

China's Employment Conundrum: Closing the Skills Gaps

Over the next five years China will successfully manage its unemployment challenge, although the road will be bumpy. Most urban workers who do not land new jobs in the private sector will supplement their SOE jobs or retirement income with small jobs in the informal sector. The biggest challenge will be rural unemployment. China will likely try some new policies to manage the flow of migrants so that they do not all end up in the bigger cities. This will not be easy; look for lots of problems and rural redundant worker unrest.

As importantly, the next five years will see the skilled labor gap grow to such an increased level of visibility and pain that new initiatives will be put in place to try to close it. The current labor surplus covers up the underlying skills gaps in many sectors. As China's economy grows and applies more IT more sophisticated workers will be needed as well as managers. The current education system does not prepare graduates for the world of work and the myriad of training programs are not sufficient to keep up with the expanding skilled labor and professional worker needs. Look for new policies to increase skilled labor flow by the government and more aggressive recruitment efforts by companies to source skilled labor from different parts of China. Given all the central government's priorities it is not likely that a better safety net for workers will be put in place, although more will be done to assure laid off and retired workers actually receive their small benefits.

THE FORMAL AND INFORMAL JOBS SECTOR**Formal**

- SOEs
- Government
- Registered private enterprises
- Multinationals

Informal Sector

- Contract work; some in the formal sector that goes unreported
- Part-time individual work
 - Second-jobs market
- Private-sector jobs; small and medium-size enterprises

LABOR PARTICIPATION RATES ARE HIGH

The Chinese possess a well-honed work ethic and are entrepreneurial when it comes to finding vocations. The nation's dynamic labor market is characterized by high participation rates (see Table 15). Jobs are in the formal sector, officially registered through the government's Industrial and Commercial Administration Bureau, or unregistered informal-sector positions. Millions of Chinese who work in SOE's have part-time second jobs in the private sector, supplementing their low salaries with significant hours at part-time jobs. These informal jobs usually are not reported.

Table 15
Selected Indicators of China's Labor Market

Labor participation rates (1998)	78.6%
Employment-to-population rates (1998)	77.0%
Registered urban unemployment (2000)	3.5%
Employment in service sector (1999)	26.9%
Employment by non-state economy (1999)	35.0%
Ratio of urban workforce to rural workforce (1999)	30:70
Percentage of workforce with tertiary education (1999)	3.80%
Labor productivity (1999)	11% of that for U.S.

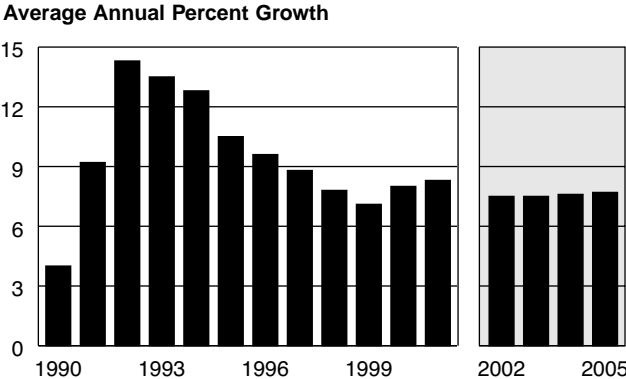
Source: China Ministry of Labor and Social Security; International Labor Organization, 2001.

JOB CREATION REMAINS HIGH

Job growth in the formal sector has been slowing since the surge in the mid-1990s, but will remain strong for the next five years (see Figure 37). State-owned enterprises (SOEs) have absorbed redundancies and are using labor more efficiently. Increased capital and technology investments have become new drivers of economic growth. New job growth reports are artificially low because some larger SOEs and small and medium-size enterprises are creating new jobs that

remain unpublicized and uncounted as they absorb their own redundant workers. In the short run, China's World Trade Organization (WTO) affiliation is likely to have a neutral impact on job creation in the aggregate, but vary from sector to sector. It could turn negative if increasing imports in some industrial sectors become high enough to stimulate another round of layoffs (See WTO article, Post-World Trade Organization China: Speeding the Juggernaut Along).

Figure 37
China's Job Creation Has Slowed But Will Remain Strong

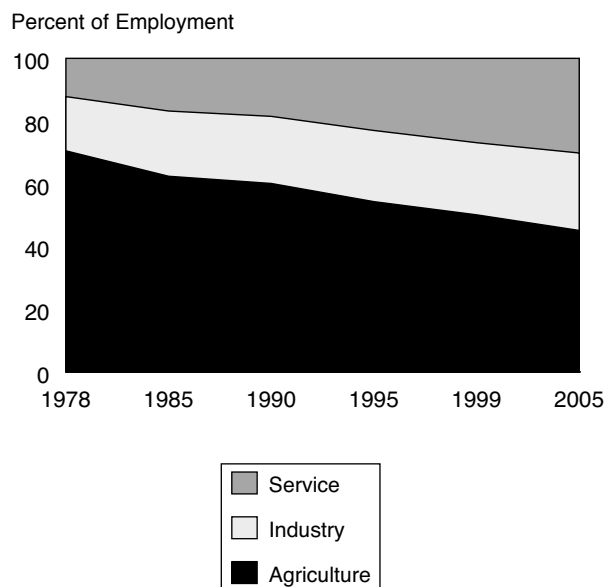


Source: Center for the Future of China; World Bank, 2001.

