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# The Global Economic Crisis and Unemployment in China

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**Abstract:** Two noted academic specialists on labor economics and population statistics of China examine the impacts of the global economic crisis of 2008–2009 on the job security of urban workers, and the ensuing repercussions for the Chinese society and economy. More specifically, they probe and determine the magnitude of urban unemployment in China in 2008 and 2009 as it appears to be reported in different segments of the country’s immense labor market. A particular focus of the paper is on differences in unemployment among two groups of workers (those with urban *hukou* vis-à-vis rural migrant workers) with significantly different sets of rights and privileges, as well as levels of job security. The authors also provide an estimate of the urban unemployment rate in 2009 that differs from the official rate. They argue that measures toward further integration of rural and urban labor markets and reducing natural unemployment are ultimately more beneficial than short-term interventions to adjust cyclical joblessness stemming from the global economic crisis and recession. *Journal of Economic Literature*, Classification Numbers: E240, G010, J610, J690. 3 figures, 2 tables, 80 references. Key words: China, *hukou*, urban labor, labor market, migrant workers, labor statistics, unemployment, student employment.

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## INTRODUCTION

The purpose of this paper is to assess the impact of the global economic crisis and recession on unemployment in China. It is not possible to pinpoint the exact week or even month when the global crisis had penetrated every one of mainland China’s 31 provincial-level units, but suffice it to say that in the fourth quarter of 2008, millions of migrant workers had lost their jobs as the economic downturn gained momentum (Fix et al., 2009).

In an immense developing country like China, “keeping the rice bowls”—literally “holding on to the job to bring food home”—has for centuries been an important issue that has become even more critical at present, and likely in the years to come. Mass unemployment has drastically increased the volume of labor disputes<sup>2</sup> and mass protests in late 2008, as many factories have closed down. Facing closures, some factory owners fled without paying their laid-off workers the required compensation and/or wage arrears (Zhan, 2008). Moreover, mass urban unemployment tends to carry the seeds of social unrest as well as the possibility of political destabilization (see Solinger, 2007).

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<sup>2</sup>The number of labor dispute cases accepted by Chinese courts, unions, and arbitration bureaus has almost doubled, reaching 960,000 in 2008 (China: Recession, 2009).

Despite the importance of this issue and the great necessity for the government and businesses to be able to monitor the situation and take appropriate measures as events continue to unfold, there are no direct, readily available statistics and information upon which one can rely. The only unemployment statistic available regularly (quarterly), the urban registered employment rate, is at best a quite partial, if not misleading, indicator of urban unemployment, not to mention that for the country as a whole. Since late 2008, analysts have complained loudly and almost incessantly about the problems associated with use of this statistic and have called for changes in existing practice (e.g., Cai, 2008b; Yang, 2009). One major objective of this paper is thus to fill the aforementioned void.

We review in this paper the essence of unemployment in China's cities and towns during the one-year period between autumn 2008 and the present. The section that follows explains the different segments of the country's labor markets (and reviews the relevant employment figures), while the next puts together several sets of statistics to provide more accurate estimates of urban unemployment in 2008 and 2009 than those in the existing literature. The concluding section discusses, in the broader context of China's economic development, the problems hindering job creation in the economy and the policies that have been enacted to address them.

### THE LABOR MARKETS OF CHINA

Despite three decades of reforms, the Chinese economy and society still maintain a dual structure (*eryuan jieyou*), set up in the 1950s in order to pursue the Big Push industrialization program. Under this institutional design, the industrial sector, mostly located in cities, has been nationalized and designated to become a priority subsystem of the country's economy. Placed under strict state management, the industrial subsystem benefitted from strong state support and protection. The state provided subsidies and basic entitlements to urban workers and their families in an effort to maintain social and political stability within the subsystem (Chan, 2009a).

The other subsystem comprised the low-priority, agricultural/rural sector, encompassing roughly 85 percent of the population in the 1950s, and about 60 percent at present. Remaining outside of the state's welfare system, it was largely treated as a "residual" component, essentially as a provider of cheap raw materials (including food), labor, and capital for the urban-industrial sector (as well as a reservoir of surplus labor, discussed below).<sup>3</sup> The rural population had no claim on national resources and was expected to fend for itself except in emergencies such as natural disasters (e.g., floods and earthquakes). Peasants were expected to tend the land largely in return for subsistence levels of compensation; they were excluded from state-provided employment and safety nets, and denied the right to move to the cities. The unequal treatment of the rural population created two almost totally different societies, as noted over the years by concerned investigators (e.g., Guo and Liu, 1990; Chan, 1994; Wang, 2005; Naughton, 2007). While all peasants have been allowed to seek jobs in the cities since the late 1970s, the broader framework of differential access to welfare and employment remains basically unchanged (and it has shaped the structure of China's labor markets). A major mechanism that maintains this dual form of "citizenship" is the *hukou* or household registration system. The urban-industrial population is eligible to receive urban *hukou*,

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<sup>3</sup>The Chinese state's expectations for what the non-priority rural sector should provide followed rather closely those of the Soviet leadership during Stalin's forced industrialization drive instituted some two decades earlier in the USSR.

**Table 1.** Rural Migrant Labor and Urban-*Hukou* Workers, 2002–2009 (in millions)

Year-end	A. Rural migrant labor	B. Urban- <i>hukou</i> workers	A/B <sup>a</sup>
2002	104.7	247.8	42.3
2003	113.9	256.4	44.4
2004	118.2	264.8	44.7
2005	125.8	273.3	46.0
2006	132.1	283.1	46.7
2007	137.0	293.5	46.7
2008	140.4	302.1	46.8
2009 <sup>b</sup>	150.1	n.a.	n.a.

<sup>a</sup>In percent.

<sup>b</sup>Mid-year.

