

CHINA'S GROWING UNEMPLOYMENT PROBLEMS: PAST, PRESENT, AND  
FUTURE

by  
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## ABSTRACT

ANDREW JOHN PILETZ: China's Unemployment Problems: Past, Present, and Future  
(Under the direction of Gang Guo)

China's unemployment problem is relatively new because of the planned economy under Mao Zedong. This study shows how China's employment has been affected by Deng's "socialist market economy," educational reforms in 1999, and accession to the WTO in 2001. Also, it sets out to determine the effectiveness of China's reemployment efforts, and proposes solutions for the future. Data for this thesis was attained through three main methods. The first was through scholarly secondary sources. The second was through primary data such as government statistics. The third was through a survey I had conducted at Shandong University at Weihai among over one hundred college students. These three sources of data were combined to show any correlations that might exist. Results of the primary and secondary data illustrate a clear unemployment problem that has been rising drastically since the 1990s and has increased since China's accession to the WTO. Also, because of increased college student intake in 1999, college graduates are facing the new idea of unemployment. The survey results show a clear trend of increased western capitalistic thinking among China's younger students. Research shows that China's reemployment projects in the 1990s were marginal at best. Today, China is relying on the growing tertiary sector and FDI to absorb the unemployed. Most experts believe that China's unemployment problem will increase for five to ten years after WTO accession, due to the restructuring of industries and increased foreign competition, but will drop after that transition period as China's economy adjusts and foreign companies become more accustomed to China's markets. This scheme seems ideal, but it is an oversimplified model as only part of China's population will benefit from these growing sectors. China has firmly established itself as one of the world's strongest economies, but unemployment may be the Achilles Heel that brings this economic dragon to its knees.

## TABLE OF CONTENTS

LIST OF TABLES.....	v
LIST OF FIGURES.....	vi
INTRODUCTION.....	1
CHAPTER I: HISTORY OF UNEMPLOYMENT.....	5
CHAPTER II: COLLEGE GRADUATE UNEMPLOYMENT.....	19
CHAPTER III: WTO AND UNEMPLOYMENT.....	35
CHAPTER IV: REEMPLOYMENT.....	57
CHAPTER V: CONCLUSION.....	78
BIBLIOGRAPHY.....	84
APPENDIX I.....	90
APPENDIX II.....	91

## LIST OF TABLES

TABLE 1	Preferred Work Sector – Weihai.....	17
TABLE 2	Preferred Work Sector – Beijing.....	18
TABLE 3	Chance of Finding a Job as Compared to 1999.....	25
TABLE 4	Plans after Graduation – Weihai.....	27
TABLE 5	Plans after Graduation – Beijing.....	27
TABLE 6	Plans if You Don’t Make Expected Salary.....	30
TABLE 7	Better Economy.....	40
TABLE 8	Preferred Economy.....	40
TABLE 9	Preferred Employer.....	43
TABLE 10	Economic Impact of WTO on Family Income.....	44
TABLE 11	Chance of Finding a Job Since 2001.....	53
TABLE 12	Reemployment: Changchun Social Insurance Bureau.....	66
TABLE 13	Effectiveness of China’s Reemployment Project.....	68
TABLE 14	Employment: Government or Personal Responsibility?.....	72
TABLE 15	Male Female Ratio.....	90
TABLE 16	Classification.....	90

**LIST OF FIGURES**

FIGURE 1: Causal Path to College Graduate Unemployment.....33

FIGURE 2: Causal Path to WTO Unemployment.....47

## **Introduction**

Unemployment is one thing that the world has not noticed about China during its rise as one of the world's strongest economies. However, attention should be paid to this problem as it has the capability of dragging this economic dragon to its knees. Although the outside world has not recognized this problem, the Chinese are ever consumed by the unemployment situation. In a 2003 report by the Chinese Academy of Social Science, it was stated that unemployment and social security became the two most important issues for the Chinese in the 1990s (Won, 2004, 74). Employment is important because it not only affects the unemployed, but it affects the whole economy. Jobless will always find something to occupy their time, and more times than not these activities do not promote society. A 2005 article from the Beijing Review characterizes the importance of employment by saying, "Employment is not only the foundation of people's livelihood, but also the guarantee in promoting the overall development of human beings, the economy and society. With these issues outstanding, development in other areas is meaningless" (Beijing Review, 2005, 18).

Unemployment in this paper will be discussed in three main facets. First, unemployment among college graduates has become a huge problem even though there is a lot of opportunity for the educated workers in China. Second, since China's accession to the WTO, the unemployment rate has been rising, which is only exacerbating the current unemployment problems. Lastly, China's reemployment efforts have only been marginally successful, and today, the social security system is not fairing much better.

One thing to note about unemployment in China is that it is almost impossible to calculate. The official unemployment rate in 2005 was 4.2% (The US-China Business

Council, accessed 25-March-2006). However, many scholars believe that rate to be much higher leading Jean-Louis Rocca to estimate the unemployment rate in 1997 to be 14% (Kernan and Rocca, 1999, 1-2). The problem not only lies with the incredible population of China, but it also lies with the different classifications of unemployed. For example, many workers who are still associated with companies, but technically unemployed, or workers who are still waiting for work (*daiye*), are often still counted as employed (Solinger, 2001, 672). As a result of these skewed statistics, China's unemployment problem is unknown to most the world community.

### **Misconceptions about China**

Many preconceptions concerning China will be challenged in this paper as the world begins to fully understand the situation in China. In today's world, China is viewed as the next economic superpower, so how can it have such rampant unemployment and still be this successful? Another question that arises concerns education. College education is seen as a must in any developed society, so why is China having such a hard time finding employment for these ready and able newly educated of China? Also, the WTO has mostly been viewed as an opportunity for nations to increase international trade and prosperity, and lower unemployment, so why has the accession to the WTO not produced these results in China? When China is mentioned today, it is seen as the land of opportunity, but when will this opportunity be realized by the people of China rather than foreign exploiters of the Chinese economy? These questions and more will be answered in the following chapters of this thesis.

### **Employment: A Very Critical Problem**

The problem of unemployment is one of vital importance in any economy, and this especially applies to the world's next superpower. Today, China is still a mystery to most of the world as it pursues an unprecedented policy of a market economy under a Communist government, or as Deng coined it a "socialist market economy." It is a policy that most scholars thought would be doomed from the beginning, but with each year, more and more people are beginning to believe in this economic dragon. Although most statistics point to China as an economic and social success with a very bright future, other statistics like unemployment produce a completely different image. China's employment and social security problems could severely hinder its growth. Many demonstrations have arisen due to these problems, one of which was the Tiananmen Massacre of 1989 where students were violently put down by Chinese authorities while protesting rampant inflation and widespread unemployment. Protests and riots like Tiananmen have become increasingly common. As Andrea Mandel Campbell states, "According to Chinese Authorities, there were 74,000 such protests last year, a dramatic increase from 2003" (Mandel-Campbell, 2005, 29). Another question has arisen concerning the question of how long China will be able to continue reforming its economy before it implements political reforms. These situations are all very vital in determining China's economic and social outcomes, and this will in turn affect the world economy. A stable and secure China will lead to a more stable and secure world as China continues its ascent to the top.

### **Student Survey**

One of the reasons why this work is so important is because of the survey conducted at Shandong University at Weihai in China (see Appendix 1 and Appendix 2). This survey was conducted in December of 2005 and was designed to measure Chinese students' feelings towards their employment futures. This study derived data from over a hundred sophomore and senior students at this university, and many interesting correlations have resulted from this study. This study has shown differences in college students, particularly among sophomores and seniors. The results of this survey will be compared and contrasted with scholarly works and other data. The following is a brief summary of unemployment and the economic situation of China in the years leading up to 1978.

## **Chapter I: History of Unemployment**

The Communist Party of China was formed in 1921, and after twenty-eight years of struggling formed the People's Republic of China in 1949. The party and the government were under the guidance of the inspirational leader Mao Zedong. Despite his many motivational speeches about turning China into a world power, many of Mao's policies turned China into a whirlwind of social and economic confusion. The Great Leap Forward was one of Mao's efforts at reducing surplus labor by using mass mobilization to produce steel through the infamous backyard furnaces. China's steel production did show significant growth and unemployment did diminish, but much of the steel produced was impure and useless while other sectors like agriculture suffered dramatically from the lack of farmers. The Great Leap Forward was deemed a failure as a massive famine spread across China.

Following the Great Leap Forward was the Cultural Revolution which once again turned China upside down. The formerly highly esteemed scholars and bourgeoisie were now looked down upon and hunted by such groups as the Red Guard. Many of these educated elite were subsequently tortured and killed. Mao believed that instead of learning Western ideas in higher education institutions, the people should learn from the peasants in a massive re-education campaign. As a result, many of China's top government and economic positions were filled with a non-educated and backwards elite. During this time China's GDP dropped considerably while it was cut off from contact with the international world (Wikipedia online; accessed 1-April-2006). Despite all of these negatives Mao did achieve some success in China.

When Mao took over in 1949, unemployment was rampant. And, in Mao's egalitarian society, unemployment was unacceptable. So, through efforts such as the Great Leap Forward, Mao was able to eliminate unemployment; however, the incredible inefficiencies and damage caused by this mass mobilization wreaked havoc causing such disasters as a major famine. However, Mao was able to eliminate unemployment by the end of his rule as SOEs and collectives employed 99.8% of the population (State Council, 2002, 8). Mao's belief in egalitarianism brought many benefits for the Chinese people. For example, individuals who worked at state firms received social security from the enterprise for both them and their family. This social welfare included pensions, medical care, workers' compensation, housing, and schooling. It covered a vast majority of the urban population; however, many of the smaller SOEs and collectives did not offer these benefits leaving temporary workers and peasants without social security because they were not qualified as urban workers (Solinger, 2005, 87). One of the better things that Mao achieved was an increased literacy rate despite decreased emphasis on higher education. Another positive under Mao was the industrialization of China. From 1952 to 1977, the output of Chinese industry increased at an average annual rate of 11.3% (Meisner, 1999, 414). This industrial output helped pave the way for China's incredible economic growth under Deng Xiaoping.

Mao's economic policies focused on expansion from within. For example, Mao was determined to turn China into an industrial power through the Great Leap Forward without help from any outside countries. Much of the failure in China during this time was a result of corruption among party officials and inefficiency among the SOEs. Mao was more focused on equality over efficiency which was why he solved the employment

problem by filling the SOEs with excess labor. As the Cultural Revolution came to an end these inefficient SOEs became a major problem for China's lagging economy. When Mao died in 1976, China was faced with an economy that was stagnant, a population that was uneducated, and a country who longed for a leader.

### **1978: Deng Xiaoping and Reform**

The man who was to face the problems of China in 1978 was Deng Xiaoping. Deng came into power with the simple idea of doing what was best for China's economy, and the main problem he saw with China's economy was inefficiency. Deng saw that the successful economies of the world were all very efficient, and he believed that through efficiency China could become one of those successful economies. In his quest for efficiency, Deng felt that SOEs presented the biggest problem, and a massive reform effort would be needed to turn the tide on the inefficient SOEs.

Deng also understood China could not become an economic power while employing its policy of expansion from within. China would have to implement an open door policy and begin interacting with the outside world. Following these goals, in 1980 Deng, "laid out what then seemed to all foreign observers to be an unrealistically ambitious goal, to quadruple Chinese output by the end of the century" (Garnaut, 2002, 3). At the time, Deng's ambition seemed like a lofty ideal, but it was this ambition that spurred China's robust economy over the next couple of decades.

When Deng took over in 1978, he also faced a series of demographic pressures. First, China's population had risen to the largest in the world due in part to Mao's promotion of large families. As a result, a large unemployment problem began to surface. This demographic pressure was intensified by the return of the sent down youth

in the late 1970s and early 1980s. These were the approximately 17 million urban students who were sent down to the countryside between 1967 and 1978 under Mao's rule to be reeducated by the peasants. The combination of China's huge population and the return of the sent down youth after Deng's takeover put a considerable amount of pressure on the government to help these youth find work.

At first, SOEs began hiring these youth, but Deng realized that in the long term they could not possibly absorb all of these students. This would only further increase inefficiency and slow China's economic transition. So, Deng's solution for the demographic pressure and his quest for efficiency was to allow household companies (self-employed) and foreign investment in China in the early 1980s. Deng believed that the introduction of these new sectors would absorb some of the unemployed work force and alleviate pressure on the SOEs and the government. During the 1980s self-employed individuals, foreign investment, and joint ownership units started popping up in China. At the same time the culture surrounding these new business opportunities began to change. In the past, most people did not want to begin their own companies because it was looked down upon and job security was very low. Most Chinese wanted to work for the government because SOE workers were seen as having a higher status due to high job security, good benefits, and their titles. The fascination with working for SOEs began fading towards the latter part of the 1980s, as self-employment and the private sector became more and more prevalent.

During this same time of self employment and foreign investment in the 1980s, SOEs continued to grow. In fact, employment in SOEs steadily increased until 1995 when SOE employment peaked at 112.44 million people (China Statistical Yearbook,

2004). As of 2003, SOE employment had diminished to 66.21 million employees. One important thing to mention concerning the drop in SOE employment is that many of the SOEs began using private investment, which often changed their classification as SOE. Over the years of decreased SOE employment, employment in foreign corporations and household companies dramatically increased. However, this increase did not cover nearly all of the employees laid-off from the SOEs and collective enterprises.

### **Growing Private Sector**

Deng Xiaoping brought in ideas of opening China's economy in order to take advantage of the world market through a more efficient Chinese economy. This drive towards efficiency eventually led to privatization in the mid-1990s. The Chinese government embraced this new idea of the private sector when in 1999 the National People's Congress amended the constitution proclaiming the private sector a "component part" of the national economy (Solinger, 2002, 307). Privatization is generally thought to have the ability of achieving four purposes: improve enterprise efficiency, stimulate the creation of a market economy, raise revenues for the government, and limit corruption. In addition to these benefits, Deng believed that privatization would be able to help absorb laid-off SOE workers and help resolve China's unemployment problem. These were the goals that Deng Xiaoping considered when moving to the new system.

Although privatization has been going on over a decade in China, SOEs still remain a large part of China's economy. The SOEs left today are the large SOEs that China was not willing to give up. A study performed in 2001 showed that the state retained a majority interest in 57.6% of shareholding firms and 53.2% of limited liability firms (Green and Liu, 2005, 26). This statistic shows a gradual retreat from some large

SOEs by the government. As of 2002, SOEs made up two-fifths of total industrial output and 43.7% of fixed asset investment by enterprises (Green and Liu, 2005, 25). Although the state still retains many of the large firms in industries such as banking and transportation, it is increasingly being done with the help of private capital. SOEs in China are still making profits; however, their profitability numbers compared to private and foreign invested companies are generally lower.