Overall, China is likely to create enough jobs if its GDP growth remains above 7.5%. Most jobs will be in the growing service sector, ranging from professional opportunities in financial, health care, and business services to lower-end positions in retail, travel, and restaurants (see Figure 38). There will be disparity between the jobs created and the skills of job seekers in the formal sector, especially for poorly educated,

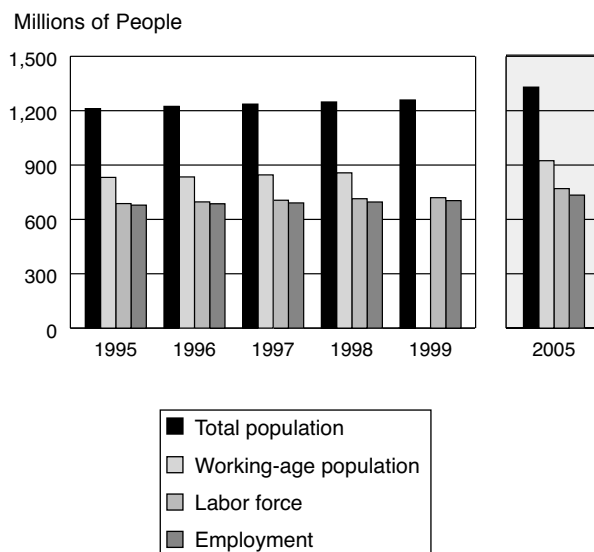
laid-off workers from the SOEs and undereducated new job seekers. Many ultimately will find work in the informal sector and eke out a small but sufficient income. Given labor's structural shifts, its lack of mobility, and the widespread employment opportunities in the informal sector, China will continue to have a labor surplus for at least another decade—although far less than official projections (see Figure 39).

Figure 38
Service Sector Leads Employment Growth



Source: Center for the Future of China; China Statistics Yearbook, 2000.

Figure 39
China's Labor Surplus Will Persist



Source: Center for the Future of China, Hu Angang; China Labor Statistics Yearbooks, 1998 and 1999.

EMPLOYMENT CHALLENGES

Urban Unemployment: Persistent Yet Manageable

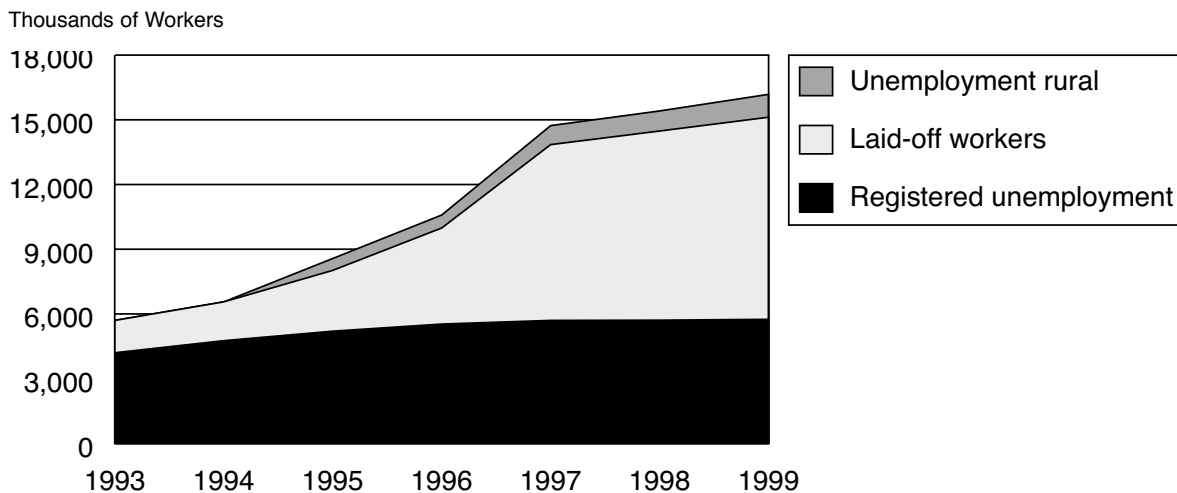
The official estimate of urban registered unemployment consistently is reported around 3%. But, this number does not include laid-off SOE workers or rural laborers searching for jobs in the cities. It also does not take into account underemployed, redundant workers in SOEs who fall short of being fully occupied on the job. Laid-off workers account for half of real urban unemployment (see Figure 40), and many statisticians consider the real unemployment numbers to be inflated by workers claiming to be unemployed but still holding jobs in SOEs or in the informal sector. Varying estimates of real urban unemployment place it between 5% and 9%; since most industrial SOEs have completed their layoffs, this driver will decrease. Government layoffs still to come in some sectors such as banking and railways will not have major impacts on future unemployment, since most of the

affected will be absorbed quickly in other areas. The most persistent propellant of urban unemployment in the next five years will be rural migrants, who will continue to stream into the cities and experience short bouts of unemployment as they look for new jobs. This group will have a high turnover; its individuals will not be without jobs for the long term.

Few Have Job-Seeking Skills in the Formal Sector

Currently, unemployment is higher because most laid-off SOE workers lack the skills to seek—and find—other jobs. More accustomed to the government taking the responsibility of finding them a job, they are adjusting to the new reality of doing so themselves for the first time in their careers. Most of these workers will find jobs slowly, in either the formal or the informal sector. Among people recently laid off, the low-skilled industrial SOE workers have the most difficulty adjusting; new, high-end service jobs are not a good match for most middle-aged job seekers, and they do not want to work in these new, low-end service positions

Figure 40
Laid-off Workers Account for Half of Real Urban Unemployment



Source: Center for the Future of China, Hu Angang, 2001.

**MARKET LABOR
FORCE GROWING
PAINS**

- Poor coordination between SOEs and local governments to support laid-off workers
- Underfunded social insurance programs
 - Poor worker recruitment systems/skill markets
 - Poor job-seeking skills
- Lack of understanding of a private work environment
- Unsophisticated retraining programs
- Legacy policies that fragment labor; difficult integration of new policies
 - Interregional disparities

for which they have the skills to match. Some, especially those in the Recovery and Sandwich generations, ultimately will make a successful switch to the private sector, but it will take time—and keep labor surplus and unemployment statistics high in the short term.

