CHAPTER 5
Employment And Growth In China

5.1 Introduction

The economic success of China over the last three decades starting from 1978 is remarkable and has generated a large volume of research regarding the causes behind this transformation of the Chinese economy which was one of the most underdeveloped countries on the eve of the Chinese revolution in 1949. The Chinese economy has registered an average annual growth rate of 9.8% over the last two and a half decades\(^1\), which is unprecedented for a developing country.

This phenomenal growth witnessed in China has been accompanied by a series of reforms initiated in 1978 under the leadership of Deng Xiaoping, the crux of which was opening up China's economy to the global market and allowing a larger role for private sector in terms of developing the economy. Undoubtedly, all these measures resulted in an increase in the growth rate as has been already mentioned.

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\(^1\) Chandrasekhar and Ghosh (2007b)
However, this phenomenal growth of the Chinese economy has also been accompanied by an increase in income inequalities, an exacerbation of the rural urban divide, a deterioration of the conditions of labour and an increase in unemployment. How is this related to the growth process of the Chinese economy over the last three decades? This chapter tries to address this issue.

It is however important to analyse the experiences of the Chinese economy in the pre-reform period since 1949. Many challenges were thrown up before the revolution in China, which the Communist Party, under the leadership of Mao Tse Tung, tried to address. Therefore it is worthwhile to divide the analysis of the Chinese economy into two parts, one before the reform period initiated in 1978 and one after. This would give us the opportunity to understand the historical evolution of China and place the current experiences of the Chinese economy in a broader historical context.

The Chapter is hence arranged as follows: Section 5.2 enumerates the experience of the Chinese economy before the reforms were initiated in 1978. Section 5.3 analyses the employment and unemployment situation in China since the start of the reform process. Section 5.4 shows that the current policies adopted in China cannot take care of the problem of unemployment. Section 5.5 makes some concluding observations.

See for example, Ghosh, A. (2005). The General Secretary of the Communist Party of China in his speech before the seventeenth congress of the party said, "the trend of a growing gap in income distribution has not been thoroughly reversed, there are still a considerable number of impoverished and low-income people in both urban and rural areas, and it has become more difficult to accommodate the interests of all sides.", People's Daily online.
5.2 Chinese Economy In The Pre-reform Period

At the time of revolution in 1949, the Chinese economy was one of the most backward economies in the world. The Chinese economy was devastated by imperialism with the British selling opium to the people to balance the tea and silk that the British purchased from China. When the Chinese government tried to stop the opium trade, war was inflicted on China between 1840 and 1842 called the Opium War. After this a series of armed conflicts were inflicted on China by the Western imperial powers, with unequal treaties imposed on China either in the form of cession of territories or the opening of treaty ports where the foreigners had the right of extra-territoriality and did not have to abide by the Chinese import tariffs or other laws.³

With these arrangements in place, imperialism siphoned off the resources from China which could have been invested in the country resulting in better conditions for its people.⁴ At the same time de-industrialization was inflicted on the economy, whereby the cotton spinning industry was destroyed in China. Moreover, China was continuously attacked by foreigners, particularly Japan, against which the country had to fight a constant battle till 1949 under the leadership of the Communist Party. These battles that the people of China had to wage against foreign domination and exploitation reduced the scope for

³ Riskin (1987)
⁴ In the years between 1895 and 1911 that is, from the end of the Sino-Japanese War to the fall of the Qing dynasty total payments to foreigners by the Chinese government on account of the Boxer and Japanese war indemnities equalled more than twice the initial total value of all manufacturing enterprises in China between 1895 and 1913. Quoted from Riskin (1987)
improvement of the people of the country.

There were also many domestic factors which were responsible for the conditions of the Chinese economy. Firstly, the land distribution in China was very unequal with the bulk of the land being held by the landlords. Secondly, socio-economic conditions in the villages did not facilitate investment, innovation or growth. Thirdly, with the breaking down of the monarchical system of governance, the country was controlled by warlords in different regions, giving rise to incessant violence and conflicts, resulting in a drain of resources towards wasteful expenditure. Fourthly, industry in China was not very developed or of significant size, with the country remaining predominantly an agricultural society.

Therefore, the Communist Party inherited an economy riddled with massive unemployment, a backward agriculture, limited industry and hyper inflation, when it came to power in 1949. Thus, the new Chinese state under the leadership of the Communist Party had in hand a stupendous task to develop the backward economy. How was this task undertaken by the Chinese state under the leadership of Mao? This is the question that we now turn to.

5.2.1 Revolution And Socialist Construction: The Initial Years

The Peoples' Republic of China was established after a revolution led by the Chinese Communist Party against imperialism and feudalism to establish a Peoples' Democratic Dictatorship with the proclaimed aim of establishing

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5 Riskin (1987)
socialism in China. Classical Marxist writings of Marx and Engels analysed the development of advanced capitalist economies and projected the triumph of world socialism on the basis of the overthrow of capitalism in countries of advanced capitalism. But this did not happen. Rather socialism was first established in Russia, a backward economy, and then in China again a backward economy, in fact more backward than what Russia had been on the eve of the Bolshevik Revolution.