### **Unemployment Emerges**

The increase of efficiency seems like an ideal that every country strives for, but efficiency does have negative side-effects such as unemployment. Unemployment due to efficiency is the case for China today as an estimated 10-15 million Chinese employees have been laid-off each year since 1998 (Green and Liu, 2005, 2). In fact the Chinese government encouraged this type of behavior as evidenced in 1997, when the party congress adopted an official directive to “reduce the labor force to enhance efficiency” (Solinger, 2005, 88). So, the question becomes where did all of these laid-off SOE workers end up? For these unemployed persons, two main alternatives existed. The first was to find a job in or start a private or household enterprise. The second was to find a job with a foreign enterprise. Finding a job in the private sector was much easier said than done. Once again, this had to do with efficiency. Unlike SOEs, these private, self-employed, and foreign firms were completely focused on making profits. So, in many cases these companies were unwilling to hire the laid-off SOE workers because they were seen as inefficient. In an effort to increase efficiency, these companies sought out college graduates and workers with more technical skills and education. As a result, many Chinese started opening household businesses. This is shown in an increase in household

companies from 15,000 in 1978 to 614,000 in 1990 (China Statistical Yearbook, 2004). The private sector also expanded later, as shown in the employment jump between 1994 and 2003 of 4.52 million workers to 25.45 million workers. This increase can be misleading in that most of the new employees were not the laid-off SOE workers. Also, considering the overall population growth during this time, the decrease in unemployed SOE workers was not that significant.

One of the problems that has accompanied China's socialist market economy is the lack of a functioning social welfare system. Unlike the egalitarian society set up by Mao, the foreign firms and private investment that have penetrated China over the past two decades have been purely motivated by market competition and the drive for profit. In order to cut costs and maximize profit, many of these firms simply did not offer welfare benefits. As a result, many of the SOEs have found it increasingly hard to compete and have been overcome by losses (Sollinger 2005, 88). China is currently in the process of setting up a social security system which would be completely separate from the enterprise system. However, this project is still under construction with completion still many years in the future.

### **Unemployment and Gender**

Although gender inequality in China is diminishing, it still exists in the workplace. According to the All China Women's Federation, 47% of laid-off workers were women, which is a number that is significantly higher than their representation in the overall labor force. Furthermore, many female workers were encouraged to take early retirement which would decrease their pensions. Chinese law requires equal pay for equal work; however, a 1999 government survey discovered that women were paid only

70% of what men received for the same work (Country Reports on Human Rights Practices, 2005). And, most women employed in industry worked in lower-skill and lower-paid jobs. Another growing phenomenon is a process commonly referred to as the feminization of agriculture. This is growing trend of females taking over agricultural activities as men move to off-farm employment (Evans, 2000, 224). These issues are another thesis on their own, but it is important to be aware that they exist.

### **Regional Unemployment**

Since the economic reforms in 1978, regional disparities have become a growing problem. China's coastal regions have thrived, while inland regions have been stagnant (Jiang, 2002, 45). The main reasoning for this is that coastal regions have received the lion's share of foreign investment, while inland regions were left in the dark and are still surviving with inefficient SOEs. This problem has also had an effect on regional employment disparities. Industrial centers which have relied on SOEs have suffered the most from unemployment. In 2002, the "official" unemployment rate in Liaoning province, an industry driven province in Northeastern China, was 6.5% as compared to the 1.4% unemployment rate in Beijing. Unemployment rates of other inland provinces like Sichuan and Heilong Jiang were also high at 4.4% and 3.7%, respectively (China Labour Statistical Yearbook, 2003, 129). As foreign investment continues to pour into the coastal provinces, this regional employment disparity is only expected to increase.

### **Increase in College-Educated Populace**

As China's economy became infiltrated by more and more private, foreign, and household corporations, the demand for college-educated persons in the late 1990s became glaringly evident. Deng Xiaoping was a strong proponent for an improved

education system and a larger educated population. In a speech delivered to party cadres in 1980 Deng said, “There are large numbers of children in primary and secondary schools, but very few college and university students; on-campus college students number only one million. . . If our on-campus college students were to reach even two or three million, we would have a good number of trained, specialized personnel” (Deng, 1993, 262). This was seen as necessary for China to become more efficient and join the strongest economies of the world. So, in following Deng’s quest for efficiency, the Chinese government began slowly increasing the number of college students as student population reached three million by the late 1990s. However, this increase in population is trivial when compared to the massive educational reforms of 1999. In 1999, the government encouraged Chinese universities to increase student intake by 50%. In 2000 and 2001, universities were once again encouraged to increase student intake by 25% and 22% respectively. This sudden increase resulted in a huge graduating class in 2003 that was unable to find work because the market had not adjusted to absorb these students. In the 1980s, China had the demographic problem of finding work for the rapidly increasing population and the return of the sent down youth. Today, China faces another demographic problem of finding jobs for the expanding college graduate population.

### **2001: WTO Accession**

China took another large step towards efficiency in 2001 with its accession to the World Trade Organization (WTO). The accession to the WTO has created a more competitive market in China which has helped eliminate inefficient firms as efficient firms take over. A negative result of this increased efficiency, however, is a rising unemployment problem. According to some investors, China will lose approximately

forty million workers to unemployment during the first five years of China's accession to the WTO (Feer, 2000, 10). It is expected that this increase in unemployment during the first years of China's accession to the WTO will be met by an increase in employment after the first several years as more and more businesses infiltrate China's markets. In the long term, China's labor-intensive, tertiary industries and small enterprises are expected to develop further which would increase the elasticity for employment. In the short term, unemployment is rising as China's traditional patterns of employment are being broken up and industries are being restructured. China's agriculture is expected to take the biggest hit in unemployment due to new technologies and more efficient ways of harvesting crops (WTO Entry, 2002, 1). With this new competition, SOEs also face greater competition and must find ways of becoming even more efficient to compete on the world market.

### **Reemployment**

Ever since Deng's takeover in 1978, China has been searching for a solution to its new problem of unemployment. Many efforts have been made at finding a viable solution of which three have been most recognized: increase private sector employment, implement the Re-employment Program, and a new welfare system. The private sector was championed by the government to be one of the solutions to the massive SOE layoffs. Although the private sector employed eighty million Chinese in 1999 and was estimated to be producing 70% of the gross national product by 2001, laid-off SOE workers were not the ones benefiting (Hiatt, 2001, B07). One of the main reasons for this was their lack of education, which was a direct result of the Cultural Revolution when students were pulled out of school. As a result, many of these laid-off SOE workers were

deemed useless by the new profit-driven private sector. Consequently, many of these workers looked for jobs usually deemed for the lower classes, and even then they faced fierce competition from immigrant workers who were better trained for that type of manual work.

The Re-employment Project was begun in 1993 with the very ambitious goal of arranging for the settlement of all the laid-off SOE workers (*xiagang*) while the labor market and the social insurance systems were still developing. The project was initially piloted in thirty cities in 1994 and was instituted throughout the country the following year. The project helped these workers find jobs by implementing such policies as preferential treatment to companies who hired these workers, a monthly allowance, and a multitude of training programs meant to make the workers more attractive to perspective employers. The project was immediately met by road blocks such as a scarcity of funds, an increasing number of employers who were going bankrupt, massive corruption among party cadres, and a vast insufficiency in the supply of potential work posts in the ever changing economy (Solinger, 2002, 315). When people did qualify and enter the re-employment centers, a marginal rate of re-employment was achieved; however, due to strict rules concerning qualifications most people did not even qualify. By mid-2000 the government announced that it would cease setting up new re-employment centers. Scholar Debra Solinger assessed the project by stating, “the overall outcome has been that millions in the cities who have lost their work and their welfare have no recourse from the state in supporting their subsistence” (Solinger, 2002, 319). The overall effect of the Re-employment Project will be discussed in Chapter 4.

The new social insurance program aims to plug any of the holes that the Re-employment Project left open. It is said to have three aims: a basic livelihood allowance, unemployment insurance, and a minimum cost of living guarantee. The program calls for all enterprises to provide part of the funds for these allowances, but many of these enterprises cannot afford these allowances, and the more profitable ones are not willing to support the struggling enterprises. The long-range vision of this program is to create a free-standing social security network providing four different types of insurance: pensions, unemployment, medical care, and injury (Solinger, 2002, 323). The jury is still out on this new program, but the final completion still seems pretty distant.

### **Survey Results**

One of the questions on my survey dealt with which sector students most wanted to work for: public service, state-owned enterprise, private enterprise, foreign-invested company, or entrepreneurship. Of the students who participated in the survey, 24.1% chose public service, 9.3% chose SOEs, 6.5% chose private enterprise, 43.5% chose foreign invested company, and 16.6% chose entrepreneur (see Table 1). These results show the willingness of these students to work for the government. At the same time, it also shows students' desire to move out of SOEs and join foreign invested enterprises. Another very interesting correlation develops when these results are broken up among sophomores and seniors. Only 1.96% of sophomores wanted to work for a SOE as compared to 12.77% of seniors. The sophomores were much more interested in public service at 27.45% as compared to seniors at 17.02%. These results show that over two short years, interest in SOEs has already dropped. This could be a sign of less and less SOE economic involvement in the days to come.

In 2006, The Beijing Bureau of Personnel conducted another similar survey in Beijing, which produced very different results. Of the 7419 college students who participated in the online survey, 37.55% chose public service, 32.11% chose private and foreign companies, 22.93% chose SOEs, and 7.41% chose entrepreneurship (Liu, 2006, B1) (see Table 2). In Beijing, more students chose to work as a public servant by a margin of 37.55% to 24.1%. Compared with the Weihai students, Beijing students also preferred working in a SOE by a margin of 22.93% to 9.3%. In contrast, 50% of students from Weihai chose foreign or private companies compared to only 32.11% of Beijing students. Entrepreneurship in both areas were relatively low at 16.6% in Weihai and 7.4% in Beijing. The difference in geographical location is probably the best explanation for these differences. Since Weihai is on the coast of China and has been more active in international trade, its students are more inclined to work for foreign and private companies. On the other side, Beijing students are not only inland, but are also in the capital of China, where the government holds a bigger stake in the economy. So, these students are more inclined to work for the government in either an SOE or as a public servant. Overall, these two surveys show that foreign and private companies are becoming more attractive, but SOEs and government offices are still very popular career choices.

**Table 1: Preferred Work Sector – Weihai**

	Sophomores	Seniors	Average
Public Servant	27.45%	17.02%	24.10%
State-Owned Enterprise	1.96%	12.77%	9.30%
Private Enterprise	7.85%	6.38%	6.50%
Foreign-Invested Enterprise	43.14%	53.19%	43.50%
Entrepreneur	19.60%	10.64%	16.10%

Source: Piletz, 2006

**Table 2: Preferred Work Sector - Beijing**

	College Student Average
Public Servant	37.55%
Private and Foreign Enterprise	32.11%
State-Owned Enterprise	22.93%
Entrepreneur	7.41%

Source: Liu, 2005, B1

### Summary

Efficiency is the main theme as China moves into a new era of development and international involvement. Deng saw this as the way for China to develop and become competitive on the world market. This efficiency was achieved through reforms in China's economic policies, the education system, and foreign trade policies. As a result of Deng's policies, China's economy and society have thrived. China's GDP per capita from 1978 to 2001 went from 379 RMB to 7,543 RMB (China Statistical Yearbook, 2002). Against all predictions, Deng and China have been able to use a combination of socialism and capitalism in achieving rapid success. Unfortunately for China, the efficiency that Deng so earnestly sought has resulted in a massive unemployment problem. Many experts predict that the recently increasing unemployment numbers are only a short term result of China's accession to the WTO. In fact, experts predict that China's unemployment problem will diminish as it becomes more integrated into the globalized economy. Then again, these are the same people who said that China's model of capitalism would not succeed in the first place. So, as China moves into the twenty-first century with expectations riding so high, how will it respond to its economic and social problems? An in-depth analysis of China's present and future economic and social problems concerning unemployment will be provided in the following chapters.

## **Chapter II: College Graduate Unemployment**

The most surprising unemployment problem in China today is that facing college graduates. In the past, problems with unemployment mostly stemmed from a lack of education, especially with the laid-off SOE workers. In the 1980s and 1990s, college education was seen as a sure-fire way of securing a promising job. However, after the educational reforms in 1999, which increased college student intake by an enormous amount, college education became less and less of a guaranteed path to employment. This has resulted in an enormous social problem for these educated students who lack direction in their lives. Despite being magnified lately because of the educational reforms, this student unemployment problem originated a long time ago.

### **History of Youth Unemployment**

The problem of the sent down youth came to light in 1978 when Deng Xiaoping took over. These youth were the students who were taken out of school and sent down to the villages to be “re-educated” by the peasants. Mao’s idea was that these students were out of touch with the real parts of China and they could learn more from the peasants than the schools. So, in 1968, over seventeen million Chinese junior high and high school students were taken out of school and sent down to the countryside. At first, students became excited about the prospect of moving to the countryside, but what started as a revolutionary movement for many of these students ended in the harsh reality of destitute life in the countryside. While some students and peasants enjoyed the experiences of the sent down youth, many others were faced with unimaginable hardships. Many times the peasants viewed the students as more of a burden than a benefit. In fact, many peasants were not even sure why the students were coming to help them because of their lack of

manual labor skills (Wikipedia online; accessed 15-March-2006). These students ended up losing many valuable years of education and finally returned when Deng took over in 1978. When these seventeen million poorly-educated students returned to the cities, they were met with the challenge of finding a livelihood in the ever-changing Chinese economy.

At first, the sent down youth were all sent to work for state-owned manufacturing and textile companies, but a few years later massive layoffs occurred as the inefficiency of these firms became glaringly apparent. Deng tried to alleviate the problem of the sent down youth by encouraging other sectors such as self-employment, foreign invested companies, and joint ventures. A big problem with the students dealt with their mentality concerning employment. Throughout their lives they were taught to depend on the government for employment, and now they were faced with the situation of finding their own jobs. As a result, many students were unprepared to search for employment. The students who did find employment usually ended up beginning their own companies. They either started up collectives with other classmates or began a simple private business. The collectives were known as “private collectives,” since they were started and run by the students. The government encouraged projects such as these by offering funding and tax breaks to these types of companies (Feng Langrui, 1988, 287). The private businesses did not meet much success in the early 1980s, but as the private sector began picking up steam in the late-1980s, the students took advantage and many found employment in this sector. Despite helping many students with employment, privatization still left many students homeless and jobless. These unemployed were the

main reason for the establishment of the many re-employment projects during the 1980s and early 1990s.

### **China's Education System**

Due to the lack of higher education in China because of the Cultural Revolution, college graduates were highly sought after. Deng Xiaoping was a strong proponent of education and realized that an educated populace was the only way for China to compete on the international scene. Hence, in December of 1977 uniform national college entrance examinations were reinstated. However, one of the main problems with the reinstatement of the college entrance exams was that there were not enough openings for all interested students. In 1977, 5.7 million students took the entrance exams although there was only enough room for 278,000 applicants with the highest scores (Wikipedia online; accessed 15-March-2006). In 1984, 1.6 million candidates took the exam with only enough room for 430,000 of those students in more than 900 universities. So, the universities could not accommodate the interested students, and many times the best students were being passed up in favor of children of party cadres using connections or the "back door." Also, tuition to these schools was rarely subsidized and extremely expensive, especially for the rural families. So, the students entering the universities at this time were strictly the privileged population.