New Entrants Lack Sufficient Work Skills

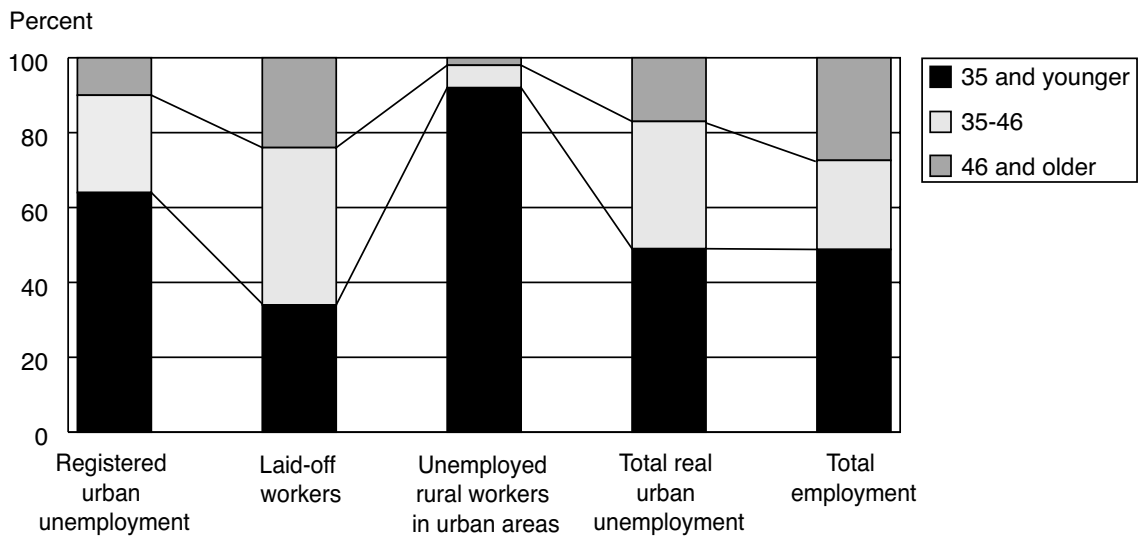
A second driver of urban unemployment, particularly in small and medium-size towns, is the group of young unemployed workers, most of whom have a junior high school education (see Figure 41). Their predicament is not unexpected; up until 1995, the government assigned all jobs throughout urban China and these fledgling job seekers are poorly prepared for the private market—the very market where most new jobs will be created. They have few job-seeking skills and are slow to find jobs and to adapt to a market labor force. Similarly, their work skills also are not well developed, and they will need vocational training to build them. This unemployed group already is shrinking and will continue to do so as young people and their families come to accept the task of finding their first jobs on their own.

Skilled Labor Mobility Needs to Increase

Finally, urban unemployment also is driven by China's artificially segregated and noncompetitive labor market, one kept fragmented and rigid by the legacy of outdated policies and ministries that governed and divided the urban labor market into segments: workers at urban enterprises (such as SOEs), rural migrants, and government employees. Historically, there was little flexibility in hiring or mobility among these groups, or among their corresponding geographic regions. Although newly implemented policies allow job mobility among sectors, the legacy of the old practices will continue to have an impact on market forces and suboptimize labor resources for another decade. Even though the boundaries are more permeable today, the identity of each category remains strong.

These structural problems are complicated further by a number of growing pains that mark China's shift from a state-controlled system to a free marketplace for labor. Proving an arduous process for most laid-off workers, this changeover provides fertile ground for unrest as unemployment grows over the next five years.

Figure 41
 The Low-Skilled Old and Low-Educated Young Are Unemployed



Source: China Labor Market Database, 2001.

**RURAL MIGRATION
WILL ACCELERATE**

- Rural *hukou* rescinded
- Urban vocational training opened to rural migrants
- Decreased agricultural jobs through WTO impacts
 - Increasing urban–rural income gaps
- Efficient geographic-specific job networks to support them
- Increasing infrastructure jobs for low-skilled workers
 - Low-skilled jobs urban workers won't take

There will be increasing competition between rural migrants and urban job seekers as vocational training opens up for the first time to migrants.

Rural Unemployment Pressures: The Biggest Challenge

Close to 70% of Chinese live in rural areas, and it is conservatively estimated that the nation possesses some 160 million surplus rural laborers. For decades, rural workers have been the most flexible and resilient group of China's workforce. The township village enterprises (TVEs) that absorbed millions of these laborers in the 1980s experienced a downward trend in the 1990s due to low product quality, lack of business knowledge and corruption. The lifting of rural *hukou* in 2001 and China's membership in the WTO will accelerate this trend, resulting in increased rural migration.

According to official estimates, 44 million rural workers found jobs outside their own residential counties in 1999—close to 9% of the country's total non-urban workforce; the actual number is believed to be more than double that. Up until the present, roughly two-thirds of these rural migrant workers ended up staying in county-level localities or towns and villages. The rest are concentrated in Beijing, Shanghai, and Guangdong (see Table 16).

By 2005, China's urban areas will receive millions more rural migrant workers because of its accession to the WTO and with the government lifting rural *hukou*—which prevented rural peasants from moving to cities, and has already been rescinded in Guangdong and Hunan provinces, and Shijiazhuang in Hebei

Table 16
Rural Migrants Flow from a Few Provinces—Millions of People

Regions	Total Employment	Rural Employment	Inter-provincial outflow of rural migrants	Inter-provincial inflow of rural migrants	Outflow rate	Inflow rate
With highest inflow rate	—	—	—	—	—	—
Tianjin	4.270	1.730	0.015	0.41	0.87%	9.60%
Guangdong	37.374	26.329	0.136	3.4934	0.52%	9.35%
Beijing	6.243	1.610	0.0012	0.41	0.07%	6.57%
Xinjiang	6.783	3.439	0.0066	0.3363	0.19%	4.96%
Shanghai	6.700	2.232	—	0.289	0.00%	4.31%
Zhejiang	26.511	20.965	0.5731	1.1385	2.73%	4.29%
With highest outflow rate	—	—	—	—	—	—
Jiangxi	19.713	15.414	2.47	0.049	16.02%	0.25%
Anhui	33.110	27.175	4.2369	0.0552	15.59%	0.17%
Chongqing	16.451	13.170	1.8362	0.0371	13.94%	0.23%
Henan	49.996	40.672	4.5546	0.2628	11.20%	0.53%
Hunan	34.985	27.869	3.0823	0.13	11.06%	0.37%
Sichuan	45.347	38.295	4.166	0.0605	10.88%	0.13%

Source: China Labor Statistics Yearbook, 1998.

Province—their numbers are sure to increase over the next decade. These workers will dominate the low end of the urban labor market, with informal sectors as well as small and medium-size businesses their primary source of employment.