*Sources:* Entries in column A were compiled by authors from NBS, 2003, 2006, 2008; Sheng and Peng, 2005 (for 2002–2007); and NBS, 2009a, 2009b (for 2008 and 2009). B is from NBS and MHRSS, 2008 and *China Statistical Yearbook 2009*.

whereas peasants hold only rural *hukou*. Conversions from rural to urban *hukou* are generally not possible, except under a few highly circumscribed conditions.<sup>4</sup>

Standard economic nomenclature generally divides the labor force into three major groups, namely the employed, unemployed, and those who have withdrawn from the labor force. The status of the labor force in China, however, is more complicated, because no single, unified labor market exists, and there are many “grey areas” as explained below. To illustrate the complexity, we will proceed to examine the following four groups: (a) the formal urban employed; (b) the formal urban unemployed; (c) the informal urban employed; and (d) those employed in agriculture.

**Formal Urban Employment.** The category of formal urban employment mainly refers to workers with urban *hukou* as well as formal or relatively formal employment in either the state or collective sectors, and also in some newly emerging ones (such as joint ventures with international companies in the high-tech industry), and who have never experienced *xiagang* (being laid-off)<sup>5</sup> or *shiye* (unemployment). Such workers have stable employment contracts and are covered by a state-provided urban social safety net. Their protected wage rates generally increase with seniority, and they usually are the last to be laid off during economic crises. For those employed in state-owned enterprises, such “wage rigidity” is guaranteed by the state, whereas for those in the newly emerging sectors it mainly stems from factors producing efficiency wages<sup>6</sup> in Western countries (Shapiro and Stiglitz, 1984). The formal urban employment group comprised about 211 million workers,<sup>7</sup> accounting for ca. 70 percent of the country’s urban-*hukou* workers at the end of 2008 (Table 1).

<sup>4</sup>For details on the subject of *hukou*, see Wang (2005) and Chan (2009a).

<sup>5</sup>A small number of *xiagang* workers may be rehired by foreign firms as formal urban workers.

<sup>6</sup>These (higher) wages often are used to minimize turnover and retain the best people.

<sup>7</sup>The figure of 211 million is derived from the registered number of formal urban unemployed (ca. 8.86 million) and the published unemployment rate (4.2 percent) for this group (Renshebu, 2009). The actual number of formal urban workers will be slightly larger than 211 million when the unemployed recent university graduates are added.

**Formal Urban Unemployment.** Formal urban unemployment mainly refers to the “registered unemployed” holding local urban *hukou*. Essentially, it consists of presently unemployed individuals who were once in the formal urban employment group (less the unemployed newly graduated university students). The count represents the only set of national unemployment statistics routinely tracked by the Chinese government and reported for the purpose of managing the macro-economy (Solinger, 2001; Cai, 2004). Unemployed workers are eligible to receive unemployment benefits within a certain period, up to a maximum of 24 months.<sup>8</sup> In addition, they are covered by several kinds of social welfare, including a *dibao* (minimum living standard protection) allowance system if their household incomes fall below urban subsistence levels, and highly subsidized rental or ownership housing. This group also is the target of employment and unemployment support measures by enterprises, local committees, and municipal governments. At the end of 2008, this rate, officially called the “registered unemployment rate,” stood at 4.2 percent (see Fig. 1 below).

**Informal Urban Employment.** Informal urban employment consists of (a) workers (and the self-employed) in the informal sector, including those in small businesses, such as “individual enterprises” (*getihu*; with less than eight employees) and “private businesses” (*siying qiye*; those employing eight or more people);<sup>9</sup> and (b) workers in the formal sector who do not have formal labor benefits or stable labor contracts (Hu and Yang, 2001). Wages are often below the market rate (sometimes below the local minimum wage) and the “informal” employees have no right to receive unemployment compensation or any benefits such as from the urban pension system. Most of their jobs are temporary (very flexible, with high turnover), “transitional” (seasonal), or only part-time. This informality creates many ambiguities and grey areas, so that the definition of “employment” (and hence, unemployment) tends to be vague in legal as well as statistical terms, from the employer’s and/or employee’s viewpoint (or from both) (Park and Cai, 2009).

About 30 percent of the urban-*hukou* labor force falls into this group, including laid-off state-sector workers who are “re-employed” (*zai jiu*) in informal positions, as well as new labor (young people) engaged in temporary work before returning to school or obtaining more permanent employment. Because such workers have local *hukou*, they usually also are eligible to participate in various employment-support programs funded by local governments, such as micro credit loans and the waiver of licensing fees for starting a small business, as well as free vocational training.

The bulk of informal urban employees, however, live without local (urban) *hukou* (Hu and Yang, 2001). As noted earlier, rural-*hukou* workers have been able to move to cities (to find jobs) since the late 1970s, but are not eligible to receive urban welfare. The size of this group, called “rural migrant labor,” has been growing since the mid-1980s and is now immense, reaching 150 million in mid-2009 (see Table 1). Survey data show that more than two-thirds of rural migrants in urban areas work at informal jobs (Cai, 2009a). Many are now counted as *de facto* (*changzhu*) urban residents if they stay more than six months at their destination,<sup>10</sup> although legally they are still considered rural migrants. Neither they nor their

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<sup>8</sup>The period depends on how long they have worked and how long they have paid for the unemployment insurance.

<sup>9</sup>Some of these businesses do not have formal business registrations, and if they are registered, do not frequently report the actual total numbers of employees. Some of them are in China’s “hidden economy,” similar to the “shadow economy” in the former USSR (Huang, 1992).

<sup>10</sup>In accordance with a 2003 regulation adopted by the National Bureau of Statistics (see Jinnian kaishi, 2004). See also Chan and Wang (2008) for an examination of the implications.

dependents are entitled to urban social security protection or low-cost public housing or any state-sponsored social assistance programs. As shown in Table 1, rural migrant labor has accounted for about one-third of total employment in cities and towns in recent years; unemployment in this group is not included in the registered unemployment statistic described above. Similarly, rural-*hukou* workers in township and village enterprises (TVE) also can be considered as part of the informal urban employment group.<sup>11</sup>

**Agricultural Employment.** Under China's dual structure, new labor for non-agricultural industrial development and urbanization comes mainly from the immense surplus (even prior to 1949) in agriculture (Chao, 1986). The rural and urban labor markets still are segregated due to the *hukou* system. Thus transfers between rural and urban areas during an economic downturn, when the demand for labor decreases, will encounter many systemic barriers, as many migrant workers are forced to return to rural areas, presumably to take up farming again.

