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Unemployment Rate and the Public Policy in China

At the beginning of the 20th century, China underwent a significant transformation toward economic liberalization. This shift fueled growth in the international goods market, labor exchange, and net exports. However, domestically, China's unemployment rate has remained relatively stable at around 4.5% over the past 15 years. This stagnation in the domestic labor market, despite economic openness, can be attributed to imbalanced labor conditions and strict state control under the People's Republic of China (PRC) government. These challenges make it difficult for China's labor market to remain resilient during economic downturns.

This paper examines China's unemployment trends over the past five years, focusing on two key issues: rising youth unemployment and the dominance of state-owned enterprises. Additionally, the recent pandemic and the implementation of the zero-COVID policy have further exacerbated unemployment. I will analyze the government's fiscal policy and its implications using the Aggregate Supply-Aggregate Demand (AS-AD) model to address the surge in unemployment. Finally, I will evaluate the effectiveness of these fiscal policies in combating unemployment and discuss their broader socioeconomic implications for China.

The youth unemployment rate, which measures the proportion of the labor force aged 15–24 who are unemployed but actively seeking work, is notably high in China. As shown in Figure 1, the youth unemployment rate fluctuated around 10% from 2010 to 2011, before rising sharply in conjunction with the COVID-19 outbreak. Following the 2008 financial crisis, China redirected its economic priorities to enhance labor productivity and maximize capacity utilization

(Schucher). This policy shift led to a reduced demand for new and unskilled workers, disproportionately affecting young, inexperienced individuals entering the workforce.

The long-term effects of the one-child policy (1980–2016) further impacted China's demographic structure. By the 2010s, the proportion of youth in the total population had declined sharply. In 2020, individuals aged 15–24 accounted for just 10.48% of the total population, resulting in fewer young workers entering the labor market. This demographic shift, coupled with the structural changes in the economy, has compounded the challenges faced by China's youth in securing employment.

Another significant factor influencing China's unemployment is the dominant position of state-owned enterprises (SOEs). The PRC government allocates substantial funding to SOEs, enabling them to secure a stronger foothold in the economic market and greater credibility in the labor market. As a result, workers often prefer positions within SOEs, which offer more stable and secure working conditions. These highly sought-after positions are metaphorically referred to as the "iron rice bowl" in China, symbolizing lifetime job security.

However, this emphasis on SOEs has placed small and medium-sized enterprises (SMEs) at a disadvantage. As Xiong notes, "SMEs in developing countries face significant institutional obstacles, while SOEs use more aggressive tactics to gain institutional attention and preferential treatment from the government." The limited number of jobs available in SOEs intensifies competition among workers, reducing overall employment opportunities and creating entry barriers for private enterprises and SMEs. This imbalance further exacerbates challenges for the broader labor market, restricting opportunities outside the state-owned sector.

Over the past five years, China's unemployment rate experienced a significant increase, particularly during the pandemic outbreak in 2020, rising from 4.52% to 5% (Figure 3). One key

contributor to this rise was the implementation of the zero-COVID policy. This nationwide policy, introduced by the Chinese government to curb the spread of the virus, imposed stringent restrictions on daily life and economic activity. Under the policy, individuals were often required to undergo daily COVID-19 testing, depending on the severity of the outbreak in their city. The government also introduced a contact-tracing app and health code system to monitor individuals' movements and routines. In more severe cases, entire cities were placed under strict lockdowns lasting months, leading to the closure of schools, factories, and other critical infrastructure. These disruptions significantly affected economic output and employment opportunities, exacerbating the unemployment rate during the pandemic.

These measures to curb the spread of COVID-19 have significantly undermined the stability of China's labor market. The daily COVID testing requirements disrupted workers' routines, while travel restrictions hindered business activities and slowed factory productivity due to limitations on gatherings and close contact. Consequently, workers became less motivated, and the economy struggled under the burden of operating under such restrictive conditions. These challenges led to widespread consequences, including staff reductions, factory shutdowns, wage cuts, and other disruptions that rendered the labor market increasingly unstable and vulnerable.