Their numbers are likely to result in more of them moving to the larger metropolitan cities; the closer, smaller cities and towns will not create enough jobs for them. They are quite adaptive and well suited to the new lower service-level jobs being created; they will remain a small but increasing percentage of the unemployed. For the next few years, investment in infrastructure, consolidation of labor-intensive industries and low-end service jobs will increase creation of low-skilled jobs. The increasing numbers of rural workers will result in the state’s ability to maintain a modicum of equilibrium. All this despite increasingly fierce competition among the existing urban workers, themselves and other low-skilled newcomers, both old and young, to the urban workforce. New policies allowing rural migrants to join urban training pro-

grams will help make them employable in the long run. An increase in migrant unemployment will bring more crime and social problems to large cities. More government programs aimed at facilitating their adaptation to urban life and building new skills would help the workers make this difficult transition.

SKILLS IMBALANCE: NATIONAL, REGIONAL, AND INDUSTRY ISSUES

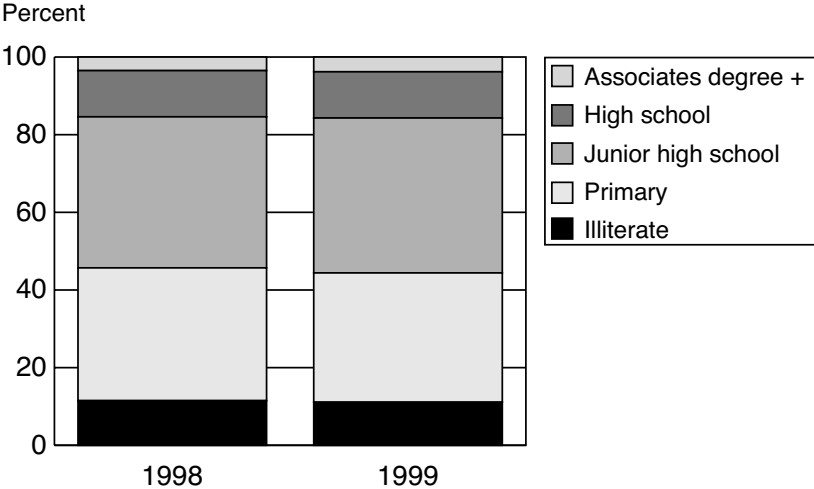
At the National Level

China’s urban unemployment will pose less of a problem in the future than its skills gap. Although impossible to measure accurately—China does not have a monitoring system for skill level: there is general consensus that the nation’s deficit in skills is a growing problem.

Education Levels Are Rising Yet Still Low

Skill levels in China are equated with educational attainment, and the majority of the nation’s workers are severely lacking in both (see Figure 42). Although

Figure 42
Majority of China’s Workforces Are Low-Skilled



Source: China Statistics Yearbook, 1998 and 1999.

SCOPE OF CHINA'S SKILLS GAPS AT A GLANCE

- Surplus of unskilled labor—nationally
- Low-skilled workforce overall—nationally
- Shortage of skilled advanced manufacturing workers—regional
- Shortage of management personnel—regional
 - Shortage of technicians—regional
- Scarcity of new skills for old occupations in transformation

“Educational reform is one of the most critical reforms China must undertake for sustaining the growth and gains she has made on the economic side.”

China has made major strides in eradicating illiteracy, it lags far behind the global standard for education investment. Only a flat 2.3% of China's GDP is earmarked for learning (see Table 17). China is not increasing the percentage of public expenditures for education. It is relying on families to contribute more.

Most general public funds, burdened as they are by supporting SOEs under reform and fortifying the country's industrial infrastructure, are being applied to shorter-term, higher-priority, more visible improvements. The shift from a government-controlled labor market to one driven by the market itself will free up resources to invest in a better-skilled workforce and improve education across the board. In addition, part of the burden of financing education has shifted to the family because of the universal value of children's schooling in Chinese society. Chinese parents are willing to take up the slack when the government puts a cap on public investment in education.

For the Chinese student, early education is based on rote memory and passing exams—a system that plays a large part in the nation's gap in skills. It will take decades for China to reform the system and bring it into alignment with the needs of a market economy. Massive efforts to improve education must be made now and continue for the long term if China is to have any hope of narrowing—or closing—the skills gap.

Table 17
China's Spending on Education Is Low

	1980	1985	1990	1995	1997
	4.9	4.8	4.7	4.7	4.8
WORLD TOTAL	5.1	4.9	5.0	5.0	5.1
More developed regions of:	5.2	5.0	5.4	5.3	5.4
North America	5.0	4.3	4.0	4.0	4.0
Asia/Oceania	5.2	5.2	5.1	5.3	5.3
Europe	6.4	6.3	4.3	4.6	4.8
Countries in transition	3.8	3.9	3.8	3.8	3.9
Less developed regions of:					
Sub-Saharan Africa	5.0	4.5	4.6	5.1	5.1
Arab States	4.1	5.8	4.9	5.0	5.4
Latin America/Caribbean	3.9	4.0	4.0	4.5	4.6
Eastern Asia/Oceania	2.8	3.1	3.0	2.9	2.9
of which: China	2.5	2.5	2.3	2.3	2.3
Southern Asia	4.1	3.4	3.7	3.2	3.3
of which: India	3.0	3.5	3.9	3.3	3.3
Least developed countries	2.8	2.7	2.3	2.1	2.0

