

Labor Markets

China's Booming Service Industry Can't Keep Up With College Grads

Many jobs being minted are menial and pay low wages.

By [Dexter Roberts](#)

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After more than two decades in the factories of the Pearl River Delta making artificial Christmas trees, furniture, and golf clubs, Ji Jiansheng was ready to try something else. A dispute with his bosses over wages was the final straw, so Ji, 38, scraped together his meager savings and opened a restaurant in Shenzhen a little more than a year ago. Now he's up at 5:30 a.m. to buy ingredients for the Shandong-style dishes his small eatery specializes in, and often doesn't hang up his apron until 10 p.m. "I still have to work hard, but I have freedom," Ji says. "It feels much better not having to answer to a boss."

Ji's move from manufacturing into services mirrors a sweeping economic transition being championed by policymakers. The country needs services to become a bigger part of the economy to accommodate new entrants into the labor force, workers being shed by the old smokestack industries, and farm laborers joining the relentless march to the cities. Service industries now employ more than 43 percent of China's 776 million workers, up more than 8 percentage points from 2012, and more than in manufacturing. In developed countries, it ranges between 70 percent and 80 percent.

To spur job creation, the State Council has lowered taxes on service companies, slashed capital requirements for registering enterprises, and encouraged local governments to set up incubation hubs and entrepreneurial parks to support startups. The goal is to create 50 million jobs by 2020.

The strategy is working—to a point. The last time China saw massive factory closures, in the late 1990s and early 2000s, joblessness surged; that's not happening now. The official registered unemployment rate fell to a 14-year low of 3.97 percent in the first quarter. "The service sector is playing a much better role in stabilizing the overall labor market," says Ernan Cui, an analyst at Beijing-based China consulting firm Gavekal Dragonomics.

More and more Chinese are making a living running restaurants, like Ji, or delivering packages or selling goods online. But those occupations hold little attraction for the growing legions of college graduates—almost 8 million this year alone. Despite government incentives, the economy

isn't creating enough high-skilled service jobs for software programmers, financial advisers, brand managers, and others.

Albert Park, an economist at Hong Kong University of Science & Technology, recently analyzed census data from 2000 through 2014 and determined that, compared with other developing countries, China had a larger proportion of low-end services and sales jobs, while it lags in professional and technical positions. "If China's goal is all about upgrading the economy, then one might be worried," says Park, who suggests barriers to entry in state-dominated industries such as telecommunications and health care are hindering employment growth.



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Median per-capita disposable income didn't grow as fast as the economy in the first quarter, the first time that's happened in the three years the statistics bureau has been releasing the data. One reason may be that workers in service industries often don't have as much leverage in wage negotiations as those in manufacturing. Many lack formal employment contracts and don't have access to the social welfare benefits offered other workers, says Wang Kan, a professor at the China Institute of Industrial Relations in Beijing. For example, almost all delivery couriers and employees of property sales companies—two of the fastest-growing occupations—aren't hired directly but are subcontracted instead, he says, which means "the employer can bypass the labor law."

Agnes Fan, who will graduate from Southwestern University of Finance and Economics next month with an accounting degree, has already lined up her first job, and it's in the service industry: working in the financial department of a district government office in Chengdu, in Sichuan province. The 21-year-old feels fortunate. "It isn't easy to find a job these days. Every year, China has more and more college graduates," she says, adding that some of her classmates have had to accept jobs they dislike while others are still searching. Nevertheless, Fan has mixed feelings—the government position she'll start at in June provides good security, but her dream is to work at one of China's fast-growing internet companies. For now she's looking on the bright side: "At least I don't have to worry about being unemployed."

The bottom line: *Service industries, which employ 43 percent of all Chinese workers, are creating few jobs fit for college graduates.*

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