

**UNEMPLOYMENT PROBLEM
OF CHINA'S YOUTH**

ZHAO Litao & HUANG Yanjie

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Executive Summary

1. China's young generation did not undergo all the hardships their parents and grandparents had to endure. Yet, they face difficulties of a different kind, from unemployment to pricey housing, some of which were not experienced by the older generations.
2. What confronts the young generation of today is structural unemployment, mostly resulting from a mismatch between the conditions and nature of jobs and the skills and expectations of the young generation.
3. For college graduates, the presumably most privileged group among the young generation, finding a job is the beginning of many challenges awaiting them. They have to compete with 6 million other fellow graduates for desirable jobs that are concentrated in a few large cities.
4. In recent years, more than 30% of college graduates fail to secure a job upon graduation each year. The real unemployment rate could be higher than this official number. Many have to lower their expectations to take jobs that high school graduates would qualify.
5. The problem of educated unemployment has its root in the earlier higher education reforms, particularly the government's decision to expand tertiary enrollment by nearly 50% in 1999. Not surprisingly, four years later, unemployment for the first time became a big problem for college graduates.
6. The number of new intake of college students on average grew 22% annually between 1998 and 2006. The pace of expansion slowed down thereafter. Nevertheless, the labor market could not absorb the rapidly growing number of college graduates, despite double-digit economic growth in much of the 2000s.

7. China's higher education institutions are not as responsive as they should to the changing demand of the labor market. Instead, they strive to become as large and comprehensive as possible, leading to a lack of functional differentiation and a failure to provide a mix of skills to China's increasingly complex economy.
8. Unlike in the past, attending university is no longer a guaranteed route to upward social mobility. Concerned about uncertain job placement and soaring tuition fees, many high school leavers reportedly chose not to sit for the college entrance examination, which was unthinkable prior to the 2000s.
9. The employment situation for second generation migrant workers is starkly different. From 2004, a shortage of migrant workers has occurred in the Pearl River Delta and other coastal regions. The 2008 global financial crisis was only a temporary setback.
10. The trend of labor shortage will continue and very likely become more acute, widespread and permanent, particularly after 2015 when the number of new labor market entrants falls sharply. The changing demography helps second generation migrant workers ask for higher pay and better working conditions.
11. The danger of structural unemployment, however, also exists for second generation migrant workers. While they aspire to live a better life, for various reasons, they are not better educated/trained than the first generation migrant workers. They may not qualify for the more desirable jobs.
12. A broader policy agenda is needed to address the deeper issues underlying the problem of structural unemployment. Otherwise, the strange phenomenon of unemployment and labor shortage is likely to coexist for China's young generation, be they college graduates or second generation migrant workers.

UNEMPLOYMENT PROBLEM OF CHINA'S YOUTH

ZHAO Litao & HUANG Yanjie*

Unemployment among China's Young Generation

- 1.1 In early 2009, there was much worry over unemployment among migrant workers and college graduates. In response to the stimulus package and the robust economic rebound, the Chinese labor market outperformed the expectations of the Chinese leadership, as employment rate reached above 87.4% for college students and the market for migrant workers made a dramatic turn from labor surplus to labor shortage.¹
- 1.2 However, unemployment for the youth, particularly college graduates, remains a critical issue. In today's labor market, the unemployment issue among the young generation is dominated by structural unemployment, mostly resulting from a mismatch between the conditions and nature of jobs and the skills and expectations of the young generation. Unlike the earlier unemployment situation created by the financial crisis, this type of unemployment tends to persist.
- 1.3 For college graduates, the problem of structural unemployment was aggravated by the rapid expansion of tertiary enrollment between 1999 and 2006; the number of new intake grew 22% per annum from 1.1 million in 1998 to 5.5 million in 2006. China's higher education expanded too quickly in too short a period of time for the job market to catch up. Although the pace of

* Dr. Zhao Litao is a Research Fellow at the East Asian Institute, National University of Singapore; Huang Yanjie is a Research Assistant at the same institute. They would like to thank Professor Zheng Yongnian and Professor John Wong for their very helpful comments.