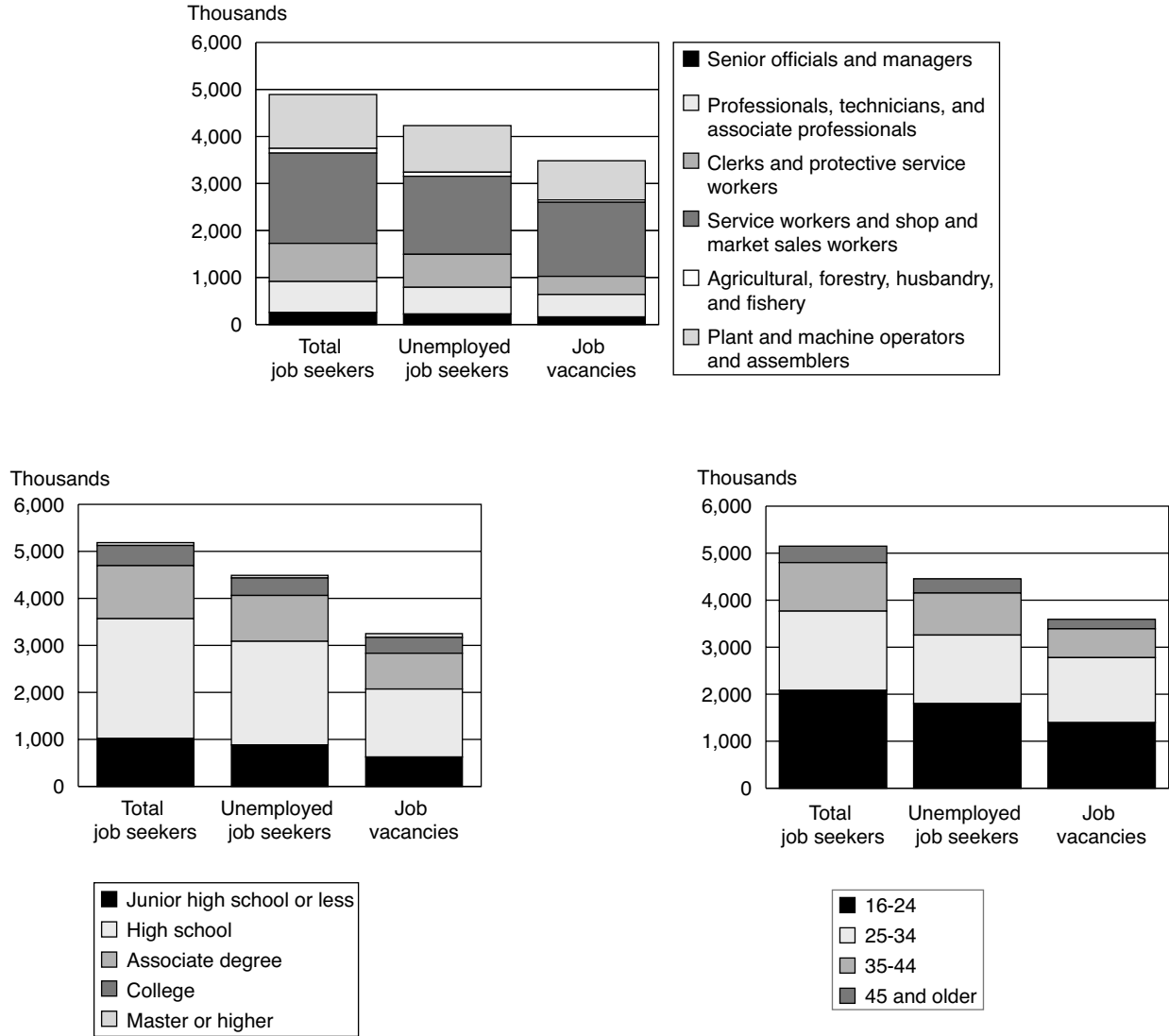
Source: United Nations Education Indicators, 2001.

The Chinese workforce is under pressure to continuously upgrade its skills to support the growing and diversifying economy. Job seekers outnumber jobs; skills needed far outweigh workers' skill levels across most fields, even the lowest ends of the scale. In general, China has more surplus labor available for those jobs requiring secondary education and below. Skill gaps will increase in the growing service sector's more professional and knowledge-intensive job categories, as well as in technology-enabled work (see Figure 43).

At the Regional Level

Besides educational inadequacies, China's labor market also suffers from regional disparities (see Figure 44 on page 90). Guangdong Province is experiencing a surplus of management personnel, while at the same time both Guangdong and Jiangsu provinces are experiencing skilled manufacturing labor shortages. Although China has millions of "skilled" manufacturing workers, they increasingly lack the skills that could qualify them for more modern, technology-enabled manufacturing jobs.

Figure 43
Winners of China's Labor Market: The Few Highly-Skilled, Young, Service and Tech Professionals



Source: China Labor Market Database, 2001.

The disparity between skills needed and skills available will persist as China makes the transition to a labor marketplace. Currently, not enough skilled labor flows between cities and provinces, and training program capacities are not well linked to market needs. Few mechanisms are in place to analyze and provide accurate information about skilled-labor needs.

At the Industry Level

Finding trustworthy empirical data that relate to industry-level skills gaps is extremely difficult. Few of them exist. Based on limited information collected by the Chinese government from labor markets of 44 cities, the following information provides a window on labor gaps in skilled and highly skilled occupations.

Skill Shortage in Technology

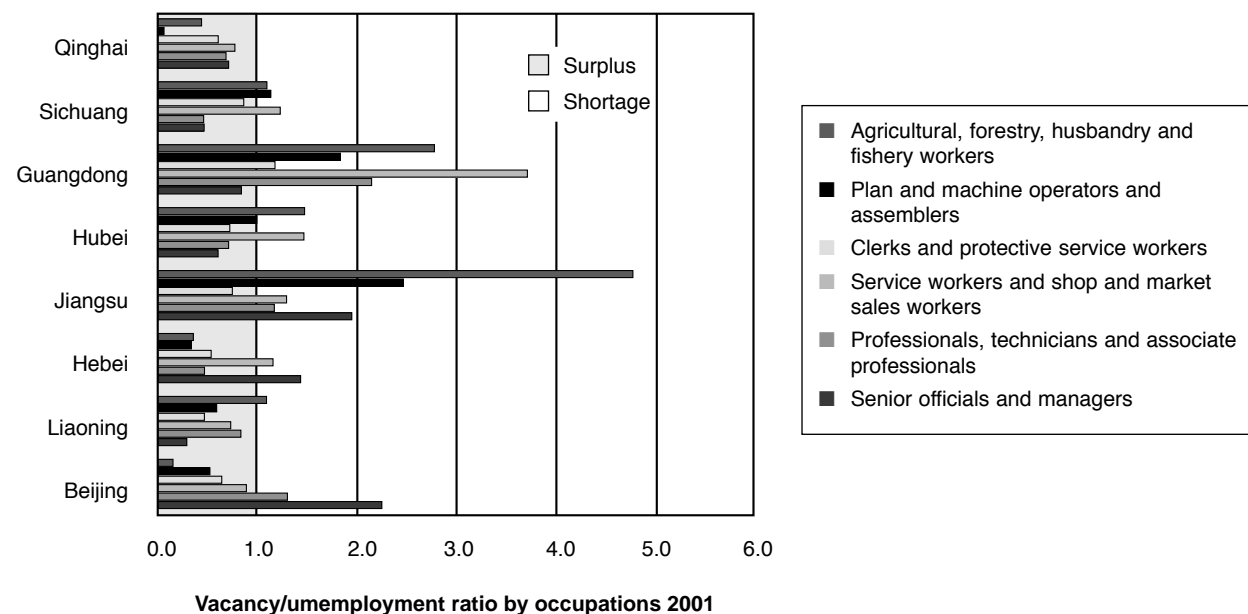
Many assume that China's demand for highly skilled professionals is ubiquitous. Our findings, however, prove this to be a misconception. In fact, China's skill