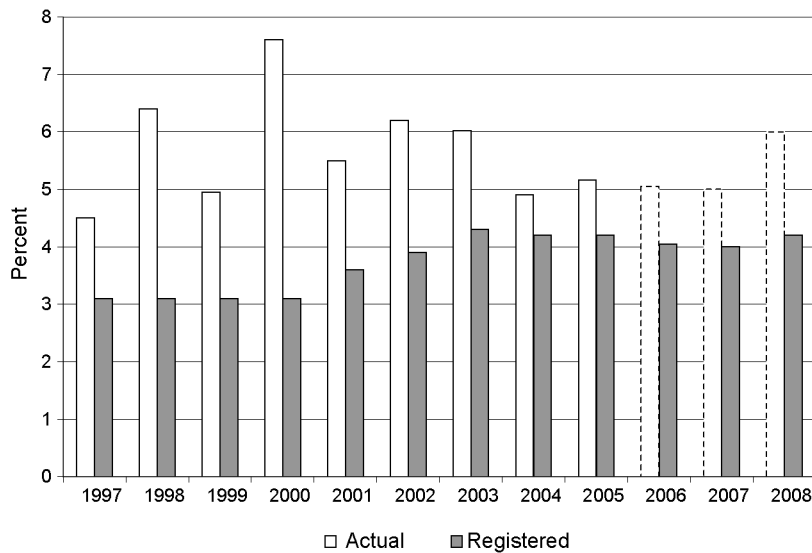
The agricultural (and rural) sector thus basically serves as the nation's industrialization labor "reservoir" (or "reserve army") through "sharing" provided mostly by extended families in the rural sector (Chan, 2009c). This special characteristic of rural "job-sharing," and hence "wage sharing" in China is quite unusual. Linked to the continuously "temporary" character of rural-to-urban labor transfers and chronic rural under-employment and income instability, it is also responsible for the large income gap between urban and rural populations (Cai, 2007).

The agricultural labor force in the countryside can thus be divided into "resident labor" and "returned labor." The size of the resident labor force in the countryside in early 2009 was estimated at around 256 million (see Table 2 below), and the number employed in agricultural labor is between 175 and 227 million, depending on the definition of unemployment in the countryside that is used (see Cai and Wang, 2009, Table 7.2). As some observers have pointed out, the size of employment and unemployment in the farm sector of a developing country is difficult to pin down, and the distinction often appears to be arbitrary (Rawski, 1979). The range of employment shown in Table 2 reflects the different assumptions used in estimating unemployment and surplus farm labor. The resident farming labor force is aging rapidly due to out-migration of younger workers in recent years. The resident labor force generally consists of individuals in the older age brackets, with more than 81 percent older than 30 (Cai, 2008).

"Returned" laborers come and go between the farm and city in random moves that depend on personal circumstances. Generally, their age profile is similar to that of the resident farming labor force. However, when an economic crisis results in the mass loss of migrant jobs, rural migrants return to the farm en masse as a large wave. The average age of this type of migrant worker (forced to return home by crisis) tends to be much lower than average for the group (i.e., 61.3 percent are age 30 and under; see Cai, 2008). The return of large numbers of younger laborers to the countryside has both its advantages and limitations. On the positive side, the infusion of "young blood" into the farm sector might facilitate rural development, as young workers may bring back new ideas and some knowledge of technology if they acquired some skills in the city. On the other, because many long-term migrants do not have (or have lost) farmland or lack the needed experience and skills, it is not really possible for most to be re-employed in the farm sector. And as there is no formal social security in the sector, the return of this labor force places an additional and very substantial

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<sup>11</sup>A small portion of TVEs are located in rural areas (villages).



**Fig. 1.** Registered and actual urban unemployment rates for 1997–2008 (in percent). Registered unemployment rates in 1997–2008 represent official data published by the National Bureau of Statistics (NBS and MHRSS, 2008; Renshebu, 2009). The actual unemployment rates are estimated by Fang Cai on the basis of data published in various annual editions of the *China Statistical Yearbook* and *China Population Statistical Yearbook* (for 1997–2004), and on microdata from the One Percent National Population Survey in 2005 (for 2005). Estimates for 2006, 2007, and 2008 represent approximations based on indirect data. For methodological details, see Cai (2004) and Cai and Wang (2009).

burden on land and their families, aggravating an already undesirable and fragile employment situation in the countryside.

### UNEMPLOYMENT IN CITIES AND TOWNS, 2008–2009

The global financial crisis has had an enormously negative impact on employment in China. For several months after August 2008, the number of orders filled by many export-oriented enterprises dropped precipitously, and thousands of factories in the coastal region, especially in the Pearl River Delta, were closed. The impact was most serious on the rural migrant labor force. However, enterprises were in a difficult position overall, and cut back or deferred recruitment in general. This has affected new college graduates in search of appropriate jobs. Using the labor market classification in the preceding section, we can probe more deeply into the character and trend of unemployment during the year the followed the onset of the global financial crisis.

