

Unemployment in Mainland China: Current Situation and Possible Trends

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For decades, the word “unemployment” was taboo in the Chinese mainland. In the 1980s, surplus workers from various enterprises were described as “job-awaiting (daiye) people.” However, after Beijing decided to deepen economic reforms in the early 1990s, the growing numbers of surplus workers have forced the state to bring the problem into the open. This paper will analyze the unemployment crunch of the 1990s, which consists of cyclical unemployment, structural unemployment, and frictional unemployment.

Keywords: surplus work force; cyclical unemployment; structural unemployment; frictional unemployment

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For decades, the surplus of labor resources has been a perennial problem in mainland China's economic development. In the years before economic reforms, the problem remained latent thanks to Beijing's implementation of a planned economic system and a full employment policy. During the early 1980s, when the problem of redundant workers began to surface, fast economic growth provided timely relief. However, after Beijing determined to deepen economic reforms in the early 1990s, emphasis on market economy expansion and increased production pushed it to the fore as a hot issue. In late 1993, conditions had become so serious that the word “unemployment” began to appear in official statistics for the first time; previously the term had been disguised under the euphemism “job-awaiting (*daiye*) people.”¹

¹Hu Jian, “China's Unemployment Problems in the Economic Reform Process,” *Jinjixue dongtai* (Economics Information) (Beijing), 1996, no. 1:29.

This paper will study the formation of the unemployment problem in mainland China and analyze its conditions in the 1990s.

Factors Behind the Formation of the Army of the Unemployed

During the planned economic system period, three criteria were generally used by Beijing for appraising the achievement of its enterprises: productivity, profits, and job absorption. When enterprises were forced to absorb, at the expense of efficiency, a volume of labor which exceeded the demands of their productivity, it gave rise to "hidden" unemployment. After Beijing decided to deepen its reform policy and seek economic growth and productivity by placing profit as the sole objective for its enterprises, the latter were bound to turn the long-held social responsibility of relieving unemployment back to the state. As a result, hidden unemployment began to surface. In other words, mainland China's current massive unemployed population has not been formed suddenly; it is an offshoot of the planned economy and has been revealed by the expansion of a market economy.

In the early 1980s, most mainland Chinese farmers still held a strong attachment to their homeland. Mechanization of farms was backward and the notion of a scale economy had yet to be established. Although some peasant workers had already started to flow out with the implementation of the household production contract system, their numbers were quite limited, leaving little effect on plant production. In comparison with 1978, the rural labor force in 1986 decreased by merely 1.2 percent, totalling 3.11 million peasant workers.² In addition, during this period, township enterprises encouraged by the reform of ownership began to spring up. Between 1983 and 1988, they made great contributions to the relief of unemployment pressure, as the number of enterprises reportedly grew at an average of 3.5 million each year, creating 12.6 million new job opportunities.³

Urban unemployment conditions in the late 1970s were quite serious in face of the massive inflow of rusticated youth, with a peak of 5.4 percent reported in 1979. However, the situation was

²Yang Zhen, "Labor Employment: The Challenges and Alternatives That China Faces," *Zhongguo jingji wenti* (China's Economic Problems) (Beijing), 1988, no. 6:26.

³Xiao Jizhi and Zhu Hong, "The Employment Problem in Our Country," *Jinjixue dongtai*, 1995, no. 10:23.