The absence of any socialist revolution in the advanced capitalist countries imposed a constraint on the building of socialism. This is because in the backward countries, even capitalism was not properly developed resulting in a relatively low level of development of the productive forces. Thus in order to establish socialism in the backward economies, the productive forces needed to be developed at a very high speed in order to bypass the stage of capitalism to levels that could sustain socialist construction. Both Soviet Russia as well as China faced this fundamental problem of socialist construction starting from a low level of development in a backward economy. China however had one example to fall back on. This was because before China, Soviet Russia had embarked on socialist construction based on economic planning aimed at industrialization. Therefore, the Peoples' Republic of China embarked upon the same path of industrialization through planning from the year 1953.

Before implementing the strategy of planning for industrialization, the Chinese state carried out a massive exercise in taking control of the economy between
1949-1952. During this period, the Chinese government implemented massive land reforms, which resulted in an egalitarian distribution of land in the countryside and ended the class rule of the landlord-gentry in China. At the same time, the Chinese state took under its control all major industries in China, whereby in 1952, 56% of the Gross Industrial Output was produced in the State Owned Enterprises, increasing from 34.7% in 1949.6

Since 1953, the First Five Year Plan was implemented in China, in line with the Soviet experience. As a result of the implementation of the planning exercise, there was great improvement in the production of all sectors in the economy, which is given in the following table:

Table 5.1: Major First Five Year Plan Targets and Results

<table>
<thead>
<tr>
<th>Industry</th>
<th>1952 Output (Bn. 1952 yuan)</th>
<th>1957 Plan Target</th>
<th>Growth Rate</th>
<th>1957 Results</th>
<th>Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry Output</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agriculture</td>
<td>27.0</td>
<td>53.6</td>
<td>14.7%</td>
<td>65.0</td>
<td>18.0</td>
</tr>
<tr>
<td>(Bn. 1952 yuan)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agriculture Growth Rate</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GDP</td>
<td>48.4</td>
<td>59.7</td>
<td>4.3</td>
<td>60.4</td>
<td>4.5</td>
</tr>
<tr>
<td>(Bn. 1952 yuan)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GDP Growth Rate</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GDP (Bn. 1957 yuan)</td>
<td>70.4</td>
<td></td>
<td></td>
<td>104.7</td>
<td>8.3</td>
</tr>
</tbody>
</table>

Source: Riskin (1987), Table 4.2

6 Riskin (1987)
From the above table it is clear that the First Five Year Plan of China not only met the target set by the planners but in fact surpassed the targets in every category with industry leading the growth process, and the agricultural sector also improving. This expansion in the overall growth process of the Chinese economy masked certain very important difficulties particularly in the agricultural sector. The investment of the state in the agricultural sector was much less compared to other sectors of the economy. At the same time the consumption inequality between agricultural population and non-agricultural population increased during this period. Moreover, the government extracted a higher quota of food grains from the peasants, through compulsory purchases, in order to mobilize the requisite resources for the industrialization in China much like what happened in the USSR. This purchases left minimal food for the peasants to meet their own basic needs. At the same time, such processes of extraction of surplus from the small peasants, who were yet to be collectivized, discouraged incentives for agricultural production. In response to this, the state had to relax the burden on the peasantry and reduced the procurement in 1955-56 to a level where the state's sale of food grains surpassed the procurement from the farmers. As a result of this, there was practically no growth of the agricultural products available for the planners.

The slower growth in agriculture after the quick recovery in the early 1950s, with a concomitant squeeze on the peasantry was matched with an increase in

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7 Meisner (1977)
8 Riskin (1987)
9 Riskin (1987) page: 81
the growth rate of the industrial sector particularly of heavy industry. As a result, there was unbalanced growth in the economy. The growth of industrialization in the urban areas of course resulted in an increase in the employment in these sectors. This is evident from the fact that urban industrial employment increased from 6,000,000 in 1952 to 10,000,000 in 1957. However, this increase in the employment in the industrial sector, paradoxically resulted in more urban unemployment which reached crisis proportion in 1957. This was because a large number of rural people migrated to the urban areas in search of jobs, much like what was enumerated in the Harris-Todaro model. However, the industrial growth rate which was based on large scale capital intensive industrialization could not absorb such large number of workers. The result was massive unemployment, particularly in the urban areas.