#### Urban-*Hukou* Workers

For urban-*hukou* workers losing their jobs and registering for unemployment benefits, the job loss will be reported and reflected in the officially registered unemployment statistic (i.e., “urban registered unemployment”). Figure 1 shows the trend in this set of statistics from

1997 to 2008. The registered unemployment rate gradually rose from 3.1 percent in 1997 to 4.3 percent in 2003, partly because of increasingly broad coverage.<sup>12</sup> After 2003, the rate dropped slowly and continuously until 2007. On the eve of the global recession (September 2008), the rate stood at 4.0 percent, but then (in one quarter's time) rose relatively quickly to 4.2 percent at the end of 2008. The situation continued to deteriorate, with the official unemployment rate rising to 4.3 percent in March 2009, where it remained in June. The total number of unemployed was recorded at 9.15 million in mid-2009, implying a relatively modest increase of about 600,000 registered urban employed from September 2008 to June 2009.<sup>13</sup>

However, not all types of unemployment of the urban-*hukou* population are captured by the above statistics. Excluded primarily are workers losing their jobs in informal employment (such as the self-employed, and those in small family businesses) and some (usually young) first-time job seekers. Given the informality of their jobs, many of these workers may not consider themselves as active participants in the labor force, or if they do, may be quite easily classified as still being employed, for they need only to have had one hour of paid work in the week prior to the survey in order to be statistically counted as employed.<sup>14</sup> According to China's Ministry of Human Resources and Social Security (MHRSS), 3 million recent (2008 and 2009) college graduates remained unemployed in July 2009 (Renshebu, 2009).

### Rural Migrant Labor

New unemployment is far more serious in this group. A good portion of the rural migrant labor usually returns to home villages for the Spring Festival (Lunar New Year) interlude, which takes place in January or February. This year's annual exodus began much earlier than usual, as migrants began to trickle home in October 2008, three months before the actual date of the festival (which fell on January 26, 2009), as the global financial crisis depressed consumer demand in the developed world and export orders for Chinese goods dried up. According to a survey study commissioned by one of China's respected economic periodicals, the magazine *Caijing* (Shi, 2008), by the end of November 2008, a total of about 5 million workers from China's top 10 labor-exporting provinces (i.e., about 5 percent of the total of 90 million migrant workers from these provinces) had already returned to their home villages some two months in advance of the Spring Festival.<sup>15</sup> Particularly hard hit were the provinces of Hubei and Guangxi (the two major suppliers of labor to the export-oriented factories of the Pearl River Delta in Guangdong during the period 2000–2005),<sup>16</sup> where 9 and 10 percent, respectively, of the total migrant workers had returned.

Unlike many other countries where official unemployment figures usually cover all workers, or at least those engaged in non-farm sectors, China's regular statistical system does not track rural migrant labor's employment or unemployment. Owing to the severity of

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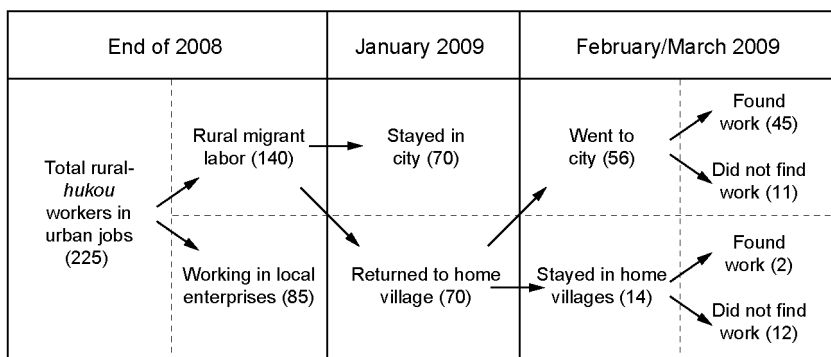
<sup>12</sup>*Xiagang* ("laid-off") workers were often not included in registered unemployment prior to 2004 (see Cai, 2004).

<sup>13</sup>In January 2009, when the number of jobs was still falling rapidly, the government announced its goal of keeping the registered urban unemployment rate below 4.6 percent at the end of the year (Qunian, 2009).

<sup>14</sup>See the labor survey form and definition of unemployment used in China's regular annual labor survey, for example, in NBS (2007).

<sup>15</sup>These provinces, in descending order according to number of migrants "exported" to the rest of the country as of September 2008 are: Henan (21.5 million migrants), Sichuan (13.0 million), Anhui (12.9), Hunan (9.1), Chongqing (7.9), Hubei (7.1), Hebei (6.3), Jiangxi (4.7), Gansu (4.3), and Guangxi (3.5 million migrants) (Shi, 2008).

<sup>16</sup>Based on China's 2005 One Percent Population Survey, computed by Guilan Weng.



**Fig. 2.** Employment status of rural migrant labor before and after the Spring Festival (January 26, 2009), in millions. *Sources:* Based on NBS (2009a) and “2300 wan” (2009) as well as material compiled and synthesized by Chan (2009c) and Fix et al. (2009). Rounded numbers in parentheses are in millions.

unemployment in this group, much public attention has been devoted to the issue. Several reports released by different government agencies and media based on surveys and estimates provide productive information. The most useful (and authoritative) data come from China’s National Bureau of Statistics (NBS, 2009a), based on information from a large national sample survey (encompassing 7,100 villages scattered across all 31 provincial-level units of the country) at the end of 2008 and early 2009. The basic results are summarized in Figure 2. As of the end of 2008, the total number of rural-*hukou* laborers working in urban jobs was 225.4 million, of which 140.41 million were employed far from their home villages (those labeled “rural migrant labor” in Fig. 2), with the remainder working in nearby non-agricultural enterprises (TVEs). About half of those employed far from home (70 million out of a total of 140 million), as part of an annual routine for some, had returned to home villages before the Spring Festival. This 50 percent return rate was higher than the average rate of 40 percent in previous years (Yin, 2009) because many had lost their jobs in the city.<sup>17</sup>

After conclusion of the Spring Festival, in early February through March 2009, 56 million (about 80 percent of those traveling to home villages for the Festival) returned to the cities. Of the 14 million who remained, only 2 million were re-absorbed into the economy of the rural areas. Among those returning to the cities, the majority did find jobs, although 11 million were still not (re-)employed as of March. Thus, if we add the number of those remaining in home villages (and not employed) to the returnees still seeking work in the city, total unemployment within the rural migrant labor force can be estimated at 23 million, about 16 percent of the total (Table 2)—assuming that the other 70 million migrants (who did not travel to their home villages during the festival) all managed to retain their jobs.<sup>18</sup> This

<sup>17</sup>It is worth noting that 36 and 28 percent of the returnees, respectively, were from the manufacturing and construction sectors, reflecting the concentration of migrant labor in, as well as the impact of the crisis on, those sectors (NBS, 2009a).