During the early 1980s, education was a sure fire way of finding a successful job. Under reforms in 1985, all college graduates were assigned jobs by the state (Wikipedia online; accessed 15-March-2006). As a result college entrance exams became vital to the success of a young Chinese. In 1986, in the Sixth Plenum of the Twelfth National Party Congress Central Committee, the government adopted a resolution that emphasized

education and science as guiding principles in the success of a socialist society. This keyed more liberal guidelines to education, including allowing teachers to plan their own curriculum, suggest appointments and removals of staff members, and take charge of funds allocated by the state. In 1986, schools also began to grant scholarships and low interest loans to help out the students who placed highly on the entrance exam, but did not have the funding to attend college. Financial aid was also beginning to be provided by work units so that employees would be able to attend college. In addition, schools were finally beginning to relax their entrance standards by accepting some students with high GPAs but low test scores.

Through the late 1980s and the 1990s Deng Xiaoping continued to emphasize the importance of education. In a speech given in 1980, Deng challenged China to reach a college student population of two to three million (Deng, 1993, 262). As a result, China continued liberalizing its education system. Student enrollment in higher education from 1985 to 1995 increased from 1.7 million to 2.9 million students. Universities also grew from 1,016 to 1,054 over that same period (China Statistical Yearbook, 2002). These relatively meager increases seem minimal compared to the increases after reforms in 1999.

### **1999: Educational Reforms**

As China neared the turn of the century, the need for more radical reforms in the education arena became apparent. Although student intake had been increasing steadily since the 1980s, the government still felt that many students were being left behind. It believed that the most advanced economies of the world all had very successful education systems that were very readily accessible to the people, and the government viewed this

as a key to its own development. So, in 1999 the Chinese government enacted serious educational reforms. The Ministry of Education directed Chinese universities to increase college student intake by 50%. And, in 2000 and 2001 the universities were once again directed to increase student intake by 25% and 22% respectively (Cheng, 2004, 82). The main reasoning for this increase was to increase China's educated populace so it they could compete on the global market. However, many other theories concerning the increase were also explored. One intriguing explanation for the educational reforms in 1999 was that the decision makers were trying to increase spending and investment on college tuition amongst a savings-oriented population (Cheng, 2004, 83). Whatever the reasoning for the increase in college students, the effects were unmistakable.

The increase in students from 1999 resulted in a college student population of 19 million in 2003. This number included students in undergraduate colleges, degree and sub-degree, as well as adult education institutions. Still, this gave China the largest college student population in the world over the United States, which had 14 million students (Cheng, 2004, 82). The latest student statistics showed that, in 2005, 5.05 million students entered college and 3.07 million students graduated (National Bureau of Statistics of China, 2006). This shows an ever-increasing student intake growth even today. Despite the raw number of college students, the percentage of students attending college has remained relatively low. When compared to students from the 18 to 22 age range, China's 19 million students only made up 17% of the population, while the percentage of youth attendance at universities in the United States ranged between 55% and 60% (Cheng, 2004, 83). If China were even to reach half of the United States'

student participation percentage, its college-educated population would be astronomical. The effect of these newly educated youth has brought about mixed results.

### **Problems of the Educational Reforms**

The increase in college student intake has definitely led to a more educated populace, but one of the main problems lies with the rate of this increase in education. The rapid increase in college student intake in 1999 led to a graduating class in 2003 that was left to a job market that had not yet adjusted to its needs. So, many of these students who expected jobs to be waiting for them after graduation were faced with the harsh reality of a newly efficient economy. Another factor that exacerbated the problem of the increase in student intake was the fact that the Chinese government stopped assigning jobs for college students in the late 1990s. As a result, these students were not only faced with the problem of increased competition, but also the new concept of finding jobs for themselves. Many other problems accompanied the reforms of education in 1999 besides the sheer size of the graduating classes.

Another problem that resulted because of the reforms has been with the quality of education. In order to accommodate the growing number of college students, the university system has had to do two things. First, the universities already in existence were forced to increase their student capacity. Second, the government began allowing the creation of new universities, many of which were private. The increase of student capacity has been remarkable as the average number of undergraduate students per university jumped from 3,300 students to 10,500 students from 1998 to 2002. Over the same time period, the number of higher education institutions jumped from 1,022 to 1,396 (Cheng, 2004, 84). One of the main problems with this increase of students and

institutions was the lack of qualified teachers. The student teacher-ratio jumped from a meager 9.7 to 1 in 1998 to an astounding 17.4 to 1 in 2002 (Cheng, 2004, 85). So, as the quantity of college graduates in China increases, the quality of their education is coming under question.

### **Results of the Educational Reforms**

The results of the reforms to the education system are mixed. In 2003, 1.6 million students graduated from college. One in every 11 Chinese under the age of 30 is unemployed which is an unemployment rate of 9% compared to the national average of 6.1% (Lu, 2005, 34). Also, 72% of unemployed youth have been jobless for a year or more. In my survey, when asked about their chances of finding a job today as compared with 1999, 66.6% of the students believed their chances to be “slightly to much worse,” while only 31.48% of the students believed their chances to be better. The rest remained neutral (see Table 3). The differences in classification and sex in this question were not statistically significant. The coefficients for the classification and sex variables were .001 and .311, and the significance was .998 and .478, respectively. These results show that the reality of the difficulty of finding a job is setting in with many of these students. When questioned on the probability of finding a job after college, the students believed that they had a 60% chance of finding a job immediately after college. Again, the differences in classification and sex in this question were not statistically significant.

**Table 3: Chance of Finding a Job as Compared to 1999**

Much Worse	Slightly Worse	The Same	Slightly Better	Much Better
35.18%	31.48%	1.85%	18.52%	12.96%

Source: Piletz, 2006

Another result of the difficulty of finding a job in China has been an increased enrollment in graduate schools. Many students believe that further education will increase their chances of finding a promising career. In 2001, there were 393,000 students enrolled in graduate school with an entering class of 165,000 (China Statistical Yearbook, 2005, 675). Four years later, in 2005, there were 980,000 students enrolled in graduate school with an entering class of 370,000 (National Bureau of Statistics of China, 2006). This dramatic increase in student enrollment is in no doubt directly related to the increasing unemployment numbers.

One of the questions in my survey concerned students' plans after graduation. Results showed that 52.5% of the students chose to pursue higher education, 46.5% chose to find a job, and only 1% chose to take a break (see Table 4). The differences in classification and sex in this question, as shown by the coefficients and significance, proved statistically insignificant. In a similar study conducted in Beijing among 7,419 college students by the Beijing Bureau of Personnel, 67.05% of the students said that they would look for work after graduation, while only 15.65% chose to pursue graduate school (see Table 5) (Liu, 2006, B1). This number is vastly different from the 52.5% in my survey. I believe this disparity lies in the difference in quality of education. Beijing undergraduate students may be more likely to be able to find a job because of the quality of education, while students in Weihai may have to go to graduate school simply to compete with the Beijing students. In any case, even the 15.65% of Beijing students would be a very large number entering graduate school.

**Table 4: Plans after Graduation****Weihai**

Pursue Higher Education	52.50%
Find A Job	46.50%
Take A Break	1%

Source: Piletz, 2006

**Table 5: Plans after Graduation****Beijing**

Pursue Higher Education	15.65%
Find A Job	67.05%
Study Abroad	5.33%
Take A Break	11.96%

Source: Liu, 2005, B1

Another growing trend in China has been the number of students who have decided to study abroad in order to further their education. According to the International Institute of Education, for the 2004-2005 school year, China sent 62,523 students to the United States for higher education, which ranked it second in the world (Institute of International Education, 2005, 1). This number is also artificially low because of the difficulty of attaining an American student visa since September 11, 2001. In the same survey mentioned above by the Beijing Bureau of Personnel (see Table 6), 5.33% of the students said they would like to study abroad after graduation in order to further their education (Liu, 2006, B1). If this number is correct for Chinese university students as a whole, over one million current college students in China would choose to study abroad after graduation. The problem here is that after these students study abroad, many choose not to return home. This has led to a “brain drain” in China. The increase in number of graduate students and study abroad students has led to a culture where a basic college education is no longer highly valued.

### **Social Problems with Youth Unemployment**

Despite the students who desire to continue their education, there are many students who begin their careers directly after graduation. Unfortunately, many of these students are left jobless. As a result, thousands of students have flocked to internet cafés and bars to play games or join radical groups. Many movements in China have begun as a result of these bored youth. One such movement is called the *fenqing*, or the “angry youth.” It is estimated to be the world’s second largest label, with around 100 million web users (Osno, 2006, A1). The *fenqing* are composed of well-educated youth in their 20s and 30s who shout nationalist and anti-Japanese slogans and compare Japan today to Germany before World War II. In fact, one member stated, “In my analysis Japan is a lot like Germany before World War II, so we must oppose that. . . Otherwise Japan could engage other countries and start a war. This is very dangerous.” (Osno, 2006, A1). This anti-Japanese sentiment stems from the injustices done to China by the Japanese before and during WWII, and this type of sentiment is growing ever more visible as thousands of Chinese stormed the streets in 2005 during an anti-Japanese protest. This is just one example of the problems that could result if the unemployment problem continues to deteriorate. If these idle youth do not find a better path in life, these protests could turn more serious and cause a major social upheaval.

### **Theories about China’s College Graduate Unemployment Problem**

Many theories concerning the reasoning for unemployment among college graduates exist today besides the basic theory of overpopulation. One theory focuses more on the motivation of the students rather than the population. Most students who entered college in 1999 believed that they, like the college grads before them, would find

quality jobs readily available after graduation. However, their optimism quickly faded when they realized they were graduating with 1.6 million other students. When faced with this challenge of finding a job for themselves, many of these youth have overestimated the importance of a college degree, or are simply too lazy. Only 13% of unemployed students take training courses to better qualify themselves for job opportunities (Lu, 2005, 36).

Two of the questions on my survey dealt with students' future salary and how they would react if they did not make as much money as they thought they deserved. The answers for the first question were: quit and search for a job that pays more, stay at the same job and try to work my way up, start my own business, and pursue higher education. According to the secondary data obtained concerning students' lack of motivation and lofty expectations, it was assumed that most students surveyed would leave the job in search of something else. The results show that 42.1% chose to stay at the job and work their way up, while a combined 57.9% chose to leave the job in search of something better. Of this 57.9%, 19.6% chose to quit and search for a better paying job, 11.8% chose to start their own business, and 26.5% chose to leave to pursue higher education (see chart 6). The differences in classification and sex in this question, as shown by the coefficients and significance, proved statistically insignificant. In summary, these results do not seem conclusive, but they do show that students are more likely to leave the job rather than staying to gain experience and move up the corporate ladder.

**Table 6: Plans if You Don't Make Expected Salary - Weihai**

Quit, and search for a job that pays more	19.60%
Stay at the same job and try to work my way up	42.10%
Start my own business	11.80%
Pursue higher education	26.50%

Source: Piletz, 2006

This laziness can be attributed to many factors, but the most important ones concern the socialist government and the one child policy. The children of the past couple of decades grew up in an environment where the government helped most people find jobs, especially college graduates. So, when they were left on their own, they did not understand how to find a job on their own. As a result of the One Child Policy, there has been a rising phenomenon of the “little emperors.” These are the only children who have grown up in households where they were being looked after by their parents and two sets of grandparents. In other words, these children were waited on hand and foot and have no understanding of the real world. Professor Sun Liping of Tsinghua University remarked, “most of the young unemployed were born in the late 70s and early 80s, and that as the first generation of only children in their families, they have been indulged in every possible way – spiritual and material. In adulthood they remain financially dependent on their parents” (Lu, 2005, 36). These spoiled children will have to learn to adjust with the socialist market economy.

Another problem concerns unrealistic expectations among college graduates. Wang Ting is a perfect example of this. She found that finding work after graduation was very difficult, so she decided to move back home and live off her parents' 1000 RMB a month salary. And, even when she was offered a job as a school teacher, she

decided not to take it, preferring to “carry on reading and Internet surfing every day” (Lu, 2005, 36). This phenomenon is becoming more and more prevalent, and as evidenced by Wang, many of these students won’t settle for lower level jobs.

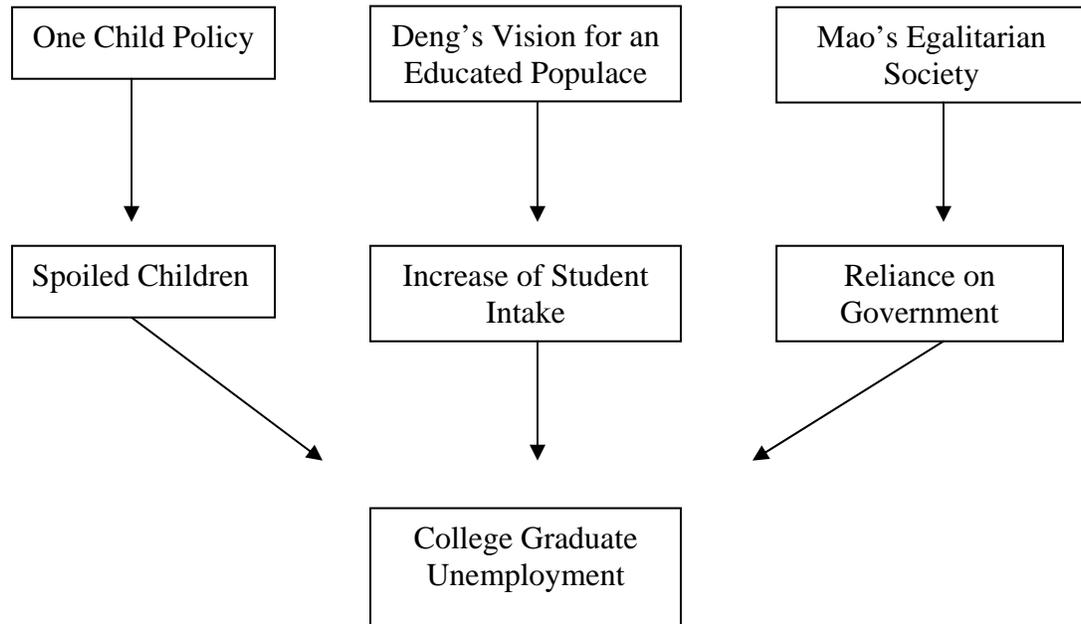
Another obstacle for college graduates looking for career opportunities is that most employers in China are searching for employees with work experience. Cheng Jun, a general manager of Beijing Taihongji Housing and Real Estate Agency, “sees today’s young people as being caught in a dilemma whereby without work experience they will not be offered a well-paid job with prospects, yet they are unwilling to lower their sights. Consequently, they remain unemployed in the hope that the situation will improve with time” (Lu, 2005, 35-36). This is backed up by the results of my survey, which show that 57.9% of students would rather leave the job in pursuit of better opportunities rather than settle for a less ideal job in search of experience and status. These students increasingly face a market where they will have to concede more in their first job in order to land a promising career.