shortages in highly skilled fields are industry-, occupation-, and region-specific ones. The culprit? Widening regional disparities that pertain to both economic development and industrial structures nationwide. The dearth of highly skilled professionals is heavily concentrated in technology sectors such as information communications technology and biotechnology, as well as business service areas, including finance and insurance.

Business Services Shortages

According to estimates by the Chinese Ministry of Labor and Social Security, the most sought-after workers in the near future will be professionals in high technology, finance, law, media and entertainment, and health care. A recent study of major cities found shortages across a wide variety of skills (see Figure 45).

Figure 44
China's Skill Imbalance Shows Substantial Regional Disparity



Note: The shorter the bar, the greater the surplus labor; the longer the bar, the greater the shortage in skills

Source: China Labor Market Database, 2001.

These aggregate numbers do little to define the specific problems and research studies of actual skill shortages and surplus are limited (see Table 18 on page 92).

The continued growth of China’s service sector will result in more of these gaps over the next decade. Workers can learn low-level service skills in vocational programs or on the job rather quickly, but the skill levels needed for the thousands of new jobs in technology and business service industries remain unmet. Shortages will persist until China’s higher education system and better training programs fills the pipeline with qualified workers.

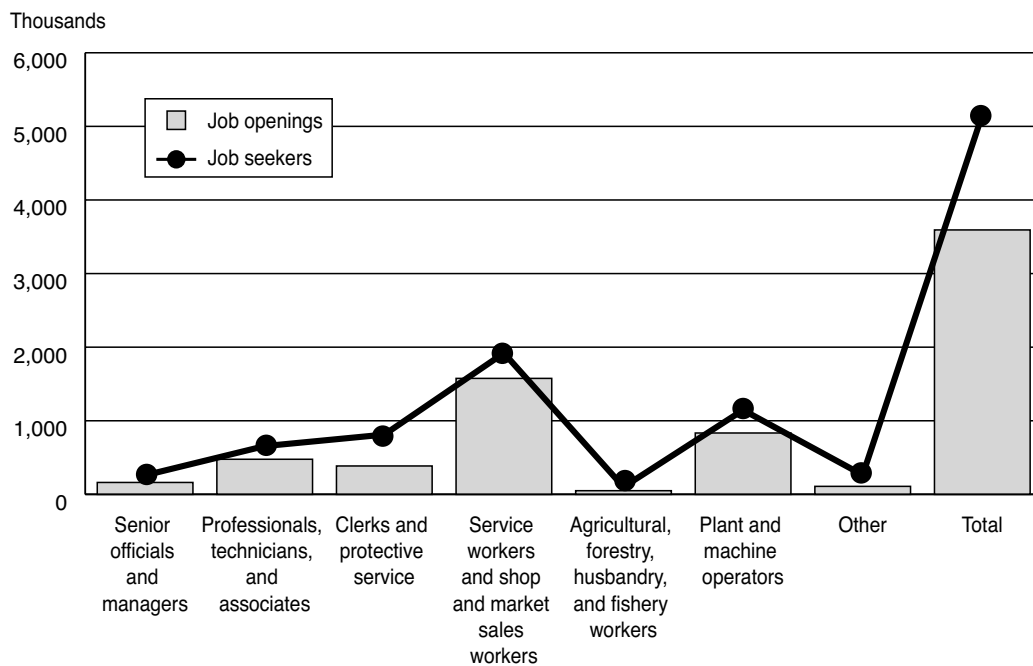
Shortage of Skilled Manufacturing Workers

The scarcity of workers in skilled manufacturing is a more prominent regional phenomenon. Like technicians and machinery operators in some Chinese cities, those with these skills are in excess in other parts of the country. While the city of Shenyang may contain hundreds of vacancies for lathe makers, numerous comparably skilled workers loiter unemployed in Nanjing.

Although China has millions of manufacturing workers, their skills increasingly are not applicable to many newly introduced equipment and technologies. Various quality vocational education programs can address this gap adequately.

This shortage is complicated further by young people resistant to becoming “workers.” Many members of the younger urban generations have been attracted to two-year colleges in hopes of ultimately finding more-professional jobs. Although potentially a short-term problem, the tight labor market for skilled manufacturing workers, both entry level and senior management jobs, will linger for a few more years.

Figure 45
Supply and Demand of Labor in 62 Cities, by Occupation



Source: China Labor Market Database, 2001.

Table 18
Most Demanded and Least Demanded Skills in Selected Cities of China, Q1—Q3, 2001

	Three most demanded occupations (in shortage of job seekers)	Three most demanded occupations (in ratio of demand to supply)	Three least demanded skills (in surplus of job seekers)
Beijing			
Q1	salesperson	—	—
Q2	salesperson	senior manager	shop assistant
Q3	computer engineer	computer engineer	shop assistant
Tianjin			
Q1	railway transportation worker	—	—
Q2	translator	pharmaceutical engineer	accounting staff
Q3	construction worker	construction worker	driver
Shenyang			
Q1	computer engineer	—	—
Q2	computer professional	software engineer	driver
Q3	restaurant attendant	plant grower	driver
Wuhan			
Q1	driver	—	—
Q2	interior design professional	power equipment repairer	power equipment repairer
Q3	insurance salesperson	tourist guide	administrative
Nanning			
Q1	salesperson	—	—
Q2	salesperson	publications distributor	division manager and other managerial staff
Q3	salesperson	salesperson	production and transportation equipment operator
Nanjing			
Q1	salesperson	salesperson	shop assistant
Q2	salesperson	insurance salesperson	—
Jinan			
Q2	restaurant attendant	production & operation manager	buyer and salesperson
Q3	business representative	attorneys	telephone operator
Chengdu			
Q2	salesperson	decoration & design professional	shop assistant
Q3	hotel receptionist	restaurant manager	shop assistant

Source: China Labor Market Database, 2001.