The problems in the agricultural sector was sought to be addressed by Mao by the process of rapid collectivization of agriculture in 1955. According to Mao, the collectivization of agriculture was a necessary step in order to carry forward socialist industrialization. He was unhappy with the pace of collectivization that was already taking place in China and therefore called for a collectivization of the entire agriculture within three five year plans. However, the implementation of this policy went ahead with a much more rapid pace, because of the zeal of the party cadres to prove their political correctness, which became synonymous with working for the formation of agricultural cooperatives, by

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10 Meisner (1977)  
11 Meisner (1977)  
12 Mao (2002)
forming co-operatives in their locality as fast as possible. This rapid collectivization of agriculture was also to the benefit of the poor peasants who were to gain from collectivization. Along with this, there was an acute pressure to increase the agricultural productivity which was thought to be possible by the collectivization of agriculture. All of these resulted in the organization of 59% of the peasant households into cooperatives by the end of 1955. Such break neck speed in the process of collectivization left the rural economy in a state of shock. More often than not, cooperatives were formed without first taking the peasants through the intermediate stages of Mutual Aid Teams etc.\textsuperscript{13}

At the same time, the process of planning in the Chinese economy resulted in an increase in the growth rate of the GDP as well as different sectors. But it had some important social costs. Firstly, as has been seen above, the planning process resulted in a neglect of the agricultural sector and relied heavily on heavy industries. This in turn could not solve the unemployment problem in China. Moreover, as a result of the adoption of a centralized planned economy, there was bureaucratization and centralization of the state as well as of the Communist Party. This resulted, according to Mao, in a distancing of the party and the state from the people of China. Given the socialist commitment of the Chinese state, both unemployment as well as centralization with a concomitant distancing of the party from the people was unacceptable. At this time, around 1957-58, the Chinese leadership was therefore faced with a dilemma. Continuing with the capital intensive nature of heavy industry based industrialization, the problem of

\textsuperscript{13} Riskin (1987)
unemployment could not be solved. On the other hand, the return to a market based economy, would have robbed the very socialist essence of the Chinese system. Thus a debate ensued as to what path needed to be taken. Mao rejected both the centralized planning model for economic development as well as the market based model. Instead he proposed a path of economic development based on a socialist construction of China towards what is called the Great Leap Forward.

5.2.2 The Great Leap Forward And Its Consequences

As has been already mentioned, the process of planning could not solve the basic problems of the Chinese people, particularly with respect to the problems in agriculture and rising unemployment. Based on this experience, Mao formulated his theory of the Ten Major Relationships in China and argued that the primary aim of the economic policy should be to take care of these ten major contradictions. The first among these was the contradiction between heavy industry on one side and agriculture and light industry on the other. Given the capital intensive nature of the production in heavy industry Mao correctly understood that emphasis must be given on the light industry for employment generation. Therefore, the Great Leap Forward promoted technological dualism. According to this, both the capital intensive heavy industry as well as the labour intensive light industry must develop simultaneously. The modern industries will be developed under the state planning. At the same time, the small industries will locally mobilize resources and produce for the agricultural sector.
contributing towards modernizing agriculture. This production of light inexpensive products from the light industries would essentially serve two purposes. One is the obvious purpose of taking care of the problem of unemployment. The other is to supply the peasants with cheap consumer goods to motivate them to increase agricultural production. The increased agricultural output on the other hand would help the state in capital accumulation and growth.

At a theoretical level, it can be said that the basic economic argument of the Great Leap Forward made some sense. Particularly, given the fact that the huge population of China had to be given employment opportunities, there was no way but to stress on the development of labour intensive light industries production. But there were several problems at a deeper level. Firstly, if the heavy industry was to be maintained at the already existent level, along with an increase in the production of light industry, the question was bound to arise: how to mobilize resources for this industrialization process? It can be said that given that China at that point of time, had large unemployment and un-utilized capacity, the problem of resources was not an insurmountable one. The investment necessary for the production of the light industries would then finance itself. The only problem was to provide initial finance to these industries. This role was supposed to be played by the state and communes who were the institutional counter part of the Great Leap Forward.

14 Riskin (1987)
15 Meisner (1977)
The deeper problem however lay elsewhere. In any investment decision, there has to be some signal to judge the appropriateness of the investment project. In a capitalist system, this signal is provided by the market mechanism, through prices, change in the size of inventories etc. The same function of allocating investment can be done in a socialist economy through the planning commission, which allocates investment based on the actual functioning of the system. The Great Leap Forward under the leadership of Mao, denied both of these signals. The only incentive for the Great Leap Forward was provided by a strong appeal to ideology and the belief that man can achieve any feat provided that he is provided with proper social organizations and ideological guidance.

