

→ China

- Argentina
- Australia
- Brazil
- Canada
- EU
- France
- Germany
- India
- Indonesia
- Italy
- Japan
- Korea, Republic of
- Mexico
- Russian Federation
- Saudi Arabia
- South Africa
- Spain
- Turkey
- United Kingdom
- United States

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CHINA'S RESPONSE TO THE CRISIS

Substantial decline in growth affects job creation

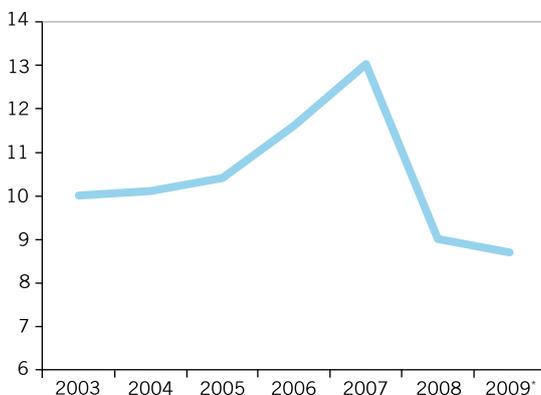
Post-reform China has for over two decades seen the highest sustained gross domestic product (GDP) growth in the world – nearly 10 per cent annually, lifting 200 million people out of poverty. However, managing the world's largest labour force of three quarters of a billion has been a major challenge, with a registered urban unemployment rate of 4 per cent in 2007, but an estimated urban unemployment rate approximating 7 per cent to 8 per cent for this period.¹ Estimates of low productivity labour in agriculture which can move to higher productivity in other sectors vary, with an upper figure of 150 million.

In this context the global financial crisis has hit China's economic growth and employment hard. Real GDP growth dropped from a high of 13 per cent in 2007 to 9 per cent in 2008, and 8.7 per cent in 2009 (figure 1). A sharp slowdown in GDP growth came in the last quarter of 2008 and the first two quarters of

2009, as figure 2 shows. In 2008 real GDP growth slowed from over 10 per cent in the first two quarters to 9 per cent in the third quarter, and to 6.8 per cent in the fourth. This decline continued into 2009, with GDP growth falling to 6.1 per cent in the first quarter before a stimulus package brought it back up to nearly 8 per cent in the second quarter, and then 9.1 per cent and 10.7 per cent in the third and fourth quarters.

The element of the global crisis that hit China hardest was the collapse in export demand, on which growth had become highly reliant. The severest contractions came in early 2009, with export growth falling by 17 per cent in January, compared to January 2008, and by a further 25 per cent in February. The global credit crunch also affected domestic credit and investment, which in turn impacted manufacturing growth. By the end of 2008 manufacturing growth had shrunk to 5 per cent per annum, compared to 17 per cent for the previous year. Overall Chinese exports slumped from US\$1.4 trillion in 2008 to US\$1.2 trillion in 2009, a contraction of some 15 per cent.

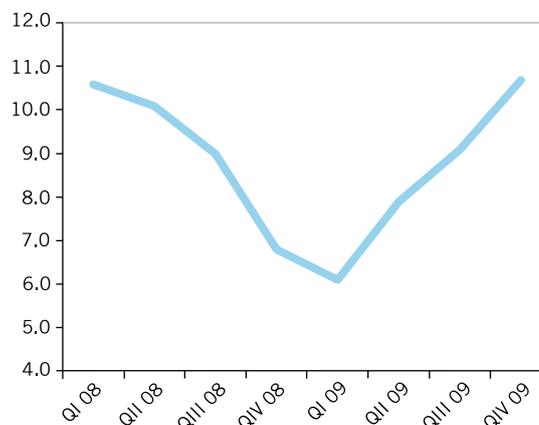
Figure 1. Real GDP growth rate, 2003–2009 (percentage)



Source: Statistics from the official website of the State Statistics Bureau and the World Bank.

* 2009: International Monetary Fund (IMF) official estimates.