Table 1
Mainland China's Urban Unemployment (1978-94)

Year	Number of Unemployed (10,000)	Unemployment Rate (%)
1978	530.0	5.3
1980	541.5	4.9
1981	439.5	3.8
1982	379.4	3.2
1983	271.4	2.3
1984	235.7	1.9
1985	238.5	1.8
1986	264.4	2.0
1987	276.6	2.0
1988	296.2	2.0
1989	377.9	2.6
1990	383.2	2.5
1991	352.2	2.3
1992	363.9	2.3
1993	420.1	2.6
1994	476.4	2.8

Sources: *Zhongguo tongji nianjian 1993* (Statistical yearbook of China, 1993) (Beijing: Zhongguo tongji chubanshe, 1993), 119; *Zhongguo tongji nianjian 1995*, 106.

soon alleviated by Beijing's implementation of economic reforms. Urban reforms in the early 1980s, in comparison with the rural ones, lagged far behind; public ownership enterprises still continued their function of absorbing workers. In the meantime, various kinds of new jobs had been created by many newly established reform-related departments and the rise of the non-state economic sector. From table 1, it can be found that the urban unemployment rate had declined to 1.8 percent in 1985.

In brief, low unemployment rates in the 1980s can be attributed mainly to the paradoxical contrast between the advancement of rural reforms and comparative slowness in urban ones. Between 1979 and 1994, a total of 220 million job opportunities were created in the Chinese mainland, i.e., 20 million more than those created in the three decades before reforms.⁴ But as reform started to deepen, the

⁴The Employment Mechanism Reform and the Employment Policy Group, "A Forecast of China's Employment Conditions in the Next Fifteen Years," *Caijing kexue* (Finance and Economics) (Chengdu), 1995, no. 1:1

new job opportunities created out of the contradiction also began to shrink.

The seriousness of the unemployment crunch in the 1990s is underscored by statistics on urban unemployment alone. Table 1 shows that at the end of 1994, around 4.76 million people had registered for job assignments, but according to an estimate made by Beijing's State Statistics Bureau based on a population sample survey that year, the number should have been 6.8 million, with an unemployment rate of 3.5 percent,⁵ rather than the 2.8 percent given in table 1. This exceeds the 3 percent that the government hopes to maintain.⁶ In comparison with the 1980s, it is estimated that an additional 3.5 million to 6 million laborers seeking work will emerge in the 1990s.

Basically, there are three kinds of unemployment: cyclical unemployment, structural unemployment, and frictional unemployment.⁷ These three types will be explained in analyzing the unemployment crunch of the 1990s.

Cyclical unemployment takes place when under given conditions of wage rates and productivity, the aggregate demand for goods and services fails to create enough work opportunities for the existing labor force. In this case, the problem has manifested itself in mainland China through redundant workers.

One of the major contributors to the massive surplus labor force has been rural farms. This is in part an aftereffect of the continual rural reforms, as heightened agricultural productivity and transfers from household production into specialization production have reduced the need for farm hands. The other reason is that development of the township enterprises which played an important role in labor absorption began to slow after Beijing implemented a retrenchment policy in 1989. Handicapped by the state's tight credit policies as well as the lack of sound improvement in both internal factors (such as capital, techniques, and labor quality) and external factors (communications and transportation), the annual increase of township enterprises dropped to 1.46 million between 1989 and 1993, providing

⁵*Sing Tao Daily* (Hong Kong), August 18, 1995, A6.

⁶*Ming Pao* (Hong Kong), January 20, 1995, B1.

⁷*Renli ziyuan, ziyuan jingjixue, nongye jingjixue* (Human resources, economics of natural resources, agricultural economics), vol. 7 of *Jinjixue baike quanshu* (Encyclopedia of economics), ed. Yu Tzong-shian (Taipei: Lianjing chuban shiye gongsi, 1986), 153.

only 7.44 million job opportunities.

Another major contributor to cyclical unemployment has been state-owned enterprises. Urban reforms in the Chinese mainland in the 1990s can be divided into two stages. The first stage (1989-94) focused on the preliminary reforms and adjustments needed for establishing a market economy. The second (1995-present) aims to establish a modern enterprise system as mapped in the Ninth Five-Year Plan. In 1995, over 100 large and medium-sized state-owned enterprises were selected to restructure their capital-labor system on a trial basis. Since a special feature of restructuring has been to lay off redundant workers and bring "disguised" unemployment into the open, the policy will surely impact the already deteriorating unemployment condition once it is expanded to the entire public ownership system, particularly to collective enterprises in which the labor surplus problem is much more serious. Aside from those formerly employed by state enterprises, surplus workers also consist of contracted workers whose contracts have expired, and workers who are thrown out of work because their enterprises are bankrupt or completely or partially stop production.