¹ This employment rate of 87.4% is reported by the Chinese Government Official Website. There is a significant rise from the rate of 74% published by *China Social Blue Book 2010* based on survey data collected in September 2009 and the official employment rate of 68% upon graduation in early July.

expansion slowed down in 2006 and thereafter, the number of new intake continued to increase, due to the prior expansion of primary and secondary education.

- 1.4 More importantly, educational quality suffered in the process for a number of reasons. Universities lowered admission requirements in competition for fee-paying students. High quality faculty members could not possibly grow as rapidly as student enrollment. Moreover, creation of profitable programs was prioritised over the creation of a good teaching and learning environment.
- 1.5 The problem of educated unemployment first appeared in 2003 with the graduation of the 1999 cohort. As many as 750,000 college graduates could not find a job upon graduation; the number soared to 1.2 million in 2005, and nearly 2 million in 2009, or 32% of the 6.1 million graduates. The real numbers could even be higher than the official figures.²
- 1.6 Unemployment is but one problem facing college graduates. The oversupply of college graduates has also brought down the average wage levels, as many are forced to take low-paying manual jobs. Considering the uncertainty of job placement and the soaring costs of attending university, many high school leavers reportedly chose not to sit for the college entrance examination.
- 1.7 It should be noted, however, that not all college graduates are facing the same dire situation. A discussion with the Provost of Nankai University reveals that by and large finding a job with decent pay is not a big problem for those from China's top universities. As higher education opportunities become more widely available, a major fault line in social stratification is shifting from between secondary and higher education to within higher education, i.e., between the reputable universities and less reputable ones.
- 1.8 In contrast to college graduates, second generation migrant workers, who often have lower expectations than college graduates, have better employment

² To reach the benchmark employment rate of 70% upon graduation required by the Ministry of Education, some universities report some unemployed graduates as employed.

opportunities. In fact, there has been a shortage of rural migrant workers since 2004, particularly in the Pearl River Delta region. It has to take a major external shock as large as the current global financial crisis to temporarily reverse the trend. About 20 million migrant workers were laid off in 2008. However, since the second half of 2009, a shortage of migrant workers reemerged, not just in the coastal region, but also in some larger cities in inland provinces.

- 1.9 Unemployment is less of a problem for migrant workers than for college graduates. The National Bureau of Statistics reported an employment rate as high as 97% for migrant workers in the second half of 2009. The recent phenomenon of labor shortage, however, conceals a potential problem of structural employment for China's young migrant workers.
- 1.10 The emergence of second generation migrant workers is the chief reason behind the phenomenon of labor shortage in labor-intensive industries. The second generation migrant workers, now making up 60% of all migrant workers, are not necessarily better educated than the first generation migrant workers. Yet unlike the latter, they are less tolerant of low wages, bad conditions and long working hours.
- 1.11 Such a demographic and social change has driven the wage levels upward without hurting the employment of migrant workers thus far. While this is a welcome development, there is a limit to how far the wage increase can go. At some point further wage increase will require higher skills and increased productivity. Unless the second generation migrant workers receive better education and training, sooner or later they will face the problem of structural unemployment. Unlike the first generation migrant workers who would return to hometown when laid off, the second generation migrant workers are likely to remain in the cities and become a concern for social instability.

Narrowing Gap between College Graduates and Migrant Workers

- 2.1 Since late 2008, unemployment has become the catch word in the Chinese policy circles. The global financial crisis had led to massive lay-off of migrant workers. Many returned to the countryside, especially first generation migrant workers who maintain close ties with their home villages. The crisis also worsened the problem of structural employment for China's more than 6 million college graduates entering the labor market last year.³
- 2.2 As the Chinese economy achieved a remarkable growth rate of 8.7% and created 9.1 million new jobs in 2009, the employment situation improved significantly.⁴ The job market for migrant workers especially performed in excess of previous expectations. According to a survey by the National Bureau of Statistics, the employment rate for migrant workers reached 97% in the second half of 2009. A shortage of migrant workers occurred in various parts of China, with the labor shortage in Pearl River Delta reportedly exceeding 2 million.⁵
- 2.3 The average wages of migrant workers have also increased. A research team from the People's University found that the average salary of second generation migrant workers reached 1,728 RMB. For those with technical expertise and experiences, the standard wage rate can be much higher. The same survey also indicated a change in attitude of these young migrant workers, marked by heightened pay expectations and a concern for career development.⁶

³ Employment for college graduates is one of key issues discussed in the *Lianghui* (The National People's Congress and the Chinese People's Political Consultative Conference) of 2009. See also commentary in *the People's Daily*, 9 March 2009, Diagnosis on the Employment Difficulty of College Graduates.