Figure 2. Real GDP growth rate, by quarter (year-over-year change), 2008 and 2009 (percentage)

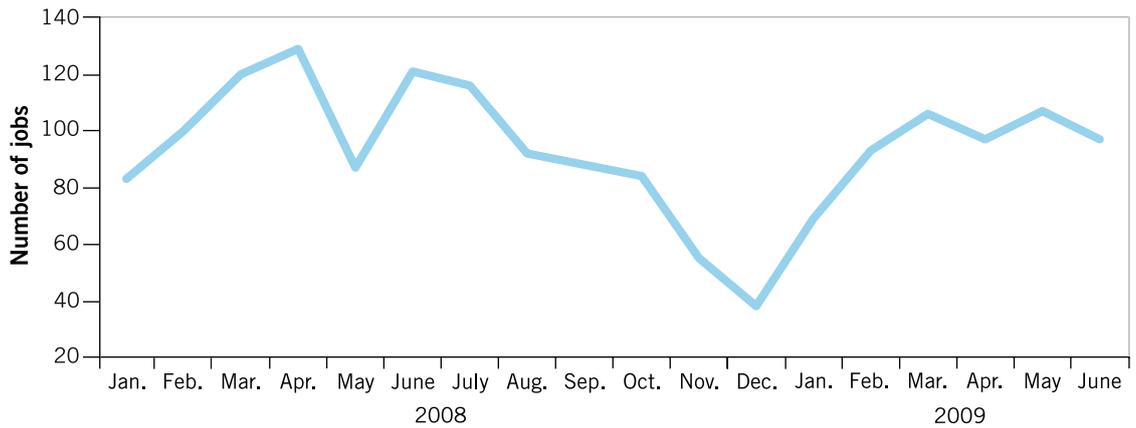


Source: Ministry of Human Resources and Social Security (MOHRSS).

The impact of the crisis on employment mirrors the drop in GDP growth, as figure 3 shows, with a sharp drop in jobs created in the last quarter of 2008 and the first quarter of 2009. In the first half of 2008 an average of 1.07 million jobs were created each month. This number falls to a trough of 380,000 jobs created in December 2008, before beginning to climb back up to 1.06 million jobs created by March 2009.

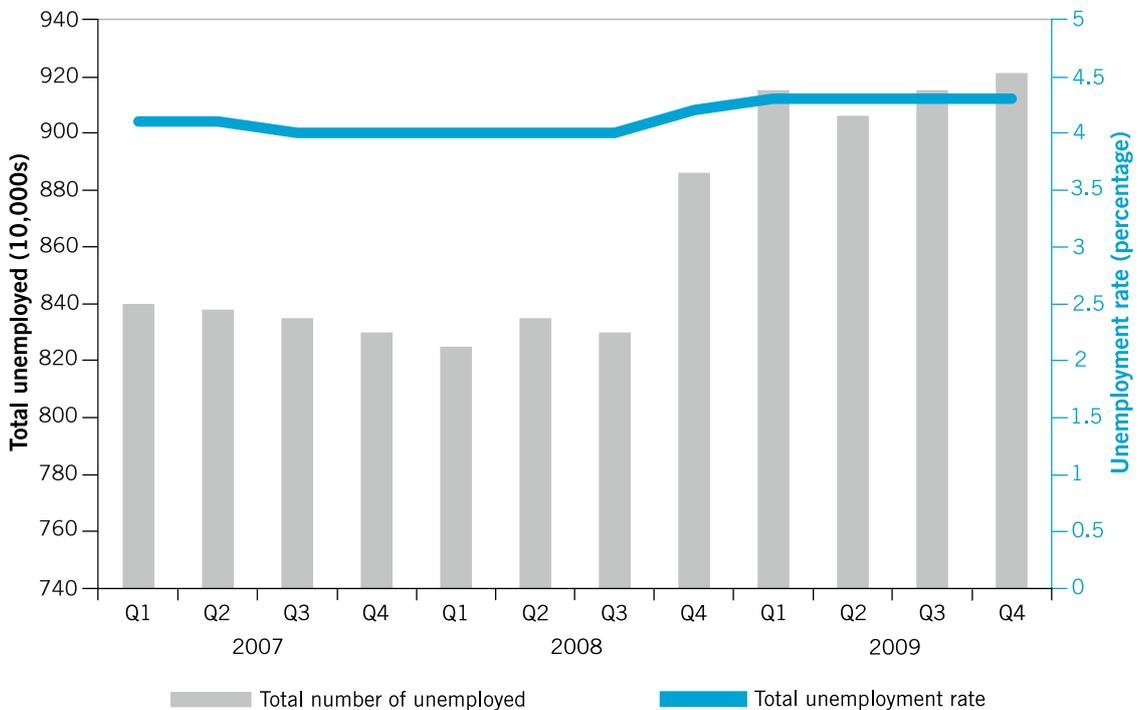
Broad government estimates of the cumulated number of jobs lost set the figure at approximately 10 million (MOHRSS 2010). This comprises a number of elements. The urban registered unemployment rate rose from 4 to 4.3 per cent, as seen in figure 4. The brunt of the job losses were borne by rural urban migrants, totalling some 150 million, some 3 per cent to 5 per cent of whom may have been jobless after the spring festival of 2009 (MOHRSS