As a result of the absence of any of the above mentioned signals and the presence of an appeal to the people for socialist construction, aimed at surpassing the steel production of UK in 15 years, every household started producing steel and other light industrial commodities. There was no assessment about the demand for these products or the quality of the products produced. As a result once the initial leap was completed, it was seen that the goods produced through such rapid uncontrolled production did not have any takers for them. Moreover, they were of substandard quality which was a complete waste of resources. This production of light industries, sucked in a large proportion of labour from agriculture. However, because there was no controlling mechanism over the extent to which the production of the light industries could be carried forward, more and more people were employed in their production at the cost of the agricultural sector.
At the same time grain output decreased by a considerable level between 1958-1960.\textsuperscript{16} The reason for this decrease in grain output was both natural as well as man made. There was a drought in the country in 1960. Moreover, unplanned construction of dams and reservoirs without prior assessment caused a change in the salinity and alkalinity of the soil adversely affecting crop production. At the same time, the state procurement of grains increased from 29.4% of output in 1958 to 39.7% of total output in 1959 and 35.6% of output in 1960.\textsuperscript{17} This resulted in acute shortage of food grains in the countryside of China resulting in a massive famine, which claimed many lives.

The Great Leap Forward was an experiment to ensure full-employment based on decentralized production outside the market mechanism. Mao's concern with the labour reserves in China as well as the ineffectiveness of relying on heavy industry to absorb the labour reserves is completely valid. In retrospect, it can be said that the basic goals of the Great Leap Forward and its insistence on the production of the light industry sector, based on a linkage effect with the state sponsored heavy industry was correct on paper. But the complete moving away from the planning mechanism, the jumping on to the policy without any prior assessment and research regarding the viability of small scale production, with respect to demand as well as quality was completely ignored. Moreover, the absence of any signal mechanism to guide the investment decisions, resulted in a crisis in China, which manifested in tonnes of unusable steel along with an acute famine.

\textsuperscript{16} Riskin (1987) Table 6.5
\textsuperscript{17} Riskin (1987) Table 6.5
It is worthwhile to compare the tenets and experiences of the Mahalanobis model with that of Mao’s formulation of ‘walking on two legs’. As has been already mentioned earlier, the Mahalanobis model also emphasised on the point that the heavy industry based industrialization cannot solve the problem of unemployment in India. Therefore he visualized that the small scale sector in India, which would be protected from foreign competition as well as competition from the big domestic industries, will solve the unemployment problem. This however never happened because the Indian state did not do any land reform, because of which the market remained narrow for the industrial products. Moreover, the small scale industries were not protected to the extent visualized by Mahalanobis. As a result, in India, the functioning of the market under feudal remnants in land relations could not solve the unemployment problem. China however under the leadership of Mao, had completed the land reform which ensured an egalitarian distribution of land. The policy of Great Leap Forward with all its limitations, did absorb the surplus labour in China. But this came with its own share of problems, particularly with regard to the fact that investment decisions were not properly evaluated in the small scale sector which resulted in massive waste of resources, as discussed earlier.

Thus, we see that the experiments of the two most populous countries in the world, in their quest for economic development were faced with great difficulties. The social structures of the two countries showed these difficulties in different forms. The legacy of labour reserves carried on from the colonial era has not been removed till date. The experiments of domestic demand based economic
development aimed at uplifting the conditions of the people met with mixed successes in both the countries. Following this, both these countries embraced the policies of reform and globalization, albeit in varying degrees, given the social and political differences in the two countries.

In India, the crisis of the state led growth strategy materialized in the form of a reduction in the power of the state to carry on with its development expenditure, which has been already mentioned in the previous chapter. In China however, the crisis was of a different genre. To be sure, the Chinese economy during the period of pursuing Maoist policies, did witness a decent rate of growth of GDP and other indicators, as is evident from the next table:
Table 5.2: Indicators of Economic Growth In China, 1965-1975

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Growth Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>GNP</td>
<td>6.5</td>
</tr>
<tr>
<td>GNP per capita</td>
<td>4.1</td>
</tr>
<tr>
<td>Gross Value of Industrial Output</td>
<td>10.4</td>
</tr>
<tr>
<td>Gross Value of Agricultural Output</td>
<td>4.0</td>
</tr>
<tr>
<td>Consumption per capita (constant 1965 prices)</td>
<td>2.2</td>
</tr>
<tr>
<td>Consumption per capita of Agricultural Population (constant 1965 prices)</td>
<td>2.1</td>
</tr>
<tr>
<td>Consumption per capita of Non-agricultural Population, (constant 1965 prices)</td>
<td>2.9</td>
</tr>
<tr>
<td>Grain Output</td>
<td>3.7</td>
</tr>
<tr>
<td>Grain Output per capita</td>
<td>1.1</td>
</tr>
</tbody>
</table>

Source: Riskin (1987)

It is evident from the above table, that the Chinese economy witnessed a decent level of economic growth as well as growth in per capita income, with the industrial growth rate reaching substantial high figures, in the period, 1965-75. However, the moderately high growth rate in agriculture was a reflection of a recovery towards trend from the crisis of the 1960s. “Total grain output was still at the 1957 level, and grain output per capita was 11% below its 1957 value” in
1965. However, the decade immediately preceding the reform process in China no doubt showed a recovery compared to the period during the Great Leap Forward. In spite of this, the Chinese economy in the pre-reform period, was plagued with a number of problems which are enumerated below.

