

Impact of China's Resolving Excess Production Capacity Policy on Labor and the Countermeasures

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[Abstract] China is switching from an export-driven economy to one driven by consumption. Economic restructuring is unfolding with great momentum in the country. Resolving excess production capacity, the main part of economic restructuring, has remained on the top agenda of government's economic policies in recent years. The policy of resolving excess production capacity exerts profound influence on labor in China. Workers in mining, steel and other highly polluting and resource-consuming industries face the risk of massive layoffs. Their rights and interests are subject to be infringed on in the process of restructuring. Since vocational training lags behinds economic restructuring, workers find it hard to transfer to new jobs. The policy of resolving excess production capacity can't go smoothly without the appropriate labor policy in favor of workers. The governments at all levels should not neglect the protection of rights and interests of workers in resolving excess production capacity. Social dialogue and tripartism should play important roles in dealing with different interests. Establishing a new social governance mechanism, improving public services and the unemployment insurance system, increasing financial support for reemployment, protecting workers' economic democratic rights, relaxing administrative controls, developing new industries, promoting entrepreneurship to create more jobs and improving

vocational training for workers should be on the top agenda of the government to ensure the success of resolving excess production capacity.

Introduction

There exists a lot of domestic research on the economic impact of resolving excess capacity. Its social impact somewhat neglected should also be paid due attention. The policy of resolving excess capacity exerts profound impact on the rights and interests of workers. Whether rights and interests of the workers can be protected in the implementation of this policy determines the effectiveness of governments' efforts to safeguard people's livelihood and building harmonious society. Therefore, it is of great importance to explore the impact of resolving excess capacity policy on workers in current China.

Resolving excess production capacity policy in China

In recent years, affected by external demand downturn, the rapid expansion of production capacity, the main demand structure beginning to shift to the service industry after China entered the middle-income ranks, and other factors, the industrial structure contradiction began to highlight in China. Relative surplus or even the absolute excess began to emerge in steel, coal, cement, electrolytic aluminum, flat glass and other highly polluting and resource-consuming industries.

In this background, China put forward the policies of adjusting economic structure, with resolving the overcapacity and eliminating

backward production capacity in the major concern. The main purpose of this policy is to shift the current extensive economic growth mode of low output with high consumption to intensive development mode with low consumption and high output via high technology, and promote labor-intensive industries with low added value to shift to capital-and-technology-intensive industries with high added value.

After the new Administration came to power, to resolve the excess production capacity has become the focus of the government's economic work. In October, 2013, the State Council promulgated the *'Guidelines on Solving Overcapacity'*(the State Council [2013] No. 41), clearly identifying resolving serious excess capacity as the focus in promoting the adjustment of industrial structure at present and in the future. Specific measures will be implemented in such industries with serious overcapacity as steel, cement, electrolytic aluminum, flat glass, shipbuilding, etc. The policy tools including digestion, transferring, integration and elimination will be used in order to reach the following goals that the production scale is appropriate; the quality of development witnesses significant improvement and long-term mechanism will be established basically.

Government Work Report 2016 presented that to resolve the excess production capacity is one of the key tasks in supply-side structural reform this year, in which market forces, enterprises, local authorities and the central authorities will play important roles. Economic, legal, technological, environment-friendly and safe means will be utilized together to strictly control the newly emerging production capacity, resolutely eliminate backward production capacity, orderly dismiss excess capacity. In the past three years, China has eliminated about 90

million tons of steel production capacity, 0.23 billion tons of cement, about 76 million tons of flat glass, and about 1 million tons of electrolytic aluminum. According to the statistics released by the Ministry of Industry and Information and the National Development and Reform Commission, in the first half of 2016, the resolved steel production in China has reached around 13 million tons, accounting for 30% of the whole year's goal (45 million); Coal mines closing movement has been unfolding in 17 regions around the country and the central enterprises, dismissing 72 million tons of coal production, completing 29% of the whole year's task(0.25 billion tons).¹

Effects of resolving excess production policy on workers

Excess capacity involves a number of industries and covers a wide range economy in which supply-demand contradictions are ingrained. Resolving excess production capacity has not only brought pain to the industrial production, economy, finance and social consumption, but also directly affects the interests of ordinary workers in these industries.

Risk of unemployment

The excess capacity mainly concentrates in steel, cement, electrolytic aluminum, coal and other traditional industries. Under the influence of multiple factors such as economic downturn, weak market, financing difficulties, rising costs and policy adjustment, these industries with high energy consumption, high pollution and excess production capacity are facing the grim situation of continued losses. The majority of enterprises in these industries have to take actions to cut or stop production, resulting in fewer jobs and increased employment redundancies, which

directly influence workers' jobs. Take steel and coal industries for examples. Resolving excess capacity affects about 1.8 million workers in total. Among them, 1.3 million workers are in coal industry and about 0.5 million work in steel industry. Some enterprises give employees a long and indefinite holiday to avoid massive layoffs. Without work, these workers are always faced with the risk of unemployment. Other enterprises directly announce mass layoffs, leaving workers in the plight of unemployment.

