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Employment for the masses in China

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Vice-Premier Zhang Dejiang warned a week ago that China's employment situation was "grave" and the country desperately needed proactive job creation policies to lever college graduates into work.

Yet factory bosses all over the country were screaming that they couldn't find enough workers and their wages bills were going through the roof.

Perhaps Zhang refuses to believe the fact of China's rapidly tightening labour market because he is a particularly inflexible conservative. In the three years to 1980, when the rest of the country was reversing course towards an open, market-oriented economy, Zhang was studying for his economics degree at Kim Il Sung University in North Korea.

More likely, however, an old-style propaganda specialist like Zhang has missed the single greatest success of his own Government because he is being badly advised.

It's hard to think of economic data that would be more valuable to China and the world right now than a reliable series on Chinese unemployment and wage rates, particularly one that focused on the urban private sector economy.

Unfortunately, there is no such thing. Nor is any Government agency interested in publishing existing survey data in a timely or transparent form. Instead, China's ever-expanding bureaucracy has left this work to economists such as Cai Fang and Du Yang, at the influential Chinese Academy of Social Sciences, and Albert Park, at the University of Oxford.

Their new paper, *Can China Meet Her Employment Challenges?*, analyses 2005 mini-census results to show urban unemployment fell from 8.1 to 5.2 per cent between 2001 and 2005 - even as millions of state sector workers were retrenched and tens of millions of rural migrants poured into the cities.

The economists also calculated that these unemployment rates were 30 per cent higher than they would have been if the census had used an unemployment definition that was consistent with international standards.

"If one adjusts for the upward bias in the census estimate relative to international norms, the unemployment rate was less than 4 per cent," say the authors.

This is a phenomenal result. And the actual unemployment rate has undoubtedly fallen since 2005, as reports of labour "shortages" have spread from the Pearl River region of Guangdong to other coastal provinces and even inland industrial centres.

Ironically, the study's 4 per cent unemployment rate is exactly in line with the latest data from the Government's discredited registered unemployment benefit series. This series is ignored because it omits, for example, 45 million workers who were retrenched during "restructuring" between 1996 and 2002, because they qualified for alternative compensation schemes.

Recently, anyone left in the "retrenched worker" category has been shifted onto the ordinary unemployment benefit queue. So the fact that the official rate declined to 4 per cent in the second half of last year suggests that almost all retrenched workers have found new jobs or dropped out of the workforce altogether. Or unemployment has declined even more rapidly among the rest of the urban population.

The three economists also show unemployment has fallen just as rapidly among young Chinese as older age groups and the wage returns for education are rising - debunking the Vice Premier's theory that China is not creating jobs for its hugely expanding population of new college graduates.

There are still far too many unemployed people living in China's mega-cities, of course, but the challenge is now in the league of Sydney or New York rather than what might be expected from a giant country in rapid transition from being an "iron rice bowl".

Arguably, creating adequate work opportunities for rural Chinese is an even greater challenge than overcoming urban unemployment.

Rural employment is difficult to measure because peasants are more likely to be underemployed on their own plots of land than out of work altogether.

The best starting point is to look at the 140 million-odd rural migrants now working in cities.

Again, China's bureaucracy doesn't make it easy. The study by Park, Cai and Du shows urban unemployment rates are lower among rural migrants than long-time

urban residents, presumably because migrants can return to their fields if they don't find work.

Also, a Ministry of Agriculture rural household survey shows real wages of migrant workers fell 0.6 per cent in 2004 before rising 4.9 per cent in 2005 and 9.8 per cent in 2006. These results suggest the labour market has recently shifted significantly in the favour of rural migrants, from a very low base.

The rural household survey for 2007 was completed months ago. Some expect it will show migrant wages rose at least 20 per cent last year, in line with a recent Fudan University survey. Strangely, the bureaucracy has not yet published the results.

Six weeks before Vice-Premier Zhang revealed his "grave" concerns about the employment situation, the manufacturer Shun Fat Underwear told the *Herald* that it was seriously short-staffed despite moving its factories inland in search of more workers.

That week, China's then minister for social security and labour, Tian Chengping, warned of a "very severe" employment situation and the urgent need for job creation and social security policies.

Tian seemed more interested in retaining his own relevance than acknowledging the labour market revolution that is sweeping tens of millions of people into work, up the wages ladder and out of government-assistance programs.

Tian has since been replaced and his ministry subsumed within a "super ministry" of human resources. We'll soon know whether this marks a shift in orientation towards providing public services or whether it is simply another incremental expansion of bureaucracy.