Natural population growth is the third factor that has contributed to cyclical unemployment. If fifteen years constitute a growth cycle for the population and labor force, those born between 1980 and 1995 would join the labor force between 1995 and 2010. In comparison with the years before economic reforms, the annual average population growth rate of mainland China declined from 2.2 percent to 1.4 percent in the 1980s.⁸ To be more specific, after reaching a peak growth rate of 3.6 percent per year between 1978 and 1985 as the result of the baby booms between 1950 and 1960, the increase of labor force dropped to 2.3 percent between 1985 and 1990, and should drop further to 1.3 percent between 1990 and 2000.⁹

Be that as it may, the enlarging population base has led to the continued growth of the labor force in absolute numbers. This can be shown from the fact that before economic reforms, the country's annual population base averaged 770 million, but increased to 1.12 billion after initiation of reform (see table 2).

⁸Chen Dongqi, "A Forecast and Analysis of China's Employment Conditions in the Next Fifteen years," *Zhongguo gaige* (China Reform), 1994, no. 12:19.

⁹"The Large Population: A Major Obstacle to China's Modernization?" *Renkou yanjiu* (Population Research) (Beijing), 1996, no. 1:52.

Table 2
Mainland China's Labor Resources (1982-93)

Year	Total Population (10,000)	Total Labor Resources (10,000)	Index (previous year = 100)
1982	101,590	56,683	
1983	102,764	58,337	102.9
1984	103,876	60,157	103.1
1985	105,044	62,114	103.3
1986	106,529	64,006	103.1
1987	108,073	65,607	102.4
1988	109,614	66,960	102.1
1989	111,191	68,364	102.1
1990	114,333	69,732	102.0
1991	115,823	70,982	101.8
1992	117,171	72,120	101.6
1993	118,517	81,510	113.0

Sources: *Zhongguo laodong tongji nianjian 1993* (Labor statistics yearbook of China, 1993) (Beijing: Zhongguo tongji chubanshe, November 1993), 11; *Zhongguo laodong tongji nianjian 1994* (November 1994), 7.

Structural unemployment has resulted from reform changes to industrial structures. Table 3 indicates that the ratio of primary industrial value to gross domestic product (GDP) and the number of industrial staff and workers declined rapidly between 1978 and 1994. The ratio of the secondary industrial value remained static while the number of staff and workers increased slightly, from 17.4 percent to 22.7 percent. In comparison, tertiary industries exhibited rapid increases in both aspects. Since little change took place in secondary industries, it is certain that the labor force that the declining primary industries lost during this period mostly flowed into tertiary industries.

Although primary industries still play a leading position in the ratio of value to GDP and the employment rate, whether its labor force can transfer smoothly to tertiary industries hinges on labor quality and if tertiary industries develop fast enough to absorb surplus workers. In the adjustment of industrial structures, when a factory which specializes in technology production cuts down its labor force to meet changes either in technology or supply and demand patterns, but its surplus workers cannot transfer quickly to jobs created by the newly established technology, unemployment will occur.