Firstly, as a result of heavy reliance on the capital goods industry, agriculture was neglected. This was manifested in the fact that the growth rate of labour productivity was much higher in industry than in agriculture, where the ratio of value added per worker in industry and agriculture was 2:1 in 1952, which increased to 7.7:1 in 1978. It should however be noted that most of China's industrial growth was a result of increases in productive factors rather than in any efficient use of inputs. The growth rate in labour productivity was also a result of increase in physical capital per unit of labour. Secondly, there was an adverse movement in terms of trade for farm products. Thirdly, there was also a problem with the economic planning process in China which became too centralized, a point which was originally made by Mao himself, as has been discussed earlier. As a result of this centralization, the planning process could not effectively respond to peoples' needs, which was manifested in overproduction of some commodities and underproduction of others with the commodities having low product quality.

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19 Riskin (1987), Table: 11.5
20 Riskin (1987)
21 Hart-Landsberg and Burkett (2006)
22 Hart-Landsberg and Burkett (2006)
Notwithstanding these problems, it should be noted that the policies pursued in China under the aegis of the Maoist policies did improve the living conditions of the people, compared to what it was earlier. Most importantly, the life-expectancy of the people increased, with health and educational facilities provided by the state. Secondly, the production structure was also modernized whereby China made tremendous improvements in terms of science and technology. Undoubtedly, the Chinese revolution freed the people of the most populous country in the world from the clutches of feudal and imperialist exploitation. Evidently, however there were severe shortcomings in the functioning of the Chinese economy, as discussed above, which needed to be addressed. This was undertaken by Deng Xiaoping and his comrades, which constituted the reform policies in China. We now turn to the analysis of the policies of reform and its impact on unemployment in China.

5.3 Employment And Unemployment In China In The Post-Reform Period

5.3.1 Contours Of The Reform Process In China

From the preceding section it is clear that the Chinese economy, in its thirty years history since the revolution made significant strides towards development of the material life of the people. However, some major shortcomings remained, which needed to be addressed. As has been discussed in the last section, the
policy of Great Leap Forward as well as central planning had serious problems in China. It was then thought that the economic development in China has to be through some alternative route. This entailed a vast spectrum of alternative policy packages.\textsuperscript{23} The main contours of the reform policies were the following:

It was envisaged by the Chinese planners that in order to have rapid economic growth, there has to be a reliance on the market mechanism, albeit under the overall socialist economy, what the Chinese planners called market socialism. For this a large number of market oriented reforms were introduced in the economy after 1978. These included giving greater power to the state firm managers to organize production, a downsizing of the State Owned Enterprises, doing away with the life time employment clause for workers. In the rural areas, the most important policy change was the de-collectivization of the rural communes, which was the mainstay of the Maoist policies of economic development. The other important policy change that was initiated as a part of the reform process was to open up the economy to foreign firms. This was done in China in order to get access to foreign technology for furthering the economic development of the people. Special Economic Zones were opened up to lure the foreign firms to invest in China.\textsuperscript{24} In order to understand the impact of the policies of reform on the employment issue in China, we first put forward some stylized facts with regard to the employment unemployment problem in China.

\textsuperscript{23} For a detailed exposition of the gamut of policies undertaken by the Chinese state, see for example Riskin (1987) and Hart-Landsberg and Burkett (2006)
\textsuperscript{24} Hart-Landsberg and Burkett (2006)
5.3.2 Employment And Unemployment Trends In China

The following table shows the growth rate of GDP in China over various periods, along with the growth rate of employment.

Table 5.3: Growth Rates of GDP and Employment in China, Various Years

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual GDP</td>
<td>9.3</td>
<td>10.1</td>
<td>9.8</td>
</tr>
<tr>
<td>Annual Growth</td>
<td>4.1</td>
<td>1.1</td>
<td>1.0</td>
</tr>
</tbody>
</table>

It is evident from the above table that during the reform period, the Chinese economy has witnessed a very high growth rate of GDP, close to 10% per annum. This growth of the Chinese economy is one of the highest in the world, particularly in the context of developing countries. However, this rapid growth of the Chinese economy has not been able to increase its rate of growth of employment. On the contrary what has happened in China since 1990 is a slow down of the employment growth rate, precisely at a time when the Chinese economy further accelerated its rate of GDP growth.