⁴ http://news.xinhuanet.com/fortune/2010-01/21/content_12849496.htm [Accessed on 19 April 2010].

⁵ *Southern Metropolitan News*, 23 February 2010.

⁶ *China Youth Daily*, 8 April 2010.

- 2.4 While second generation migrant workers have raised their expectations, most college graduates have been forced to adjust their expectations downwards. Employment rate also varied widely between disciplines and colleges; most significantly, engineering and accountancy had the highest rate of almost full employment whereas law, foreign languages and business administration, all formerly hot subjects, ended up with relatively low rate of employment.
- 2.5 According to a survey by Bingo Job on 1 million fresh graduates, generalist jobs in marketing, sales and logistics absorbed more than 40% of college graduates as new entrants to the labor market. Relatively few (15-20%) jobs are available for specialist and professional positions. For generalist jobs, most employers only require a diploma or even high school education, rather than a university degree.⁷
- 2.6 Average wage rate for college graduates has also declined. According to a national survey by a consulting firm, the starting monthly pay of college graduates was barely 1,825 RMB (S\$365) for degree holders in 2009 and only 1,375 RMB (S\$285) for diploma holders.⁸ In general, the monthly wage rates for fresh college graduates are not significantly higher than those of migrant workers with some working experiences. As for migrant workers in heavy manual work or with some technical experience, their monthly wage can be significantly higher than that of fresh college graduates.
- 2.7 Another salient feature of college graduates employment is the regional gaps in job availability. According to the same survey, the coastal region provided up to 80% of the available positions in the job market. Similarly, gross employment rate for college graduates in Shanghai and Beijing are well above 90%, higher than 80%-85% in inland provinces.⁹ This naturally leads to over-

⁷ College Graduates Employment Report, Bingo Job. Professional and specialist positions here include IT, finance, engineering, teaching, consultancy and medical services.

⁸ *Social Blue Book 2010*, Sociological Institute of the Chinese Academy of Social Sciences, December 2009.

⁹ *The Liberation Daily*, 12 April 2010.

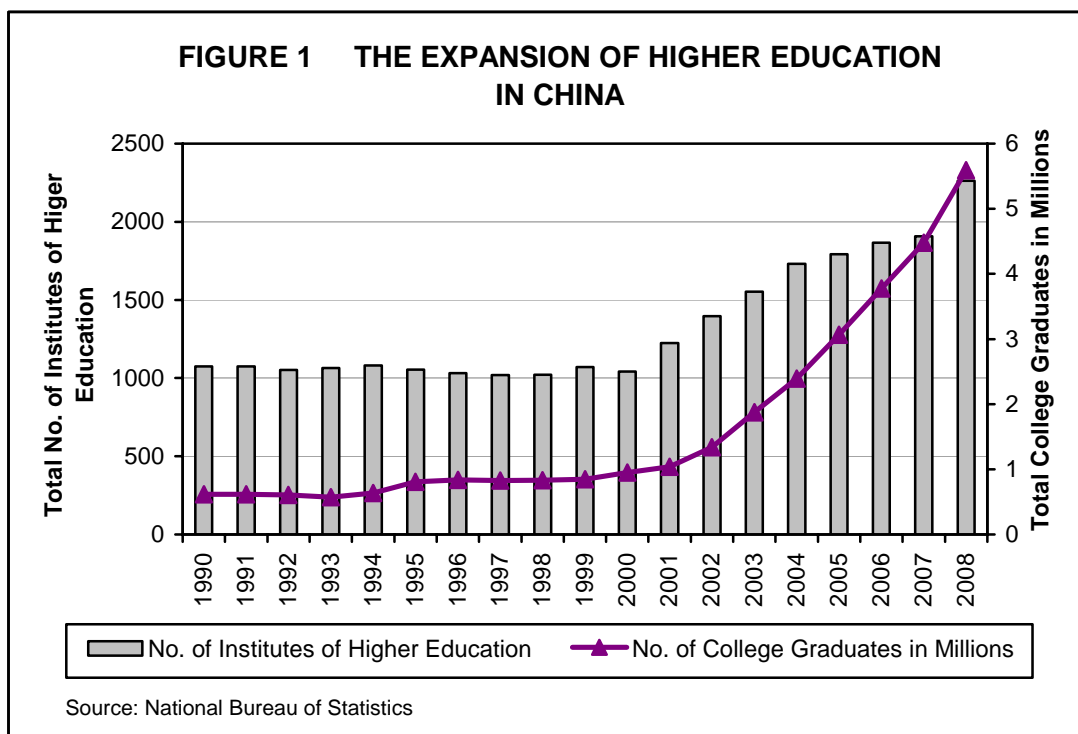
concentration of fresh graduates in large cities in eastern China and large scale migration from inland to coastal regions and the metropolitan centers.