### **Shortage of Labor?**

Some scholars have pointed out that there are actually a plethora of opportunities, but there is a shortage of labor. This is a result of the deteriorating education system. The government intended for the college graduates to flow into the IT and business process services sectors; however, many scholars argue that China’s education is not advanced enough to fulfill this need in the economy. Scholars Diana Farrell and Andrew J. Grant stated, “few of China’s vast number of university graduates are capable of working successfully in the services export sector, and the fast-growing domestic economy absorbs most of those who could . . . Our research points to a looming shortage

of homegrown talent, with serious implications for the multinationals now in China and for the growing number of Chinese companies with global ambitions” (Farrell and Grant, 2005, 70). In a study conducted by Farrell and Grant, only 10% of Chinese job candidates are suitable for work in a foreign company. One of the main problems employers found with employees was their lack of English skills. Furthermore, suitable managers in China are particularly few simply because of China’s different ways of doing business. The problem does not lie with simple quality of education, but with an international understanding of business. For example, managers and employees in China would not understand how to run an international business because they were brought up working in state-run enterprises whose business was run completely differently.

The figure below (Figure 1) shows the basic causal diagram leading to China’s present-day college graduate unemployment problem. The one child policy led to a spoiled population of “little emperors.” Deng’s desire for an educated populace eventually led to the reforms of 1999. Lastly, Mao’s egalitarian society led to a reliance on the government where many Chinese expected the government to help them find work.

**Figure 1: Causal Path to College Graduate Unemployment**

### **Solutions for China's College Graduate Employment Problem**

Solutions for China's lack of quality graduates are never easy to determine, but a few solutions have arisen. First, funding at the universities across China needs to be increased. Although funding for universities rose by more than fifty percent from 2000 to 2002, it dropped per student because of the increased student population. Also, funding should be spread out more evenly across China. Beijing's average funding per student is more than twice the funding per student of 25 of the 31 provinces in China (Farrell and Grant, 2005, 78). Another problem that China must address is the poor level of English skills. China has already begun addressing this problem by beginning English instruction in the third grade; however, most students writing and reading abilities far exceed their oral capabilities. China must train more English teachers and recruit teachers from abroad. Also, companies can increase the ability of their workforce by

employing teachers and trainers for their employees. For example, when Microsoft moved a branch to Shanghai, it hired ten native US English speakers to hold classes covering language, writing style, and proper business culture. Although this increased their personnel costs, it led to a more educated and efficient work force. Another improvement to the education system could include making university classes more industry specific and perhaps developing partnerships with corporations so that education would better fill their needs. The last important revision would be to keep educated Chinese in China. In 2003, China had around 120,000 students studying abroad, and half of these students remained in the United States (Farrell and Grant, 2005, 79). In essence, China is simply sending its brightest students to help spur other countries' development. If China could conquer these problems many more foreign corporations would be lured to China, resulting in more employment.

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### **Chapter III: WTO and Unemployment**

The year 2001 was one of the most important years in China since the implementation of the “socialist market economy.” 2001 was the year that China formally joined the World Trade Organization (WTO). This accession came after fifteen arduous years of negotiations. The accession to the WTO was initially praised as a huge step for China and the WTO (Solinger, 2003, 62). For many countries, the WTO is seen as very controversial, as many believe it exploits the less-developed countries. However, China was seen as a country that really had a lot to benefit from accession. The overall sentiment was that regulations implemented by the WTO would help spur business and in turn boost prosperity and economic success (Solinger, 2003, 61).

The increased efficiency as a result of WTO accession has benefited economic growth, but the employment boom in China has yet to be felt. In fact, many scholars argue that the accession to the WTO is a direct link to increasing unemployment numbers in China. According to some investors, China will lose approximately forty million workers to unemployment over the first five years of China’s accession to the WTO (Feer, 2000, 10). Much of this unemployment will come from the urban workforce and its inability to compete with the efficient enterprises entering China. This unemployment is due to the fact that China’s traditional patterns of employment are being broken up as industries are being restructured. Agriculture is also expected to suffer from the accession to the WTO as new technologies and more efficient ways of harvesting crops bring in cheaper agricultural imports. Many experts point to a “lull period” of five to ten years after the accession to the WTO during which China will face increased unemployment pressure; however, experts say that this unemployment problem should be

reversed after the first several years under the WTO as China's infrastructure and industries fully adjust. The conditions that led to the accession and the results and future implications of the WTO will be further analyzed below.

### **History of the WTO**

The World Trade Organization (WTO) has played a vital role in globalization and economic development over the past decade. It was established on January 1<sup>st</sup> 1995 as a result of the Uruguay Round negotiations. The WTO was brought in as a replacement for the General Agreement on Tariffs and Trade (GATT) which included 128 GATT signatories. Today, the WTO comprises 149 countries, accounting for over 87% of world trade, and has a budget of 175 million Swiss francs (World Trade Organization, 2006). The functions of the WTO include administering WTO trade agreements, providing a forum for trade negotiations, handling trade disputes, monitoring national trade policies, training and technical assistance for developing countries, and a general cooperation with other international organizations (World Trade Organization, 2006). Members of the WTO must operate a non-discriminatory trading system in which each country receives a guarantee that its exports and imports will be treated fairly by other member countries. In summary, the main function of the WTO "is to ensure that trade flows as smoothly, predictably and freely as possible" (World Trade Organization, 2006). What the WTO has created is a global marketplace where products are not bogged down by regulatory trade policies such as tariffs and quotas. Hence, the WTO is very attractive to countries all around the world. Large countries are attracted to the WTO because of increased foreign market penetration, while smaller countries are attracted by the sense of belonging in a bigger group. These smaller countries also enjoy many benefits that the

WTO specifically provides for them to protect them from exploitation. However, despite these protectionist policies, exploitation often does occur. So, the WTO is not viewed by all as a positive organization.

### **China's Path to Accession**

The 1990s was when China really began to shape its economy in the capitalist mold. In 1989, after the Tiananmen Massacre, doubts about China's economy returning to a state-run economy filled the international community. However, Deng was able to re-legitimize the reform by pointing to the success that the country had achieved under its initial stages of globalization. Shortly thereafter, in 1992, Deng took the renowned Southern Tour through southern China in an effort to learn more about market liberalization. At this point the south of China was far ahead of the north in terms of economic reform and exposure to international economics due to the setup of the special economic zones (SEZs), which opened dozens of cities to the international marketplace. Scholar Yongnian Zheng remarked, "Deng's southern tour has become a milestone in modern Chinese history since it ended the long lasting ideological debate on whether China's development should be socialistic or capitalistic" (Zheng, 2004, 3). As a result of this tour, China returned its economic hopes back towards market liberalization and capitalism.

Before the southern tour, China's process of globalization was tightly regulated by tariff and non-tariff barriers. In 1992, Deng began the transformation by incorporating the concept of the market economy into the official ideology of the Chinese Communist Party (Zheng, 2004, 3). From this moment forwards capitalism was legitimized as a proper means of globalizing the economy. This decision led to a period of accelerated

growth. Between 1991 and 1999, China's economy grew at a rate of 10.5% as compared to the pre-southern tour rate of 9% (The State Statistical Bureau, 1999). The growth of foreign direct investment (FDI) was what really helped spur this growth. From 1988 to 2000, FDI increased at an astonishing rate of 23% per year, reaching a total of US \$339 billion (Zheng, 2004, 4). This growth in FDI was also what spurred China's export growth, as foreign-invested enterprises (FIEs) accounted for almost half of all exports from China. In short, by the end of the twentieth century China had become one of the largest trading economies in the world.

China's economy was seriously tested in 1997 during the Asian financial crisis. China's export growth dropped to a paltry .5% in 1998, as compared to the 21% growth in 1997. However, China's export growth rebounded in 1999 at a rate of 6% and at an amazing rate of 28% in 2000. Also, China's .5% growth in 1998 was still higher than most other East Asian economies, many of which dipped into negative growth. By 2001, China had developed the ninth-largest exporting economy (Wong and Chan, 2001, 1). Statistics like these began to open the eyes of the world about China.

### **Preferred Economic System**

With China's implementation of the "socialist market economy" and its accession to the WTO, many Chinese are beginning to question whether a state run economy is better than a capitalistic economy. Two of the questions in my survey were directed towards which economic system the students preferred, capitalism or socialism. The first question asked if the students thought a capitalist economy or a state-controlled economy was better for the economy. The second question asked which economy the students preferred. In the first question, 51.9% of the students chose a capitalist economy, while

48.1% chose a state-controlled economy (see Table 7). In the second question, 48.1% of the students chose a capitalist economy, while 51.9% chose a state-controlled economy (see Table 8). These statistics show that the students were equally divided on this question. However, further regression analysis showed that there was a vast difference in opinions among sophomores and seniors. The coefficient for the first question was 1.614 while the significance was at 0. In the second question the coefficient was -1.15 and its significance was .01. These numbers showed that there was a significant difference in answers when classification was considered. In the first question, only 28.9% of seniors chose a capitalist economy, while 71.1% chose a state-controlled economy. In the second question, 32.6% of seniors chose a capitalist economy, while 67.4% chose a state-controlled economy. According to these results, the majority of seniors believed that a state-controlled economy worked best. The sophomores presented a completely different story. In the first question, 66.6% of sophomores chose a capitalist economy, while 33.3% chose a state-controlled economy. In the second question, 58.8% of sophomores preferred a capitalist economy, while 41.2% preferred a state-controlled economy. Sophomores were much more in favor of a capitalist economy. This evidence shows a major difference in the way of thinking of seniors and sophomore in China. One explanation is that seniors are simply more realistic about job opportunities and believe a state-controlled economy offers more job opportunities. However, a different explanation is that students in China are becoming more open to ideas such as capitalism. In other words, the Chinese are becoming more and more accepting of capitalism as China moves further and further along with its socialist market economy.

**Table 7: Better Economy**

	Capitalist Economy	State-Controlled Economy
Sophomores	66%	33%
Seniors	28.90%	71.10%
Average	51.10%	48.10%

Source: Piletz, 2006

**Table 8: Preferred Economy**

	Capitalist Economy	State-Controlled Economy
Sophomores	58.80%	41.20%
Seniors	32.60%	67.40%
Average	48.10%	51.90%

Source: Piletz, 2006

**China's Push for Accession**

As the twentieth century drew to a close, the world was becoming more and more accepting of China's socialist market economy. At first, both businesses and governments alike were wary of getting involved with China because of fears concerning the Communist government. However, as sustained economic success under the Chinese Communist Party (CCP) was achieved, the world started considering China as less of a liability and more of an opportunity. China's staggering success in the 1990s led to talk of China becoming the world's next economic powerhouse. This opened many doors for China into the world market and especially into organizations such as the WTO. The reasoning for China's persistence for accession to the WTO dealt with its belief that accession would bring about increased efficiency and employment. As a result, China was willing to push through the many roadblocks to accession

### **Accession**

In 2001, fifteen years after initial negotiations, China was finally allowed to join the WTO. Concessions were made on both sides in order to make accession possible. On the WTO side, China was granted a minimum transition period in certain sectors, such as intellectual property rights, in which China would gradually reform to adhere to WTO rules and regulations. On the other side of the agreement, China agreed to implement significant changes to both its trade regime and government. Under this new system, China would operate with openness and transparency while stressing the role of markets and private enterprise (Office of the United States Trade Representative, 2001). With the accession to the WTO, China assumed the obligations of the existing multilateral WTO agreements. Concessions mainly dealt with tariff reductions and general fairness relating to foreign goods in the Chinese market. China did this by creating special safeguard mechanisms to protect businesses, farmers, and workers of WTO members. China also agreed to an annual review of its compliance to WTO terms. Chinese agreement to these terms vastly accelerated China's economic reform goals as its ministries and agencies transitioned out of their old role of directing and controlling business (Office of the United States Trade Representative, 2001).

### **Economic Results of Accession**

Before accession, studies from the United Nations Conference on Trade and Development (UNCTAD) estimated that in the short term China's accession to the WTO would only have a small effect of FDI flows in China (Chen, 2002, 129). This was further magnified by the fact that in the years leading up to 2001, China's foreign direct investment (FDI) began to falter. FDI slowed after the 1997 Asian Financial Crisis and

actually declined in 1999 and 2000. From 1998 to 1999, FDI (amount utilized) dropped from US \$45.46 billion to US \$40.32 billion. In 2001, FDI began to recover, reaching a level of US \$46.85 billion. But, after WTO accession in 2001, FDI began grow at much higher rates. FDI grew from US \$46.85 billion to US \$60.33 billion in 2005 (The US-China Business Council, accessed 20-March-2006). Also, the number of contracts in China grew at an astonishing rate. In 2001, there were 22,345 contracts in China, and by 2005 this number had almost doubled to 44,001 contracts (The US China Business Council, accessed 20-March-2006).

One of the questions that my survey concerned was for which countries' companies the students would most like to work for. Eight regions were listed, including China, Taiwan, Hong Kong, Korea, Japan, Singapore, Europe, and the United States of America. Not surprisingly, 57.8% of the students chose Chinese domestic as their first choice. What was surprising was that 33% of the students chose the American and European companies (see Table 9). Percentages for the other countries were minimal. This statistic shows that these students are fairly open to the idea of working for foreign enterprises, especially American and European enterprises. Regression analysis revealed that there was a difference in sophomores and seniors concerning this question. The coefficient for classification was -1.39 for seniors, while its significance was measured .029. According to the results, 70.8% of seniors wanted to work for a Chinese domestic company as compared to only 47.1% of sophomores. Furthermore, 40.6% of sophomores wanted to work for either a European or American company as compared to only 25% of seniors. I believe this shows a turning of the tide in Chinese society. The younger students are much more willing to work for foreign companies, whereas the older

students hold a more traditional way of thinking in wanting to work for Chinese domestic companies. It is amazing to see this much change in a difference of only two short years. These attitudes are a far cry from the days of Mao when the Chinese saw any type of foreign influence as bad and corrupt.