<sup>18</sup>These numbers are very close to the round figure of 20 million (unemployed rural migrant workers) and 15.3 percent (overall unemployment rate of rural migrant workers) cited by Chen Xiwen, China’s main official in charge of agricultural work, at a press conference on February 2, 2009 (see Fengbao, 2009). Chen also indicated that the 20 million figure might rise to 25 million if new entrants to the rural migrant labor force were counted.



unemployment is disastrously high, because in recent normal years, quite contrary to the general perception, rural migrant labor had a very low unemployment rate (1–2 percent) (see Guo, 2007).<sup>19</sup> The 16 percent figure corresponds to a sharp loss of jobs for this group, in contrast to the slight increase in unemployment (from 4.0 to 4.3 percent) among urban-*hukou* workers with formal employment, as described above. In absolute terms, it corresponds to a loss of 23 million versus 600,000 jobs.

Information about unemployment of rural migrant labor since March 2009, has been sketchy, as no similarly systematic statistics are reported. According to the MHRSS, additional rural migrant workers returned to the cities in late March, as presumably more jobs had become available.<sup>20</sup> Nonetheless, a press release issued jointly by the Ministries of Commerce and Finance and the All-China Federation of Trade Unions in June 2009 described the unemployment situation in China as “dire” and forecast that total unemployment (of urban and migrant workers) would reach 40 million in 2009 (Jinnian quanguo, 2009). However in early August 2009, a more positive assessment, released at a press conference by the MHRSS, reported the number of unemployed rural migrant workers at only 4.5 million in July, or 3 percent of the total of 150 million rural migrant laborers in mid-2009 (Millions, 2009). This number was surprising, at least when initially released.<sup>21</sup> But the rise in the number of employed migrants now appears to be plausible, as the Chinese economy recovered modestly in the second and third quarters because of the government’s massive stimulus package (creating many millions of jobs, especially in construction), and the third quarter is customarily the peak-labor demand season in the export sector (to fill orders for Christmas in Western markets). Of course, as expected, even though the employment numbers are up, individuals who are hired are working less than they were in 2008, and likely are not getting paid as much.<sup>22</sup> In any case, the most recent low unemployment rate reported for migrant workers appears to corroborate media reports in August to the effect that factories in the Pearl River Delta (e.g., in Dongguan) and the Shanghai delta were scrambling to find labor to fill recently opened jobs (Foreman, 2009).<sup>23</sup> It also accords at a more general level with the fact that, although world trade overall is expected to be lower in 2009 than previous years, China’s exports appear to be decreasing less (and thus gaining a larger share of the overall world market in the process) due to aggressive cost slashing (attributed in large measure to wage cuts in its factories) and a general tendency of anxious consumers worldwide to spend on lower-priced rather than luxury goods (Barboza, 2009).

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<sup>19</sup>This was partly due to the fact that migrant workers without jobs would generally return to their home villages (perhaps returning to farming), because they did not have unemployment coverage in the cities, thereby almost eliminating unemployed migrants in urban unemployment counts. This further illustrates the extent to which the rural sector serves as China’s “labor surplus reservoir,” by absorbing unwanted labor from the cities.

<sup>20</sup>The NBS has indicated that by the end of March, only 7 million rural migrant workers (instead of the 14 million reported above) remained in their home villages (see Yijidu, 2009).

<sup>21</sup>Some observers raised questions about how this number was derived (e.g., Batson, 2009).

<sup>22</sup>A national survey by the Ministry of Agriculture indicates that the total number of work days of migrants who were hired in the first five months of 2009 had dropped by 5 percent compared to the same period in 2008 (Wang et al., forthcoming).

<sup>23</sup>This is partly due to the fact that surplus migrant workers have been diverted to public works projects. Frustrated by the deplorable conditions of laid-off migrants in Guangdong in late 2008, others did not return to the cities and were not readily available to fill the sudden increase in demand for unskilled workers. The shortage is likely “frictional” (as described in note 44 below). We thank Stephen Green for pointing this out.

**Table 2.** Preliminary Estimates of the Actual Urban Unemployment Rate, Early 2009 (in millions)

Group/sector	Labor force	Unemployed	Employed	Rate (percent)
Urban <i>hukou</i> formal employment	214	9.15 + 1.0 <sup>a</sup>	204	4.7
Urban <i>hukou</i> informal employment	85		85 <sup>b</sup>	
Rural migrant labor	140	23	117	16.4
Workers in TVEs <sup>c</sup>	85		85 <sup>b</sup>	
Totals				
<b>Urban (non-agricultural)</b>	<b>514</b>	<b>33.15</b>	<b>481</b>	<b>6.4</b>
Workers in agriculture	256	29–81	175–227	11.3–31.6
<b>National</b>	<b>770</b>	<b>62–114</b>	<b>658–708</b>	<b>8.1–14.8</b>

<sup>a</sup>Refers to unemployed college graduates from 2008.

<sup>b</sup>Assuming no unemployment in this group.

<sup>c</sup>The jobs of a small number of workers employed in TVEs are in villages.