Substantial decrease in labor income

The majority of enterprises are in shutdown or semi shutdown state. With decreasing production and lost jobs, incomes are declining for workers whether in job, being furloughed indefinitely, or being demobilized. Although most of the enterprises cut down the wages of managers before they cut down that of ordinary workers, the average income is only 60% to 70% of what it was in normal production previously. Some enterprises in very difficult situation can't pay wages on time, with delay ranging from 10 days to six months. Workers being furloughed indefinitely in shutdown or semi shutdown enterprises can only get a basic living allowance of 400 to 700 yuan per month.²

Low compensation for workers discharged of labor contracts

According to the Labor Contract Law in China, enterprises should provide workers discharged of labor contracts with economic compensation on basis of the length of service period. Works with one year of seniority can get a monthly salary and the total amount should be no more than 12 months. In 2015, the national average wage of staff and workers in urban units was 63,241 yuan. According to the above-mentioned standard, the economic compensation of workers will

be no more than 63,241 yuan, which is still low, especially for those old workers who have worked in the original work unit for many years. In addition, some enterprises with financial difficulty could not make the timely payment of economic compensation in the stipulated amount by law.

Workers' democratic rights under assault

Some enterprises with excess capacity ignored the protection of workers' rights to information, participation and supervision in reshaping. Lack of transparency and legal procedures are among the main problems. Some enterprises had not timely disclosed information of reform, communicated or consulted with ordinary workers before they announced the workers resettlement scheme which was unfair. In decision-making process, some enterprises seldom listened to workers' views via the Worker Representative Congress, trade unions or other channels. Others did hold the Worker Representative Congress or contact trade unions leaders, but the opinions of employees didn't be fully adopted in the final decision. The negligence of the democratic rights of workers and the lack of formal and institutionalized participation channels are likely to induce mass incidents, threatening social harmony.

Low quality workers hard to be reemployed

The average age of shunt workers in the excess industries is around 40 years old. Most of them haven't received high education or other kind of job training. They can only handle jobs with little or no skills requirements. They have been used to their previous work in the original work unit and find it very hard to enter a new work field due to low skill and low capacity. Without sufficient loans or other financial support as well as entrepreneurship, they seldom set up their own businesses. The

quality improvement of workers lags behind the adjustment of industrial structure, which inhibits the success of the reshaping policy and leads to structural unemployment in a certain period of time. Those older workers, having more difficulties in updating knowledge and skill, find it much harder to be reemployed in the current situation.

Worker resettlement policies in resolving excess capacity

The Chinese governments at all levels have realized that measures should be made to handle labor issues and to ensure the proper resettlement of workers in the tide of resolving excess capacity to avoid worker resistance and ensure social harmony.

Worker resettlement policies issued by the central government

The central government has been aware of the need to properly handle the problem of worker resettlement in resolving overcapacity, and introduced a series of policies to stipulate clear requirements and policy support for the resettlement of workers. In April 2011, the Ministry of Human Resources and Social Security, the National Development and Reform Commission, the Ministry of Finance, the Ministry of Industry and Information, the State-owned Assets Supervision and Administration Commission, the National Energy Bureau and All-China Federation of Trade Unions jointly issued the *Guidelines on Worker Resettlement in the Elimination of Backward Production Capacity, Merger and Reorganization of Enterprises* (the Ministry of Human Resources and Social Security, 2011, No. 50), proposing to handle labor relations issues properly in accordance with the Labor Contract Law and relevant policies. For workers discharged of labor contracts, enterprises

should pay the economic compensation, unpaid wages, medical expenses and related debt in accordance with the law. For workers arranged to change work to a new enterprise, the number of seniority in the original enterprise should continue to be calculated in the new workplace. In April 20, 2011, the Ministry of Finance issued *the Measure on Adminstrating the Central Financial Incentive Funds in the Elimination of Backward Production Capacity* (the Ministry of Finance, 2011, No.180), in which the tenth provision stipulates that ‘the central incentive funds must be earmarked to cover the related spending in elimination of backward production capacity, including workers’ resettlement, enterprises’ transfer to other business and debt resolving’.

