerial talent – indeed latent demand would burst far beyond the current limits of supply. Meanwhile, the changing structure of the economy has big implications for China's future needs. Services now account for over 60% of all new jobs in China, with wholesale and retail trade plus hotels and catering now offering as many job opportunities to Chinese workers as all its manufacturing and construction activities put together.

Research conducted for the Adecco Institute by the Shanghai Academy of Social Science finds that the labor market faces 5-10 year supply constraints in five key areas of skilled labor: management talent, English language skills, R&D personnel, senior and secondary technically skilled workers, and holders of professional certificates. China lacks a pipeline of well-prepared young people and, increasingly, businesses in China face the same *Generation Y* attitude problems as in Europe and North America. Meanwhile, firms have to deal with very high staff attrition rates and significant wage inflation. The consequences of such trends are real enough for companies, with signs that China's cost basis is changing fast relative to other countries in Asia.

China is in the midst of its biggest ever modernization of labor laws and labor market regulations, some of which come into force on 1 January 2008. These new laws will move *China closer to globally inspired labor regulations which reflect global best practice,* emphasizing fixed and open-term employment contracts enforceable by law and with more developed dispute resolution mechanisms. These new laws are a priority at the highest political levels in China, and are reaching a key juncture, though of course there will not be a truly flexible and deregulated Chinese labor market in the short term.

China's labor reforms are mainly geared towards individual employment protection rights, with proposed laws in four areas, half of which have already been passed: labor contracts, employment promotion, labor dispute conciliation and arbitration, and social security. While many Chinese workers are unaware of the passage of new laws that aim to protect them by emphasizing written contracts, equal pay and long-term job security, international business has been keenly following the whole process – and some foreign business leaders and chambers of commerce in China were quick to express a range of concerns. However, many foreign companies are now much more positive about the changes – particularly if enforcement proves effective.

In our view, while the new laws may contribute to raising unit labor costs over time in China – partially through salary rises – and make it harder to lay off unneeded workers, there will be significant benefits to foreign firms from the new framework. The pattern of the new laws provides strategic roadmap for the next 10-15 years, giving corporate leaderships more clarity and certainty about the future direction of Chinese labor regulations. The reforms will help to slow the rapid rate of workforce turnover and bring more procedural transparency to labor dispute resolution. They provide better protection for trade secrets and confidential firm information, while at the same time offering incentives for employers to invest in vocational training for workers (a "no leave" clause). They expressly permit many forms of "flexible work" and third-party "labor placement", subject to reasonable safeguards. Perhaps most importantly, the Chinese government will enforce the new labor laws across all provinces in a more consistent way than hereto – and this would be one of the most spectacular, confidence-building, reforms in the new China.

Overall, therefore, we regard the new Chinese labor law framework as well balanced between protection and flexibility, as generally a good "outcome", and as an interesting example of China's increasing openness to "look and learn" from international best practices and then adapt these to China's circumstances. Thus, parts of the new labor laws – particularly in relation to provisions concerning Labor Contracts (as well as some of the proposals in relation to Dispute Resolution) – possess clear German and British flavors.

Of course there are legitimate worries about whether Chinese firms will comply with the new legislation. But our sense is that the laws are aimed at local firms more than at foreign firms, and that should fuel optimism on fair enforcement over time.

Having looked at the China's economic trajectory, skills shortages and the impact of major new labor laws, we explore how best to address China's personnel challenges. Some aspects are deep-rooted and require sustained government efforts and changes in public policies, others center on action by companies themselves.

At macro level, China lacks basic tools such as a proper measurement system for employment and unemployment, e.g. a detailed job vacancy survey, which weakens academic research outcomes and government economic decision-making, and fuels public and international misconceptions about the state of the Chinese labor market. China's national social insurance system serves to restrict the free movement of labor, and thus needs reform, as people are reluctant to shift from a high level of coverage in public sector enterprises to the private sector, complicating the recruiting problems of the private sector where less than 10% of workers have pensions, health, and work accident insurance provision.

Not least, China can take huge strides in raising labor force quality by improving education and technical training. As in Europe, university graduates' "employability" would rise faster if China focused on improving education quality rather than quantity.
In both Europe and China, governments, schools, universities and companies must start to build bridges from the school world into the world of employment. The hermetic seal between these two worlds is a big driver of skills shortages later on.

At company level, all firms need carefully to analyze how to get the right employees, and how to retain them. There is no one right answer, but certainly great value in a menu-approach: in China, good recruiting is half the battle for talent, using diverse sources such as referrals, a targeted campus presence, openness to state sector candidates, and to returnees to China who have studied or worked abroad.

Meanwhile, companies must look at retention. Why do employees leave? Many are motivated by higher salaries, and wages must be reviewed frequently in a talent market as hot as China's. Yet high attrition rates are closely correlated to employees having weak direct managers and perceptions that their career development opportunities are limited. Valuable incentive tools in China are things such as: on-the-job training programs, supplementary benefits, career development options, mentoring and a positive working environment. In-house leadership development will become increasingly vital. For the medium-term, the best leadership development strategy in China is to "build" instead of "buy" talent, and to localize talent. Our research identified excellent examples: Carrefour China, Volkswagen Shanghai, Microsoft, and McKinsey & Company.

Last but not least, there is a major role today in China for "capability-builders" to help train the workforce and raise skill levels. Staffing firms, for example, not only offer flexible solutions for firms and options for workers, they can also be suppliers of practical work-related training and certification, as in Europe and North America. In this regard, China is also paying increasing attention to lifelong learning as a key tool to help ensure better skills in the workforce.

China's economic context: superlatives and weaknesses

China needs little introduction, given its omnipresence in world media coverage. Almost everything we hear about China today is a superlative, and it is hardly possible to use words like "small" or "limited" in any sentence mentioning China. Let us not be in any doubt that China will play a big part in the largest process of peacetime economic and social change the world has seen since the Industrial Revolution. This is partly because China is compressing its own industrial and post-industrial revolutions into a few decades, a process that occurred over 200 years in Britain and a century in the U.S.

Foreign observers watch China's economic growth with a (shifting) mix of fascination, awe and concern. China has averaged nearly ten per cent annual GDP expansion for the past decade, and annualized growth is *increasing* to around 12% for 2007. Of course China is not the only incredible growth story: Dubai, for example, is on track to treble its economy by 2015, with a GDP growth rate of 11%[3]. Nor is China the only giant in the making. India is also growing fast, with massive growth in IT and other service related industries. Yet Dubai is still small, and China's GDP is rising annually between one and six percentage points faster than India on an already much higher base[4]. By 2020 China will overtake Japan and account for one tenth

[3] Financial Times, 24 July 2007. *Special Report on Dubai.* Based on 2005 as base year.

[4] China and India both have fast export growth, rising 25-30% annually in the past five years, yet India's total exports are under 15% of China's. Further, China runs a huge surplus on trade in goods of over $650 billion (past 5 years, on trends for 2007), while India has run an accumulated deficit of $150 billion. Data from "China-India Special Issue", *China Briefing* July / August 2007. *www.china-briefing.com.*

of world economic output, double its 2005 share, while India will produce just three percent of the global total[5].

Thousands of multinational companies of all sizes operate in China, including some 95% of US Fortune 500 firms (and similar rates for European, Japanese, Korean businesses)[6]. Over 100 million people work in China's factories, with the Pearl River delta near Hong Kong now truly the world's manufacturing center. This one region has 18 million people in manufacturing jobs, more than the total 14 million for the entire United States[7]. With fast expanding job and business opportunities, by 2015 China's middle classes will more than triple, rising to an incredible 200 million people and creating an enormous local consumer market with rapidly increasing spending power[8]. Not surprisingly, China is projected to have the world's largest luxury market by 2025.

Beyond the macro economic picture, China's stunning rise is clear in so many ways. Its local infrastructure continues to improve at a blistering pace, with new roads, airports, European-style fast rail links and ultra modern port facilities. Shanghai has added five new metro lines in as many years; Beijing's Olympic infrastructure is being completed ahead of schedule[9]; and in 2009 the unimaginably massive Three Gorges dam comes on stream, adding ten percent to China's electrical grid at a flick of the switch. By 2010, China will account for 12% of the global chemicals market, double its 1997 share[10]. The Shanghai and Hong Kong stock exchanges combined now trade over $1.5 trillion in equities annually, one quarter of Tokyo's volume but rising fast[11].

Indeed, of the 2,000 biggest quoted companies in the world today, 90 are already China / Hong Kong based, compared to 130 in the UK, 66 in France, 57 in Germany and 36 in Switzerland. Japan has 291 and the United States 659. China's share of global giants thus equals a third of the EU big five economies combined, or of Japan, and one seventh the US total. We all sense which direction and how fast this Chinese representation will rise. China already has five companies in the global top 100 (namely PetroChina, ICBC, CCB-China Construction Bank, Sinopec-China Petroleum, and Bank of China)[12].

China is also a fast-rising "soft power" through cultural, foreign aid, investment and political influence in Asia, Africa and elsewhere[13]. The 2008 summer Olympic games in Beijing and the 2010 World

5 International Labor Organization (ILO), *Visions for Asia's Decent Work Decade: Sustainable Growth and Jobs to 2015.* August 2007, page 5. We should note too that, at purchasing power parity (PPP), China's already has almost 20% of world GDP. Goldman Sachs predicts that on present trends China may in real terms be the world's largest economic power by 2035.

6 McKinsey Quarterly, 2007 number 4, *Bringing best practice to China*, Jimmy Hexter & Jonathan Woetzel

7 The Atlantic, July / August 2007, Special China Issue: *Why China's Rise is Good for the US.*

8 ILO, *op cit*, page 16

9 Comparison with the UK is stunning: London Heathrow's new terminal has taken 17 years from planning to (near) completion; the new Wembley stadium took 7 years to build and still had problems upon opening.

10 *Chemical Industry Special Report*, Financial Times, 18 September 2007. Global sales will be $2,400 million by 2010, and China's chemicals market alone could be worth around $280 billion.

11 The Economist, 15 September 2007: *A special report on financial centers.* The shareholder revolution is here too: around 50 million Chinese have share trading accounts, with 1.5 million new ones each week

12 Forbes, July 2007, Special issue on *Global Super Stars.*

13 The Economist, 31 March 2007, *Reaching for a renaissance, special report on China and its region.*

Expo in Shanghai will be two of the biggest fully state-funded events held anywhere in the post war era. China has the funds to do this – foreign reserves are now a staggering $1.4 trillion and rising by hundreds of billions per year – while the sheer size of China's "sovereign wealth funds" (government-owned investment vehicles) already causes concern in Europe and North America. *The China Investment Corporation* literally could buy any global company today if permitted, and may be driven to do so by a desire to invest excess foreign exchange reserves for higher returns than on US Treasuries. Partly therefore, Germany is looking a new legislation, modeled on the US procedures, for screening and approving incoming foreign direct investment[14].