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25 Lo and Guicai (2006)
The sectoral composition of the employment growth rate is given in the following table:

Table 5.4: Sectoral Growth Rates of GDP and Employment in China, Various Years

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Primary Sector</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GDP Growth</td>
<td>6.2</td>
<td>3.8</td>
<td>4.1</td>
</tr>
<tr>
<td>Employment</td>
<td>2.8</td>
<td>-0.8</td>
<td>-2.44</td>
</tr>
<tr>
<td><strong>Secondary Sector</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GDP Growth</td>
<td>9.5</td>
<td>13.5</td>
<td>11.1</td>
</tr>
<tr>
<td>Employment</td>
<td>5.9</td>
<td>1.6</td>
<td>3.69</td>
</tr>
<tr>
<td><strong>Tertiary Sector</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GDP Growth</td>
<td>12.2</td>
<td>9.1</td>
<td>10.3</td>
</tr>
<tr>
<td>Employment</td>
<td>7.9</td>
<td>5.1</td>
<td>3.98</td>
</tr>
</tbody>
</table>


From the table it is evident that the growth rate of employment in the agricultural sector has worsened, falling very steeply in the period 2001-2006. However, in the last period, we find that the growth rate of the secondary sector has improved, while the tertiary sector registered the largest growth of
employment, though this rate itself was lower than for the decade of the nineties.

The following table gives the sectoral shares of employment:

Table 5.5: Distribution of work force in China

<table>
<thead>
<tr>
<th>Year</th>
<th>Primary</th>
<th>Secondary</th>
<th>Tertiary</th>
</tr>
</thead>
<tbody>
<tr>
<td>1952</td>
<td>83.5</td>
<td>7.4</td>
<td>9.1</td>
</tr>
<tr>
<td>1965</td>
<td>81.6</td>
<td>8.4</td>
<td>10.0</td>
</tr>
<tr>
<td>1975</td>
<td>77.2</td>
<td>13.5</td>
<td>9.3</td>
</tr>
<tr>
<td>1985</td>
<td>62.4</td>
<td>20.8</td>
<td>16.8</td>
</tr>
<tr>
<td>1995</td>
<td>52.2</td>
<td>23.0</td>
<td>24.8</td>
</tr>
<tr>
<td>2005</td>
<td>44.8</td>
<td>23.8</td>
<td>31.4</td>
</tr>
<tr>
<td>2006</td>
<td>42.6</td>
<td>25.2</td>
<td>32.2</td>
</tr>
</tbody>
</table>

Source: China Statistical Yearbook, 2007

The above table shows that even now, the primary sector employs the maximum proportion of people in China, followed by the Tertiary Sector. Are these employment shares commensurate with the share of the respective sectors in the GDP? This is shown in the following chart:
Chart 5.1:

The above chart shows that the share of primary sector in GDP is decreasing consistently, coming to around 10%, but it still employs more than 40% of the workers in China. Whereas, the manufacturing sector which consists of 50% of the GDP employs only 25% of the workers, the rest getting employment in the tertiary sector, which is around 32%. This clearly shows that a large portion of the labour force in China is still engaged in agricultural activities whose contribution to GDP is extremely low. This essentially implies that the secondary sector is not being able to absorb the labour reserves from the agricultural sector, as was envisaged in the Lewis model. Why this has not been the case will be analysed in the next section.

It is not only the case that there has been a deceleration in the growth rate of employment. Added to this is the fact that whatever employment growth has
been witnessed in the period 1990-2002 is irregular employment.\(^{26}\)

This is shown in the following table:

Table 5.6: Employment Growth (per cent per annum) In China, 1990-2002

<table>
<thead>
<tr>
<th></th>
<th>Rural</th>
<th>Urban</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Formal</td>
<td>3.3</td>
<td>-3.0</td>
<td>-0.6*</td>
</tr>
<tr>
<td>Regular</td>
<td>1.1</td>
<td>-0.4*</td>
<td>0.8</td>
</tr>
<tr>
<td>Irregular</td>
<td>-2.3</td>
<td>18.5</td>
<td>3.2</td>
</tr>
<tr>
<td>Total</td>
<td>0.1*</td>
<td>3.5</td>
<td>1.0</td>
</tr>
</tbody>
</table>

Source: Ghose, A. (2005)

* not significantly different from 0

From the above table it is seen that there has been a marked deterioration of the growth rate of formal urban employment which has become negative in this period, resulting in a negative employment growth in the formal sector as a

\(^{26}\) Here regular and irregular employment are defined as the following. The urban formal sector is taken to be composed of state and collective enterprises, cooperative enterprises, joint ownership enterprises, limited liability corporations, share holding corporations and foreign-funded enterprises. The TVEs constitute the rural formal sector. The urban informal sector is defined to include the registered small-scale private enterprises and individual businesses while the rural informal sector is defined to include the registered small-scale private enterprises, the registered individual businesses and the family farms operating under the responsibility system. Employment in the formal sector is regular wage-paid employment. Employment in the informal sector falls into two categories: regular wage-paid employment (in registered small-scale private enterprises) and self-employment (in registered individual businesses and in family farms). We thus get three categories of employment: regular wage-employment in the formal sector (henceforth formal wage-employment or simply formal employment), regular wage-employment in the informal sector (henceforth informal wage-employment) and self-employment. Together, these three categories make up what we call regular employment. Then there is the additional category of irregular employment (of migrant workers and urban laid-off workers). Irregular employment includes both casual wage-employment (in construction or in domestic service, for example) and self-employment (in street vending or in repair services, for example). Quoted from Ghose, A. (2005)
whole. The entire increase in the growth rate of employment, albeit of a small magnitude, has been a result of the growth of urban irregular employment. This implies that with the policies of reform there has been an informalization of labour force that has taken place in China.