ADDRESSING THE CONUNDRUM: CHIPPING AWAY AT BIG OBSTACLES

The obstacles to solving the employment conundrum are many and diverse, and a comprehensive solution lies far into the future. Reforming the outdated public education system with its widespread deficiencies nationwide is at the heart of the solution.

China cannot wait the necessary 20 years until major reform of its education system assures the right numbers and types of skilled and professional workers. What China needs immediately is a comprehensive framework, a road map that includes both short-term, incremental pieces and longer-term comprehensive solutions. This high-level strategic document should be created as a public-private initiative, bridging the emerging needs of the market economy with those of educators and policymakers, and providing a way to define these initiatives and place them in some sort of time frame.

The indicators in each of the following three sections can be used to track what progress is being made in solving the Employment Conundrum.

Short-Term Incremental Public Initiatives

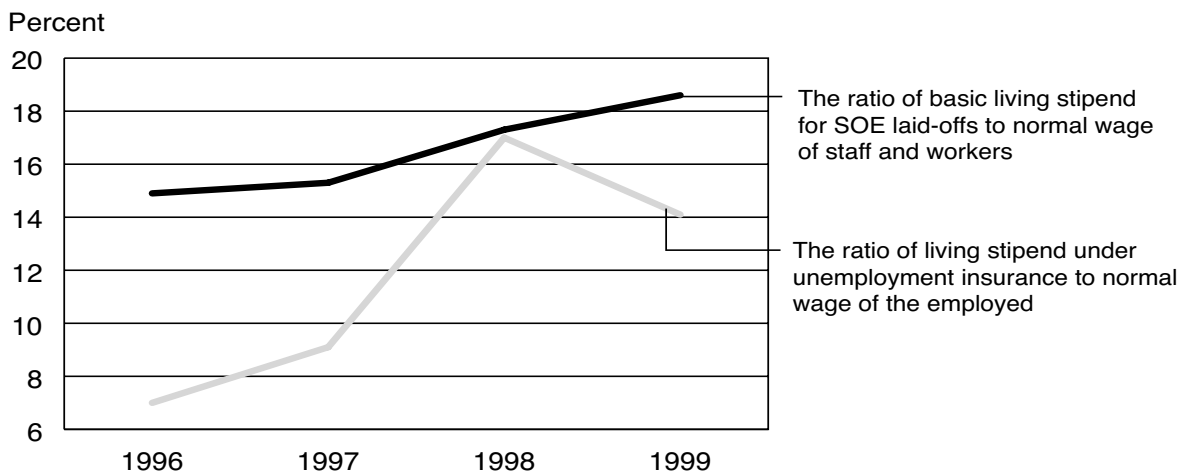
Selectively Strengthen the Social Safety Net for Workers

Currently, safety net programs in China are composed of two major parts: social insurance programs and social assistance programs. While the former are funded through contributions from employers and employees, the latter are financed by the state from national and local tax revenues.

OBSTACLES TO SOLVING THE EMPLOYMENT CONUNDRUM

- Outdated public education system with poor resources
- Major holes in the safety net for workers
- Lack of market labor flows
- Poor and inaccessible information about job availability
- Immature vocational training programs
- Few private job recruitment and employment agencies and services
- Chinese companies have little competence in training workers

Figure 46
Unemployment Insurance Benefits Inadequate for Basic Living Expenses



Source: Center for the Future of China; China Statistics Yearbook, 2000.

The current programs designed to support workers who have lost their jobs or new entrants to the job market who are experiencing trouble are fragmented. Few target the subgroups of this very diverse population, and only about half of the urban unemployed, receive benefits (see Figure 46 on page 93).

Most of China's safety net programs are urban- and enterprise-oriented plans that protect only a fraction of the population. Most of the rural workforce and employees of private businesses in urban areas have no insurance coverage or benefits. Only about half of the urban jobless receive unemployment benefits, and less than 3% of the total workforce is covered by the nation's medical insurance program. Ideally, the Chinese government should segment the unemployed, providing them with a benefits package that gets the most-qualified employees back to work quickly, gaining momentum by giving priority to specific groups whose success is likely.

Invest More in Labor-Intensive Industry Job Creation

China's best bet for promoting job growth in the next five years is to assure it retains a comparative advantage in labor-intensive industries. It must keep ahead of quality improvements and technology applications, develop deep competency in training skilled workers for major industries, and seek to develop more regions that attract investment in labor-intensive industries.

Facilitate More Skilled Labor Mobility

Specific measures will encourage and facilitate labor's internal migration, including:

- Quickly implementing the rescinding of the household registration system.
- Establishing programs to help lower the internal migration cost, especially for the urban workforce and their families.
- Giving employers incentives to provide relocation fees.
- Accelerating the Ministry of Labor and Social Security's development of an active national employment information database, one that serves

as a clearinghouse for skilled job openings, is readily available to the public and government, and includes a media strategy.

Assuring 100% enrollment at all universities is another way to facilitate labor mobility. China's top ten colleges claim a substantially disproportionate share of the total high school applicants. In fact, some first-year classes in China's best universities have many vacant seats, whereas hundreds of high school graduates refused admission to Peking University or Tsinghua University opt to wait another year or two to retry their luck. This waste of educational resources accrues enormous social costs; the government would do well to provide incentives for students to apply to lower-prestige schools.

PUBLIC-PRIVATE INITIATIVES

Public policy in support of improved employment conditions is a necessary, but not a sufficient solution. The marketplace will fill some gaps on its own, but other initiatives need the long-term cooperation of both the government and the private sector. Jointly funded programs are one aspect, but cooperation on long-term strategy and vision is a new and important next step.