In comparison, other countries that faced the pandemic's economic challenges showed stronger recovery trends. For example, as shown in Figure 3, the unemployment rate in the United States dropped significantly from 8% in 2020 to 4.82% in 2021, demonstrating a substantial recovery. Similarly, Singapore's unemployment rate declined from 4.1% to 3.62% over the same period. In contrast, China's unemployment rate remained largely stagnant, with

only a marginal decrease of 0.2% from 2020 to 2021. This stark contrast highlights the prolonged economic strain in China compared to its global counterparts.

In response to the rising unemployment rate, the PRC government implemented an expansionary fiscal policy to mitigate the economic downturn. According to a paper from Renmin University of China, the government provided subsidies to those who lost their jobs after 2020 (Xiang 7). Additionally, employment subsidies were offered to support ordinary households (7). However, the paper does not clarify the extent to which these policies have been widely implemented or whether their benefits have reached beyond major urban centers. It is plausible that only workers in larger cities have significantly benefited from these government subsidies, leaving many in smaller or rural areas underserved.

Another fiscal measure aimed at addressing unemployment was the introduction of tax cuts. The paper highlights that the Ministry of Finance and the State Taxation Administration rolled out a series of policies to reduce taxes and fees for small and medium-sized enterprises (SMEs), individual businesses, and industries facing operational challenges (7). These policies were designed to prevent businesses from going bankrupt and to stabilize employment levels by preserving the existing workforce.

Considering the AS-AD model, an expansionary fiscal policy leads to an upward shift of the AD curve, corresponding to an increase in both real output Y and price level P in the short run. As for $C = C(Y - T)$, consumption will rise along with the increasing real output and tax cut. $\frac{M}{P} = Y \cdot L(i)$ indicates that interest rate i will increase. In the medium run, as AS curve shifts upward in response to the fiscal change, real output Y will return to its original value, while price level P continues to increase. Consumption $C = C(Y - T)$ will increase due to tax cuts; interest

rate $\frac{M}{P} = Y \cdot L(i)$ will increase when $\frac{M}{P}$ decreases. As a result, the expansionary fiscal policy will take the country's economy out of recessions and return to its normal status.

When evaluating the real-world impact of expansionary fiscal policies in China, the results appear less effective than the predictions based on the Aggregate Supply-Aggregate Demand (AS-AD) model. The effectiveness of these policies remains questionable, as they have struggled to counteract the adverse conditions created by the zero-COVID policy. According to CNN Business, even in 2022, local governments introduced tax incentives and subsidies targeted at postgraduate students; however, the youth unemployment rate continued to climb. It rose from 15.3% in March to a record 18.2% in April, eventually reaching 19.9% in July.

The prolonged lockdowns and widespread implementation of mass COVID testing throughout 2022 further exacerbated job market pressures for young people. A New York Times article highlights that the private sector has provided only a limited number of jobs for young applicants, making positions in state-sponsored jobs within SOEs even more competitive. For instance, in 2022, 2.6 million applicants vied for just 27,100 positions in the government civil service sector (Wakabayashi). As a result, fiscal policies have proven insufficient in addressing China's unemployment challenges, particularly for young workers. The combination of restrictive COVID measures, limited job availability in the private sector, and intense competition for state-sponsored roles continues to hinder the effectiveness of these economic interventions.

China's unemployment situation becomes clearer when analyzed in the context of the country's political and social conditions, particularly the questionable authenticity of the official data. The Economist Intelligence Unit's monthly report on China highlights that certain groups of workers are underrepresented in the country's unemployment statistics. Specifically, the

report notes that the “urban surveyed unemployment rate may not have fully captured the degree of job losses suffered by ‘floating workers,’ who often return to the rural labor market when urban jobs become unavailable” (Economist Intelligence Unit). While it is possible that the employment status of these “floating workers” is accounted for in rural unemployment data, this information remains confidential and inaccessible to the public. This lack of transparency further complicates efforts to fully understand the scale and scope of unemployment in China, underscoring the challenges in assessing the country’s labor market with reliable data.