**Table 9: Preferred Employer**

	China	Taiwan	Hong Kong	Korea	Japan	Singapore	Europe	America
Sophomores	47.10%	0%	5.90%	5.90%	0%	0%	27.50%	13.60%
Seniors	70.80%	2.10%	0%	0%	0%	2.10%	6.20%	18.80%
Average	57.80%	1%	4.60%	2.80%	0%	1%	16.50%	16.50%

Source: Piletz, 2006

Economic indicators such as GDP and GDP per capita have also shown improvements since 2001. The GDP of China in 2001 was 10,965.5 billion RMB. This amount grew to 12,033.3 billion RMB by 2002 and continued to grow to 18,282 billion RMB by 2005. The average GDP growth rate after 2001 was 9.78%, as compared to the 8% growth rate from 1998 to 2001 (The US-China Business Council, accessed 25-March-2006). Over the four years after 2001, urban GDP per capita rose from 6,859.6 RMB to 10,493 RMB. Over the four years preceding 2001, GDP per capita only rose from 5,160.3 RMB to 6,859.6 RMB (The US-China Business Council, accessed 25-March-2006).

One of the questions in my survey concerned the economic impact of students' family income and well-being since 2001. Only 12.7% of the students reported a slight to large decrease in income, while 65.5% of the students reported a slight to large increase in income. The rest of the students, 21.8%, reported no change (see Table 10). Regression analysis proved that classification and sex were negligible in this question. One thing to note about most of the students surveyed is that they grew up on the coast of

China, so they may have been more affected by looser trade restrictions than the rest of the country. In any case, this result, along with the economic and trade-related figures above, provides evidence that China's looser trade restrictions due to its WTO accession have positively affected many Chinese citizens' incomes.

**Table 10: Economic Impact of WTO on Family Income**

Large Decrease	Slight Decrease	No Change	Slight Increase	Large Increase
3.60%	9.10%	21.80%	55.50%	10%
12.70%			65.50%	

Source: Piletz, 2006

### **Unemployment: Result of WTO Accession?**

Other indicators such as unemployment have shown vastly different results concerning China's accession to the WTO. The rules and regulations of the WTO have torn down the walls that once protected SOEs and other companies that once thrived in China. Now, these companies are trying to find ways to cut costs and raise profits, which often means cutting the work force. By 2001, employment had become one of the most important issues in China. These people were beginning to sense the repercussions that the WTO would have on employment.

Despite the employment fear discussed above, many remained very optimistic about China's accession to the WTO. Some sources even praised accession to the WTO as a way to bring more jobs to China. On February 27<sup>th</sup>, 2002, one of the *Beijing Morning Newspaper's* headlines read, "What will the WTO bring? 12 million jobs are waiting for you" (Yang, 2002, 1). Furthermore, in a 2001 survey conducted among 1,023 high status respondents in Beijing, Shanghai, and Guangzhou, "The overall feeling among China's elite is that their country's accession to membership of the world's main

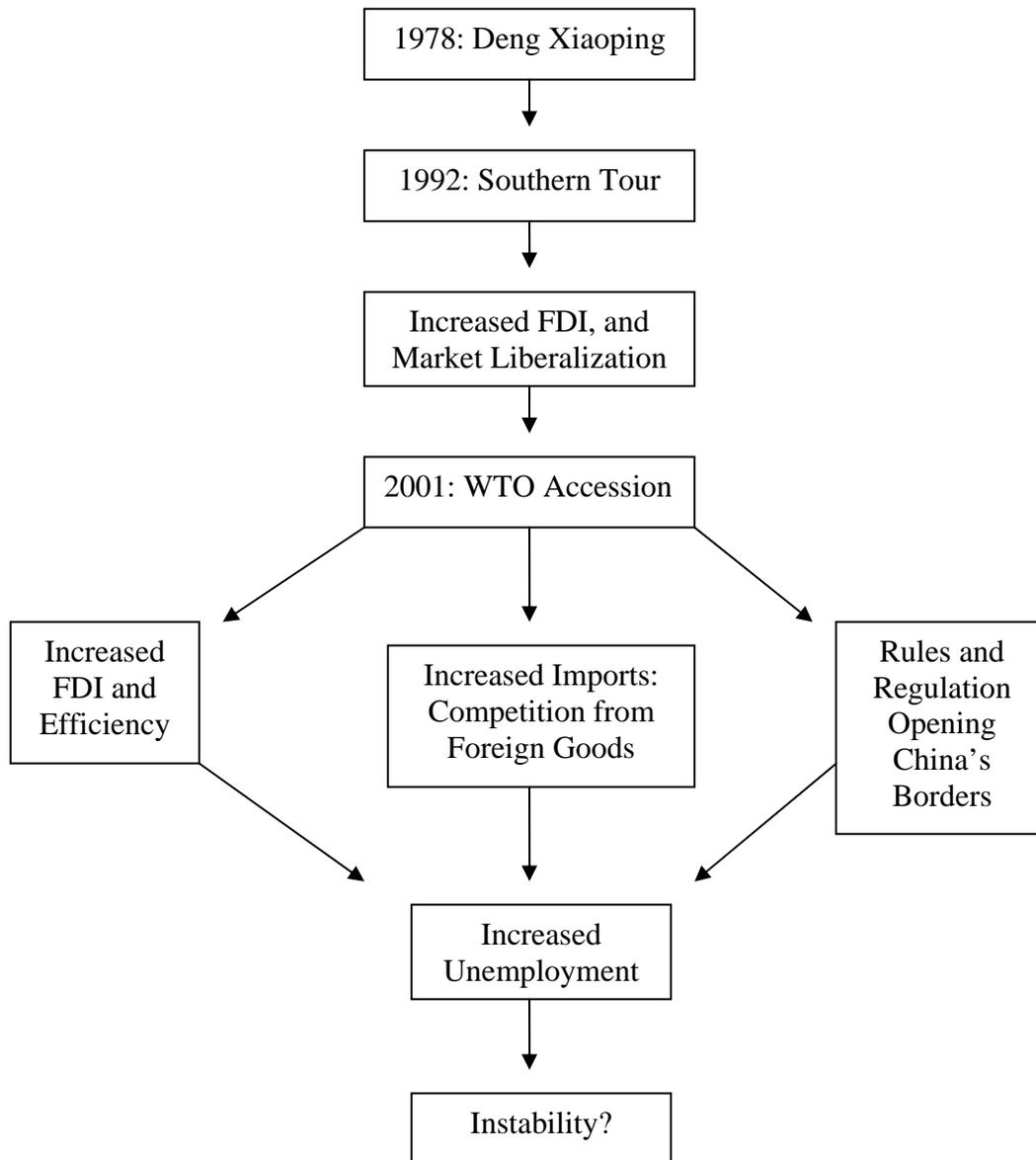
business club will boost prosperity in general” (Solinger, 2003, 61). Newspaper headlines praised the accession as a necessity in the pursuit of a global economy, and a large step for China. American products would be able to enter the Chinese market, while Chinese goods would be able to enter foreign markets without the historical trade barriers. The key point here was that the people writing these articles and pushing for WTO accession were mostly from the elite class. In other words, these were the people who would benefit the most from the WTO, while the poorer classes would be the ones suffering layoffs and unemployment. This employment problem has quickly become very large dilemma. An important thing to note is that while accession to the WTO itself has not created unemployment, it has intensified such unemployment, driving trends such as competition, privatization, and high quality labor. The reasons for and results of this unemployment will be discussed below.

### **Causes of Unemployment**

One of the biggest problems causing this unemployment has been the restructuring of China’s economy. Industrial restructuring has had a huge impact on employment. Industrial restructuring comes from China’s shift away from industries such as manufacturing, mining and construction, and towards new industries that require more specialized workers. These old industries were very labor intensive, while the newer industries required less labor and more skill. Also, many of the older industries have begun incorporating new machinery which requires less labor and is further exacerbating the employment situation.

Competition from foreign firms has been another major reason for China’s unemployment. The increased flow of foreign competition since the accession has

brought attention to many of the inadequacies that plagued China's businesses. SOEs have been hit particularly hard by the increased competition. In fact, the number of SOEs began diminishing after 1996 as barriers to entry began to drastically decrease. From 1996 to 2001 urban employment in SOEs dropped from 112.44 million to 76.4 million employees (China Statistical Yearbook, 2002, 120). As a result, SOEs were forced to cut down on their labor force drastically in order to cut costs and compete with the efficient foreign invested enterprises. Also, many Chinese preferred foreign goods to Chinese goods, which furthered the decline of SOEs (Solinger, 2003, 65). The causal path below shows China's path to today's unemployment as a result of WTO accession (figure 2).

**Figure 2: Causal Path to WTO Unemployment**

### **Unemployment in the Agriculture Industry**

One of the sectors that has been hit hardest by accession to the WTO has been agriculture. Agriculture has been and still is a key part of the Chinese economy. In fact, agriculture is still a major source of income for half of China's population. From 1952 to

2000, the share of agriculture in GDP dropped from 51% to 16%, while agricultural employment only decreased from 84% to 47% (Wang, 2002, 81). In other words, agriculture has become a smaller part of China's economy, but it still is very important in terms of employment. This traditional source of employment and income is being threatened by China's accession to the WTO.

Accession has placed many rules and regulations on China's agriculture sector. Some of these rules and regulations include a reduction of the average tariff rate for all agricultural products from 22% to 17.5%, an elimination of export subsidies and domestic support for agricultural products, and an elimination of other non-tariff restrictions on imported agricultural products. One of the industries most affected by these rules and regulations is the grain industry. In the years following China's accession, China has had to increase a tariff quota for total grain imports. The quota was 18.3 million tons in 2002, 20.2 million tons in 2003, and 22.2 million tons in 2004 (Wang, 2002, 87).

Increased imports have resulted in a diminished production level from Chinese farmers causing a reduction in employment. Initial estimates in the grain sector have shown that 4% of grain farmers will be forced off the farm as imports flow more and more freely into China. This estimate does not include the farmers in different agricultural sectors such as the cotton, corn, and oil industries who are also expecting losses (WTO Entry, 2001, 1). Cheng Guoqiang, a senior professor at the Development Research Centre of the State Council remarked, "If subsidized foreign agricultural products flow to the Chinese market at a lower price, it will be even harder for Chinese farmers to sell their products and ever harder for them to increase their income . . . This is

a problem of paramount concern” (Chinese Farmers, 2002, 1). Chinese agricultural goods are even harder to sell when one considers that the quality of the agricultural imports is usually better than the Chinese goods. Another reason for rising unemployment in China’s agricultural sector has been the introduction of new technology. New technology brought in from the west is replacing inefficient workers, which has pushed even more workers off the farm.

One solution that has been raised concerning the agriculture unemployment problem has been the realization of agricultural industrialization. Agricultural industrialization means, “developing a larger size of agriculture that will prolong the agricultural production chain and absorb more rural surplus labor (Beijing Review, 2005, 18). This would lead to the integration of production, supply and marketing of produce which could alleviate some of the rural unemployment pressure.

### **Urbanization**

One of the biggest trends in China recently has been a massive urbanization movement. Migrant workers have become more and more prevalent in big cities such as Beijing and Shanghai. The main reason for this movement has to do with employment. Many of these workers were laid-off back home and have come to the big cities in search of work. One of the main reasons for this movement is China’s agriculture employment problem. Critic Xiaolu Wang remarks, “A major structural adjustment that can be expected is the further transfer of agricultural labour to the industrial and service sectors, especially in urban areas” (Wang, 2002, 94). In fact, Wang estimates that from 2001 to 2010, an annual number of four million workers will leave the agricultural sector for the urban centers. Yang Yiyong, Vice Director of the Labor Economics Institute in Beijing,

wrote that 9.6 million Chinese workers will move from the agricultural sector to the non-agricultural sector because of the importation of such products as rice, wheat, and cotton (Yang, 2002, 1). From 1990 to 2003, China's percentage of urban population steadily increased from 26.4% to 40.53% of China's total population, or an annual rate of approximately 1%. However, in the year following China's accession to the WTO, urban population grew at almost 3% from 37.7% to 39.1% (China Statistical Yearbook, accessed 12-April-2004). This trend is not surprising considering the pace at which China is developing. In fact, when compared to other countries with the same level of per capita GDP, China's urban population ratio is still ten to twenty points behind. As China's economy continues to open up, this urbanization should only increase. Hence, cities like Beijing and Shanghai who are already having a hard time with employment are faced with even more pressure from the new migrant work force.

### **Income Disparity**

Another trend that China faces along with its economic success, in part because of the WTO accession, is a growing income disparity. Although China's GDP (Purchasing Power Parity) ranks 4<sup>th</sup> in the world, its GDP per capita ranks a paltry 118<sup>th</sup> (The World Factbook, 2006). This is a sign of the rich getting richer and the poor getting poorer. Income disparity has also become increasingly evident among the different regions of China. This income gap has been widening ever since the economic reforms began in 1978, but it has been exacerbated by China's accession to the WTO (Jiang, 2002, 45). Historically, the eastern region of China has been the most successful, while the western and central regions have suffered. Scholar Tingsong Jiang remarked, "As the eastern region has a higher share of non-farming industries in the rural economy and a more

efficient urban economy than other regions, WTO accession will tend to widen the existing regional income gap” (Jiang, 2002, 55). Employment opportunities are mostly flowing towards the eastern regions while the west is still underdeveloped. If the government is able to develop the west, it could become a source of immeasurable employment opportunities.

### **Effects of WTO Accession: Sector by Sector**

WTO accession will affect every sector of China differently. An article by Yang Yiyong pointed out sectors of the economy whose employment should increase or decrease from accession. Sectors whose employment should increase within the next seven years include: textiles, clothing, construction, chemical engineering, and food processing (Yang, 2002, 1). In the 1990s, the textile industry, especially the SOEs, underwent an extensive restructuring which included massive layoffs in an effort to become more efficient. Today, the picture looks vastly different. Due to China’s low-cost labor, approximately 1/20<sup>th</sup> the cost of labor in America (Yang, 2002, 2), and the elimination of global textile quotas in 2005, the textiles industry has once again become a very promising source of employment. Now that China has been able to access the world’s markets without discriminatory trade barriers, China’s textile industry has been growing by leaps and bounds.

Sectors whose employment should decrease within the next seven years include: cars, heavy machinery, food and oil refining, telecommunications equipment, and electronics machinery (Yang, 2002, 1). Not coincidentally, most of these sectors all have to do with technology. This is a result of the fact that much of China’s technology is still outdated and many functions that can be performed by machines are still performed

manually. Yang Yiyong stated that as of 2002, only 5% of China's machinery was advanced enough to reach the 1980s international machinery level. Furthermore, 70% of China's machinery was classified as low level machinery (Yang, 2002, 3). Sectors such as heavy machinery manufacturing will be put out of business as more advanced countries bring in new machinery. In addition, unemployment will further increase once this new machinery begins replacing workers in the labor intensive industries.

One of the questions on my survey attempted to measure how China's accession to the WTO has affected the mindset of college students concerning their employment futures. The question was phrased, "How do you view your chances of finding a job today after college as compared with 2001?" There were five options: much worse, slightly worse, the same, slightly better, or much better. Initially, I believed that students would be more inclined to choose slightly better to much better because accession was seen as such an economic success for China. The results, however, were much different. 63.9% of the students surveyed said that their chances of finding a job today as compared with 2001 were slightly to much worse, while only 29.6% of the students chose slightly to much better. 6.5% of the students reported no change (see Table 11). Regression analysis showed that there were no significant correlations between classification and sex in this question. These results proved my initial assumption wrong showing that students have already seen the employment effects of the WTO. In other words, these students are beginning to realize that China's accession to the WTO has not brought about a miraculous solution to the employment problem . . . yet.