Moreover, as China merges into the global economy, "best practice" in China will increasingly become best practice globally, and products developed in China will also be global products. China is becoming much more competitive and pressures are rising on companies operating there (on cost management, operations, technology, etc). Learning how to compete in China, the world's most competitive market, will teach firms how to compete more aggressively elsewhere or, put another way, companies will need to operate in China to learn the lessons needed to survive in many other markets[15].

What may not be obvious to the outside observer, moreover, is that China's export oriented companies today are typically small – much smaller than their equivalents in Korea or Japan – and are often much nimbler: "people think that China is cheap, but really it is fast", in terms of the speed with which local suppliers can respond to customer needs. For this reason, many foreign firms that export from China choose to buy mainly from local subcontractors to harness, rather than compete with, low-cost Chinese producers[16]. To sell more in China, the US, European and Japanese firms will have to compete directly and more broadly with these local firms across China's huge geography.

Most analysts see little likelihood that Chinese economic growth will slow sufficiently to change these trends. Even if China's economy were to decelerate rapidly, and grow at a "mere" five to six per cent, that is double or triple the growth of most large industrial nations and perhaps four times that of Japan. A faster slowdown would only happen with major events, e.g. a sudden halt in global trade, explosive currency appreciation (at least 50% to 100%, though the United States would still have a bilateral trade deficit with China even if the dollar depreciated by 45 percent against the Renminbi[17]), or if China's large unskilled labor pool runs out. None of these looks imminent in a 2-5 year horizon – nor is Chinese recession a pleasant scenario for the rest of the world.

[14] Financial Times, "*We need rules for sovereign funds*", 8 August 2007, op-ed by Jeffrey Garten

[15] McKinsey, *op cit.*

[16] The Atlantic, *op cit.*

[17] McKinsey Quarterly, 2007 number 3, by Diana Farrell and Susan Lund

Meanwhile, we increasingly hear about the loss of competitiveness and living standards in advanced economies. In the United States, for example, after adjusting for inflation, real wages for workers with at least a bachelor degree are basically the same today as in 2000 (though better than those without degrees), while the percentage of 25-29 year olds educated to this level has fallen since then. The current generation of young Americans may thus be less educated and remunerated than their parents[18]. Indeed, US workers earned a smaller average income in 2005 than in 2000, the fifth consecutive year of lower income – and that is before the 2007 downturn. This is American workers' first sustained experience of lower incomes since 1945, at the same time as they are paying more of their health care costs and have had retirement benefits reduced[19]. Europe and Japan are experiencing similar trends in many respects.

Perhaps not surprisingly, a survey of 2,000 US managers conducted in July 2007 found that their single biggest fear is simply "China"[20]. Given such over-dramatic assessments, we want to share a more nuanced view of China's context and trajectory and – the purpose of our report – to facilitate understanding of the future impact of Chinese labor market reforms on the workforce and on foreign and Chinese businesses.

China's economic growth: feet of terracotta?

While China is indeed changing our world, we must be aware that it faces multiple big concerns of its own. Each of these factors already undermines the national labor market and, in combination, can significantly limit Chinese economic growth over time. More than that, we must respect the old truism to "beware of all straight line predictions" over decades, as they rarely if ever prove true[21]. And so it will prove with China; it is vital to look beneath the superlatives and the largely irrational outside fears to gauge China's most likely labor market outcomes over the coming decade.

First, China still must navigate a **massive economic transition** from controlled and state dominated to more open, competitive and business-driven; from reliance on primary activities to a mixed industrial and (increasingly) services base – with the associated huge socio-economic change and geographic movement of labor. Few outsiders would know that services overtook industry a decade ago as the main source of employment in China, and by 2006

[18] Business Week, *The Future of Work*, special issue, 20-27 August 2007

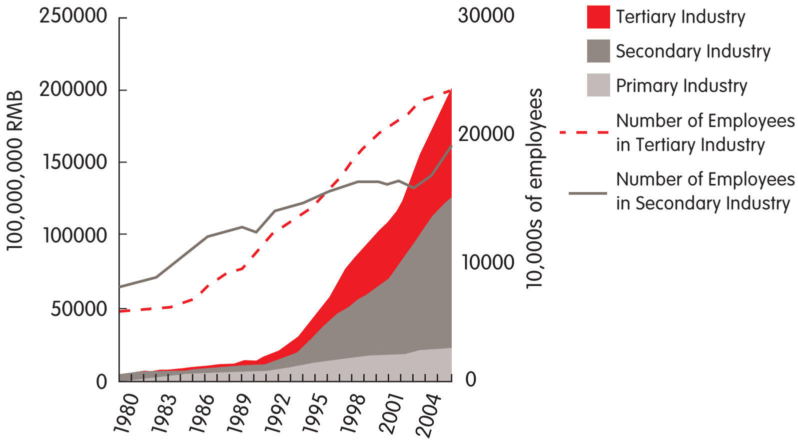
[19] Boston Globe, 21 August 2007, *More Americans making ends meet with less money*, quoting Internal Revenue Service (IRS) statistical tables.

[20] Business Week, *op cit.* Nearly half the managers rate "China" as their main worry; other factors are a mix of "Wall Street", bosses, spouses, and computers.

[21] E.g. widespread concern about world food supplies prior to the "green revolution" of the 1950s and 1960s, US fears that Japan would overtake the American economy by the late 1980s, and worries about the Soviet naval build-up in the 1970s leading to its dominance of global sea routes. None of this happened.

accounted for a third of all jobs versus a quarter for industry. Job creation remains fastest in services and in ten years services will employ over 40% of all Chinese workers[22], with more than commensurate growth in services' share of GDP "value added". The China Center for Economic Research at Tsinghua University[23] predicts that, when Chinese income standards reach those of moderately developed countries, the share of services in GDP will increase from 37% today to 55%. Industry's share will slip from half now to barely a third. (See figure below).

Added Value and Number of Employees



Source: SASS (2007)

Second, **there are "many Chinas"**: it is nearly impossible to understate the scale of the Chinese labor market challenges by reason of the geography, size and variety. Dramatic variations in development between provinces in the south-east and inland rural provinces (particularly in the far west and north of the country) mean we need to think in terms of multiple Chinas, rather than one coherent national labor market. The image of leading-edge technology and 21st century progress engendered by the skyline of Shanghai stands in sharp contrast to the traditional heavy industries of Heilongjiang province in the north-east, or the "Silk Road" provinces of the north-west.

[22] SASS estimate for the Adecco Institute

[23] China's equivalent to Massachusetts Institute of Technology (MIT), with major foreign academic links.

State-owned enterprises' position in relation to the growing private sector varies hugely by province. In China's south-east coastal provinces, from Shanghai to Shenzhen, economic growth has been phenomenal, encouraged by "special economic zone" status, and a flexible approach to regulation. But this magnet to inward investment has been absent in most provinces, so that heavy engineering regions in the north-east remain dominated by state-owned enterprises, while many inland provinces have seen much humbler economic growth. These differences are apparent from the extent of private sector employment in specific regions, and from tremendous differences in labor mobility across China. With the lure of new employment and higher levels of pay, and images of "modernity" and "progress", inland rural workers (notably from areas where agriculture predominates) seek the opportunity to move to cities in the south-east, or to Beijing. China's urban population 30 years ago was just 18% of the total, versus 45% today.

Third, **China now has the largest gap between rich and poor in Asia**, following a decade in which income distribution has become increasingly skewed. Here as elsewhere, the biggest winners from globalization are those with education and employable skills. Since 2000, per capita incomes for the top 10% of Chinese urban households have risen five times faster than those of the bottom 10% (with even less equal distribution of gains to rural areas) driven by faster growth in skilled versus unskilled wages. Moreover, most productivity gains are not accruing to workers. From 1998 to 2005, the wage share of GDP fell from 53% to 41%[24].

Most seriously for the future, in comparison to China's fast GDP growth rates, job growth has been relatively slow[25] and, partly therefore, unemployment remains very high. Joblessness is probably 10-15% among China's urban workforce and up to 30% in the rural areas where over 700 million people live (over half the population). China will need to create over 100 million new jobs by 2015 to absorb workers laid off through economic restructuring, migrants from rural areas and new labor force entrants. Social insurance offers low levels of protection and anyway still only covers a very narrow range of people and excludes much of the rural population, migrants to the cities, and many employed in private enterprise in urban areas (though numbers are increasing)[26]. Not surprisingly, the government's top priority is to encourage job creation.

[24] International Labor Organization (ILO), *Visions for Asia's Decent Work Decade: Sustainable Growth and Jobs to 2015.* (August 2007).

[25] The Asian Development Bank (2005) found that China's employment elasticity of growth dropped from 0.33 in the 1980s to 0.129 in the 1990s. Hilbert (2007) also notes that average GDP growth since 1978 has been 9.4%, but employment growth has averaged 2.5%, i.e. a decline in employment elasticity of growth

[26] Professor Lin Jai, Vice-dean, School of Law, Remnin University, Beijng. *Chinese social security legislation.* Papers from the Adecco-Warwick international colloquium on developing labor market regulation in China, 8-9 June 2006, University of Warwick.

We should note, however, that although China's income distribution is less equal than in India, its poorest citizens participate relatively more in the (even more exceptional) Chinese economic growth and now have much greater spending power than their Indian counterparts[27]. Chinese workplaces (factories, shops, hotels) tend to be more labor intensive than in rich countries and this has helped China produce one of the greatest absolute poverty reduction feats in history, pulling tens of millions of people out of privation. One big factor is that 40% of rural household income is transferred home by the 200 million internal migrants, whose numbers grow by some four million per year.