A look at the data for the unemployment situation in China also shows that the situation has worsened even with a higher rate of growth of GDP. The growth rate of registered urban unemployment was 5.1% between 1991-2006 and 6.1% between 2001-2006. The growing unemployment in China is a cause of major concern. For a country which was committed to providing full employment to its people, a worsening unemployment situation marks a serious problem, which has also been noted by the 17th Congress of the Communist Party. Moreover, it can be argued that the unemployment figures for China are underestimates. This is because the official data on unemployment do not take into account the jobless rural migrant workers. It does not also take into account the laid off workers from the State Owned Enterprises, thereby underestimating the actual degree of unemployment in the economy. According to alternative estimates, the unemployment rate in China increased from 3.3 in 1990 to 7.3 in 2002.

What has caused this state of affairs, will be discussed in the next section.

27 China Statistical Yearbook, 2007
28 Mohanty (2007)
29 Chandrasekhar and Ghosh (2007b)
5.4 Growth Process In China And The Problem Of Employment

We have already seen in the last section that the employment situation in China has worsened, even with a high rate of growth of GDP, with the industrial sector, which contributes the maximum share to the GDP, not being able to absorb the labour reserves to the requisite extent. The question is why?

5.4.1 Reforms In The State Owned Units And Unemployment

China before 1978 was committed to providing full employment to its people. The main bulwark for the Chinese state in providing employment to the people were the State Owned Enterprises (SOE). With the policies of reform, the state also reformed the SOEs. Towards this end, a large number of measures were taken. Firstly, autonomy was provided to the State Owned Units in terms of taking investment decisions. Secondly, the life time employment clause was abolished and thirdly, the State Owned Units were made to compete with private players, all presumably to improve the conditions of the SOEs. Fourthly, beginning in the 1990s, the SOEs were privatized with massive downsizing of labour.\(^3\) This resulted in a change in the employment structure in China as is evident from the following chart.

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\(^3\) Hart-Landsberg and Burkett (2006)
From the above Chart it is evident that the Chinese economy started its policies of reform in a context where 80% of the urban employment was provided by the State Owned Units and the rest by Collective and Cooperative Units. However, with the advent of reform, the employment in the SOEs witnessed a steady decline, particularly after the mid 1990s. The same is the case with the employment in the collective units and the cooperative units. This decline in the share of employment of the SOEs and the collective units has been compensated by an increase in employment share in the private sector, which has now surpassed that of the SOEs.

This laying off of workers in the urban SOEs had a negative impact on the overall employment situation in China. This is evident from the following: "Between 1996 and 2002, employment in state and collective enterprises declined by a
staggering 59 million (by 42.5 per cent). During the same period, employment in newly emerging urban formal sector enterprises increased only by 16 million, so that formal employment in the urban economy declined by 43 million. Informal employment was growing rapidly but this was not enough to prevent a decline in urban regular employment by 23 million.\(^{32}\)

From the above discussion it is clear that the very change of policy in China from a planned to a market economy entailing reforms in the SOEs resulted in a decrease in the employment level. However, at the same time, the economy witnessed an increase in the rate of growth of GDP as has been discussed above. This however has not been able to increase the rate of growth of employment. This in our mind has got to do with the dynamics of the growth process itself, where the growth rate is not being able to generate employment.

5.4.2 Growth Process In China And Its Components

The growth process in China is led by massive amounts of investment. This is reflected in the investment-GDP ratio in China, which is very high, the corollary to which is a decline in the consumption-GDP ratio. This is shown in the following chart:

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\(^{32}\) Ghose (2005)
The above graph shows that the investment-GDP ratio in China over the last 30 years has been maintained at a very high level of around 40%, while the consumption-GDP ratio has declined. The high investment-GDP ratio has been a legacy of the pre-reform period's insistence on planned economic development centred on heavy industry based industrialization. However, with the adoption of the market based reform process, this inducement to invest is no longer valid. There must therefore be some other inducement to invest which has resulted in the sustainment of the investment-GDP ratio at or around 40% of GDP.

It has been argued in the literature that the Chinese growth process is characterized by the phenomenon of producing investment goods for producing investment goods in the post-reform period. Then it is argued that in order to
Chapter 5

sustain this process of growth, innovations must be generated in the economy.\textsuperscript{33}
The question is what generates this rate of innovation? Sustained generation of innovations to sustain a high level of investment has never taken place in developing countries, since technology generation is exclusively an activity of the high income countries.\textsuperscript{34} So what explains the higher investment ratio in China?