### Actual Unemployment in Cities and Towns

By combining the above two major types of urban unemployment, one can come up with a rather generalized picture of the actual unemployment in cities and towns at the height of the global economic recession in February/March 2009, using a number of widely accepted statistics.<sup>24</sup> Working with these numbers produces a rough estimate of actual unemployment of about 33 million, or 6.4 percent of the urban (non-agricultural) labor force (Table 2).<sup>25</sup> This estimate accords with those for the previous years made by Cai and associates (Fig. 1), which indicate an unemployment rate of 6.0 percent at the end of 2008. The 6.4 percent figure probably represents only the minimum, as in this approach the unemployment rates for township and village enterprise workers and urban informal employment are assumed to be zero.<sup>26</sup> One can also deduce that this calculation critically depends on whether rural migrant workers remaining in their home villages after the Spring Festival (12 million, see Fig. 2) are counted among the urban unemployed and are included in the “urban” labor force.<sup>27</sup> If we accept the rate of about 5.5 percent for actual urban unemployment in mid-2008 (Fig. 1) as the “pre-crisis” rate, it is then

<sup>24</sup>These are: rural migrant labor (140 million), workers in township and village enterprises (85 million), urban-*hukou* workers (ca. 290 million), and the total number of workers in the national economy (770 million), plus unemployed 2008 college graduates (1 million). The implied number for agricultural labor (256 million) is also very close to the widely accepted figure of 260 million.

<sup>25</sup>This rate of unemployment can be broadly compared to the rates reported elsewhere for the East Asia region and the world: 5.2 and 5.8 percent, respectively, in the two closely integrated economies of Hong Kong and Taiwan (for March and May 2009, respectively; Shiyelu, 2009; Lishi, 2009); 5.2 percent for Japan (in May 2009; Ri xiyilu, 2009); and 10.2 percent for the United States (in October 2009, and the highest since 1973; Irwin and Fletcher, 2009).

<sup>26</sup>See the earlier discussion on the difficulty of measuring unemployment among young first-time workers and those in the informal urban economy.

<sup>27</sup>By dropping the 12 million from the urban counts, the actual overall urban unemployment rate would fall to 4 percent, disguising what in reality was a seriously worsening employment situation in early 2009.

reasonable to suggest that the crisis has increased the unemployment rate by almost one percentage (0.9) point in aggregate by early 2009. Most forecasts made in early 2009 assumed that the urban job market would continue to deteriorate in 2009, and predicted that urban unemployment would likely hit 40 million by the end of the year.<sup>28</sup> As we now know, the employment situation of migrants has improved since the second quarter, especially since July, so that one can expect that the urban unemployment rate will drop below 40 million by year's end.

### CONCLUDING DISCUSSION

There is little doubt that the global financial crisis and recession has affected rural migrant workers far more severely than any other major social group in China, as evidenced by their unprecedented levels of unemployment (16 percent in early 2009). Migrants, however, are not the main group targeted for government assistance in the recession. As explained earlier, under China's current dual structure, assistance to the rural population lies outside the direct responsibility of the state.

The government has been active, however, in providing assistance to unemployed urban-*hukou* workers, and especially to recent college graduates. Local governments have been tasked with stabilizing the unemployment situation of the urban-*hukou* population and implementing various programs (e.g., vocational training) to increase employment opportunities for this group. Because performance of local officials would be evaluated on the basis (among other criteria) of the registered unemployment rate in their jurisdictions, some relatively unusual efforts have been made by local governments to lower the rate.<sup>29</sup> In further reference to recent college graduates, concerted efforts have been made (not only by local labor and education officials but also by universities) to raise their rate of employment by expanding the recruitment of graduates to work in the countryside (e.g., as teachers). However, in order to protect the local job market, measures have also been taken in some cities to limit jobs to local graduates (Jinnian gaoxiao, 2009). Moreover, under heavy pressure to raise the employment rate of local college graduates, some officials and universities have reportedly distorted the actual numbers.<sup>30</sup> These efforts appear to have paid off, at least in a statistical sense, as a senior MHRSS official claimed that 68 percent of the 6 million students graduating college in the spring of 2009 were already employed as of early July 2009 (Renshebu, 2009). Nonetheless, if the number of unemployed recent graduates is added to the ones still jobless from the previous year (2008), there were altogether about 3 million unemployed graduates in July 2009.

For China as a whole, second quarter data for 2009 indicate a registered unemployment rate of 4.3 percent for the urban-*hukou* population.<sup>31</sup> With generally better-than-

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<sup>28</sup>Zhang et al. (2009), using a static sectoral input-output model based on actual 2008 and projected 2009 export data, estimate a total loss of about 41 million jobs over the last two years. As noted above, the joint press release issued by the Ministries of Commerce and Finance, and the All-China Federation of Trade Unions (Jinnian quanguo, 2009) forecast that total unemployment (of urban and migrant workers) would hit 40 million in 2009.

<sup>29</sup>The Beijing city government has agreed to pay local enterprises as much as RMB 10,000 (i.e., ca. \$US 1470) for each new hire from the local pool of registered jobless (Beijingshi, 2008).

<sup>30</sup>In order to meet employment targets, universities apparently have reported some graduates as employed even though they have not yet found jobs (see Qianche, 2009).

<sup>31</sup>However, if the 3 million jobless graduates are included in urban registered unemployment, the rate rises to about 4.7 percent (Table 2).

expected job growth in August and September 2009, it is quite likely that China will meet its goal of keeping the urban registered employment rate below 4.6 percent at the end of 2009.

In line with the prevailing view of the countryside as a reservoir for surplus labor (as noted above), the government has openly encouraged jobless migrants to return home to farm or start new businesses and become self-employed.<sup>32</sup> As some critics have pointed out, however, this solution is unrealistic (Han, 2009; He, 2009), because several major obstacles have prevented most laid-off migrants from being re-absorbed into the labor force of already heavily populated rural areas.<sup>33</sup> First, a high percentage of migrant workers do not have much experience or the requisite skills in farming, especially “second-generation” migrants, most of whom left the countryside immediately after finishing middle or elementary school. Second, many returnees do not have access to the farmland to which they are entitled (partly because they have not been on the farm for many years and have never worked “their” land and partly because their land had been requisitioned).<sup>34</sup> And more fundamentally, there has not been enough arable land for most farmers to make a basic living, which is what prompted them to leave the countryside in the first place. Finally, there are few opportunities for other productive work in the countryside.<sup>35</sup> In any case, it is difficult, if not impossible, for the majority of the jobless to start non-farm self-employment or business: doing so requires not only capital but also some entrepreneurial experience and skills, which the laid-off migrants generally do not possess.<sup>36</sup>

Because of the difficulties in transferring to other forms of employment, the job losses by migrants represent a real reduction of income for their families. Incomes generated by rural migrant labor now contribute about 40 percent of the total net income of rural families (predominantly remittances), so that the loss is quite significant (*Nongmingong*, 2009). In general, the extended family system in rural areas is likely to absorb this loss over the short term through the sharing of incomes and jobs, as Chinese farm families have done for many centuries (see Chao, 1986).