Since the State Council issued the No. 41 document in 2013, the Chinese central government has promulgated a series of policies such as *Guidelines on Further Optimizing Economic Environment for Corporate Mergers and Restructuring*(the State Council,2014, No.14) and the *Notice on Supporting Enterprises to Stabilize Jobs with Unemployment Insurance* (the Ministry of Human Resources and Social Security, 2014, No. 76), stipulating the use of unemployment insurance funds to subsidize the enterprises which avoid, reduce layoffs and stabilize jobs for workers. The No. 76 document issued by the Ministry of Human Resources and Social Security in 2014 specified that, ‘in the period of merger, restructuring, resolving overcapacity and eliminating backward production capacity, enterprises that meet certain conditions can get job-stabilizing subsidies by no more than 50% of the total unemployment insurance premium paid in the previous year by enterprises and their employees’. The subsidies are covered by the unemployment insurance fund.

The No. 23 document issued by the State Council in 2015 expanded the beneficiary range to all qualified enterprises, not just the three types of enterprises in merger and reorganization, resolving overcapacity and eliminating backward production capacity.

The No.32 document issued by the Ministry of Human Resources and Social Security in 2016 stipulated the specific measures of worker resettlement in resolving over capacity in steel and coal industries, including resettlement of workers via multiple channels, handling labor relations properly and strengthening the support from social security.

Worker resettlement policies issued by the local governments

The local governments at all levels had also attached importance to worker resettlement in resolving overcapacity and issued various policies to resettle workers.

At the beginning of 2016, Hebei, Inner Mongolia, Shanxi, Hubei and other provinces identified the need to actively meet the challenge of employment and properly handle worker resettlement and reemployment in resolving overcapacity in their provincial government work reports released at the local NPC and CPPCC.

Jiangsu, Hubei, Guangxi and other provinces had developed policies to stabilize jobs with unemployment insurance fund. Jiangsu Province made it clear that enterprises that had successfully avoided and reduced layoffs can get job-stabilizing subsidies by no more than 50% of the total unemployment insurance premium paid in the previous year by enterprises and their employees. The subsidies can be used to pay workers' living allowance, social insurance premiums, skills training and other related expenses.

Challenges facing worker resettlement in resolving excess capacity

Although governments at all levels had been aware of the importance of worker resettlement and had taken actions to protect workers' interests, there still exist serious challenges in worker resettlement in resolving excess capacity.

Weakness of social security system in China

At present, worker resettlement in resolving excess capacity is only limited to basic living security. There is no effective unemployment insurance system to promote employment. In particular, socialization of the unemployment insurance system is low, the unemployment insurance treatment is low, and contradiction between the income and expenditure of the unemployment insurance fund has become more and more outstanding, therefore the unemployment insurance system hasn't played an important role in meeting the basic needs of the laidoff workers.

Insufficient support for reemployment from the government

The government's support for the worker resettlement in resolving excess capacity is definitely insufficient. The main problems are low effectiveness of resettlement policies, insufficient funds and poor services.

Although the central government uses fiscal funds to encourage enterprises to accelerate the elimination of backward production capacity in the form of incentives, but the amount of funds is at present little more than a drop in the ocean. Since the money has to be used to pay previous debt apart from resettling workers, the amount used for worker resettlement is very limited and it is difficult to meet the needs of

workers for resettlement.

Suggestions on the protection of workers' rights and interests in resolving excess production capacity

Adjustment of overinvestment and overcapacity will be a painful process, in which worker resettlement remains an important part since it helps to reduce resistance and achieve social harmony in the growth process. Protection of workers' rights and interests needs to fully play the roles of the government, enterprises, trade unions, workers, etc.

Establishing a new social governance mechanism with multiple participants

Adjustment of economic structure and resolving overcapacity involves a large range of partners including the central and local governments, enterprises, trade unions and workers. Their interests are adjusted in the process, which is like to induce conflicts and social unrest. In order to ensure the smooth implementation of the policy to resolve the excess capacity, it is necessary to adhere to the principles of social dialogue and establish a new social governance mechanism with multiple subjects to participate in the labor relations management system in resolving overcapacity and resettling workers. These subjects include the departments of human resources and social security, the development and reform commission, the department of industry and information, the department of finance, the state-owned assets regulation and administration commission, trade unions and other departments concerned. Specific policies should be adopted to clarify

the respective responsibility of each department, establish information communicating, unobstructed participation, cooperation and joint action mechanisms, to coordinate various economic interests and ensure the successful resolving overcapacity and worker resettlement.

Improving public services concerned from the government

The government should survey shunt workers, and adopt different resettlement policies on basis of age, knowledge structure, and work capacity. Shunt workers close to retirement age and having difficulty in reemployment are allowed to retire in advance. Other shunt workers should be included in the employment service system. They will benefit from the policies of promoting independent innovation and opening businesses of their own. Enterprises receiving shunt workers will be given incentives from the government.