- 2.8 The narrowing gap between earnings of college graduates and young migrant workers has an unexpected effect on education decisions for poor households. In the past, there was strong incentive for poor rural households to make every economic sacrifice to let their brightest sons and daughters attend college. Such incentive is rapidly disappearing as college graduates fail to secure jobs with clearly better pay and higher social status. This creates a tendency for youths from rural households to abandon schooling beyond the required minimum years. The unemployment problem of college graduates thus works to impede social mobility and accelerate stratifications.
- 2.9 Many employment issues for college graduates, including unemployment, skill mismatch and underemployment, have aroused many complaints. Even among the newly employed, many are dissatisfied with the government's education and employment policies. According to an online poll, most college graduates of the year 2009 are in general much less satisfied with employment opportunity and career prospect afforded by their college education than the cohort of 2008.¹⁰
- 2.10 Moreover, the most rewarding employment opportunities for fresh graduates, such as jobs in monopoly sectors and government departments, are at best partially based on meritocratic principles, especially at the local levels. The entry into these privileged sectors is often closed to graduates without special backgrounds. Under all these adverse employment circumstances, college graduates and not migrant workers become one of the most disgruntled social groups.

¹⁰ University Satisfaction Ranking 2009, *The New Magazine*, vol. 362, June 2009.

Structural Mismatch as a Continuing Concern

- 3.1 The issue of unemployment and under-employment among China's college graduates is chiefly a product of a few sets of structural mismatches and incompatibilities. The structural tension between higher education and the economy, the gaps between social values and realities and finally, numerous contradictions in the economic system itself, may have exerted a combined adverse effect on the employment prospect of many college students.
- 3.2 The last decade saw a remarkable expansion in China's higher education sector. Most significantly, college education became much more accessible and less elitist as the number of new intake increased from 1.1 million in 1998 to 6.3 million in 2008 (see Figure 1). China now has the world's largest higher education sector, with 6.6 million college graduates entering the job market upon graduation and 1 million going on to pursue graduate studies.



- 3.3 In the single-minded pursuit of size and revenue, most universities have little motivation to improve the quality and employability of its students. Technical education and polytechnics, on the other hand, have long been identified as

under-developed. As a result, a large gap has emerged between the educational profile and knowledge structure of college graduates and the actual demand of the industries (see Appendix 1).