Figure 3. New jobs created by month, January 2008 – June 2009 (10,000s)



Source: Ministry of Human Resources and Social Security (MOHRSS).

Figure 4. Total registered unemployed and unemployment rate in urban areas, by quarter, 2007–2009



Source: Ministry of Human Resources and Social Security (MOHRSS).

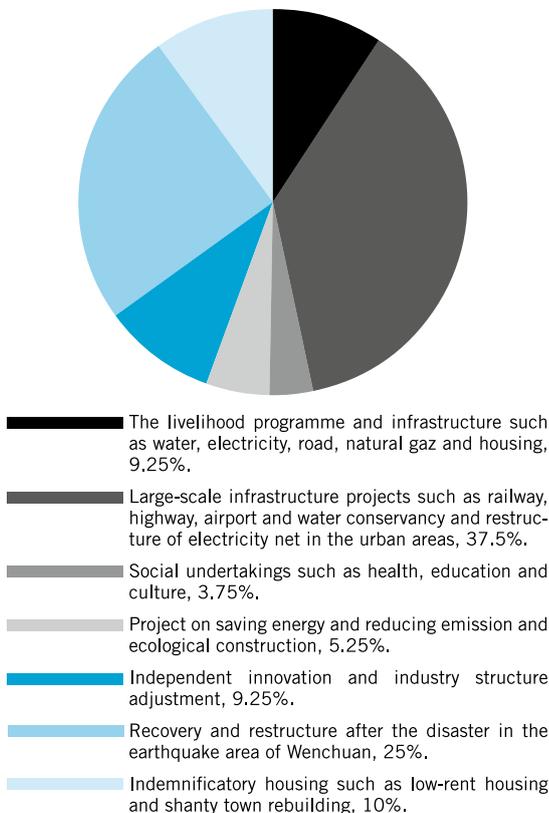
2009). Some 3 million university graduates were jobless in 2009, 2 million of whom could be reckoned to be freshly jobless as a result of the crisis.

Expanding domestic demand to stimulate economic growth and create jobs

The first policy priority to combat the impact of the crisis has been to generate employment by expanding domestic demand. This was designed to counter the impact of the financial crisis on export demand and an increasing perception of over-reliance on exports, leading to a policy need for more balanced growth relying on both domestic demand and export demand. This policy is based on five elements.

First, some key measures have been introduced to expand domestic demand and quickly stimulate economic growth. The primary stimulus package has comprised a ¥4 trillion investment fund for key projects in low income housing, infrastructure development such as railways, highways and airports, the development of medical and health services, promotion of culture and education, more eco-balanced construction, facilitating independent innovation, and post-earthquake reconstruction (figure 5). The second element is a revitalizing plan for ten industries, including light industry, automobiles, iron and steel, textiles, manufacture of

Figure 5. Composition of the ¥4 trillion investment fund for expanding domestic demand



Source: Government website of the National Development and Reform Commission.

instruments, shipping, petrochemicals, non-ferrous metals, and electronic information and warehouse management. The third is a monetary policy measure of lowering the benchmark lending rate by five times and the required reserve rate successively five times. A credit of ¥7 trillion has been channelled through the banking system to counter the impact of the credit crunch. The fourth focus is rural: it involves a new rural pension system and greater support and preferential treatment for rural areas through more favourable policies on consumer durables such as electronics and automobiles. The fifth element is tax reform, with a transition to value added tax, and taxes on the refined oil, medical and health systems.

Between the fourth quarter of 2008 and the third quarter of 2009 four sets of investment funds were disbursed, totalling ¥384 billion. Of this, ¥37.5 billion were for housing, ¥104.3 billion for rural infrastructure, ¥87.1 billion for social services, ¥57.3 billion for the environment, ¥39.6 billion for independent innovation, and ¥54.2 billion for industrial restructuring.