Fourth, China faces **short to medium term economic imbalances**, particularly inflation pressures. Inflation soared to a ten-year high of 6.5% in August 2007, driven by sharp rises in local food and imported raw material prices such as oil[28]. The domestic price of pork and other meats is 49% higher than a year ago, as disease has reduced the supplies reaching the market. China's high energy intensity coupled with rapid economic growth leads to structural fuel pricing pressures: already a big net importer of carbon fuels, China's energy use per unit of GDP is 3.5 times more than in the United States (India's is 2.7 times larger) and the gap is rising[29]. And with excessive liquidity, China is seeing tremendous asset price inflation (in housing, stocks, land). Whatever the source, inflation brings higher Chinese interest rates and compounds salary cost pressures. Local wages are already rising 2 to 3 times faster than in other low-wage Asian economies, and anecdotal evidence suggests that while part of the wage increases in major employment zones can be accounted for by higher productivity, much is just higher unit pay.

Last but not least, **China's workforce is ageing fast**, as is happening across Europe[30], North America and Japan, but is unusual among other big Asia countries (India, Pakistan, Vietnam and Indonesia). Demographics have become a major worry as the Chinese workforce will grow by less than 5% in the period to 2015 (see the chart below)[31], and by then one-third of China's population will be over 50 (while 60% of India's will be under 30)[32]. China's "dependency ratio" – of old and young people as a proportion of total population – will rise quickly after 2015 as a consequence of the one-child policy (see figures 1 and 2 in Appendix 2).

[27] Financial Times, *China's prosperity brings income gap*, 9 August 2007

[28] BBC website, Monday 13 August *http://news.bbc.co.uk/2/hi/business*

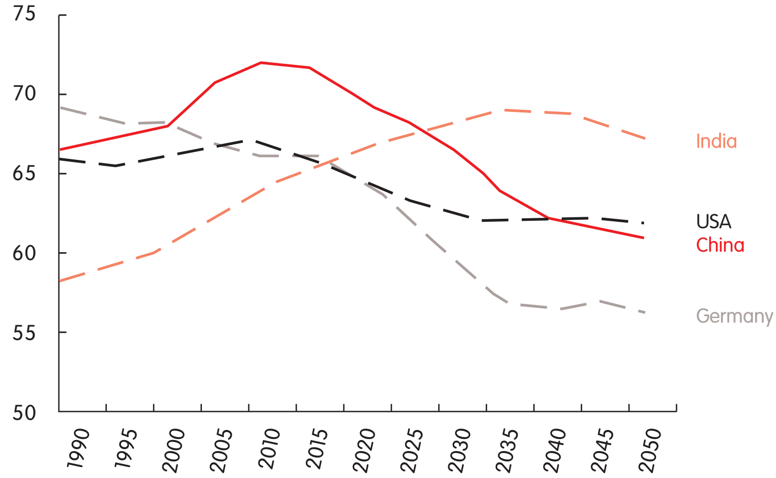
[29] UN Economic and Social Commission for Asia and the Pacific (UNESCAP): *Economic and Social Survey of Asia and the Pacific 2007*

[30] Europe is the world's fastest ageing region. Taking "big Europe" (EU 27, Russia, Ukraine, Norway, Iceland, Serbia, etc), there are already more workers aged over 40 than under 40. Big Europe's workforce of under-35s has been in decline since 1983, and soon every year there will be 2 million less young Europeans for firms to share. Europe's total workforce will stop growing in 2009 and decline thereafter unless there is massive and sustained immigration right across the region.

[31] ILO, *op cit.*

[32] Global Demographics Ltd, quoted in Financial Times, 19th September 2007, *'Chindia' not the unified powerhouse it appears to be*

Long-term population evolution: people aged 15-64 years as a % of the total working population, (1990-2050)[33]

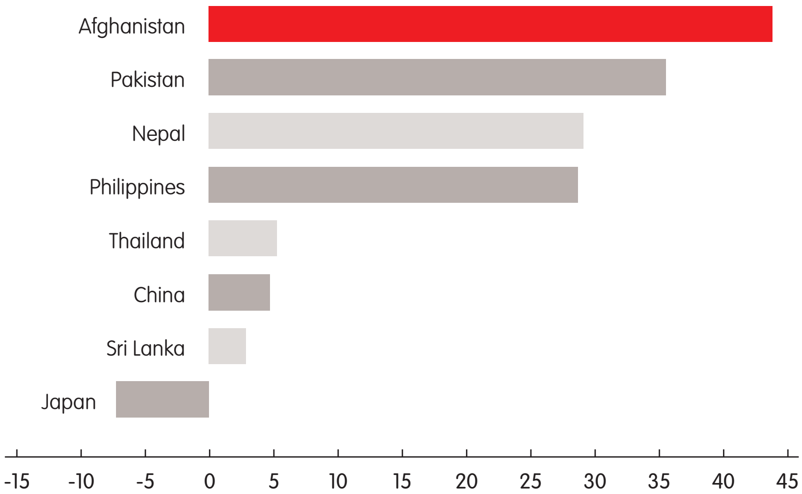


Source: Hilbert (2007)

China's labor pool aged 20-24 will fall after 2020 and the available numbers of young people are already shrinking as more go to universities. Just as in Europe, China will over the next 10 to 30 years face a large scale exit of experienced people from the labor force and extra fiscal burdens (commentators already talk about a pension deficit in China in a few decades), with ever fewer young people joining companies and continued huge numbers of unemployed low skilled people.

[33] This is illustrative only, as Chinese law (among others) prohibits child labor.

ILO projections for Asian labor force growth (%), 2006-2015,



Source: ILO: Economically Active Population Estimates and Projections Database, Version 5 (2006); United Nations Population Division: World Population Prospects: The 2006 Revision Population Database (2007).

China's Academy of Social Sciences forecasts a rural labor shortage as early as 2009, with many country areas already having few fit workers available. Employers are adjusting their expectations, taking on workers in their early 30s (previously often not considered for repetitive functions in factories, for example) though not yet 40-year olds. Demographic reality will force attitudes to change over time[34].

Of all China's worries, there is little doubt that the growing shortage of skilled workers – leading to severe recruitment and retention problems – is one of the most pressing, and certainly is at the very top of foreign and local business concerns. Continued economic growth in China, and the success of foreign and national firms, will depend to a large extent on well functioning labor markets, as well as productivity improvements[35].

[34] New York Times, 29 August 2007, *Wages are on the rise in China as young workers grow scarce.*

[35] Christoph Hilbert, *Chinese labor market – trends and consequences for investments.* AI thought paper, June 2007. Hilbert is an associate researcher at the Social Science Research Center (WZB), Berlin

China's labor market and skill shortages

From our Adecco Institute discussions with foreign firms in China during July 2007 we understand that skill shortages in middle and senior management and other key areas have become the true "pacing item" for business growth in China despite its huge workforce. Indeed, in a recent survey, 600 chief executives of multinational companies with businesses across Asia said a shortage of qualified staff ranked as their biggest concern in China: the top five on the business list of concerns in China include staff turnover and wage inflation, the other two are lack of legal certainty and bureaucracy. This is the case across almost every industry and sector[36].

Effectively, China is at full employment for skilled, technical and managerial talent – indeed latent demand would burst far beyond the current limits of supply. Private sector demand for managers is rising by at least 20% per year, with a powerful need for senior leadership talent in manufacturing, finance, trade, logistics, and in terms of managing research and development, projects, products, technical services, and human resources[37]. The McKinsey Global Institute predicts that 75,000 business leaders will be needed in China in the next ten years, yet there are currently just 3,000 to 5,000 at most.

China's manufacturing sector needs 12 million skilled employees today, according to the Chinese Academy of Personnel Science. Perhaps more surprisingly, professional services require 3.3 million staff, ranging from lawyers and finance specialists to interpreters[38]. The financial sector in China provides a good illustration. A severe dearth of suitable candidates in China impedes the expansion of retail and other banking operations. For example, China has only 100 trained actuaries while perhaps 5,000 will be needed over the next 5 years[39]. While foreign banks bring know-how and train local staff in financial services, while from the late 1990s Chinese universities have launched programs in finance-related subjects, while many of these graduates remain in Shanghai, and while there is now a steady flow of returnees to China, bringing with them both experience and skills, such is the need that China remains critically short of financial services personnel particularly, but not exclusively, at senior level.

[36] The Economist, 18 August 2007. *Capturing talent – Asia's skills shortage*
[37] SASS, *op cit*
[38] South China Morning Post, 16 June 2007
[39] Financial Times, 3 April 2007, quoting the HSBC chief executive in China, Richard Yorke

By 2010 there will be big shortages of new materials engineers, nurses, vehicle R&D specialists, pilots and airport maintenance staff– to mention just a few specialized areas. China's aviation regulator has stopped accepting applications to set up new airlines until 2010 partly to ease the manpower bottleneck resulting from the sector's rapid growth[40]. Overall supply and demand of labor will have different implications by industry: finance, manufacturing, IT and service sectors will see greater demand for high-quality labor, while lower-quality labor will still be in great demand in for many retailing, manufacturing and basic services activities.

Indeed, *services now account for over 60% of new jobs in China*, versus 37% in industry and less than 3% in the primary sector (i.e. farming, fishing and forestry)[41]. China's fastest growing sources of work are in tertiary areas like transportation, IT services and software, wholesale and retail trades, hotels and catering, education, media and entertainment, finance, real estate, business and technical services, R&D, security, and sanitation. Wholesale and retail trade plus hotels and catering now offer as many job opportunities to Chinese workers as manufacturing and construction combined[42].

China's HR paradox

China's skill shortages have five basic components[43], adding up to a "human resource paradox" of not having enough of the right talent in a country with 1.3 billion people.

First, there is **strong supply-demand gap for key skills**. On the one hand, there is growing competition among both foreign and Chinese companies. Since 2000, the number of employees hired by foreign companies alone has grown by up to 20% per year, and will keep rising. By employer type, foreign firms now account for an astounding 21% of all local job opportunities, with the remainder heavily weighted towards Chinese private firms[44]. Chinese firms that are eager to move up the value chain also want access to this talent pool, and can often offer a work environment that is culturally familiar to skilled Chinese workers, with opportunities for rapid career growth.

[40] Dow Jones, 1 August 2007. *China stops taking applications for new airlines until 2010.* Mainland Chinese airlines carried 46 million passengers in Q2 2007, up nearly 20% from the same period in 2006.

[41] Major Chinese primary sector activities are farming, forestry, animal husbandry, and fisheries; (secondary) industries are manufacturing, mining, power, gas and water supply, and construction.

[42] SASS calculates that in China today, 80% of employment opportunities are in: manufacturing (28%), wholesale and retail trade (19%), hotels and catering (12%), residential and other services (11%), construction (5%) and leasing and business services (4%).