Another measure undertaken by local governments to assist rural migrant labor is the expansion of vocational training (and re-training). The “low-cost” approach adopted by most employers adopt provides hardly any such training to rural migrant labor, which is mainly focused on simple repetitive and fast-paced tasks requiring minimal training.<sup>37</sup> With few skills, migrant workers usually cannot be transferred to other jobs. Various government programs have been initiated for the purpose of offering vocational training in the wake of the

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<sup>32</sup>A campaign called “back to the village to construct the new countryside” was launched in the wake of huge layoffs in late 2008 (Guoban, 2008).

<sup>33</sup>Currently, the rural-*hukou* population is roughly 870 million, and the *de facto* rural population about 725 million. This rural population (perhaps less the 250 million already employed by the non-agricultural sector) is supposed to subsist on a total of roughly 140 million ha of arable land, an area even smaller than that of the United States where the total number of farm workers (including undocumented labor from Mexico) does not exceed 10 million (see DeSilver, 2006).

<sup>34</sup>For a discussion of the problem and land disputes generated by claims from returnees, see Cho (2009).

<sup>35</sup>Again, had the opportunities existed, they would have been utilized some time ago (Qin and Yu, 2009).

<sup>36</sup>According to some local county-level surveys reported in May 2009 by the statistical bureau of Hunan, a major migrant-labor exporting province, only 2 to 5 percent of returnees were able to generate any kind of non-farm self-employment (HBS, 2009).

<sup>37</sup>In attempts to lower costs, employers typically prefer to hire young and unmarried rural laborers. It is not uncommon to find “older” (often meaning 30 years of age and older) migrants dismissed from factory jobs because of age (see Chan, 2009b).

massive layoffs.<sup>38</sup> Local governments reportedly receive a subsidy from the central government that ranges between RMB 500 and 800 (US\$74–\$117) for each migrant worker enrolled in job training (Yi, 2009). Given the track record of local governments (especially of the ones in rural areas) in handling such initiatives,<sup>39</sup> especially with respect to treatment of migrant workers, we have doubts about the effectiveness of that program.

A more important initiative was the massive fiscal stimulus package of 4 trillion yuan (\$586 billion) over two years, intended to cushion the impacts of the recession on the economy. One of the main goals was to maintain a GDP growth rate of at least 8 percent for 2009. As part of the package, the government has poured billions of dollars into public works designated for road and rail transportation improvements. These projects have created many jobs for migrant labor, though, ironically, some of the public works have also set off another round of massive rural land expropriation, prompting dispossession of more peasants and creating more joblessness.<sup>40</sup> There are signs that the public works program has been successful, as GDP inched upward in the second quarter of 2009 relative to the first,<sup>41</sup> and many new jobs for migrants had been generated by August of that year. While the short-term concern for employing rural migrant labor thus seems to have receded, the fundamental unease regarding their vulnerability has not (Cai, 2009b): world demand for Chinese exports over at least the near term has dropped by about 20 percent, and the jobs created in public works are only temporary.<sup>42</sup>

To address this long-term concern, China should emphasize job creation in its stimulus plan and development strategy, not simply GDP growth as has always been the case recently and over the last three decades. A substantial part of the current stimulus has gone to major industries such as automobile manufacturing and machine-building. While such investments have contributed to the growth of GDP, they often did not prove to be the most effective in terms of job creation, as these industries tend to be capital-intensive and dominated by large state-owned enterprises.<sup>43</sup> A job-oriented stimulus program should focus on labor-intensive industries, and small and medium-sized enterprises directly, as the latter constitute the backbone of employment. A re-orientation of the remaining stimulus capital would thus serve to

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<sup>38</sup>For example, the central government has provided fiscal transfers to entice local governments to train returning jobless migrants, presumably at no cost to the migrants.

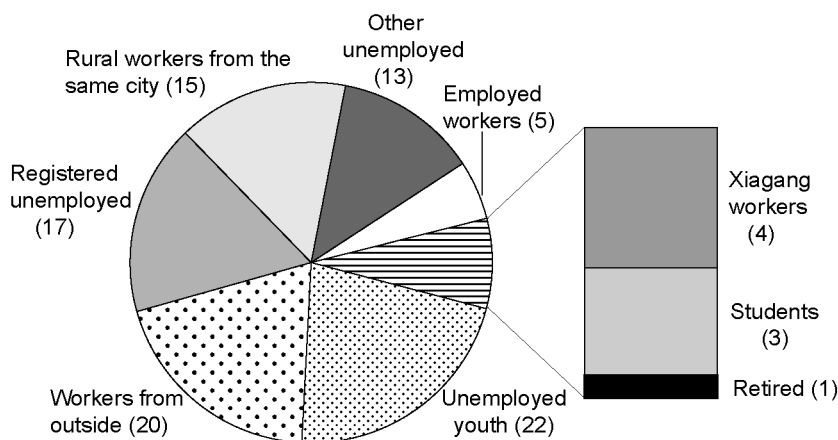
<sup>39</sup>Serious cases of embezzlement of training funds by local officials in Guizhou were reported by the *People's Daily* (cited in Yi, 2009). Sadly, what was ostensibly a "livelihood project" (*minsheng gongcheng*) for desperate jobless migrants quickly became yet another "embezzlement project" (*liancai gongcheng*) for government officials in some locales.

<sup>40</sup>Widely documented seizures of rural land under the current Chinese system amount to an immense confiscation of peasants' property, generating hundreds of mass protests in rural areas over the last several years. In 2009, because of the need to maintain high GDP growth, local governments obtained greater powers to seize lands at a faster pace, further jeopardizing the livelihoods of peasants and migrant workers returning to rural settlements (Qin and Yu, 2009).