**Table 11: Chance of Finding a Job Since 2001**

Much Worse	Slightly Worse	The Same	Slightly Better	Much Better
24.10%	39.80%	6.50%	20.40%	9.20%
63.90%			29.60%	

Source: Piletz, 2006

### **Future Employment Opportunities**

As China's economy and infrastructure completes the adjustment period and begins to abide by the rules and regulations of the WTO, business will begin to run more smoothly as investors become more and more comfortable with China. As a result China should experience an eventual decline in unemployment. An article in People's Daily wrote that after the transition period, "The labor-intensive, tertiary industries and small enterprises will get further developed, thereby increasing elasticity for employment" (People's Daily, 2002, 1). It is believed that this adjustment period will last about ten years. After this period it is predicted that there will be an annual increase of two to three million job opportunities as compared to the additional unemployment in 2002 of three to four million. As of today, these new employment opportunities are still outnumbered by the unemployment problems, however, the growing tertiary sector has been seen by many as a very viable solution.

### **China's Future: The Tertiary Sector**

As of 2002, China's tertiary sector only accounted for 27% of the China's employed, while developed countries' tertiary sector employment accounted for 70-80% of their employment. Even developing countries' tertiary sector averaged around 40% of the labor force (Mo, 1999, 16). So, why does this number matter in the grand scheme of

things? As countries begin the move from undeveloped, to developing, and eventually to developed countries, they move further and further away from the agricultural and industrial sectors and more towards the services sector. So, in order for China to continue its move towards becoming a developed economy, it will have to increase its presence in the international service sector. As China's big business and middle class continue growing, the demand for the services sector will also grow. In other words, the more economically advanced and developed China becomes, the more it will rely on the service sector. So, this sector is expected to offer a multitude of employment options in the future.

### **Tertiary Sector: No Room for the Unemployed**

On the other side of the expansion of the tertiary sector is the fact that not everyone will enjoy the benefits. For the unemployed, finding work in the tertiary sector is easier said than done. First of all, the foreign corporations are looking for young, bright, and college educated workers. Second, the service work that unskilled workers can perform is already saturated by the immigrant labor that has resulted from the increased urbanization (Solinger, 2003, 80). So, these laid-off workers are caught in a situation where they are not skilled enough for the new foreign corporations, but are too expensive for the more menial service work. This segment of the population is presenting a huge problem for the government, and it will be further discussed in the following chapter on re-employment projects.

### **Skewed Statistics**

Official unemployment statistics show that China's unemployment rate has only risen at a marginal level over the past five years. From 2000 to 2005, China's

unemployment rate has risen from 3.1% to 4.2% of the total population (The US-China Business Council, accessed 25-March-2006). However, as many scholars like Dorothy Solinger are quick to point out, these government statistics are often skewed in order to project a healthier economy. Solinger remarks, “both for the numbers of what is labeled ‘unemployed’ (shiye) and the figure of the furloughed or ‘laid-off’ (xiagang) – are far from the mark and are decidedly too low” (Solinger, 2001, 672). These numbers are skewed by the use of different classifications for the laid-off, unemployed, and workers who are no longer being paid. Scholars Antoine Kernén and Jean-Louis Rocca estimated that the laid-off in 1998 and 1999 were as high as 23 to 31 million. Rocca says that if all categories of jobless were counted, the unemployment rate in 1997 would have been 14% (Kernén and Rocca, 1999, 1-2). This is a far cry from the official unemployment rate of 3.1% in 1997 (PRC Economic Statistics, 2006). The United Nations’ 1999 “Human Development Report” estimated that total unemployment in China, including all categories of jobless, was 7.9% to 8.5% (United Nations Development Program, 1999, 99). In other words, the unemployment rate in China is almost impossible to accurately measure because of the various categories of unemployment. Solinger goes on to state, “Whether intentionally to obfuscate or because its own data are inadequate, official figures on the numbers without work are enormously elusive and contradictory” (Solinger, 2001, 675). The fact is that unemployment is much worse than the marginal government statistics indicate.

### **Summary**

In 2001, China finally became a part of one of the most prestigious international organizations in the world – the WTO. China’s reforms to the rules and regulations to

the WTO are finally beginning to materialize. FDI and other economic indicators like GDP have shown a dramatic increase since China's accession. And as a result, inefficient SOEs and domestic businesses are having to reform or go out of business to compete in China's new hypercompetitive economy. Thus, unemployment has risen since 2001 and is expected to rise until around 2010. As sectors such as automobiles, heavy machinery, and telecommunications will decrease employment, other more labor-intensive industries such as textiles, clothing, and construction should increase employment (Yang, 2002, 1). The reasoning for this is that there will be an employment adjustment period, during which high-tech Chinese domestic companies will be put out of business due to increased foreign competition, which will not, at first, make up for lost employment. At the same time China's labor intensive industries will increase employment due the increased demand for its cheap products. During the past couple years the tertiary industry has been growing at a pretty solid pace and is expected to pick up even more as China's economy becomes more and more advanced. This sector is expected to alleviate much of the employment pressure facing China five to ten years down the road. In the meantime, China is having to find new ways and projects to counter the increasingly large unemployment problem. These re-employment projects will be discussed in Chapter 4.

### **Chapter IV: Reemployment**

Unemployment was a very severe problem when Mao and the CCP took over in 1949. However, through efforts such as the Great Leap Forward, this unemployment problem was eliminated as most Chinese were assigned work. This built up a reliance of the people on the government, which has been very hard to shake after the reform efforts in 1978 under Deng Xiaoping. As the government began its transition towards a capitalist economy, former state employed workers were forced to find work on their own and face unemployment for the first time. The challenges of employment were not really felt until the mid 1990s when China officially adopted the market economy as a means of globalizing the economy (Zheng, 2004, 3). From this point on, unemployment began to surge as state owned enterprises (SOEs) and Chinese domestic firms began cutting down on labor in order to increase efficiency and their ability to compete on the global level. As discussed in the previous chapter, China's accession to the WTO has also resulted in increased unemployment. In response to this unemployment problem, China has implemented many projects and efforts to alleviate unemployment pressure; however, it was China's lack of understanding of unemployment in the first place that really inflamed the problem.

### **Employment Under the CCP**

After the Communist takeover in 1949, China did not have to worry about unemployment because of the state controlled economy. Under the leadership of Mao Zedong, the state placed egalitarianism as one of its top priorities. In other words, everyone was supposed to be treated equally. Mao's vision of proper socialism was a world where there was no open unemployment in the cities (Solinger, 2005, 87). Local

labor departments generally assigned workers to specific firms, and very few were ever fired. The center of employment welfare and security was the cellular work unit (danwei). Individuals employed by these firms enjoyed a multitude of benefits. Workers and their dependents received social security and some type of social welfare which generally included: pensions, workers' compensation, medical care, housing, and schooling (Solinger, 2005, 87). Also, there was no unemployment insurance because unemployment was nonexistent. What many people did not know was that these benefits generally only applied to the larger SOEs, while workers for smaller collectives often received no benefits. However, workers of the larger SOEs possessed very favorable employment and security. At the end of the Mao years in 1978, workers in SOEs and collectives accounted for 99.8% of the total employed urban work force (State Council, 2002, 8).

### **Employment Under Deng**

Deng Xiaoping came into power with the idea of creating a more developed and successful Chinese economy. Problems in the planned economy became more and more evident. Deng knew that the egalitarian society of the past was inadequate for a market economy (Solinger, 2005, 88). The main problem Deng observed with the planned economy was its inefficiency. Many of the laborers at SOEs were redundant labor that did not contribute to the enterprise. In effect, SOEs were paying unproductive workers to sit idly at work. So, Deng began to open the economy to household companies, foreign investment, and eventually privatization. As a result, state enterprises found it increasingly hard to compete. After Deng's southern tour in 1992, China officially adopted the socialist market economy as the nation's economic system. And, in 1997,

the party congress, “adopted an official directive to ‘reduce the labor force to enhance efficiency’” (Solinger, 2005, 88). These events keyed the growth of foreign direct investment (FDI) and the private sector. A report by the State Administration of Industry and Commerce showed that by mid 1999, the number of private businesses had increased to 1.28 million, employing 17.84 million workers. At the same time, SOEs share of the economy was dropping. From the end of the 1970s to the end of the 1990s SOEs share of gross output value of industry declined from around 80% to 26.5% (China Economic News, 1999, 1). Employment in SOEs, however, did not begin to fall until 1996 (China Statistical Yearbook, 2002, 120). As foreign invested enterprises began penetrating China, many of them did not provide welfare simply because it increased costs and lowered profit. This was seen as very shocking to the population who had grown accustomed to receiving benefits from the government.

### **Employment After 2001**

In 2001, China’s FDI and overall economic growth experienced a huge boost with its accession to the WTO. From 2001 to 2005, China’s FDI grew from US \$46.75 billion to US \$60.33 billion (FDI in China, 2006). Also GDP growth rate since 2001 has been growing at 9.78% as compared with the 8% growth rate from 1998 to 2001 (PRC Economic Statistics, 2006). This growth, however, has led to an unprecedented unemployment problem, as the industries are restructuring and companies are being put out of business. Both the urban and rural areas have suffered unemployment woes from accession. A 2005 article in the Beijing Review reported that, “China will have 24 million new laborers in urban areas annually in the coming two to three years, but only 10 million will find jobs. A further 150 million surplus rural laborers wait to be moved

from farming to non-agriculture sectors” (Beijing Review, 2005, 18). Much of this pressure on unemployment is expected to be alleviated as China’s industrializes its agriculture sector, and areas such as the tertiary sector continue to develop. However, these improvements are still a few years off and an increase in employment is not necessarily guaranteed. In the following pages, China’s efforts at reducing unemployment, both past at present, will be discussed in detail.

### **Employment in the 1980s**

The 1980s was the decade where Deng and China began experimenting with capitalism. Before this period, China’s economy consisted of SOEs and collectives creating very little freedom or flexibility in the market. However, Deng realized that in order to become one of the stronger economies of the world, he would have to incorporate foreign investment and some type of private sector. The inefficiencies of China’s state run economy were holding China back from the vast potential they possessed. Deng was insistent on making China one of the world’s strongest economies by the end of the century (Garnaut, 2002, 3).

One of the pressures Deng faced after taking over in 1978 was the sent down youth who were coming back from the countryside. These 17 million students who were coming back into the cities looking for work presented Deng a considerable problem. At this point, Deng and the new forming economy were not ready to leave these students out on their own. So, most of these students were placed into SOEs and collectives while others went on to continue their education, which had been interrupted by the Cultural Revolution. As a result SOE and collective employment (urban) from 1978 to 1985 increased from 74.51 to 89.9 million and 20.48 to 33.24 million respectively (China

Statistical Yearbook, 2002, 120). At the same time, Deng was planning for the new household and foreign invested companies to continue their growth and eventually begin absorbing these sent down youth and future laid-off workers. From 1978 to 1990 household companies increased employment (urban) from 150,000 to 6.14 million. Foreign investment, however, did not begin to emerge until the mid-1980s when employment (urban) from 1985 to 1990 jumped from 60,000 to 620,000 workers (China Statistical Yearbook, 2002, 120).

### **Solutions and Barriers of Employment in the 1980s**

One of the solutions Deng used to alleviate the pressure of the sent down youth was the implementation of an early retirement system, which “allowed” older workers to retire early in order to accommodate younger workers. However, this early retirement system was in most cases forced upon the workers. Oftentimes, this left older workers, who were still productive, sitting idly at home with a very meager pension as their sole source of income.

One of the first barriers that the government had to knock down was the socialist notion that every urban worker was to be granted lifetime employment. And, in 1986, a Regulation on Labor Contracts specified that all new workers would be hired on limited-term contracts (White, 1993, 140). The government also implemented unemployment insurance for the first time. This insurance was only valid if the worker’s employer contributed one per cent of the firms’ wage bill. The government would also care for workers whose employer had declared for bankruptcy. The problem with these policies was that it further tied the workers to their employers who were often too poor to contribute to the unemployment fund leaving many workers uncovered. At the same

time, the government unemployment insurance fund quickly became depleted and firms' contribution rate was increased to two percent. As a result, workers' ability to collect unemployment insurance dealt directly with the economic health of its employer (Solinger, 91, 2005).

Overall, the Chinese government was able to control the unemployment problem in the 1980s as SOEs continued employing more people while the household and foreign invested sectors began to emerge. However, the government knew that it would have to begin laying off workers in SOEs and collectives as the economy opened up to more and more foreign competition. Dorothy Solinger remarks, "Long after the central government began devolving funds and duties to local levels of administration in hope of stimulating productivity, and even after enterprises began to be notified that they must become market actors responsible for their profits and losses, all in accord with the switch in strategy, the party remained remarkably queasy about firing its old urban proletariat" (Solinger, 2005, 89). As the 1980s came to an end, it became increasingly evident that the state could not longer prop up the inefficient and often corrupt SOEs.

### **1990s Unemployment**

The 1990s was the decade where unemployment and efficiency finally began catching up with China. Solinger remarked, "by the mid 1990s the operation of the market led to mounting losses among state firms, and workers were finally let go in large numbers" (Solinger, 2005, 89). During this period, two categories of jobless began to appear: unemployed (shiye), and laid-off (xiagang). The unemployed were classified as workers from weaker firms that had been allowed to dissolve. On the other hand, the laid-off were workers from enterprises that still existed. They were mostly laid-off

because they were redundant workers (Won, 2004, 71). The unemployed were initially cared for by the unemployment insurance mentioned above, but none of the unemployment insurance regulations covered the laid-off. So, these workers were put into the “Reemployment Project.”

### **The Reemployment Project**

The Reemployment Project was initially designed as a transitional project to provide laid-off workers a basic livelihood allowance and opportunities for work. This was supposed to help bridge the gap while the labor market was still forming and the nation’s social insurance system incomplete. The project was founded on four leading pillars, “a form of unemployment insurance, professional introduction services, retraining and labour service enterprises” (Wang, 1998, 25). This project formed re-employment service centers which were scattered around the country. The responsibilities of these re-employment centers included: disbursing basic livelihood allowances, paying into funds for such benefits as medical insurance and pensions, retraining workers, and finding workers employment (Yang, 1999, 19). Many of these re-employment service centers were formed by the firms themselves in order to accommodate their workers. Each worker who was privileged enough to enter one of the centers received a “laid-off certificate”, which qualified them for the preferential policies mentioned above. Once allowed to enter the center, the workers were allowed a three year period where they could enjoy the benefits. The goal of these reemployment centers was to provide ten million jobs from 1998 to 2002 under the slogan, “Ten Million Jobs in Three Years” (Won, 2004, 79). These lofty goals did not last long.