[43] Beebe A, and Cheng L, *Winning in China's mass market - new business models, new operations for profitable growth*, IBM Institute for Business Value (2007), plus SASS and Adecco Institute analysis.

[44] Private firms account for 30.6%, "limited liability" corporations for 16.3%, and partnerships for 12.7%, respectively. State-owned companies and collectives only account for 7.5% (SASS).

On the other, many companies (foreign and local) are upgrading their activities in China to compete in the domestic market, to move into the production and export of higher technology products, and to conduct more R&D locally. More industrial-design centers are being built, where products are conceived and not just assembled. Intel will create high-end engineering and design jobs in a major chip-fabrication plant in the far north of China, Microsoft and Google have opened research centers in Beijing (not just offices to serve the local market), while British Telecom has just announced a €50 million R&D center in Shanghai, with plans for further rapid growth. All these trends exacerbate the already severe shortages of managerial and technical skills – and thus the cost pressures.

New research conducted in China for the Adecco Institute by the SASS finds that the labor market faces a 5-10 year supply constraint in five key areas of skilled labor. In particular, supply will fall far short of demand for management talent, with a huge supply-demand gap in English language skills, continued low quality plus inadequate supply of R&D personnel, and long-lasting shortages both of senior and secondary skilled workers and of professional certificate holders.

- Demand for **managerial skills and for management personnel** is consistently the most important talent requirement for companies operating in China. Firms need to gain a managerial edge in an ever more competitive local market. The biggest gap is in: specialized management roles in new industries, finance, trade, shipping and logistics; production managers on the shop floor; project managers and technical service managers (including production, quality inspection, human resources, business services e.g. purchasing) and administrative executives. SASS predicts that by 2010 companies will need 350,000 skilled senior managers (with over 10 years' managerial experience) and 500,000 by 2017, with supply nowhere near that level.

- There is a **massive lack of English Language abilities** i.e. those able to read, write and communicate in English, and to carry out daily duties in a foreign company. Taking all masters degree holders and the 10% of Chinese bachelor degree holders and junior college graduates who have obtained the CET6 language certificates, just 10% meet the requirements of foreign firms. From 1995 to 2005 there were just 236,000 new graduates with real English language abilities, though this will increase to 486,000 from 2006 to 2010. The SASS estimated that by 2010, given the inflows of overseas returnees, China will have around 700,000 university-educated personnel with English language skills. Unfortunately, only a small proportion of them will also have the managerial, technical or other skills required by foreign companies. This gap will not close in the short term, and severely accentuates China's skills shortages[45].

[45] Greater attention is given to English learning as China continues to open up, with a big trend for youngsters, financed by their families, to learn English at private academies.

- China faces big **shortages of R&D talent** (the so called "talent of talents"). More multinationals are setting up research facilities in China, driven by plans for domestic expansion in China and a desire for better global resource allocation. Beijing and Shanghai, as major university and research institution hubs, attract multinational R&D centers to take advantage of information and knowledge flows and high quality human resources. Most R&D staff in China are employed by private research centers or technical development departments. Today there are just 600,000 such personnel in large and medium industrial companies in China (~half a million work in Chinese firms, some 70,000 at foreign companies, and the remaining 40,000 with Hong Kong, Macao or Taiwan firms). SASS predicts that skilled R&D staff will grow 10% a year in China, to nearly a million by 2010 and 1.9 million by 2017 – again, not enough.

- There is a big need for **certified specialized technical skills**. China's vocational qualification certificate system is an important element of the work and employment system in China. Vocational certificates are available for roles such as realtors, psychological consultants, logistics managers, attorneys, tourist guides, accountants, and many others. From 2000 to 2005, some 14% to 19% of all registered job applicants in China held vocational certificates (with an annual average of around 16%). While the total number of certified specialized technical personnel is rising each year, their overall proportion in the labor pool remains disappointingly low.

- **Short-term shortages of intermediate and senior technicians** now exceed those for engineering personnel in China, and such shortages will continue in the short and even medium run.

Second, China **lacks well-prepared young people**. China's pool of university graduates grows by nearly 5 million yearly, versus just over one million in America. In engineering alone, China produces 600,000 graduates versus 70,000 in the United States. But despite this vast supply, foreign firms find few people of sufficient "employability". There is an oft quoted number that only 10% of graduates are suitable for employment with multinationals[46]. Added to a lack of soft skills and languages, the real available pool of graduates is far short of companies' needs in China. (Of course, this also represents a golden opportunity for private investment in education, including by foreign suppliers).

While everything is relative, the EU also has myriads of poorly trained and qualified young people, leading to high youth unemployment rates. In Europe this is about 17% (twice the overall jobless rate), and in China it is worse still with some 30% of young people unemployed. From a company perspective, university graduates lack both quality and experience. There are 5 times as many graduates in China today

[46] Farrell and Grant , *McKinsey Quarterly* (2005)

as in 2000 (and perhaps 25 times as many as in the late 1970s), a process that closely mirrors the "massification" of European higher education beginning in the 1990s, with a similar loss of individual quality and big problems of youth absorption into the labor market today.

Interestingly, a big part of the problem in China as in Europe, is the attitude of young people themselves. Students are pickier about jobs they will take and often insist on a "good" job not a "regular" job, with high pay, position and prospects all from day one. In Europe and the U.S. there is much talk about *Generation Y*, which has great qualities but lacks some basics of the workplace such as communications skills, teamwork, office manners, business acumen – they need supervision, and can have mismatched expectations. In China too there is a distinct gap between young people's employability skills (and their understanding of the workplace) and companies' real needs. Simply put, China's schools and universities – like those in Europe – turn out insufficient numbers of appropriately skilled youngsters with the right attitudes and inter-personal tools[47].

Third, companies face **high attrition rates**. The shortage of new talent inflows plus strong demand from firms drives attrition rates much higher than global average (at least 20% above). Although entry-level professionals are the most likely to leave, their turnover hurts firms less than the more damaging attrition at middle management levels. We see in China some classic symptoms of a labor market "gone wild": where many staff see a 12 to 18 month average job tenure as normal, where loyalty to firms is eroded, and where most employers have stories of poor performers who were fired or left, yet earn 2 or 3 times as much money in another firm. Given this situation, companies may find it particularly useful to gain access to more and better third party staffing services in China.

Fourth, and as a product of such pressures, China is seeing **significant wage inflation**: lower-level staff salaries are rising by 8% a year, well above the rate of inflation, with salaries for more skilled staff rising much faster. Moreover, firms operating in China are also resorting to "title inflation and responsibility inflation". Local managers without significant experience may be given senior titles and responsibilities, which would never be granted in the developed economies, as a useful tool to keep them longer in the firm[48]. By one estimate, a local general manager for a multinational can earn 20% more than a counterpart in the United States with only 75% of the skill set. There is thus a strong sense that executives in China are over-titled and overpaid. (Realists point out that this is the market price for their capabilities, two of which are Mandarin and local knowledge.)

Fifth, China's **labor force participation rate is declining continuously** – in particular because of the wealth effect and population ageing. Some groups are reducing their working time, and women members

[47] The Daily Telegraph, 13 September 2007. *Tesco boss says too many leave school without basic skills*. The CEO of Tesco, the UK's largest retailer, said low standards of literacy and numeracy among school-leavers leaves the economy badly exposed and his company scrambling to provide remedial training. 5% of UK school leavers have no qualifications whatsoever, and a quarter have very poor qualifications

[48] The Economist, *op cit*.

of households are leaving the labor market, so female participation is declining faster than male rates[49]. The overall level of employment has been consistently below 60%, and with significantly more people registered as rural workers, although the number of urban workers has risen dramatically over recent years.

The consequences of these trends are real enough for companies. For example, the owner of the Hoover and Vax brands (Techtronic Industries) believes that inflationary and wage cost pressures in southern China will force it to look elsewhere to expand manufacturing capacity in the future. This is one of the most explicit signals from a big export producer that China may be losing some of its cost advantages[50]. We can also see signs of China's changing cost basis in the growth of Vietnam as an outsourcing destination. Already Asia's fastest-growing market outside China, with a young and highly skilled workforce, it is the third largest offshore software services destination in Southeast Asia[51].

We see important similarities between the challenges that firms in China and those operating in Europe and North America face now, or will face in the future. At company level and at the macro level, some lessons and required responses might also be shareable. Indeed, in many cases the same companies operate in China and the OECD economies, and so are seeing skills shortages in many economic geographies.

Scope and impact of China's labor reforms

To some extent we are witnessing a powerful international trend: Europe, China and even the United States (in the run up to the 2008 presidential elections), are each discussing major labor market reforms. Over the past two years, for example, "flexicurity" has become a magic word in Europe, or rather has been rediscovered by Brussels. The EU aims to ensure high levels of labor market flexibility for companies, alongside significant employment security for workers. Europe is debating the best balance between these goals in a globally competitive environment, though with no consensus yet.

Meanwhile, China is in the midst of its biggest ever modernization of labor laws and labor market regulations, some of which come into force on 1 January 2008. These new laws will move *China closer to labor regulations which reflect international best practice, emphasizing* fixed and open-term employment contracts enforceable by law and with more developed dispute resolution mechanisms. These new laws are a priority at the highest political levels in China, and are reaching a key juncture with new laws coming through the legislative process (though of course there will *not* be a truly flexible and deregulated Chinese labor market in the short term).

[49] Zeng Xiangquan, dean of the School of Labor Relations and Human Resources, Renmin University, Beijing. *"Chinese employment strategy: research on the measurement of employment and unemployment"*.

[50] The Daily Telegraph, 23 August 2007, *Hoover owner looks at moving out of China.*

[51] People Management, 26 July 2007. The Chartered Institute of Personnel and Development (CIPD) estimates there are 80,000 IT graduates in the Vietnamese labor pool, a level that is rising by 9,000 per year

China's labor reforms are mainly geared towards individual employment protection rights[52]. The present framework for regulating these rights is based on the 1994 Labor Law, which came into force on 1 January 1995. That law reflected a truly 1980s frame of reference, with state-owned enterprises and classical socialist models for trade union activity within the enterprise. With (in particular) rapid privatization, this context is no longer adequate for China's circumstances, and so the national leadership launched proposed laws in four areas: (i) labor contracts; (ii) employment promotion; (iii) labor dispute conciliation and arbitration; and (iv) social security.