This stimulus package alone has been responsible for reversing the economic downturn in China: figure 2 shows a recovery in GDP growth, from 6.1 per cent in the first quarter to 10.7 per cent in the fourth quarter of 2009. This has given a significant boost to employment recovery. The observed long-term relationship between GDP growth and employment is that 1 per cent GDP growth adds approximately 1 million jobs annually. Long-term GDP growth averaging 10 per cent to 11 per cent per annum therefore produces between 10 million and 11 million jobs a year. The government projects that with the impact of the stimulus package and the recovery of this longer-term GDP growth, approximately 22 million jobs will be created by the economy over 2009 and 2010 (MOHRSS 2010).

Protecting jobs by assisting enterprises

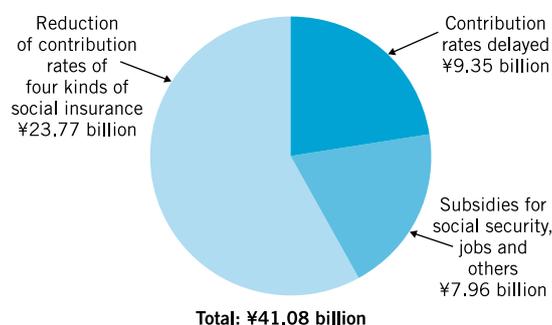
In addition to generating growth and employment, the government has prioritized job protection, assisting enterprises by easing their costs.

First, enterprises facing economic difficulties have been allowed a six-month delay in social insurance contributions. Social insurance contribution rates were lowered in 2009 for basic medical insurance, unemployment insurance, work injury insurance and maternity insurance paid by urban employers. Enterprises with economic difficulties have been encouraged to consult with employees on increasing flexible employment, on-the-job training, work shifts, and leave, and to reduce wages and even make temporary layoffs in order to minimize permanent unemployment. An unemployment insurance fund has been used to pay subsidies for social insurance and job positions, with special allocations for on-the-job training. State-owned enterprises have been required to try to avoid layoffs and to even create more jobs. Finally, not only are the

practices followed by enterprises in laying off workers regulated, but large-scale layoffs are monitored by the local government.

These employment protection policies are based on subsidies worth ¥41.08 billion. Of this, the estimate for the delayed payment of social insurance contributions by enterprises is ¥9.35 billion; the amount of deducted payments for the four types of social insurance contributions reached ¥23.77 billion; and subsidies for social insurance, job positions and other types of subsidies through the unemployment insurance fund have totalled ¥7.96 billion (figure 6).

Figure 6. Implications of policies and measures to assist enterprises and protect jobs (Jan.–Oct. 2009) – Reducing burdens for enterprises and increasing subsidies.



Source: Regular MOHRSS statistics.

Rural migrant workers employed in export-oriented manufacturing enterprises and joint ventures have been the most seriously affected by the global financial crisis. Policies to assist enterprises and safeguard employment played a key role in protecting jobs for such workers. Skills training packages for such work-

ers have been especially strengthened and their jobs protected by training subsidy policies and special training programmes. The number of participants in the training schemes subsidized and organized by the government in 2009 is estimated at more than 21.6 million, which includes 11 million rural migrant workers and 2.6 million employees from enterprises with difficulties. As a result of these policies a majority of rural migrant workers have found urban jobs again, while the total number of such workers actually increased from 140 million in 2008 to 149 million in 2009.

Outlook and challenges

The global financial crisis continues to affect China, with the momentum of economic recovery still somewhat fragile, persistent structural challenges, and residual employment distress. The government will maintain the continuity and stability of its macro-economic policy, continue to implement active fiscal policy and moderately light monetary policy, and remain flexible in policy formulation in the light of emerging conditions. Employment will be prioritized in social and economic development, and more jobs created through stable and good economic growth. A mechanism will be sought to ensure greater balance between economic growth and employment growth.

Specific policy directions will include active employment policies for job protection and creation, and the promotion of labour-intensive activities, of small and medium-sized enterprises, of vocational skills training and self-employment – especially for university graduates in China's mid-west and for return migrants, as well as of public employment services and employment for households with no employment.

¹ Chinese Academy of Social Sciences 2009.