The dominant role of the PRC government renders China’s economy highly vulnerable and unstable. This vulnerability becomes especially evident when analyzing the unemployment rate, which is influenced by a complex interplay of factors. In this paper, I applied a microeconomic framework to examine China’s unemployment trends over the past five years. Future research could build upon this work by gathering more recent and comprehensive data to analyze the PRC government’s policy responses and their impact on society. Such studies could provide valuable insights into how effectively the government addresses unemployment and how workers adapt to and react to evolving policies.

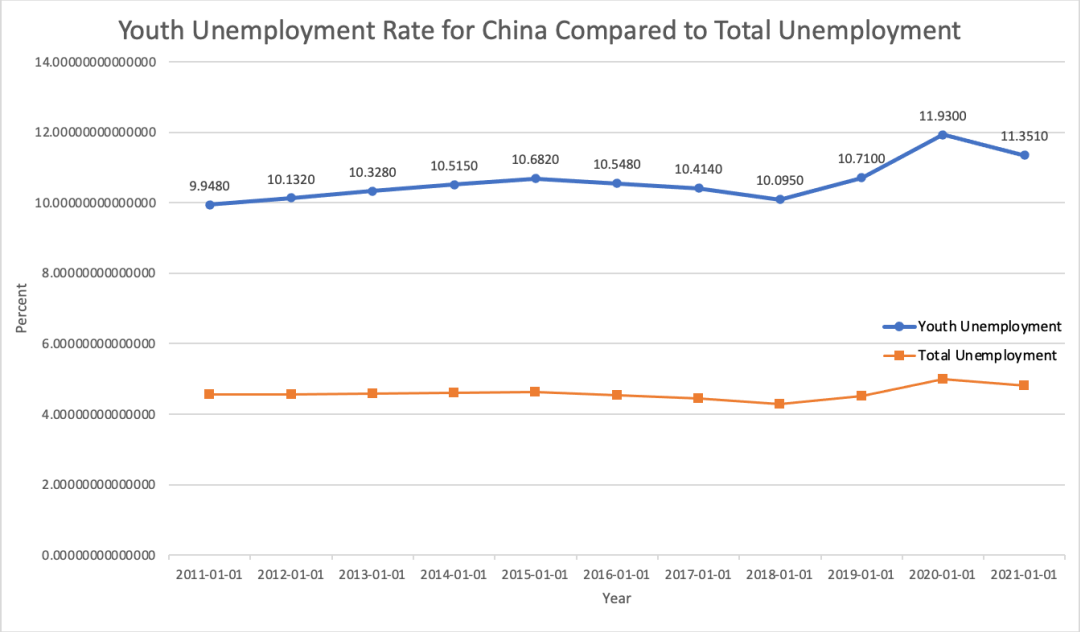

Figure 1. China Yearly Youth Unemployment Rate Compared to Total Unemployment rate, 2011-2021. This graph shows China's youth unemployment rate is even about 50% higher than its total unemployment rate. Source: Fred, SLUEM1524ZSCHN