On 29 June 2007 the **new Labor Contracts Law** was enacted by the National People's Congress and will come into force on 1 January 2008. The law seeks balance between giving workers better employment protection while not unduly limiting firms' ability to compete in the market. It aims to encourage employers and workers to enter into formal labor contracts of a (broadly) permanent kind. While there were major tensions evident during the drafting process (the overriding protective instinct of the first draft was seen as in conflict with modern regulations to encourage "flexible" practices, such as fixed term contracts or the use of labor placement agencies), these have largely been resolved in favor of enterprise flexibility. China's leaders clearly want to spur continued rapid economic development and the modernization of its underlying labor market[53].

On 29 August 2007 the **Employment Promotion Law** was approved and will come into force on 1 January 2008. It is arguably the clearest statement of the future direction for Chinese labor market regulation and labor law, setting out a framework for labor market development and introducing (inter alia) measures to combat discrimination against internal migrants. Migration is arguably China's single biggest labor law challenge, particularly given the associated social and political problems.

The law promises to "promote employment, to develop harmonious labor relations, to improve the positive interaction between economic development and employment expansion, and to achieve social harmony and stability" (Article 1). This is a familiar modern employment promotion framework, setting out future promises by the Chinese authorities, plus authorization for budget provisions to deliver on these pledges. Responsibility for implementation will be delegated to provincial and lower levels of public authority. China's regulators clearly have sought inspiration, and drawn lessons from, experience elsewhere – especially EU social and employment policies.

[52] There is separate regulation for trade unions, and no "collective bargaining" in the sense commonly recognised by Western European commentators

[53] Indeed, the drafting process featured the balanced inclusion of different parties' views (almost 200,000 individuals submitted an when the first draft was opened for consultation in 2005). The first public draft was a quite radical proposal with tough rules which would have been costly to firms and hard to implement; over time the proposed legislation became more pragmatic, balancing the interests of employees and employers. The All-China Federation of Trade Unions (ACFTU) played an active role in the legislative process, and the new law reflects the significance of its influence.

The proposed measure sets out the context for vocational training and career guidance, enhanced labor mobility (which needs to be seen in conjunction with proposals for reforms to the "Hukou" household registration scheme), and incentives to encourage employers and enterprises to invest in workforce skills and retention. There are detailed provisions on anti-discrimination measures to improve the position of migrant workers, and the measure stresses that "the government shall adopt a strategy gradually to improve labor relations, wage payment mechanisms, and social insurance which are suitable for flexible employment" (Article 22), reinforcing the direction of the 2007 Labor Contracts Law.

A second draft for the proposed Labor Disputes (Conciliation and Arbitration) Law was approved by the National Peoples Congress this year, but is not expected to complete its legislative passage before the Spring of 2008[54]. The rapid increase in labor disputes in China has been a matter of growing concern since the turn of the century. The number of labor dispute cases accepted for individual dispute resolution through the system of "socialist labor arbitration" has risen from around 50,000 individual and collective disputes a decade ago to over 350,000 today (and now involving close to 1.3 million workers)[55]. So reform of the administrative procedures for mediating and operating "Socialist labor arbitration" has been a priority for the Ministry of Labor and Social Security.

The proposed new law will seek to emphasize dispute resolution at firm level rather than permitting such disputes to develop into formalised "litigation" matters. Where institutionalised dispute resolution is needed, stress will be on modernizing and improving the professionalism of the established Labor Arbitration Committees, which provide administrative adjudication of individual disputes over payment of wages or social benefit contributions, and termination of employment. One major development since 2003 is the special "Labor Arbitration Court" created in Shenzhen, with the same model now being piloted in 15 provinces (i.e. half of China's regions).

Work on a new **Social Security Law** to provide universal social security benefits to Chinese citizens has been proceeding over five years. China has paid close attention to various systems in Europe – notably in Germany and the United Kingdom – and substantial time and effort has been invested in acquiring expertise in, and high-level advice on, the operation of those systems in their particular national contexts. Significant progress was made from 2002-2006 on creating the basis for a modern social security framework, but recent problems have slowed the pace, so no draft proposals are expected to be put to the National Peoples Congress before the end of 2007.

[54] In particular, it seems clear that the measure will not be in force when the Labour Contracts Law and the Employment Promotion Law take effect on 1 January 2008.

[55] China Statistical Yearbook, 2006

Impact on the labor market

Many Chinese workers are not aware of the passage of new laws that aim to protect them by emphasizing written contracts, equal pay and long-term job security. International business has, however, been keenly aware of the whole process. Some foreign business leaders and chambers of commerce in China were initially quick to express concern that the new rules could restrict previously largely free administrative dealings with employees, and reduce the attractiveness of the Chinese labor market given its low costs. Foreign firms also aired their worries that Chinese competitors could more easily evade the new regulations and thus generate further cost advantages.

However, many foreign companies are now much more positive about the changes. They are more confident that if enforcement is strong, this is not a negative especially for good companies, since they endeavour to observe laws well. They can be on a more level playing field with state-owned companies and private businesses. In law-abiding businesses, the costs under the new law can be managed, controlled and even avoided. The labor contracts law is anyway particularly directed towards the working conditions of lower-level, unskilled workers, though these same workers are the least aware of it (restaurant waiters, shop assistants, salon workers, hotel staff etc). Over time, as more workers become legally cognizant – it is already happening in the South-East of the country, from Shanghai to Shenzhen – they can push for better enforcement[56].

We believe that the new laws will probably contribute to raising unit labor costs over time in China – partially through salary rises – plus will make it harder to lay off undesired employees, yet it is vital not to lose sight of the significant benefits to foreign firms from the new framework.

First, the new laws signal a **strategic roadmap for the next 10-15 years** and thus give company leaderships more clarity and certainty about the future direction and nature of Chinese labor regulations. The key Labor Law dates back to 1994 and it has been evident new Chinese economy clearly needs a fresh set of rules and guidelines.

Second, the labor reforms may help to **slow the rapid rate of workforce turnover**. Staff churn in China can easily be 20% to 30% depending on the sector, and overall is twice the world average. In some manufacturing areas it was non-existent at shop floor level three years ago, but now is 20%. For companies, a law that promotes longer-term relationships – albeit through restrictions on certain types of labor movement – may cut staff turnover and make it less costly.

[56] Knowledge@Wharton, 15 August 2007. *Despite Good Intentions, China's New Labor Law Leaves as Many Issues Unresolved as it Addresses.*

Third, the new laws will **bring more procedural clarity**. The Chinese authorities have looked to international experience for possible dispute resolution models, including, in particular, the "dual model" operating in the United Kingdom with conciliation conducted alongside, and complementary to, judicial processes within the system of employment tribunals. This has given rise to a pilot scheme for dispute resolution through a so-called Labor Arbitration Court, first launched in Shenzhen and subsequently adopted by around half of the PRC's provinces. The experiment has shown clearly that, by committing an appropriate level of resource to the process of dispute resolution, it is possible to professionalise and to render highly efficient the existing administrative institutions for dispute resolution in China.

Fourth, the laws contain provisions on **anti-competition restrictions** in labor contracts, arrangements designed to enable enterprises to protect trade secrets, detailed rules on the content and termination of labor contracts, and incentives to employers to invest in vocational training for workers during the period of their employment within the enterprise. The laws appear, in limited circumstances, to permit agreements that would oblige individual employees to repay advanced training costs if they leave the company too early, and will also oblige senior employees to respect the confidentiality of company knowledge.

Fifth, the Labor Contracts Law **expressly provides for many forms of "flexible work"** which have been developing in modern labor markets around the world. Thus, fixed-term contracts, "task contracts", and third-party "labor placement" arrangements are all permitted, subject to safeguards in the form of transparency in the written labor contract. (See Appendix 4 for the text of the Labor Contracts Law on labor placement / staffing). Equally significantly, most of the unduly restrictive provisions on using flexible forms of work were removed from earlier drafts of the new Law, while sanctions on contravention of the new legislative provisions would appear to be proportionate to their purpose.

As the law contains detailed provisions on "third-party employment placement activity", i.e. the staffing industry, it will encourage the growth in China of this increasingly vital HR tool. Temporary staffing helps companies to be flexible and adapt to changing skill needs. We should understand just how fast this industry is growing in Europe (with 40% more placements in Germany in 2007 compared to last year) and in the United States where nearly 3 million temps are now placed daily versus just 1 million in 1990.

Sixth, the **potential costs to employers are relatively low**. The labor contracts law is particularly directed towards lower-level, unskilled workers and thus it caps the compensation that an employee might receive upon termination of a contract. Costs will not spiral out of control for firms, even if the dispute resolution mechanism rules against them.

Overall, therefore, the new Chinese labor law framework can be regarded as well balanced between protection and flexibility. It is a generally good ”outcome”, and an interesting example of China’s increasing openness to ”look and learn” from foreign best practices and then adapt these to China’s circumstances. The new labor laws – particularly in relation to Labor Contracts (as well as some of the proposals on Dispute Resolution) – possess clear German and British flavors. Meanwhile, the Employment Promotion Law, with an accompanying provision against employment discrimination on gender, disability or disease-based grounds, would appear to draw upon some US inspiration. Indeed, European and North American trade unions and pressure groups might want to update their views on China given all of these developments.

Importantly too, all such changes fit into a broader pattern of Chinese international agreements, notably the ratification of certain ILO treaties and joining the World Trade Organization (WTO) in December 2001. China’s government has sought to play a bigger role in ILO activities and has been willing to ratify a number of key Conventions and Recommendations. While this does not extend to the ”core” Conventions No. 87 and No. 98, dealing with freedom of association and collective bargaining, there has been tangible progress on other "core" instruments – notably on equal treatment at work.

Ratification of Core ILO Conventions by China

Year	Convention	Subject	PRC ratification
1930	No. 29	Forced Labor	Not ratified
1948	No. 87	Freedom of Association and Protection of the Right to Organise	Not ratified
1949	No. 98	Right to Organise and Collective Bargaining	Not ratified
1951	No. 100	Equal Remuneration	2 November 1990
1957	No. 105	Abolition of Forced Labor	Not ratified
1958	No. 111	Discrimination (Employment and Occupation)	12 January 2006
1973	No. 138	Minimum Age	8 August 2002
1999	No. 182	Worst Forms of Child Labor	8 August 2002

Source: ILO Geneva

Since joining the WTO, China has been obliged to address regulatory issues in key areas such as intellectual property rights and other aspects of commercial contracting regulation. Chinese employers have also felt increasing pressures from the multinational firms' policies on "corporate social responsibility". Tragic accidents and instances of maltreatment in various sectors of the economy (notably construction and mining) have compelled the regulators to introduce new measures to improve the quality of the working environment and protect the health, safety and welfare of Chinese workers.