### **Problems with the Reemployment Project**

From the outset it was obvious that the list of benefits from the reemployment project were too ambitious and very unrealistic. Dorothy Solinger remarked, “there were critical limitations on the entire endeavor from the start” (Solinger, 2002, 315). For example, there was a scarcity of funds, a widespread connection of the unemployed with deteriorating firms deep in debt, rampant corruption among party cadres, firm managers who extorted funds, and a vast insufficiency of potential work posts in the Chinese economy (Solinger, 2002, 315). As a result, many centers began encouraging workers to change their mindset about employment. One guidance counselor at a reemployment center said, “You should not expect the same (stable) jobs that you used to have. The first thing you have to do is to lower your expectations. Life is not easy . . . but you have to adjust to the new society” (Won, 2004, 77). These problems along with others will be discussed below.

Corruption among party officials and even among the centers themselves greatly hindered the implementation of these policies. For example, departments that would have otherwise received taxes, fees, and issue licenses often blocked the way of implementation. So, there was a conflict of interests within the government. The explanation from one Anhui province branch of the official trade union gives a more detailed description of the problems:

“If a firm employs laid-off people amounting to more than 60 per cent of its workforce, it’s supposed to get a three-year cut or elimination of its income tax. But any firm absorbing this many laid-off can’t break even, not to speak of reducing its income tax” (Solinger, 2002, 317).

The state's willingness to help the unemployed is often played up in newspapers and magazines, but in reality it just doesn't happen. Scholar Jaeyoun Won writes, "These policy implementations are like mirages: they appear to exist, but are virtually impossible to find when one sets out to look for them" (Won, 2004, 71). Stories like these characterize why so many centers were run so poorly.

Another big problem with the reemployment centers was that many citizens had never even heard of the centers, and those lucky enough to enter rarely received the preferential policies. A 1997 study of unemployment discovered that more than half of the laid-off workers were not entering the re-employment centers, while another half were not receiving any livelihood allowance at all. The workers who were lucky enough to receive any benefits often received such a low amount of assistance that they could not even survive. For example, in 2000 in Wuhan, the standard payment for the basic living allowance per month for a laid-off worker was a meager 280 RMB per month, or around US \$34. Furthermore, only 36% of the workers were receiving any allowance at all (Solinger, 2002, 317).

Other functions of the re-employment centers, like retraining, fared just as poorly. First of all, only 3.5% of the laid-off were actually enrolled in the training programs because they required payment from the workers, which many could not afford (Li, 1997, 11). Second, only 20% of the laid-off who were able to afford the training programs and were in urgent need of work actually found employment (Summary of World Broadcasts, 1997, 42-43). One victim of the re-employment centers stated that he was very optimistic when he first signed a contract to enter a re-employment center, however, after a year and a half he had still received no money, training, or placement.

He stated, “What the upper levels talk about is completely different from what is done below” (Solinger, 2002, 318). These cries for help were heard all across China.

The table below was reported by Jaeyoun Won as according to the social insurance bureau in Changchun, October 2000 (see Table 12). This chart shows how ineffective the reemployment centers really were. According to the statistics, 80% of laid-off workers did not find reemployment, and of those who did find jobs, 80% of them found the work on their own. According to the Blue Book of Chinese Society (2003) the reemployment rate was only 15% in 2002 (Won, 2004, 75).

**Table 12: Reemployment: Changchun Social Insurance Bureau**

Reemployment Venue	Percentage of Reemployed Workers
State	2.80%
Reemployment Center	3%
Friends	13.50%
Found job by self	80.80%

Source: (Won, 2004, 75)

This chart helps dispel the myth that reemployment centers were very helpful in providing reemployment.

### **The Downfall of the Reemployment Project**

As the 20<sup>th</sup> century came to a close, the inadequacies of the Re-employment Project became increasingly evident. In 2000, the All-China Federation of Trade Unions issued a report that picked out three specific reasons for the problems of the Re-employment Project. The first problem was that many firms could not afford to pay their share of employees’ livelihood allowances, so they simply declined to inform people of the policy. The second problem was that many laid-off workers feared that their benefits would be terminated at the end of the three years if they entered, so they simply did not

even bother to go. Lastly, because of the financial constraints of the local governments, most re-employment centers could not support all the local laid-off workers. So, in an effort to reduce the number of worker intake they began setting quotas which left a huge number of workers uncovered (Solinger, 2002, 319). In mid-2000 the government announced that the state would cease creating new re-employment centers. Furthermore, in 2001, it was decreed that newly unemployed persons would have to move directly into the open labor market. By 2003, most of the reemployment centers had been closed down (Won, 2004, 79). One of the ironic twists was that the workers who were helping laid-off workers find jobs in the reemployment centers suddenly found themselves out of work as well. The fall of the Re-employment Project left millions hopeless, but it also opened the door for new sources of employment.

One of the questions on my survey dealt with students' opinions on how effective the Re-employment Project had been. The five possible answers were: not effective, slightly effective, marginally effective, quite effective, and very effective. The idea was that these students would have an understanding of the success of the Re-employment Project through their parents' experiences. My hypothesis was that the majority of students would choose not effective or slightly effective. This conclusion was based on the above research, most of which indicated the pitfalls of the Re-employment Project. The results, however, did not complement my hypothesis. The results showed that 31.5% of the students chose not effective to slightly effective, while 47.2% chose quite effective to very effective (see Table 13). I was shocked by this result as it went completely against my hypothesis. I believe that this shows how differently the project is perceived in China as compared to the outside world. Government propaganda and/or doctored

statistics may have skewed the opinions of the Chinese people. Also, results of the Reemployment Project differed in different areas of the country. In this case, Shandong province, the province where this survey was conducted, is on the coast and has historically had more foreign investment and less state control. So, this result can be seen as evidence that people of Shandong fared better than many other parts of China. Regression analysis showed that there was a fairly significant difference in opinions among sophomores and seniors. The coefficient for classification (seniors) was .707 while the significance was .04. So, seniors as a whole believed that the Reemployment Project was more successful than sophomores. A majority of seniors, 58.7%, believed that the project was quite effective to very effective as compared to sophomores at 40.2%. Furthermore, 38.5% of sophomores believed the project was not effective to slightly effective as compared to only 15.2% of seniors. I believe these results further my opinion that the younger students are more open to western ways of thinking and are more willing to see fault in Chinese governance than the older students.

**Table 13: Effectiveness of China's Reemployment Project**

	Not Effective	Slightly Effective	Marginally Effective	Quite Effective	Very Effective
Sophomores	7.70%	30.80%	17.30%	34.60%	9.60%
Seniors	0%	15.20%	26.10%	28.30%	30.40%
Average	6.50%	25%	21.30%	29.60%	17.60%

Source: Piletz, 2006

One of the main efforts at reducing the unemployment problem came in the form of the growing non state sector, or more specifically the private firms and the service industry. The late-1990s has seen remarkable growth in the private sector. In 1999 private companies employed eighty million people, claimed more than 2,100 billion RMB in registered capital, and produced 70% of the GNP while only controlling 30% of

the assets (Liu, 2000, 2). These numbers paint a very positive picture of the growing tertiary sector; however, the benefits of these growing sectors has not affected the laid-off employees.

### **The Myth of the Socialist Man**

One of the biggest problems facing China's transition to an open labor market has had to do with the mindset of the workers. Before 1978 the idea of the "socialist man" reigned supreme. The idea was that if a person committed himself to the party, then the government would take care of them. Scholar Jaeyoun Won remarked, "the new task is to introduce the labor market to old socialist workers who originally received jobs through planned arrangement, and therefore never had to compete in a labor market prior to reform" (Won, 2004, 72). In an effort to change the mindset, the government has stressed the "stars of reemployment," spouted propaganda about the opportunities in the new market, and provided guidance in such places as reemployment centers. One state official in Changchun explained, "Unemployment is just normal to take place during the transitional period from a planned economy to a market economy. The very existence of unemployment reveals that we are heading in the right direction, the socialist market economy" (Won, 2004, 76). One of the cities that the government and media has been touting as a rising star is Wenzhou. The director of the local labor bureau proclaimed, "In the past ten years, our people didn't look to us when they were unemployed. They went directly to the market to look for new jobs. This is our Wenzhou workers' choice. We are totally self-reliant" (Won, 2004, 79). An astonishing 70% of the forty thousand small business entrepreneurs in Wenzhou are the formerly laid-off SOE workers (Won, 2004, 80). This Wenzhou model has been an inspiration to many struggling laid-off

workers. Unfortunately, success stories like Wenzhou are few and far between, as most laid-off are barely meeting ends meet.

### **Tertiary Sector: A Solution for the Unemployed?**

In the late 1990s, Premier Zhu Rongji repeatedly hailed the growth of private companies and the service sector as a solution to the unemployment problem facing China. However, when this “solution” is examined in more detail, the seams become increasingly evident. The service sector that Zhu talked about included such sub sectors as: insurance, banking, and software. Although these are all good things that economies need in order to develop, these are not the sectors in which laid-off SOE workers can join. These laid-off workers were deprived of higher education because of the Cultural Revolution, and were taught to rely on the government for employment. In essence, the state actually handicapped itself by making the workers too reliant on the government. A study by the State Statistical Bureau in 1996 found that 57% of the laid-off had only reached a junior high education level, while another 14% had only reached a primary school level (Solinger, 2002, 312). Laid-off workers are also at a disadvantage when trying to find manual labor because of the continual inflow of cheap migrant labor. This has made the laid-off workers a downwardly mobile population.

In an effort to counter the private sector reemployment problem with laid-off workers, the government implemented a few preferential policies. These policies included such measures as: “a reduction or elimination of taxes and fees and free business licenses for their little ventures; a guaranteed plot of turf on the pavement or in a market for their new informal business; and help from the trade unions, local branches of the Industry of Commerce and Women’s Federations, or from their neighborhood

committees, in finding jobs and in occupational training” (Solinger, 2002, 313). Also put in place were preferential policies for any companies that hired the laid-off. In other words, by hiring laid-off workers these companies would receive incentives such as tax breaks. However, in many cases these policies hurt the laid-off more than it helped as companies would hire laid-off workers to gain the tax breaks and then shortly thereafter fire them. In other cases, companies would hire laid-off workers but refuse to pay them equal wages. So, these policies did encourage employers to hire laid-off workers, but not to retain them. Also, the few laid-off workers who did make it in the private sector are usually not the ones working for the large successful businesses, but rather working as janitors, beauticians, restaurant workers, and peddlers at street markets (Won, 2004, 71).

One of the questions on my survey asked whether the students thought that finding work was more of a personal responsibility or a government responsibility. Before conducting the survey I hypothesized that most students would choose personal responsibility because these were the kids who had grown up after China’s economic reforms and had seen the effects of privatization and increased efficiency. The results showed that 83% of the students believed employment to be a personal responsibility while only 17% believed it to be a government responsibility. This number far surpassed my expectations and showed that these students had advanced far beyond the Maoist ideal of the “socialist man.” Further study showed that 77% of seniors believed employment to be a personal responsibility while 84.31% of sophomores believed it to be a personal responsibility (see Table 14). Although regression analysis showed that these numbers were not very statistically significant, I still found them very interesting. I believe that this 7% difference between seniors and sophomores shows a growing trend

in China of capitalistic thinking. I believe that students entering college in later years will have an even higher percentage of belief that employment is a personal responsibility. These statistics prove that the government's efforts of encouraging entrepreneurship and economic success have been embraced by its people.

**Table 14: Employment: Government or Personal Responsibility?**

	Government Responsibility	Personal Responsibility
Sophomores	15.69%	84.31%
Seniors	23%	77%
Total	17%	83%

Source: Piletz, 2006

### **Social Security**

China's forming of a social security system has been deemed as one of the last safety nets for the unemployed. Social security as part of the enterprise has existed for many years, but a system apart from the enterprise has yet to form. In fact, "the Chinese state has tried for over two decades, though far from successfully, to establish a contributory social security system independent of the enterprises" (Solinger, 2005, 89). In addition, the finish point for the social security system still seems far off. One official at the Ministry of Labor in 1998 went so far as to admit, "that they could not hope to see the completion of a system that could provide for all workers outside their own enterprise before the year 2020" (Solinger, 2002, 319). However, recently hopes for a completed social security system have been revitalized. At the 28<sup>th</sup> General Assembly of the International Social Security Association in 2003, Vice-Premier Huang Ju said, "After years of experiments and practice, a social security framework with Chinese characteristics has taken initial shape" (Social Security, 2003). The following will be a

brief history on the social security system followed by commentary on the current system.

### **History of China's Social Security System**

For many years before 1978 China had a social security system that worked fairly well because of its socialist economy. However, after 1978 the social security system went under a series of reforms to accommodate the new economic reforms. By the 1990s, it became increasingly obvious that China would not be able to continue the social security system as it was running. At this time, the system was running on a three pronged system or the three guarantees: a basic livelihood allowance, unemployment insurance, and a cost of living guarantee (Solinger, 2002, 320). However, these “three guarantees” were actually very far from guaranteed. Firms were expected to contribute one-third of funds to social security, but because of the increasingly fierce competition, many of these firms could not afford it or simply did not want to pay it. Also, because of strict definitions on who was really “unemployed,” many other workers were still left in the dark. Due to this, it did not mean much that in 1999, 90% of the laid-off were getting allowances because millions of workers were left in the dark because they didn't qualify for the laid-off (xiagang) title (Solinger, 2002, 320-1).

### **Current and Future Social Security System**

Today, the vision of the social security system comprises four separate types of insurance: pensions, unemployment, medical care, and work injury (Wang, 2000, 31). Still these plans are being blocked by refusal or inability of firms to contribute, a general lack of funding from the government, and problems transferring insurance after switching firms. One of the newer problems of the social security system has been China's ageing

population because of the one child policy. As a result, more and more pressure is put on today's workers to provide for the elderly. This is extracting more and more money from both the employers and the employees. The problem will only get worse with time.

The future of the social security system seems to be in a state of confusion, but efforts are being made to reform it. Zhou Xiaochuan, president of the China Construction Bank, believes that China's social security system should try to achieve the following targets: an established social security net, the means of savings and accumulation, sound incentive mechanism, active influence on the ownership changes, establishment of a cost effective and efficient administration, appropriate income distribution, and a solution for the mobility of employees (Zhou, 3). Once, again these seem like lofty ideals, and only time will tell if China can save its social security system.

### **Solutions to China's Unemployment Problem**

Solutions to China's unemployment problem can only be guessed upon since it is such an inexact science. However, the following six points are suggestions to help alleviate China's unemployment pressure. These points are: exploitation of opportunities in urban and rural areas, increased regional employment, economic and social development, protection of the environment, improved export oriented products, and improved foreign language capabilities. These points will be discussed in more detail below.