<sup>41</sup>China's GDP in the second quarter of 2009 grew by 7.9 percent, compared to only 6 percent in the first quarter (Powell, 2009). Third quarter GDP, just reported as this paper went to press, grew by 8.9 percent (Jacobs, 2009).

<sup>42</sup>According to the Global Trade Information Service, China's exports for the first half of 2009 totaled \$521.8 billion, some 21.7 percent less than during the same period in 2008. (This amount is almost identical to that recorded by the General Customs Administration of China and reported in Table 2 of Liu et al., 2009 on page 504 of this issue.) Although a substantial reduction, this is slightly less than corresponding losses for South Korea (22.7 percent) and the United States (23.8 percent) and substantially less than Japan (37.3 percent) as well as the major European nations of Belgium, France, Germany, Italy, The Netherlands, and United Kingdom (all in the 30-percent range) (Barboza, 2009).

<sup>43</sup>Zhang et al. (2009) have shown this based on an input-output analysis.



**Fig. 3.** Composition of job-seekers in the urban labor market during the fourth quarter of 2008, in percent. *Sources:* Based on data collected in 88 cities; see China Labor (2008).

further mitigate job losses caused by the slump in exports, while at the same time serve to promote growth and jobs on more sustainable terms.

More generally, as a survey of job-seekers in the fourth quarter of 2008 has shown (Fig. 3), the composition of urban unemployment, the main focus of the government policy and targeted assistance, is quite diverse. One can easily differentiate 7 or 8 major groups of people looking for jobs, with no group being particularly dominant. These groups range from the older *xiagang* state workers, officially registered “unemployed” urban-*hukou* workers, new entrants to the job market (urban youth), to migrant workers from nearby areas or more distant regions. Such diversity precludes a policy narrowly targeting one particular group or another.

In devising policies to effectively attack the problem of unemployment, policymakers need to distinguish between unemployment of a cyclical nature (arising mainly from fluctuations in aggregate demand) and natural unemployment (arising mainly from frictional and structural unemployment).<sup>44</sup> Because it reflects national and global economic cycles, cyclical unemployment is mostly beyond the Chinese government’s control, especially given its heavy dependence on exports.<sup>45</sup> And while the recent increase in unemployment arising from the current recession is mainly cyclical in nature, the bulk of overall urban joblessness in China actually is a product of natural unemployment, caused mainly by the ineffective functioning of the domestic labor market and the mismatch of skills between jobs and workers. According to estimates based on 2007 survey data, of the overall 5.3 percent actual urban unemployment rate, only one percentage point was attributable to cyclical factors, the rest (>4 percentage points) being due to natural unemployment (Cai and Wang, 2010).

<sup>44</sup>Major components of natural unemployment include frictional unemployment (normal inefficiencies in finding new employment after termination of a preceding job, such as limited availability of information about job openings), structural unemployment (the mismatch between the skills or age of available workers and those needed to fill vacant positions), and country- or employer-specific institutional factors such as minimum wage policies, bonuses, or restrictions on number of hours to be worked per week.

<sup>45</sup>Roughly one-third of China’s GDP in 2008 was derived from exports (On the Rebound, 2009).

The government can further reduce natural unemployment by continuing to improve the functioning of the labor market (e.g., establishing employment search/recruitment offices and more widely disseminating information on job openings), assisting laid-off workers in efforts to find new jobs, and providing vocational training. These steps are within the capacity of the government and can be implemented almost immediately with relative ease, helping to offset losses caused by cyclical unemployment.<sup>46</sup>

More substantive labor market reforms also are needed. As migrant labor has been the main workhorse of China's manufacturing and services sectors, and migrants are an indispensable part of the urban labor force, it is quite evident that maintaining a stable migrant labor force and helping produce and convert experienced and skilled "temporary" migrant workers into "permanent" citizens is quite important (e.g., see Chan, 2009a; Zheng et al., 2009). This accords with China's goal of moving its industries "up the value chain," to export products containing a higher skill content and higher value-added component. Many cities have made modest progress in easing restrictions on mobility for some of the more sought-after workers (although to date this has been mainly confined to the college-educated and professionals). Similar gradual reforms can be taken to help retain skilled migrant workers and settle them in cities. This would be a largely win-win situation for both parties, as China badly needs more skilled industrial workers rather than more unskilled laborers (Chan, 2004).

Ultimately, China needs a unified rural and urban labor market, which will better employ China's human resources and promote social stability. Achieving this objective would entail a sweeping (rather than nominal) reform of the *hukou* system (see Chan and Buckingham, 2008) to allow migrant laborers to settle permanently in cities, and at the same time development of a social safety net (such as unemployment and retirement benefits). This would help reduce the cost of living in cities for migrant workers and thus encourage the most sought-after among them to settle permanently, providing a much-needed stable supply of labor for the city.

Along with integration of the labor markets, progress toward a unified rather than disparate system of social protection in such areas as pensions, unemployment compensation, health care, and education is essential toward realization of China's long-term economic development goals. Given the country's immense population and serious rural unemployment and underemployment, rational policies and efforts to promote true (stable) urbanization and rural-to-urban transition of the population through *permanent* rather than temporary rural-urban migration should be implemented (Chan, 2010). For this to happen, fair and equitable urban employment for newcomers from the countryside is most critically needed. By their very nature urban life and jobs are subject to the vicissitudes of the economy, and often lie beyond the control of individuals or even governments (unlike the generally self-sufficient nature of the peasant economy). Yet bringing peasants from the countryside to the city in order to augment the urban labor force creates an economic, social, and moral responsibility to provide the newcomers with the same entitlements and security afforded long-time urban residents, especially during difficult economic times.

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<sup>46</sup>Rural migrant laborers are the hardest hit by the current recession, suffering from both cyclical and natural unemployment.

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