Of course there are legitimate worries about whether Chinese firms will comply with the new legislation. But our sense is that the laws are aimed at local firms more than specifically at foreign firms, and that should fuel your optimism on fair and effective enforcement over time.

At a broader level, there is significant concern that both the European flexicurity debate and the China law reforms might miss one fundamental point: the *best individual employment security always comes through qualifications and skills*. For individuals and for society as a whole in the future, given a global economy, qualifications will be more important than all the social protection rights one could imagine, ranging from legal minimum wages to dismissal protection. The global economy will be followed by the global labor market, albeit with a significant time lag.

Tackling the personnel challenges in China

Some aspects are deep-rooted and require sustained government efforts and changes in public policies, others center on action by companies themselves.

Macro level

China **lacks a scientific measurement system for employment and unemployment**. This weakens academic research outcomes and government economic decision-making, and fuels public misconceptions about the state of the Chinese labor market. Labor demand measurement, i.e. a *job vacancy survey*, would be a valuable tool for firms' HR planning, for informing the workforce about opportunities and trends, and for effective government measures (the United States has done this since the 1950s and many EU countries as of the 1960s). Surveys provide details on local vacancies by industry, profession, and skills level. China's existing data is poor, and so it is badly placed to measure vacant positions in enterprises, job losses and gains (i.e. net change in enterprise employment levels), labor productivity or flexible employment, which could account for 45% of total employment[57].

[57] Zeng Xiangquan, Dean of the School of Labor Relations and Human Resources, Renmin University, Beijing: *Chinese employment strategy: research on the measurement of employment and unemployment*

The national **social insurance system serves to restrict the free movement of labor**. One problem is pension coverage in the public sector – where the final pension is a function of most recent salary, period of time worked, and current public employee pay (pensions are linked to current state salaries, and rise when the latter rise). Thus there is a growing gap between the pension levels of public and private sectors: a government officer's pension can be more than double that of a similarly ranked company manager. This is a giant barrier to the free movement of labor. There is also a large gap in social insurance coverage: 95% of workers in state-owned and collective firms are covered, compared to only 15% to 20% in private and foreign-capital enterprises.

People are reluctant to shift from a high level of coverage in public sector enterprises to the private sector, complicating the recruiting problems of the private sector where less than 10% of workers have pensions, health, and work accident insurance provision. It is anyway hard for people to transfer insurance coverage geographically, and benefits suffer. While many cities and towns help workers transfer out of their local insurance schemes, they are much less willing to accept transfers in. So to move, employees have to leave their social insurance scheme and lose their accumulated benefits[58].

The OECD (2006) estimates that if China relaxed restrictions on the free movement of labor – especially by reforming the household registration *(Hukou)* system – it could raise GDP by up to 2%, significantly reduce income inequality, and encourage inward investment as firms would find it easier to expand across China's provinces. Only outright abolition of *Hukou* can deliver the free movement of labor and skills required for a modern, flexible market economy. Without reform, problems of labor mobility, including a significant mismatch between the location of available skills and the location of demand for those skills, will continue to undermine China's economic progress and competitiveness[59].

Raising labor force quality **by improving education and technical training** will be hugely important over the medium and longer term, just as it will be in Europe. The share of total public spending going to education, health, and science in China has fallen over the last decade, and as a proportion of GDP is well below that of nearly all developed economies as well as most comparable emerging countries (though private education spending is among the highest in the world). While Chinese educational attainment compares well with other countries at a comparable stage of development, low levels of government spending on education has led to widespread inequalities with urban areas and coastal provinces spending much more than rural areas and many provinces in the centre and west of the country. Coupled with a similar trend in health spending, this leads to marked differences in outcomes: literacy rates, years of schooling, and life expectancy are all much lower in rural than urban areas[60].

[58] He Wenjiong, Director of the Insurance Institute of China, Zhejiang University: F*ree movement of the labor force and improvement in the social insurance system of China*

[59] Alan Neal, *A Quality Workforce for the Global Economy: Can China Deliver High Skills Vocational Training and Flexible Labor Market Regulation?* Warwick-Adecco research paper (August 2007)

[60] Alan Neal, *op cit.*

For long term improvements to labor force quality:

- China must start at the roots by *improving basic education in the rural areas*. While literacy levels are generally seen as positive, with 11% illiteracy among those aged 15 and over, there are dramatic differences between males and females (6% of males versus 16% of females) and between provinces, with over 20% illiteracy in Yunnan, Gansu, Guizhou, Qinghai, and not least Tibet (45%, rising to 56% for females). Much talent is not getting through to talent-deprived areas because of basic rural shortcomings and due to the relatively high cost of tuition in big cities. Students from rural areas studying at Beijing universities and colleges made up 30% of all students in the 1980s but the ratio today is only half (15%)[61].

- As in Europe, there is a *huge need to develop vocational education* instead of just higher education. China's vocational provision is unimaginative despite renewed emphasis on this area to help meet changing labor needs (including incentives for firms to provide vocational training, contained in the new Employment Promotion Act and specific measures in the 2007 Labor Contracts Law)[62]. With factories facing shortages of skilled people, some 96% of vocational school leavers got a job when they graduated last year. We should note that the Chinese government will invest US$1.3 billion from 2006 to 2010 in vocational and technical schools to create more skilled workers.

- Chinese *higher education must switch from a theoretical to a practical, curriculum*; there are significant mismatches between students' skills on completing their formal studies and the changing needs of the Chinese economy; and mismatches between the geographical location of appropriately skilled citizens and the locations in which many of those particular skills are most needed. China is keen to reform its higher education system, with a Spring 2007 strategic review of universities[63]. Whatever the trajectory of change, China has to tackle problems caused by educational decentralization and arising from regional inequality in educational opportunity.

[61] China Daily, 7th June 2007. Rural families struggle to pay rising fees, e.g. accommodation, tuition, books,etc at a provincial technology college can be 11,000 yuan per year per student, yet a farming family might only make 8,000 yuan annually. South China Morning Post, 26th September 2007, *The grade escape*

[62] China has 3,200 *technical schools* to train skilled technicians, including 300 advanced institutions, with some 2 million students enrolled. There are also 3,500 government employment training centres and 17,350 non-governmental training institutions training nearly 11 million people. Vocational education plays an increasing role in tertiary education provision

[63] China has some 2,000 *higher education institutions*, including 1,400 universities (the rest are adult higher education bodies). Total enrolment is 10 million students, with 3.5 million new entrants annually. Adult higher education institutions have a total enrolment of 2.5 million, of which half are new entrants annually. China also has over half a million graduate students, half being new admissions each year (80% on master's programs and 20% for PhD studies). China's total number of universities is, curiously, about the same as in the EU-15, and in the United States (though that is largely where the comparison ends).

As McKinsey points out, the "employability" of Chinese university graduates would rise faster if policymakers focus on improving education quality rather than **quantity**. Some Chinese experts look to the Indian higher education model. They see a relatively high rate of graduate employment, driven by demand-focused curricula (especially in the IT sector), relatively decent pay for teachers, good administration, and India's major focus on knowledge industries. In particular, the lack of practical skills and poor English-speaking levels will make it hard for China to develop service-based industries such as the information technology outsourcing that India has specialized in over the past decade.

In both Europe and China, governments, schools, universities and companies must start to **build bridges from the school world into the world of employment**. The hermetic seal between these two worlds is a big driver of skills shortages later on. We have suggested for example that all European schools should in the future work with professional transition managers who would prepare students for the working life – starting three years before their graduation. Why not start extending this to China?

Company level

Firms ideally need a **strong employer brand**, and this is crucial for attracting high caliber recruits (not so much for retention). Some firms can pay up to 30% lower salaries than competitors if people have very positive associations with their brand. The most popular employers for China's graduates are state-owned China Mobile, followed by IBM, Proctor & Gamble, and Google. While 49% of students aim to work for a multinational firm, the popularity of state-owned companies is increasing because the internationals can be perceived to have a "glass ceiling"[64]. Not every firm has this branding advantage of course and, in any case, all companies need carefully to analyze how to get the right employees, and how to retain them. There is no one right answer, but certainly great value in a menu-approach.

In China, **good recruiting is half the battle for talent**, and requires appropriate tools, checks on candidates, extensive interviewing and creativity. Losing even 50% of a pool of good quality hires is better than successfully retaining 100% of a pool that is low ability. Companies need a structured recruiting plan that ideally includes diverse sources:

- *Referrals* are an excellent way to access a tighter talent pool. A well structured referral program can account for up to 25% of new hires, if the interview process and communications with candidates are done well (even if the firm does not hire a candidate, they are less likely to speak ill of that person). Word of mouth is particularly important in China, with so many job opportunities available.

[64] *Universum Communications* survey of 16,400 graduates and young professionals in China, July 2007.

- A *targeted campus presence*, to generate interest from well performing students. McKinsey & Company presents to students on selected campuses, and this is now a useful channel for junior consultants and researchers.

- The *state sector* can yield good candidates, if companies identify transferable skills and provide coaching and effective development support. These include managers with language skills developed for China's export drive, people with extensive exposure to government, or who have served as liaisons with foreign institutions – all can be useful in certain industries and services.

- *Returnees to China* who have studied or worked abroad are a valuable source of talent. China suffers the world's worst brain drain, as less than 30% of students studying abroad from 1978 to 2006 have returned to China. Still, net inflows have picked up in the past 2 years. About 145,000 a year now return, while outflows are 120,000 (rising to 200,000 by 2010)[65]. The number of Chinese university students in Britain alone has soared to 51,000 in 2007, accounting for 15% of all overseas students there, and particularly well represented on "economically important" post-graduate degrees such as engineering and the sciences[66].

Returnees are attracted by China's economic boom, the many global-level employers in China, and bigger incentives from the Chinese government (e.g. for highly qualified people, exemption from the household registration system and places for children at top universities). Shanghai is the top destination, with a third of returnees coming there mostly as high-level managers, engineers or entrepreneurs. They face competition from home-grown talent and need to rein in their expectations, but remain a solid talent source. Shenzhen will hold job fairs in North America, Europe and Australia in 2008 to attract top professionals. Such government-sponsored job fairs tend to have good impact. Some 10,000 returnees came to Shenzhen in June 2007 (some attracted by incentives for start-up companies) and the region has received 150,000 overseas technicians and executives in the past 20 years, half of them in the past two years alone[67]. Beijing is also facilitating the return of overseas Chinese: in the past 10 years, some 60,000 graduates have returned to Beijing and set up businesses in 23 special industrial parks.