The first point concerns the employment opportunities that are hidden within the urban and rural areas. In the rural areas, the realization of agricultural industrialization would help accelerate the pace of diverting rural surplus laborers from the farming to non-agricultural sectors (Beijing Review, 2005, 18). This means that areas such as

production, supply, and marketing of farm produce would develop giving former farmers employment opportunities. Urban opportunities lie in small and medium sized cities that have a large growth potential. Government should promote the development of these cities by diverting FDI and furthering the growth of the private sector.

The second point deals with China's regional employment disparities. China's most developed cities all lie on China's east coast. In order for China to continue their development, they must be able to further develop the west. Also, for many employers, searching for the proper employees is a very arduous task. So, China, "should establish a system of guiding the labor flow between regions by using administration, economy, law and market forces" (Beijing Review, 2005, 19). In this system workers in the east could find work in the west and vice versa.

The third point deals with the sustainability of China's economic and social development. China has grown as fast as any economy over the past decade; however, sustainability is the key. And in order to achieve this sustainability, social welfare should be considered. Job opportunities that promote employment and social welfare need to be increased. Not only would this provide jobs for the employees, but it would also help others find employment. This also includes the further development of the social security system.

The fourth point deals with environmental protection. One of China's most important current problems deals with pollution. This pollution has been a side effect of China's manufacturing growth over the past twenty years. A win-win solution for China's pollution problem is to create more job opportunities through the development of China's environmental protection sector. One project that has been cited as an example

is Denmark's Kalundborg Eco-Industrial Park. This park, "is home to a power plant, a pharmaceutical company, an oil refinery and a plaster plank manufacturing factory" (Banishing Unemployment, 2005, 19). This alone is not very impressive, but this plant is environmentally friendly. The exhaust, liquid waste, and garbage are discharged as raw materials and energy resulting in no pollution. Projects like these can be used by China to decrease pollution and increase employment.

The fifth point deals with the improvement of export oriented products including labor service. Today, China's exports mainly consist of textiles and other such labor intensive industries. However, if China were to export more technological products, it could increase employment in these areas. Also, China's excess of labor, so far, has not been taken advantage of. China's international labor service sector is still very small as compared to other countries like India and Pakistan whose labor services account for 10 to 15% of its total export volume (Beijing Review, 19, 2006). This leads into the sixth point which is the advancement of China's foreign language capabilities. If China were to increase their language proficient populace, they would be more attractive in the international labor services sector. Also, this would make foreign enterprises more open to moving to China further alleviating China's employment problem.

### **Summary**

China's reemployment projects of over the past couple of decades can be characterized as marginal at best. Oftentimes, the projects were portrayed by the government and the media as successes, but in reality only a fraction of the population benefited from these projects and policies. It has become glaringly obvious that the laid-off (xiangang) and unemployed (shiye) workers from SOEs and collectives will be unable

to find reemployment because of their lack of skills and education which were both caused by the communist government in the pre-reform years. There is a growing sense in China that the government have turned its back on what used to be the backbone of the party—the proletariat. Further market liberalization and economic development will only help future generations while the proletariat is left in the dark. China's last chance at salvaging their laid-off workers lies in the social security system which seems to have more questions than solutions. This is a critical time for China's government to take action in resolving this issue as the world waits for China's socialist market economy to falter.

## **Chapter V: Conclusion**

Unemployment has quickly become China's sleeping monster that, if not heeded, could cause major problems for China and the world. Efficiency has become the major problem for China's employment situation as China continues its move into the world economy. Companies are cutting costs and personnel in order to compete in China's newly efficient economy. The resulting unemployment problem is very interesting in that it does not differentiate between educated and non-educated, or urban and rural populations. All sectors of China's population are connected to this problem in one way or another. China's unemployment problems will be concluded below.

### **China's College Student Unemployment Problem**

China's student unemployment problem is its newest employment problem. As a result of increased student intake in 1999, college graduates four years later overwhelmed the job market. However, the sheer size of the graduating classes is not the only problem causing unemployment. There are many students who, as a result of the one child policy, have not learned how to become independent of their parents. Also, these students were taught that if they received a college education, they would receive a great job. Another problem with these graduating students is that many do not qualify for jobs with foreign corporations because their language skills are insufficient, and as a result of increased student intake the quality of education is decreasing. In order to alleviate this problem, students will have to learn to take responsibility and search for jobs on their own, while also taking specific training classes that will make them more competitive in the job market. As China's new economy under the WTO becomes established, many more high level jobs will become available, and it is up to the students to increase their abilities to

compete for these jobs. The opportunity is out there for qualified college graduates, so it is up to these students to go get them.

The results of my survey showed that a majority of students believe that their chances of finding a job today are worse as compared with 1999. Also, concerning their chances of finding a job after college, the sophomores believed that they had a better chance than the seniors. The last question showed that if students did not earn enough money in their job, they would quit and search for better options. These results show that students realize the job market is much harder to enter today than in the 1990s. Also, the fact that sophomores believe they have a better chance of finding a job shows that they believe the employment opportunities will increase as more companies enter China due to the new WTO policies. The last question reinforces the idea that many students in China are spoiled and do not understand the dedication it takes to find a job.

### **Accession to the WTO**

China's accession to the WTO has resulted in a massive reshuffling of China's industries. Unfortunately, this reshuffling has led to more unemployment than employment. Labor intensive industries such as textiles have been profiting, while high tech industries such as the auto industry have suffered. This has been a result of China's cheap labor advantage; however, this advantage is beginning to fade. According to Hua Ruxing, a professor at the School of Economics and Management of Tsinghua University, "The price advantage of the Chinese labor force will disappear in five to eight years" (Feng, 2006, 34). As compared to countries such as Thailand and Vietnam, China is quickly losing its labor advantage. As a result, companies such as Nike Inc. are moving production from China to Vietnam (Feng, 2006. 34). However, experts are quick

to point out that China's huge market and developed infrastructure are still very attractive to international investors. This increase in labor cost can be seen as an achievement for China's socialist market economy as it tries to develop into a more modern state. It is widely believed that China's expansion into the tertiary sector will help alleviate recent unemployment. In another five years, experts say that China's unemployment trend will be overtaken by an employment trend as foreign companies continue to become more comfortable with China's workers and business structure. One of the main problems with this idea is that the new, mostly high level, jobs created in the tertiary sector will not absorb the laid-off workers because of their lack of skills and education. However, unemployment as a whole should begin to decrease as companies take advantage of trade liberalization policies put in place by the WTO.

My survey questioned students' opinions on the WTO and economic liberalization. Results show that the students were split on whether a capitalist economy or a state-run economy was better, but further study showed that sophomores much preferred a capitalistic economy while seniors much preferred a state-run economy. Also, the survey showed that students were very acceptant of working for foreign companies. In this question as well, sophomores were more open to working for foreign companies than seniors. This is evidence that China's students are becoming more and more acceptant of capitalist ideas. Another question in my survey showed that students as a whole believe their chances of finding a job today are worse than in 2001. These results show that students are positive about China's move into the global economy even though they are beginning to realize that the jobs they hoped for had not yet materialized.

### **Reemployment**

China's efforts at reducing unemployment over the past couple of decades have been marginal at best. Unemployment did not really become a problem until the 1990s after Deng's southern tour and the beginning of the socialist market economy. Efforts such as the Reemployment Project had many lofty goals, but were often unrealistic and ended up only benefiting a fraction of the population. Also, corruption and a lack of policy enforcement led to its eventual demise. Today, the social security system is being reformed in order to create a safety net for the ageing population. Estimates on the completion of this social security system, separated from the enterprises, show that its completion is still many years away. The social security system seems like the last hope for the ailing laid-off population.

According to my survey, students in Weihai believe that the Reemployment Project was actually fairly effective. Also, a vast majority of the students believe that finding work is more of a personal responsibility rather than a government responsibility. Further study shows that a higher percentage of sophomores than seniors believe that finding work is a personal responsibility. These results show that Weihai may have benefited more from the Reemployment Project than other areas of China, and that students increasingly believe that finding work is their responsibility. This shows that government efforts at making the Chinese more self sufficient has worked.

### **Survey Trends**

The results of my survey have proved to be very fascinating. The results show a clear trend of younger students being more open to capitalistic ideas than older students. For example, sophomores prefer a capitalistic economy, believe that employment is a

personal responsibility, are more likely to work for a foreign company, and believe that the Reemployment Project was much less successful than the seniors. All of these results are clear evidence of the trend of the younger generations being more in favor of globalization. What makes these results even more interesting is that there is only a two-year difference between these students. Imagine how different college students in five or even twenty years will view the economy! I believe that this shows that future students will be up to the challenge of finding employment on their own as they begin to realize that the government is no longer their to support them.

### **The Future of China**

The Achilles' heel of China as it moves to become the next superpower is unemployment. This problem has become increasingly bleak over the past decade. Debra Solinger states, "The overall picture is becoming increasingly clear. As China enters even more fully into the global economy, we can expect that, while millions of better placed citizens rise to the challenge and upgrade their jobs, millions more will sink, their working lives cut short, their potential undeveloped, their situation increasingly desperate, and their capacity to purchase any of those enticing products offered up by the world market and its merchants nonexistent" (Solinger, 2003, 87). By all accounts, China's economy seems to be moving in the right direction, but the question becomes what price China is willing to pay to reach these means? Obviously, China's pollution has increased, and now unemployment is rising at alarming new levels. For Chinese, employment is more than a source of income; it gives meaning to life. And, without meaning, these unemployed are beginning to voice their dissatisfaction in an increasing number of demonstrations. This could not only cripple China's economy, but also cause

a major disturbance in the world economy. China's social welfare programs and the growth of its tertiary sector will determine if China becomes the world's next superpower, or the world's next communist failure—watch and see.

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## APPENDIX I

My survey was conducted at Shandong University at Weihai in December or 2005 and January of 2006. Prior to conducting the survey, permission to research the students was requested and approved by both Ole Miss and Shandong University at Weihai. Weihai is a city in Shandong province on the northeastern coast of China. The main campus of Shandong University is in the capital of Shandong, Jinnan. My survey was conducted by Ms. Christine Parsons to her classes at Shandong University at Weihai. They were handed out during class and monitored by the instructor.

The survey had total of 110 participants all of which were all English majors. Of the participants, 52 were sophomores, 48 were seniors, and the rest were teachers or former students (see Table 16). 91 of the students were female while 19 were male (see table 15). The male female ratio is skewed because most English majors are female. So, this difference was taken into account in the results of the survey.

**Table 15: Male Female Ratio**

Male	19
Female	91

Source: Piletz, 2006

**Table 16: Classification**

Sophomore	52
Senior	48
Other	10

Source: Piletz, 2006

The survey results were recorded on slips of paper and were brought back from China, where I began compiling the results. The analysis of the survey results was conducting through the help of SPSS. Regression analysis was also conducted which showed any significant disparity in classification and sex.

**APPENDIX II****Employment Survey of College Students at Shandong University at Weihai**

1. Sex: M/F
2. How old are you?
3. What is your Major?
  - a. English
  - b. Language
  - c. Science/Engineering
  - d. Art/Music
  - e. History
  - f. Other
4. What is your classification?
  - a. Freshman
  - b. Sophomore
  - c. Junior
  - d. Senior
5. How would you classify your household income (per month)?
  - a. <500 RMB
  - b. 500-1,000 RMB
  - c. 1,000-2,000 RMB
  - d. 2,000-5,000 RMB
  - e. 5,000-10,000 RMB
  - f. 10,000-20,000 RMB
  - g. >20,000
6. What do you think the chances of you finding a job within three months of graduation are on a scale of 1-10 with 5 being 50% (Circle One)?
  - a. 1 2 3 4 5 6 7 8 9 10
7. Political Affiliation.
  - a. Party Member
  - b. League Member
  - c. Masses
8. What kind of economic impact has your family's income and well-being experienced since 2001 (accession to the WTO)?
  - a. Large Decrease
  - b. Slight Decrease
  - c. No Change
  - d. Slight Increase

- e. Large Increase
9. How do you view your chances of finding a job today after college as compared with 2001?
- a. Much worse
  - b. Slightly worse
  - c. The same
  - d. Slightly better
  - e. Much better
10. How do you view your chances of finding a job today after college as compared with 1999?
- a. Much worse
  - b. Slightly worse
  - c. The same
  - d. Slightly better
  - e. Much better
11. Do you think finding work is more of a personal responsibility or a government responsibility?
- a. Personal responsibility
  - b. Government responsibility
12. How effective do you think China's Re-employment Project of 1993 has been?
- a. Not effective
  - b. Slightly effective
  - c. Marginally effective
  - d. Quite effective
  - e. Very effective
13. Do you think a capitalist economy or a state-controlled economy is better for the economy?
- a. Capitalist economy
  - b. State-controlled economy
14. Which do you prefer in general?
- a. Capitalist economy
  - b. State-controlled economy
15. In which of the following areas do your parents work in?
- a. Public Servant
  - b. State-owned enterprise
  - c. Private Enterprise
  - d. Foreign-invested company
  - e. Started their own business

16. In which of the following areas would you most want to work for?
  - a. Public Servant
  - b. State-owned enterprise
  - c. Private Enterprise
  - d. Foreign-invested company
  - e. Start your own business
  
17. Please rank the following in importance in finding a job. (rank 1-5)
  - a. Education
  - b. Connections
  - c. Parents upbringing
  - d. Residential Registration
  - e. Party Membership
  
18. Which of the following companies would you rather work for? (rank 1-8)
  - a. Chinese Domestic
  - b. Taiwanese
  - c. Hong Kong
  - d. Korean
  - e. Japanese
  - f. Singapore
  - g. European
  - h. American
  
19. Where will you look for a job?
  - a. Shandong Province
  - b. Big City China (i.e. Beijing, Shanghai)
  - c. Rural China
  - d. Abroad
  
20. How much do you hope to make in your first job after college (per month)?
  - a. <800 RMB
  - b. 800-1,000 RMB
  - c. 1,000-1,200 RMB
  - d. 1,200-1,500 RMB
  - e. 1,500-2,000 RMB
  - f. >2,000 RMB
  
21. What is the minimum you would accept in your first job after college (per month)?
  - a. <800 RMB
  - b. 800-1,000 RMB
  - c. 1,000-1,200 RMB
  - d. 1,200-1,500 RMB
  - e. 1,500-2,000 RMB
  - f. >2,000 RMB

22. What will you do if you do not make this much?
  - a. Quit, and search for a job that pays more
  - b. Stay at the same job and try to work my way up
  - c. Start my own business
  - d. Pursue higher education (i.e. graduate school)
  
23. What do you plan on doing after graduation?
  - a. Pursue higher education (i.e. graduate school)
  - b. Find a job
  - c. Take a break
  
24. How important do you think learning English is in your future career?
  - a. Detrimental
  - b. Not important
  - c. Slightly important
  - d. Marginally important
  - e. Very important
  
25. What type of work experience do you have?
  - a. None
  - b. Internship
  - c. Restaurant, grocery store etc.
  - d. Other