Structural unemployment has also been reflected in the geographic distribution of the labor force. For decades, Chinese rural areas have

Table 3

A Comparison of Mainland China's Industrial and Employment Structural Changes

Year	Primary Industry		Secondary Industry		Tertiary Industry	
	% of GDP	% of total employment	% of GDP	% of total employment	% of GDP	% of total employment
1978	24.8	70.5	48.6	17.4	23.0	12.1
1985	29.8	62.4	45.3	20.9	24.9	16.7
1990	28.4	60.0	43.6	21.4	28.0	18.6
1993	19.5	57.4	47.5	22.4	33.0	20.2
1994	18.8	54.3	48.5	22.7	32.7	23.0

Source: *Zhongguo nianjian 1995* (People's Republic of China yearbook, 1995) (Beijing: Zhongguo nianjianshe, 1995), 445.

played an important role in absorbing surplus labor, and Beijing's restrictions on population mobility effectively stopped the outflow of rural labor into the eastern coastal provinces. After restrictions were gradually relaxed in the wake of reforms, however, peasant workers began to migrate into the eastern areas to seek higher incomes and better living. As mentioned earlier, reforms' impact on rural areas' employment structure in the 1980s was not conspicuous: the ratio of the labor force to mainland China's total labor force dropped less than three percentage points, from 76.31 percent in 1978 to 73.34 percent in 1993.¹⁰ But since that time, labor mobility began to increase. According to a World Bank estimate, rural employment in the 1990s will increase by 0.8 percent per year while urban areas will increase by 2.8 percent. If the fast-developing eastern coastal provinces cannot absorb all the incoming peasant workers and the backward rural areas can provide only few new jobs, an unemployment problem will arise.

The third type of unemployment, frictional employment, has mainly resulted from the implementation of a market economy policy, which demands the establishment of a labor market and reallocation of labor resources through market mechanisms. Given Beijing's full employment policy in past decades, the establishment of a perfect market economic system in the Chinese mainland was bound to be

¹⁰Yang Qijie, "An Analysis of the Changes in Our Country's Employment Since the Economic Reforms," *Jingji wenxian xinxi* (Economic Newsletter) (Beijing), 1994, no. 10:25.

a bumpy road. With a lack of perfect information, an overabundant supply of labor, and the demand for higher labor quality, many surplus workers have found that their resettlement opportunities are quite limited.

Prospects for the Late 1990s

Judging from the foregoing analysis, it is certain that mainland China's actual unemployment rate is much higher than that given by the official statistics. Aside from the visible surplus workers, a huge number of "disguised" unemployed workers have yet to be unveiled. It should therefore be no surprise that further rural reforms and the expansion of scale economy will bring about a rapid surge in the number of surplus peasant workers. According to a mid-1995 report, people of working age in rural areas totalled 580 million, or 540 million laborers after deducting those who were handicapped. Studies have shown that if the average area of cultivated land per person is 10 acres (as estimated by Beijing in the early 1950s), rural land in mid-1995 could only absorb a maximum of 160 million peasant workers. In other words, the surplus labor force included 60 percent of the total labor force, i.e., 270 million workers. As 140 million of the surplus were absorbed by township enterprises and other sectors of the economy, and another 30 million moved across county/city boundaries, there still remained 200 million workers waiting for job assignment, constituting a 37 percent of "disguised" unemployment.¹¹

Based on statistics, between 1979 and 1994, rural reforms resulted in between 90-120 million surplus peasant workers, two-thirds of which flowed into township enterprises. The remaining one-third, with yearly additions of new laborers, is expected to increase to 35-40 million by 2010. To absorb them, Beijing would have to create 2.3 million to 2.7 million job opportunities each year.¹²

As for urban employment, studies show that if the principle of efficiency is carried out in allocating labor resources, there would be a minimum of 20 million surplus workers from enterprises and

¹¹Mi Wenmei, "Facing the Challenge of Unemployment Problems," *Xinbao caijing yuekan* (Hong Kong Economic Journal Monthly), no. 220 (July 1995): 9.

¹²Chen Dongqi, "China's Employment Conditions in the Next Fifteen Years: Its Predicament and Strategic Alternatives," *Jingji yanjiu* (Economic Research) (Beijing), 1995, no. 1:53-54.