Meanwhile, **companies must look at retention**. Why do employees leave? Many are motivated by higher salaries, and wages must be reviewed frequently in a talent market as hot as China's. "S-curve pay" can be useful, with higher pay rises e.g. after two years, or a big bonus for staff that stay three years. Yet high attrition rates are closely correlated to employees having weak direct managers and perceptions that their career development opportunities are limited. Valuable incentive tools in China are things such as:

[65] The Guardian, 7th June 2007
[66] The Daily Telegraph, 13 September 2007. *Number of Chinese students in UK soars.*
[67] China Daily, 22 August 2007

- *On-the-job learning and training programs*. Without doubt, chances to learn are among the main benefits that workers seek in China. Thus local R&D staff at Cisco in Shanghai are attracted and stay in response to factors such as internal training (on everything from giving presentations and decision-making)[68]. Meanwhile Microsoft has found that English programs to bring employees up to speed can add 15% to overall personnel costs yes, but prove to be well worth it in terms of the benefits from staff stability.

- *Supplementary benefits*. Pensions, local housing subsidies, insurance, travel, meals, or a shorter commute, many things can be offered to encourage staff to stay. Lenovo, which bought IBM's personal computer business, is a pioneer on staff pensions in China. It set up a retirement plan as part of its incentives to 10,000 China staff in July 2006, using Ping An Endowment Insurance (a Chinese firm of which HSBC is a large shareholder). American International Insurance recently introduced its first defined-contribution program for China, covering firms in Beijing, Guanghzou, Shanghai and Shenzhen and with various options for employers to select for their workers[69].

- *Career development options* such as rotations, robust objectives in individual development plans, and overseas assignments are attractive elements for both recruitment and retention[70]. Emerson Engineering has found that it can motivate skilled personnel to join and stay partly by having "in-China" design and manufacturing teams (which now help it generate 85% of its local sales).

- *Mentoring and a positive working environment* are both strong inducements. To do this, of course, you also need a good group of inspirational managers.

Not least, **in-house leadership development will be increasingly important in China**. We believe that for the medium-term, the best leadership development strategy in China is two-fold: (1) "build" instead of "buy" talent and (2) localize talent. Of course this requires investment in human capital, solid commitment, and a long term perspective of the return on investment in people. This is not easy in China, with the talent market so "hot", but it is the right way forward for good companies. While the following examples are perhaps simply illustrative of what good firms would habitually do in Europe and North America, we believe these cases are worth highlighting given the China context:

[68] Business Week, *op cit*

[69] Hilbert (2007), *op cit*

[70] People Management, 26 July 2007. However, we heard in China from a major German chemicals firm that it had problems encouraging talented staff to rotate into Germany – they prefer the US, Australia, etc

(A) McKinsey & Company, one of the world's leading management consulting firms, with a very successful position in the PRC, runs a program for high potential Chinese talent, called "Asia House" and based in Europe. The 40 or more people chosen to attend are usually graduates from prestigious universities in China (and elsewhere in Asia), or with a few years of work experience. They spend one year (extendable to two) working on projects in Europe, building their own "global knowledge", industry and functional competencies, and consulting skills. Asia House participants highly value the confidence and investment placed in them, and a large majority return to exciting careers in China with the firm, helping cement that vital middle leadership level that all firms so desperately seek to find and keep in China.

(B) Carrefour China: the second largest retail distribution group worldwide and the largest in Europe, Carrefour has grown fast since coming to China. There are now 35 Carrefour hyper-markets in 24 cities and it is the clear market leader. To resolve its leadership needs, it has recruited MBA graduates from the Sino-French School of Management (a joint venture between China and France), and given them a structured training and immersion program. They begin as sales assistants and grow into roles in branch offices, followed by internships in accounting, HR and so on. 90% of Carrefour's management in China have been trained and promoted through its internal program[72].

(C) Volkswagen Shanghai has created a long-term relationship with key high schools, building a databank of students and offering them internships. VW gives interns hands-on experience and grooms them for careers with the joint venture. Student assessments also go into the system. If selected to join VW after school, they choose a 3 year career stream as a manager, expert or engineer, so that their skills and interests are channeled early on into the best area. Compensation is based on achievements and contributions to VW, not on time worked. Engineers, for example, work from 9am to 3pm, and after 3pm can choose activities to focus on to learn and grow[73].

(D) Microsoft, finds that despite millions of university graduates every year, there is a big shortage of appropriate candidates. It has adopted policies to develop the talent it needs:

- Cooperation with university research institutions. Student interns can learn practical software-development skills and gradually become suitable for the related positions.
- Work with universities to bring curricula more in line with the needs of industry.
- Funding research programs of universities and donating devices and software to teachers and students. These public welfare funds burnish its reputation with key audiences.

[72] SASS research
[73] SASS research

Microsoft's policies make it more competitive in the labor market, allowing it to attract outstanding university juniors for training courses and introduce those who qualify into the company upon graduation.

Last but not least, there is a **major role today in China for "capability-builders"** to help train the workforce and raise skill levels. Staffing companies, for example, not only provide flexible solutions for firms and options for workers, they are also major providers of practical work-related training and certification in Europe and North America. Adecco has implemented cost effective technology-driven HR tools, such as its proprietary *Xpert* candidate assessment system, which helps to recruit staff with good skills and behaviors. Similarly, Adecco's *Adjust* HR program helps to define and run staffing processes as well as deliver cost savings e.g. across large scale manufacturing or services operations with over 1,000 temps, it can deliver over 20% of savings. There are huge opportunities in China for large and small scale partnerships between HR services providers and foreign or local firms, in full compliance with local laws and targeted at white and blue collar roles.

Conclusions

We believe that detailed study of China's labor market and future workforce preparedness is timely. China is in the midst of a remarkable modernization of labor laws and labor market regulations, some of which come into force on 1 January 2008, and all of which bring China ever closer to labor regulations reflecting international best practice. This new framework is a priority at the highest political levels in China for several reasons and is thus quickly reaching a key juncture. The speed of bringing in such broad ranging legislation is, as in so many other economic aspects, a hallmark of China's economic rise – even though we do not expect a truly flexible and deregulated Chinese labor market in the short term.

Many foreign companies are now more positive and realistic about the net medium term effects of change on their businesses and commercial prospects in China. Their optimism will grow to the extent that the Chinese government can enforce the new rules effectively and uniformly. Informed analysts and business leaders of course do not expect blanket and immediate application across the length and breadth of China – they understand the complexities involved in any big geography and transition economy. Indeed, the EU has always exhibited uneven national and regional application of supposedly universal legislation[73]. Instead, observers envisage a gradual and continual leveling of the commercial and financial playing field in China and they gain confidence from their (correct) assessment that the Chinese government's central aim here is to

[73] EU legislation should be applied uniformly by all member states and regions therein (in the absence of a Treaty caveat), yet for 50 years the *de facto* interpretation and enforcement of these rules has been selective and patchy at best, especially in some countries – even with a very active European Court of Justice and a robust competition authority.

regulate and influence the behavior of local firms and their treatment of migrant unskilled labor in particular.

Our Adecco Institute perspective is that the final versions of the new laws – given the major shifts in wording during the drafting process – are surprisingly well balanced between protection and flexibility, are generally a good "outcome", and are an interesting example of China's increasing openness to look and learn from foreign best practices and then adapt these to China's circumstances. The new labor laws, particularly for Labor Contracts (passed) and Dispute Resolution (pending), have an unmistakable EU flavor.

In any case, it is vital to consider the bigger picture when assessing the origins, scope and true repercussions of the new labor framework. First, China is in a unique position to implement fundamental changes. In contrast to historical experience in Western Europe and North America, Chinese initiatives for institutional educational reform, employment promotion measures, and labor regulatory modernization are happening at a time of sustained GDP growth – when the requisite financial resources are much more likely to be available – and not in the world's historically more familiar context of recession, declining economic performance, and rising unemployment. The country is now moving – as is the world – into much choppier economic waters, but with strong fundamentals.

Second, the nature of the national debate on Chinese labor costs is more sophisticated. Alongside the rapid increase in China's overall cost structure (low absolute and relative costs have been a huge element in its rapid integration into the global economy since the 1990s), China has begun to export both higher tech products and significant "soft power", particularly capital, including rising outbound foreign direct investment. With these shifts in China's basic economic model, there is more discussion in influential Chinese academic and policy-making circles on whether, with China's huge trade surplus and growing foreign exchange reserves, local labor costs are in fact set too low. Some argue that instead of a big currency appreciation, China should gradually raise labor costs and thereby also stimulate social wellbeing and private consumption (for those with jobs or in business, as there is a trade-off with employment)[74].

Market realities are marching in the direction of rising labor costs, the new laws will compound that, and so will this debate. While the discussion is open and free ranging, it is locally-focused and its low level of external media coverage belies its potential implications. Underneath it all, the central fact is that China and its leadership will need continued extraordinary economic growth and progress for all, or at least big segments of the population, because it is of the highest importance for national cohesion (given the "many Chinas" that exist). And this also translates, essentially, into higher labor costs.

[74] The share of consumption in Chinese GDP today is only ~50 percent, compared to an international average of over 70 percent. Institutional Investor, September 2007, *How far will it fall?* p113

Third, China is becoming an ever more competitive environment for firms, both domestic and foreign. Conditions for success have been shifting, with foreign firms "expanding across the country to ever-smaller cities and towns, establishing positions to serve fast-growing parts of the Chinese middle class. In the process they incur larger sales, marketing and distribution costs and encounter stiff competition from domestic Chinese rivals". This makes it all the more vital to hire the right people and keep them; indeed, the ability to develop a Chinese talent pool will be critical across all functions[75]. We have laid out multiple measures, at micro and macro level, that can ease the bottlenecks.

Fourth, while foreign firms will find it harder to offset the continuous rise in local labor costs, and will have a stronger need to achieve even more rapid productivity growth, we do not think that it will change their strategic investment behavior in China: namely the increasing shift from capitalizing on China's relatively cheap labor and preferential policies, to taking advantage of the huge domestic market potential. Meanwhile, many Chinese firms are starting to make acquisitions abroad and the trend will grow powerfully in the coming decade. The domestic skills shortages will not yet be a big influence on international investments, as these are driven mainly by the search for capital, technology and markets, rather than by labor restrictions at home. Chinese companies usually send domestic managers abroad when they invest overseas, owing to the high cost of labor in developed countries. Thus the quality and abilities of local managers is itself a major determinant factor in the success of overseas ventures.

