

The Impact of the Global Financial Crisis on the Labour Market in China and Policy Response

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The Context of Growth and the Crisis in China

For 30 years post reform China has had the highest sustained GDP growth in the world, of near 10%. 200 million people have been lifted out of poverty. China's GDP is now 7% of global GDP, and ranks as the third largest economy. This GDP growth has been based largely on very high growth of investment and exports. Investment has peaked at 42% of the GDP. China's extremely competitive ULCs have recently attracted between \$60-\$70 billion FDI inflows per annum.

Despite such high and sustained GDP growth, managing the world's largest labour force in the world, of three quarters of a billion, has been challenging. By 2006 the urban registered unemployment rate was 4.2%, but the estimated unemployment rate approximated 7%-8%. A joint estimate by the Ministry of Human Resources and Social Security (MHRSS) and the ILO showed that 24 million new jobs were needed per annum, while the actual new jobs created were approximately 10 million, giving a jobs shortfall of 14 million per annum. MHRSS estimates that the jobs shortfall may have fallen to 12 million for 2007. Rural surplus labour in agriculture is estimated at 150 million.

The global financial crisis has affected China's GDP growth significantly. The National Bureau of Statistics (NBS) has estimated that GDP growth dropped from 13% per annum over 2007 to 9% per annum for 2008. For the last quarter of 2008, the NBS estimates that GDP growth slumped to 6.8%, compared to the last quarter of 2007.

The main channel through which the global crisis is hitting China is seen to be a collapse in demand, for exports, and domestic consumption. Export growth had contracted by 17% in January 2009, compared to the January 2008, the largest contraction in a decade. In February 2009, export growth contracted by 25%. The global credit crunch is also expected to affect domestic credit and investment. End of the year manufacturing growth has fallen to 5% per annum, a fall from 17% in the previous year according to the NBS. In October 2008, FDI was negative.

The Impact of the Crisis on the Labour Market

Initial assessments of the impact of this transmission channel point to an impact on the labour market in the following areas:

- (a) With a third of the GDP reliant on exports, the crisis has hit export employment.
- (b) FDI based manufacturing employment has been hit.
- (c) Sectorally the crisis has first hit textiles, already affected by appreciation of the exchange rate over 2007-08 of 10%. More generally employment in the labour intensive industry has been hit first. This has also affected the services related to manufacturing.

- (d) Regionally, the areas with a high concentration on export based employment like Guangdong and Fujien have been hit the hardest. Initial surveys show that in Fujien a third of the enterprises have shut down, while another third are making losses trying to survive.
- (e) Within the labour market, the transmission channel of the crisis is observed to be through a very high impact on:
- (i) Migrants from rural areas, of whom there are some 130 million. Both the NBS and the MHRSS estimates that some 20 million migrants had returned back to rural areas at the end of December 2008¹. Their return back to rural areas, with no jobs, an already surplus rural labour market, and weak social protection, will put great pressure on rural areas.
 - (ii) Fresh graduates entering the labour market, of whom there are some 7 million per annum.
- (f) The Chinese Academy of Social Sciences (CASS) expects the urban registered unemployment rate to rise to 5% over 2009, from its current 4.2%. However if the primary transmission mechanism within the labour market is through migrants who are not covered by urban registered unemployment, this will understate the larger impact on unemployment, and its focus which is return migration, and the need for policy support for them.
- (g) This will strain the existing social security system.

Early Policy Response

As a result of the impact of the global crisis on the Chinese economy, the historic Work Conference in December 2008, which should have been celebrating 30 years of reform, was a more somber occasion to carve out opportunity from crisis. In this Work Conference 30 years ago, to the month, Chairman Deng Ziao Ping gained the mandate for reforms, because he said, socialism did not imply poverty. Engels may not have flown in a plane, or Stalin worn dacron, but reform was much needed, through a cautious crossing the stream by feeling the stones.

The government's policy reform announced by the National Development Reform Commission in November 2008 and detailed by the Prime Minister in his work report to the National People's Congress in March 2009, is based on monetary, fiscal and employment policies.

1. A government stimulus package of RNB 100 billion by end 2008, leading to a RNB 4 trillion package (\$ 585 billion) over 2009-10. This will give a budget deficit of 3% of GDP over 2009.
2. GDP growth will be maintained at 8% over 2009.
3. 9 million new jobs will be created over 2009 to keep employment growth constant.
4. The minimum wage will be held constant over 2009.
5. The government has increased its investment abroad in US Treasury bills by another \$50 billion in December 2008, with China currently the largest holder of US debt of two thirds of a trillion Dollars.

¹ The number of jobless migrants returning home may be conflated with migrants returning home for the traditional Chinese new year in January 2009.

The MHRSS is putting forward a specific policy package for the labour market, based on:

- Increasing enterprise survival by reducing their responsibilities through transferring some of their social security contributions to the government
- Subsidising enterprises that do not retrench labour
- Employment services, training and SIYB for return migrants

Mr. Lu Mai from Chinese Development Reform Foundation has proposed to the Prime Minister an increase in domestic consumption and domestic demand by phased expansion of a social protection package. This is based on an ongoing collaborative study with the ILO on the role of a social floor for growth and welfare.

CASS and the ILO support the need for generating growth through a better balance between its drivers, exports based on productivity, and consumption based on employment and decent work.