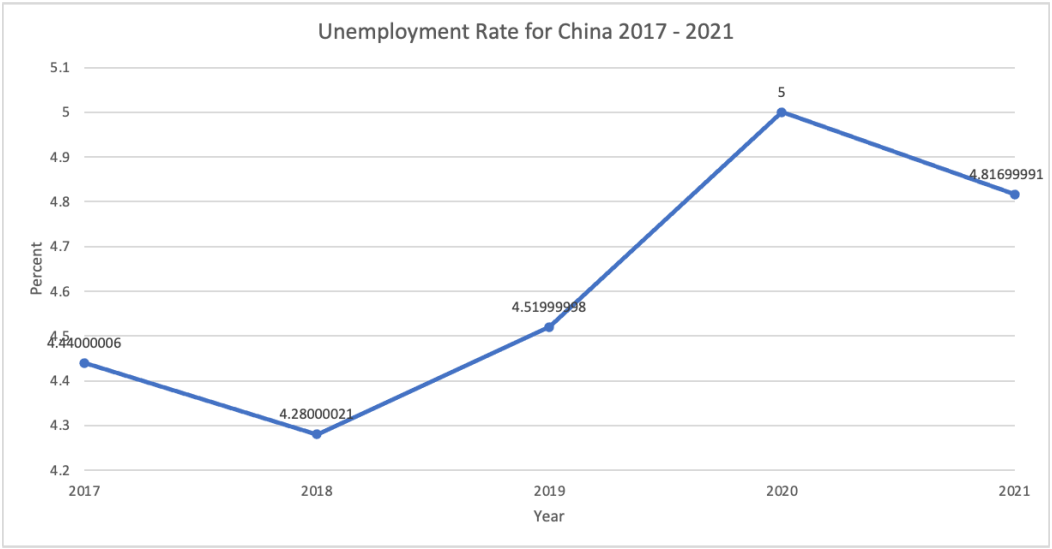

Figure 2. China Yearly Unemployment Rate (% of total labor force), 2017-2021. This graph shows the unemployment rate for China, which decreases from 2017 to 2018, then grows to its maximum at 5% in 2020. Source: The World Bank, SL.UEM.TOTL.ZS

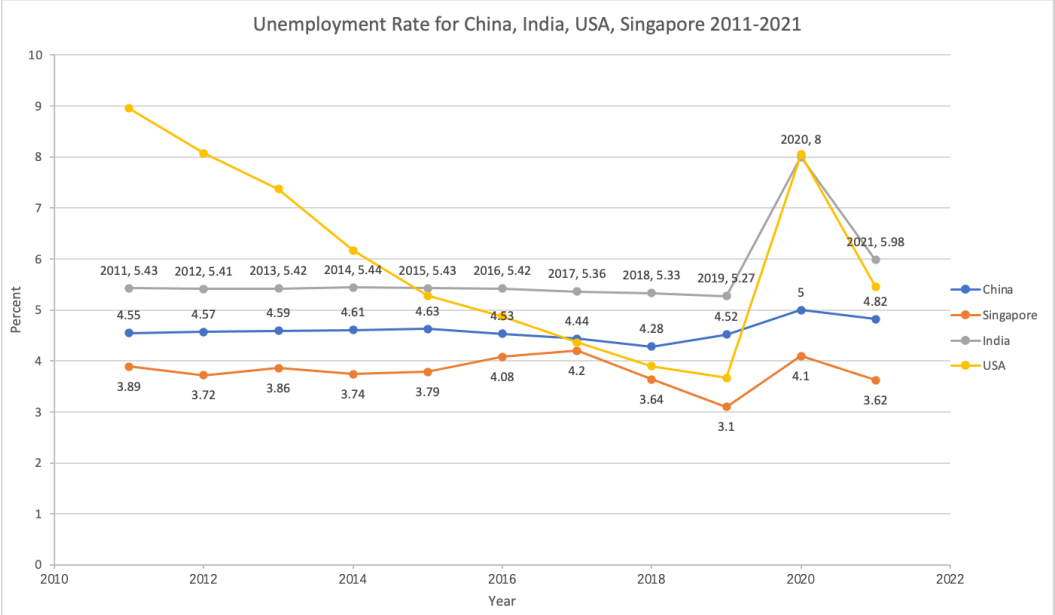

Figure 3. China, Singapore, India, and USA Yearly Unemployment rate (% of total labor force), 2011-2021. This graph shows the unemployment rate of four countries, which helps making a comparison between their declines and growths and explaining how the unemployment rate changes in response to the covid outbreak. Source: The World Bank, SL.UEM.TOTL.ZS

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