Whatever the merits and importance of each of these arguments, we can (almost) all agree that China's market-oriented reforms and opening-up process, the momentum of its rapid economic growth, the long-term move from an "extensive" growth model (just adding more labor and productive capacity) to an "intensive" one (increased use of capital and technology), much bigger independent R&D / innovative capabilities, plus the shift from manufacturing to services, will have far-reaching effects on the Chinese labor market and, especially, skilled labor.

Already the greatest limit to company growth in China and Europe today is something as mundane as skill shortages. As Wolfgang Clement, the Adecco Institute chairman, told representatives of one hundred EU firms at an event held by the European Chamber of Commerce in China in July 2007: "the skills and talent solutions involve both macro and micro level measures, and will require time – only a few lucky firms will find an instant fix – but the very fact you are here today is a measure of your seriousness and I believe you will succeed."

[75] McKinsey Quarterly, 2007 number 4, *op cit.*

Indeed, we strongly encourage Europe, North America, Japan and, indeed, the rest of the world to be open to optimism about China's development trajectory and its future path and place in the world, rather than be seized by fear of some amorphous "Chinese peril" or by a *furor Asiaticus*. The time has come for a much more nuanced view of China, which highlights the country's many dazzling qualities and achievements and its tremendous potential, but at the same time recognizes that China potentially has socio-economic "feet of terracotta" and faces dramatic environmental challenges. All such obstacles will need to be addressed by an administrative and regional governance system that is itself in transition. In this context, transparent and fair rules in all relevant areas – particularly labor markets – cannot fail to facilitate ever-better economic links between China and other regions, as well as with its Asia-Pacific neighbors.

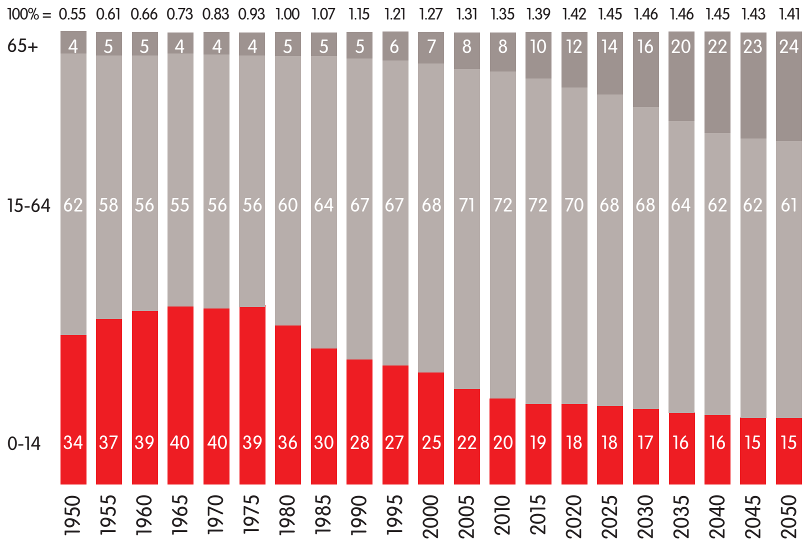
Appendices

Appendix 1: China's provinces

Appendix 2: China's ageing population structure and (soon) rising dependency ratio[76]

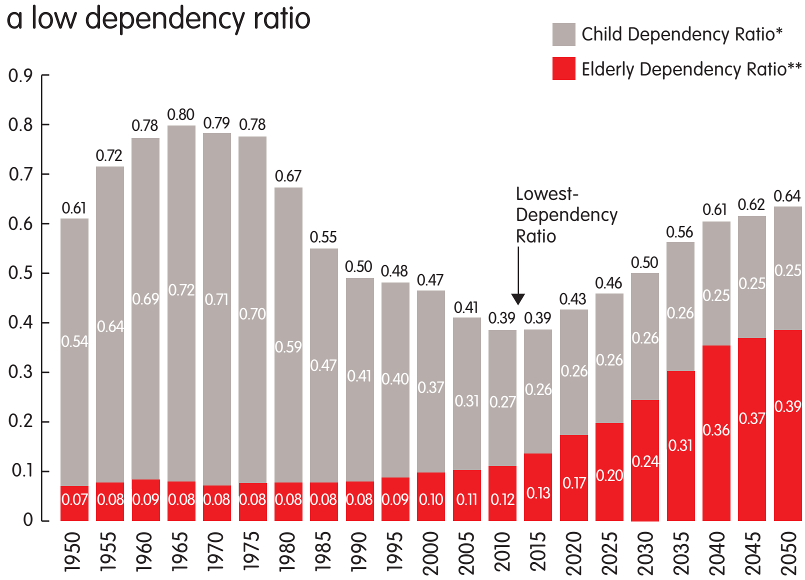
Figure 1: China's Aging Population Structure

Unit: mn



Source: United Nations Population Division

Figure 2: China will lose the benefit of a low dependency ratio



* Child Dependency Ratio = child population (age<15)/ adult population (age between 15 and 64)
** Elderly Dependency Ratio = elder population (age<64)/ adult population

Source: United Nations Population Division

[76] These figures are reproduced courtesy of McKinsey & Company

Appendix 3: Differences between the new and the old Labor Contract Laws

Item	Existing labor law	New law	Reason
The term of probation period	The longest probation period shall not exceed six months.	Probation terms vary according to the contract. The maximum probationary period is one month for labor contracts with terms less than one year, 2 months for terms between 1 and 3 years, and 6 months for terms of 3 years or more or a flexible contract. The wage during probation must not be less than 80% of the contracted wage or minimum wage.	To protect the interests and rights of the labor. More practical.
The term of a labor contract	If a person has worked continuously in the same employing unit for ten years or more and the parties involved agree to extend the term of the labor contract, a labor contract with a flexible term shall be concluded between them if the worker so requests.	Flexible contract is encouraged. If an employee claims renewal of his/her labor contract under the following 3 conditions, a flexible term labor contract shall be signed. 1. If a worker has worked in the same employing unit for ten years or more when the parties involved agree to extend the term of the labor contract. 2. If a person has worked the same employing unit for ten years or more or will be at the legal retiring age within ten years when the employing unit establish the labor contract system or when re-concluding a labor contract in state-owned enterprise reform. 3. A fixed term contract is to be renewed after being signed consecutively two times.	To protect labor, yet may lead to malicious dismissal before the time limit.
Reduction of Staff	The unit may make a reduction of 50 staff after it has explained the situation to the trade union or all staff and workers 30 days in advance, solicited opinions from them and reported to the labor administrative department.	The unit may make a reduction of over 20 staff or less than 20 but more than 10% of the whole staff, after it has explained the situation to the trade union or all of its staff and workers 30 days in advance.	To prevent arbitrary dismissal and to protect the labor.
Collective Contracts	The collective contract shall be submitted to the congress of the staff and workers or to all the staff and workers and the employing unit for discussion and adoption.	The industrial collective labor contract or below county regional collective labor contract could be concluded.	To protect labor.

Appendix 4: Labor Contracts Law stipulations on staffing

Excerpt from the law, Chapter 5, Special Provision section 2, "Placement Contracts" (covering Articles 57 to 67). There are also Articles on part-time labor.

Article 57. Staffing firms shall be established in accordance with the relevant provisions of the Company Law and have registered capital of not less than RMB 500,000

Article 58. Staffing firms are Employers as mentioned in this Law and shall perform an Employer's obligations towards its workers. The employment contract between a staffing firm and a worker to be placed shall, in addition to the matters specified in Article 17 hereof[77], specify matters such as the unit with which the worker will be placed, the term of his placement, his position, etc.

The employment contracts between staffing firms and workers to be placed shall be fixed-term employment contracts with a term of not less than two years. Staffing firms shall pay labor compensation on a monthly basis. During periods when there is no work for workers to be placed, the staffing firm shall pay such workers compensation on a monthly basis at the minimum wage prescribed by the People's Government of the place where the staffing firm is located.

Article 59. When placing workers, staffing firms shall enter into staffing agreements with the units that accept the workers under the placement arrangements ("Accepting Units"). The staffing agreements shall stipulate the job positions in which workers are placed, the number of persons placed, the term of placement, the amounts and methods of payments of labor compensation and social insurance premiums, and the liability for breach of the agreement.

An Accepting Unit shall decide with the staffing firm on the term of placement based on the actual requirements of the job position, and it may not conclude several short-term placement agreements to cover a continuous term of labor use.

Article 60. Staffing firms shall inform the workers placed of the content of the placement agreements. Staffing firms may not pocket part of the labor compensation that the Accepting Units pay to the workers in accordance with the placement agreement. Staffing firms and the Accepting Units may not charge fees from the workers placed.

Article 61. If a staffing firm places a workers with an Accepting Unit in another region, the worker's labor compensation and working conditions shall be in line with the rates and standards of the place where the Accepting Unit is located.

[77] Article 17 lays out that employment contracts must specify things such as: the term of the contract, job description and place of work, working hours / rest / leave, labor compensation, social insurance, and labor protection (working conditions and protection against occupational hazards)

Article 62. Accepting Units shall perform the following obligations:

1) Implement state labor standards and provide the corresponding working conditions and labor protection;
2) Communicate the job requirements and labor compensation of the workers placed;
3) Pay overtime and performance bonuses and provide benefits appropriate for the job positions;
4) Provide the placed workers who are on the job with the training necessary for their job positions, and;
5) In case of continuous placement, implement a normal wage adjustment system.

Accepting Units may not in turn place the workers with other Employers.

Article 63. Placed workers shall have the same right to receive the same pay as that received by workers of the Accepting Unit for the same work. If an Accepting Unit has no worker in the same position, the labor compensation shall be determined with reference to the labor compensation paid in the place where the Accepting Unit is located to workers in the same or a similar position.

Article 64. Placed workers have the right to lawfully join the labor union of their staffing firm or the Accepting Unit or to organize such unions, so as to protect their own lawful rights and interests.

Article 65. Placed workers may terminate their employment contracts with their staffing firms pursuant to Article 36 or 38 hereof[78]. […]

Article 66. The placement of workers shall generally be practiced for temporary, auxiliary or substitute job positions

Article 67. Employers may not establish staffing firms to place workers with themselves or their subordinate units.

[78] Article 36 and 38 provide the general rules for termination of labor contracts by workers themselves.