5 million from various government institutions, with a "disguised" unemployment rate of 16.9 percent.¹³ Another study finds that in 1995 there were 150 million staff and workers in the public ownership sector. After deducting the layoff coefficient of 0.1 and workers who retired at an early age, it is anticipated that there will be 12 million surplus workers between 1995 and 2010 waiting to be resettled. If the layoff coefficient is raised to 0.2, the number reaches 24 million. In other words, each year the resettlement of surplus workers would absorb more than 1.6 million urban new job opportunities.¹⁴

In the past, many mainland China studies have estimated the numbers of new laborers for each year. For instance, according to Liu Jiaqiang, professor of the Southeast University of Finance and Economics, 25 million people at working age emerge each year. After subtracting diseased, handicapped, and aged people who are no longer in the labor force, the net increase would be 13 million workers.¹⁵ Similarly, a study made by the Economics Institute of the Chinese Academy of Social Sciences also finds that in the 1990s, labor resources have maintained a continual increase in absolute numbers, from 12.5 million people per year between 1990 and 1995 to 14.5 million between 1995 and 2010,¹⁶ with expectations for a new peak by the end of the Ninth Five-Year Plan. The ratio of the labor force to the total population has escalated from 46.5 percent in the early 1950s to 55.8 percent in the early 1980s, 60 percent in the late 1980s, and 69 percent in 1995.¹⁷ In short, by adding the aforementioned 2.5 million surplus peasant workers to the 1.6 million urban surplus laborers and the yearly 14.5 million increase in laborers, Beijing must create around 18.6 million new job opportunities each year between 1995 and 2010.

Conclusion

In a Chinese mainland environment with backward economic development and a massive population, employment has been a major

¹³See note 11 above.

¹⁴"A Forecast of China's Employment Conditions," 2.

¹⁵Liu Jiaqiang, "Six Contradictions in the Current Labor System Reforms," *Caijing kexue*, 1995, no. 1:6.

¹⁶Hu, "China's Unemployment Problems," 30.

¹⁷*Ta Keng Pao* (Hong Kong), March 23, 1995; A4; *Sing Tao Daily*, August 18, 1995, A6.

issue. During the 1980s, the development of the private sector of the economy, township enterprises, and service industries made great contributions in absorbing surplus workers. However, the capacity of these channels for absorbing redundant workers has been greatly diminished since Beijing adopted a policy of slower and steadier economic growth in the 1990s. Although exporting laborers abroad has emerged as a new channel, its volume is quite limited under the current international environment, which has focused on the development of regional economic communities and protectionism.

For the Ninth Five-Year Plan period, the Labor Ministry hopes to keep the increase of rural surplus worker outflow to other sectors under a rate of 10 percent and the urban unemployment rate under 5 percent.¹⁸ Nonetheless, the real pressure of mainland China's unemployment lies in its large population base. An increase of one percentage point in the urban worker surplus represents an addition of 1 million unemployed people,¹⁹ while a decrease of one percentage point in the agricultural labor force represents 3 million surplus workers waiting to be transferred.²⁰ Presently Beijing has decided to maintain an annual 20 percent increase in labor productivity.²¹ Under this rate, unemployment pressure will only become more serious.

However, from the demographic standpoint, the high ratio of labor force to the total population is advantageous for economic development. As the dependency ratio of underage or overage members of the population to workers in mainland China is expected to remain relatively low from now through the first quarter of the next century,²² prospects for economic development are not all dismal, as long as Beijing can solve the current problems resulting from past erroneous policies and economic reforms, and bring its rich labor resources into full play.

¹⁸*Ming Pao*, January 20, 1995, B1.

¹⁹*Ibid.*, December 3, 1995, A7.

²⁰Wang Yanshi, "Advantages and Disadvantages in This Year's Employment Conditions," *Guangming jibao* (Beijing), January 5, 1996, 4.

²¹*Ming Pao*, January 20, 1995, B1.

²²Chen Wei and Shen Zhengrong, "The Policy Implication of Changes in Age Structure of Chinese Population," *Renkou yanjiu*, 1990, no. 4:26.