Increase and Improve Vocational Education and Training Programs.

China critically needs more and better training programs. Improved instruction is the only strategy that will significantly allow the country to begin closing its skills gap in the next ten years. In 1998, China's career-training organizations totaled 16,447, with 41% owned by the state (see Figure 47). Most of these are reemployment service centers developed to serve laid-off SOE workers and will be closed down in 2002. Skill-specific training programs make up a small percentage of secondary schools. Career training not only has a great potential for growth but also will be very lucrative because of its vast customer base. Millions of older, laid-off SOE workers and young workers will be struggling to upgrade their skills and make themselves employable. Recent surveys found more than 65% of the 19-to-34-year-old cohort took extra courses after work—30% of them to “leverage skills.”

Develop Skill-Matching Intermediaries.

Many unemployed workers have difficulty finding jobs. China recently opened the recruiting business to foreign investments but only in the forms of joint ventures or collaborations. Given that employment placement is still a fledgling industry, the presence of foreign partnerships in this realm will rise dramatically over this decade.

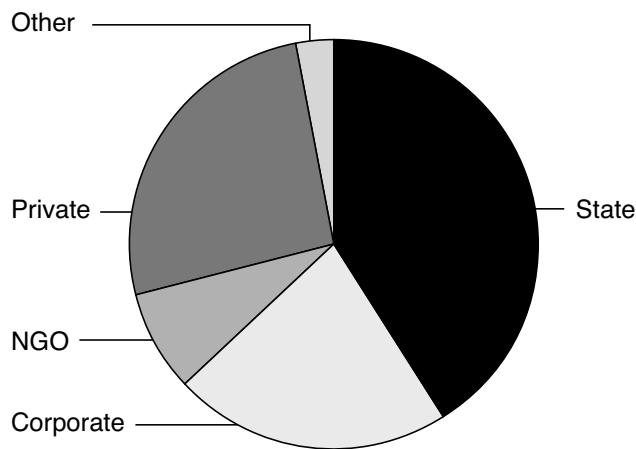
The government should not run them but should provide the private sector with incentives to create them. Businesses in the private sector can better match supply and demand of labor because of their proximity to market. These agencies collect current labor market information, disseminate it to their clients, and place them in jobs that fit best. The government could fund experiments to try out different models, but private companies will be better able to efficiently match the supply and demand of skills. They also provide value-added services such as career counseling or interviewing skills training.

PRIVATE INITIATIVES

The degree to which China lacks the skills needed for the future economy will become an urgent driver of private sector programs; the private sector needs skilled workers and will innovate to train them.

“Chongdian, participation in training programs to learn highly demanded skills, has become one of young China’s most popular after-work activities “

Figure 47
Career Training Programs, Organized by Ownership, 1998



Source: Hu Angang, 1999.

Increase Private Compulsory Education.

China's public education reform will take years, and as parents become more affluent (and find themselves financially responsible for their children's education for the first time) they will demand more private schools and universities. The government wants to maintain control of compulsory education and will resist private education efforts. But, citizens' increasing demand for better education will chip away at the government's resistance, and a few private schools will emerge.

Develop Educational Programs and Human Resource Practices.

China's accession to the WTO will increase the number of foreign companies as well as the country's demand for skilled workers. Multinational corporations will continue to bring educational programs and new human resource development practices into China.

Provide Skills Training and Human Resource Development.

As Chinese companies realize they need skilled workers to compete in the private marketplace, they will begin to learn how to provide worker training. It will be to their advantage to offer the necessary skill training and development that is sorely lacking.

Appeal to the Young in Education Matters.

Now that foreign businesses are allowed to enter the education market under the terms of China's WTO membership, nontraditional training methods such as online courses and long-distance learning will be a growth market in the next four or five years. These will be especially welcomed among younger, technology-savvy Chinese.

THE FORECAST

Solving China's employment conundrum will be a long, slow, uneven process. Barring some unforeseen major economic upheaval over the next five years, China will succeed in managing urban unemployment. Rural unemployment, however, will cause the nation several major problems. Providing skills training for migrants moving to the city—as well as orienting them to urban life—will prove challenging and get off to a slow start.

Skills gaps will continue to grow throughout China. Vocational training will become more readily available, but quality and standards will vary. Little will be done to improve them in the next five years, but the numbers and kinds of training will increase (and some will be quite good). Limited progress will be made in primary and secondary education reform; most focus will go to colleges and universities. Online education will develop, especially in places where credentials are offered. Government resistance will remain firm against increasing the number of private primary and secondary schools.

The next five years will see accelerated growth of private job recruiting and employment services.

Finally, the safety net for workers—other than retirement—will remain secondary to other issues, including health care and pensions.

BUSINESS IMPLICATIONS

- **A New Concept of Work and Career Will Emerge.** For most Chinese, the meaning of work has changed significantly over the past two decades, and could be characterized by the shift from “working for the state and the people” to “working for yourself.” The concept of career has begun to permeate the minds of young people in the workforce, and as it does, it will create a whole new set of challenges for companies. Financial incentives will remain strong, yet many Chinese will choose a job and career they feel attached and committed to, not merely as a way to make a living. All these shifts have converged to nurture a workforce that is increasingly self-conscious of its career goals and

will seek jobs where it can learn and build skills.

- **Skills Gaps Will Persist: Be Prepared to Train Your Workers.** The development of a skilled, market-ready workforce will take a long time in China. Most companies will need to be prepared to provide training—on-the-job for most, more extensive for higher-skilled employees—for at least the next five years.
- **Be prepared to move your workers around.** Track regional skills gaps and find packets of the skills you need in different provinces. Recruit and move them to where you need them. Inland provinces have resources you may need.
- **Be “Generations Smart.”** Understand how to work with skilled people of all generations—each is unique (see “China’s Generations: Diverging Lifestyles” article).
- **Many New Business Opportunities Will Arise.** The private sector will play a big role in solving the employment conundrum. From job recruitment firms to sophisticated continuing education, all manner of support services will be needed. Support will become an important new industry group, and those who get there early will gain a foothold in businesses with superb growth potential.

—Guoqiang Yu, Mary O’Hara-Devereaux, Ph.D,
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