The government should supervise and guide enterprises to make a feasible scheme of worker resettlement and social security, which will be submitted to the local department of human resources and social security for examination and approval to ensure that the resettlement scheme is in accordance with law and other policies concerned. The scheme is the pre-condition to determine whether the enterprises will close down, stop production, or transfer to other business. For key enterprises, the government should establish labor monitoring system, timely grasp the employment situation and labor relations. For the closure of bankrupt enterprises, the government should urge enterprises to pay economic compensation to workers discharged of labor contracts, to pay off the unpaid salaries and social insurance premiums, and to properly handle the transferring and continuation of the social insurance affairs when shunt workers find jobs in another enterprise in accordance

with the relevant provisions of the public policies , to protect the rights and interests of workers and to avoid labor conflicts due to illegal violations.

Increasing financial support for reemployment and improving the unemployment insurance system

The governments at all levels should broaden the financing channels to increase financial support for worker resettlement, utilize corporate restructuring special funds transparently, scientifically and effectively and reward the local enterprises for proper resettlement of shunt workers in resolving excess capacity.

The fiscal fund from the central government can be allocated more towards the enterprises in poverty-stricken areas with severe financial difficulties and poor economic performance. The local governments should also set up special funds to provide financial support for worker resettlement in resolve the overcapacity. At the same time, the scope of the award should be extended from the central and local state-owned enterprises to the private enterprises, to ensure all shunt workers can be covered.

The government should also reform and improve the unemployment insurance system, to make it more helpful in the reemployment of shunt workers. New policies should be made to make it possible to utilize the unemployment insurance fund to support worker resettlement and effectively narrow the huge funding gap. Furthermore, the expenses range of the unemployment insurance fund should also be expanded to fully play its function in preventing unemployment and promoting employment. The unemployment insurance fund should also be used to support training, improving shunt workers' ability to adapt to new jobs.

After the closure of the enterprises, the original land allocated should be returned to the local government according to the law. The local government can use the land revenue funds to cover the expenses in worker resettlement.

Innovating skill training mechanism to help workers adapt structural adjustment

The innovation of skill training mechanism needs to transform roles of government, enterprises and workers, to change the current dominant role of government, to give full play to the market in identifying training content and training approaches, and to fully utilize the technical advantages from the enterprises. At the same time, social organizations should be encouraged to participate in vocational training, to open training institutions. Workers should be given more choices in receiving skill training, whether in courses or in time of study. Training content should be set on basis of market survey to ensure that skill training shunt worker receiving are exactly what market needs and what workers need to get reemployment. Social dialogue and tripartism should be stuck to in the whole process.

Protection of workers' economic democratic rights

Enterprises should improve such internal management institutions as opening enterprises affairs, promoting democratic management and collective bargaining to ensure the scheme of worker resettlement is open, reasonable and fair. Enterprises should also fully protect workers' rights of knowing about, participating in and supervising management. Workers' views should be consulted and listened to before any scheme of restructuring is made, adopted and implemented so as to protect workers' economic democratic rights.

Government promoting innovation and entrepreneurship to creat more jobs

Several decades after China adopted the policy of reform and opening up, the era of stimulating economic growth via large-scale investment has pasted. Right now, only by the continuous accumulation of human capital and innovation can China achieve endogenous economic growth. And only be innovation and promoting the development of small and medium-sized enterprises can China create more jobs for the shunt workers subject to restructuring. To promote innovation, the government needs to increase decentralization efforts to cut down the governments' power list, to further clarify governments' responsibilities and abolish the onerous and outdated terms of administrative approval to create a better environment for entrepreneurship and innovation. In addition, the government should increase investment in science and technology. Innovation and development is the core and key of economic structure adjustment. Only by economic structure adjustment and in-depth implementation of innovation-driven development strategy can China truly realize the transformation of development mode and continuously improve the quality and efficiency of development. Last but not least, the government should develop proper policies to promote new industries, which brings a large number of employment opportunities. Data show that the service industry has contributed over half of all growth of China's economy. With the deepening of the reform of China's economic structure, the new service industries, represented by health care, elderly supporting and other industries, have developed rapidly. At the same time, the Chinese economy is facing great opportunities, among which

'Internet plus' is most significant. There are hundreds of millions of intelligent mobile phone users in China, which provides large scale of potential market, hard to imagine for any other economy in the world. The government should fully consider this advantage in developing macroeconomic strategy, so as to creat more jobs for workers.

¹QiuHaifeng: *China'sdetermination to resolve the excess production capacity stands firm*, People's Daily (overseas edition), August 1, 2016.

²MengXuduo, Zhan Jing, *Issue of labor relations in enterprises in the process of resolving overcapacity: current situation, causes and countermeasures*, edited by Yanbin Liu, *Chinese Labor and Social Security Development Report (2015)*, Social Science Literature Press, 2015, page 372.