- 3.4 China's economic and industrial structure is often cited as the cause of a bottleneck for college graduates' full employment. The first problem is the capacity to provide jobs that match the knowledge, skills and expectations of college graduates. According to Mao Shuchao, a leading expert on education and employment, the 2.5 million white-collar jobs generated by the economy each year could hardly satisfy the demand of 6 million.¹¹
- 3.5 In comparison with developing economies of similar or lower level per-capita GDP, such as Brazil and India, the Chinese economy has a uniquely large manufacturing sector and relatively small modern service industry. The bulk of the manufacturing sector consists of millions of small labor-intensive factories, a booming construction sector and large energy and capital intensive heavy industries dominated by the state. None of these three major industrial sectors offer large number of white-collar jobs suitable for college graduates. On the contrary, second generation migrant workers, with probably lower educational profiles but much stronger willingness to take manual works, stand to benefit more from the economic recovery in the manufacturing sector.
- 3.6 The Chinese labor market has also long suffered from the lack of a strong small and medium enterprise (SME) sector. As a dynamic and innovative force in the economy, the SMEs are often more willing to employ fresh college graduates as junior staff or interns. In fact, in 2009, 75% of China's fresh college graduates employed in the labor force were absorbed by the SMEs. The employment rate could be even higher if more space had been given to the development of SMEs.

¹¹ <http://www.chinanews.com.cn/edu/edu-zcdt/news/2010/03-03/2148754.shtml> [Accessed on 17 April 2010].

- 3.7 Another factor of concern is the poor environment for entrepreneurial activities. In a matured developed economy like the United States, as much as 20% of fresh college graduates choose to start their own businesses as their first job, whereas the percentage of enterprising graduates in China, in spite of many favorable policies such as tax cuts and lowered capital requirement, barely reaches 0.3% for the cohort of 2009.¹² For most observers, this huge difference speaks of, among other factors, the implicit risks, hidden costs, and poor legal infrastructure for entrepreneurial activities in China.
- 3.8 The pre-dominance of public sector is perhaps the single most important factor that creates tensions in the labor market for college graduates. Over the years, the state-dominated development strategy in China has cultivated a very powerful public sector with supernormal profits and wide-ranging special interests and privileges to the detriment of the employment-creating SMEs. Yet, the public sector is one of the least efficient domains in the economy. Its limited capacity to absorb labor is further reinforced by the prevailing existence of nepotism and favoritism.
- 3.9 In conclusion, all the structural constraints within the economic system and the incompatibility of higher education and the economy have built tremendous tensions in the labor market for college graduates. Unemployment in pure quantitative terms is only part of the story; under-employment, over-crowding, and high degree of mismatch are potentially destabilizing factors awaiting solutions from the government.

A Broader Agenda to Address Youth Unemployment

- 4.1 Currently, the problem of unemployment is less severe for second generation migrant workers than for college graduates. From the perspective of the government, migrant workers are beginning to benefit from labor shortage in the form of wage increase. The college students, as a more strategic group socially and politically, naturally become top policy concerns.

¹² *China Youth Daily*, 23 March 2010.

- 4.2 The Chinese government has devised several specific programs to promote employment for college graduates since the beginning of the crisis. Such programs range from creating positions of village administrative officers and promoting graduate entrepreneurship to expanding planned intake in graduate courses and increasing available positions in the civil service sector.¹³ In retrospect, however, none of these programs have made significant headways.
- 4.3 Since educated unemployment is more than an employment issue, the policy agenda should be broadened to address the deeper issues and contradictions underlying the problems of skills mismatch. China's tertiary and technical education needs to undergo substantial reforms to gradually increase the responsiveness of universities, polytechnics and other institutes to the demands of the labor market.
- 4.4 Since the mid-1990s, Chinese universities have opted for size rather than functional differentiation. Instead of providing a good mix of employable skills to meet the needs of an increasingly complex economy, Chinese universities have strived to outdo each other through size – the larger the better – to the extent that smaller colleges wanted to become comprehensive universities and teaching institutions wished to become research institutions. This has resulted in producing graduates with largely the same skills, inevitably increasing competition in the job market.
- 4.5 Apart from problems with the higher education sector, all aspects of the employment issue are closely associated with the structural constraints in the economy. Structural reforms in the economy are needed to create favorable environments for college graduates to get employment and develop their career. To that end the government has already released new policies in support of the SMEs and is also considering cutting back state monopoly and equalizing the huge unequal pay across monopoly and non-monopoly sectors.

¹³ Creating Four Major Channels to Boost Graduate Employment, *People's Daily*, 7 February 2009.

- 4.6 The knowledge-intensive professional service sector can be a major source of employment for college graduates. The development of such modern services capable of generating millions of technological, informational and financial jobs is very important to the transformation from a labor-intensive economy to a knowledge-intensive one particularly in the coastal regions.
- 4.7 The problem of structural unemployment is not applicable to second generation migrant workers so far. However, this is likely to become an issue no less difficult than the problem of educated unemployment. Second generation migrant workers, including those who moved to the cities after receiving some secondary education in the countryside and those who were born and raised by their migrant parents in the cities, want higher wages and better working conditions than first generation migrant workers. These are legitimate concerns; the problem is that they are not better educated than their predecessors.
- 4.8 For those educated in the countryside, many were separated from their parents who made up the first generation migrant workers. Without parental care for most of their childhood and adolescence, the second generation migrant workers often had to assist their grandparents in household chores. For all these reasons, many of them did not perform well in school. For those brought up in the cities, their access to good education was also blocked by the *hukou* system, which discriminated against migrant workers and their children in access to education, social insurances and other public services.
- 4.9 Therefore, unless they receive better education and training than what has been offered to them, the second generation migrant workers will find it increasingly difficult to participate in China's ongoing economic growth and industrial upgrading. There may not be enough low-skilled labor-intensive jobs for them in future, even if they are willing to adjust their expectations downward. To avoid this, China needs a broader policy agenda that encourages full-family migration, increases investment in rural schools in the central and western regions, and gives equal rights to migrant children in access to education in the cities.

- 4.10 China's changing demography will also affect the labor market. According to a study by China Youth Research Commission, China's young labor force (between 16 and 24 years of age) will continue to expand until 2020, but the yearly addition to the labor pool will be significantly reduced from 22 million per year between 2005 and 2010 to less than 500,000 per year after 2015.¹⁴
- 4.11 Down the road, the problem of labor shortage will become more acute, widespread, and permanent. However, if the structural issues in the economy and the educational system remain unresolved, there is no guarantee that China's demographic change will alleviate the problems of structural unemployment. A strange phenomenon of unemployment and labor shortage will likely coexist for China's young generation, be they college graduates or second generation migrant workers.

¹⁴ *China's Estimated Young Labor Supply: 2005-2020*, China Youth and Children Study Network.

APPENDIX 1 UNIVERSITY GRADUATES BY FIELD OF STUDY, SELECTED YEARS FROM 1978-2008

Year	Total No. of graduates	Humanities		Social Sciences		Engineering		Medicine		Sciences		Agriculture	
		Graduates	% of Total Graduates	Graduates	% of Total Graduates	Graduates	% of Total Graduates	Graduates	% of Total Graduates	Graduates	% of Total Graduates	Graduates	% of Total Graduates
1978	164,581	18,236	11.1	11,839	7.2	----	----	----	----	----	----	----	----
1985	316,384	38,202	12.1	55,603	17.6	----	----	----	----	----	----	----	----
1990	613,614	67,531	11.0	130,463	21.3	----	----	----	----	----	----	----	----
1995	805,397	178,094	22.1	142,212	17.7	295,839	36.7	100,566	12.5	55,711	6.9	32,975	4.1
2000	949,767	203,626	21.4	203,423	21.4	354,291	37.3	98,200	10.3	59,857	6.3	30,370	3.2
2005	3,067,956	707,309	23.1	832,686	27.1	1,090,986	35.6	164,867	5.4	202,577	6.6	69,531	2.3
2006	3,774,708	859,145	22.8	1,046,179	27.7	1,341,724	35.5	197,231	5.2	253,252	6.7	77,177	2.0
2007	4,477,907	1,001,194	22.3	1,262,801	28.2	1,594,310	35.6	300,389	6.7	230,883	5.2	88,330	2.0
2008	5,119,498	1,291,021	25.2	1,267,833	24.8	1,841,946	36.0	367,491	7.2	253,467	5.0	97,740	1.9

Source: *China Statistical Yearbook*

Notes: Humanities include philosophy, education, literature and history; social sciences include economics, management and law; Engineering, medicine, science and agriculture combined to account for 135,406 graduates in 1978 (82.3% of all graduates), 222,579 (70.4%) in 1985, and 415,620 (67.7%) in 1990.