As has been argued earlier, exports provide an inducement to invest. In China particularly, it is evident that there has been a phenomenal growth of exports as a proportion to GDP. This is shown in the following chart:

\textbf{Chart 5.4:}

\begin{figure}
\centering
\includegraphics[width=\textwidth]{export-gdp_ratio_china.png}
\caption{Export-GDP Ratio in China}
\end{figure}

Source: China Statistical Yearbook, 2007

In order to sustain this increase in the Export-GDP ratio particularly from the

\textsuperscript{33} Lo and Guicai (2006)

\textsuperscript{34} World Bank (2008)
mid 1990s, there has to be a large amount of investment. It can however be argued that the composition of commodities in the export basket determines whether there has to be an increase in investment or not. For example, if the economy is exporting primary agricultural products, then there need not be such a high amount of investment. In the case of China, however, manufacturing products constitute the predominant component of exports, within which the segment machinery appliances and equipment constitutes the largest share. This is shown in the following chart:

**Chart 5.5:**

![China's main exports ($ bn)](chart)

Source: Ghosh, J. (2008b)

From the chart it is clear that the biggest Chinese export consists of machinery appliances and equipments, while all the other commodities are far less behind. These commodities also constitutes the largest share of China's imports. However, since 2003, the exports of machinery appliances and equipment has
surpassed the imports of these goods.\textsuperscript{35} These commodities are predominantly high technology commodities, the production of which requires labour saving technology. In order to ensure that those technologies are implemented in China, there has to be an increase in investment. However, because of the nature of the technology, it cannot generate more employment. As a result, even with such high rates of export growth, the employment in China has not increased. Moreover, the share of foreign enterprises in China's exports is very large. In 2004, almost 60\% of the Chinese exports belonged to the foreign enterprises.\textsuperscript{36}

This increasing share of foreign owned firms in the export sector in China is of some importance. This is because, for developing countries, it has long been the case, that foreign firms have mostly indulged in producing for the domestic market rather than for the world market. However, it seems that the Chinese experience marks a departure from this general phenomenon. But this has an important implication. In order to ensure that the foreign firms remain in China and continue to export, the labour cost in China has to be kept low, in comparison with the wages prevailing in the advanced capitalist countries. If that is the case, then unemployment has to exist in China, in order to keep the wages of the workers low.

Moreover, in an export led growth path such as what China is following, its growth rate becomes linked with the growth rate of the world economy, where at present there is a secular lowering of the rate of growth because of the

\textsuperscript{35} Jayati Ghosh (2008b)
\textsuperscript{36} Source: Zhu (2007)
abandonment of Keynesian demand management policies. Therefore, in order to ensure that a larger share of the world market is captured by China, it has to continuously increase the growth rate of labour productivity. This is because of the fact that the dollar wage rate of China in efficiency units\(^{37}\) has to remain below that of the advanced capitalist countries to maintain the competitiveness of the Chinese export commodities. Therefore, an export-led growth strategy invariably creates pressure on the real-wage of the workers in order to maintain the export market.\(^{38}\) In case of China this is doubly so. Firstly, because of the already stated reason. Secondly, as has already been pointed out a major share of the exports in China belong to the foreign companies. These foreign companies have set up industries in China, precisely because of the lower wage rate of the Chinese labour. Therefore, if wages in China rise, then these companies have no incentive for staying in China and may well go back.

However, it has been noted that the real wage rate of the Chinese workers has increased over the period.\(^{39}\) This increase in the real wage rate must come with a caveat, namely that only the organized sector wages are taken into account to arrive at a notion of the average real wage in the Chinese economy, leaving out the wages received by the workers in the informal sector whose numbers have increased over the years.\(^{40}\) But, even if we take the real wage rate figures as they are, two points necessarily come out on the basis of the foregoing discussion.

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37 This means the dollar wage rate of China divided by the labour productivity.
38 Patnaik, P (2007e)
39 Ghose (2005) and Chandrasekhar and Ghosh (2007b)
40 Chandrasekhar and Ghosh (2007b)

263
Firstly, the wage rate increase in China can be only be within a narrow band, below the wages that prevail in the advanced capitalist countries. This is essential for the sustenance of the growth process itself. Secondly, what really matters is the wage rate in efficiency units, or the wage rate divided by the labour productivity. Even when the wage rate is increasing, if there is an even greater increase in the labour productivity, then the Chinese economy can maintain its competitiveness. However, if the rate of growth of labour productivity is more than than of the wage rate, then there is a shift of income distribution away from the wage earners to the surplus earners.\(^{41}\)

This tilting of the income distribution in favour of the surplus earners or the rich leads to another set of problems. Firstly, the growth process that generates this income inequality also strengthens vested interests within the economy who have benefited from the growth process. Therefore, any change in the present growth process which might improve the conditions of the workers is resisted by them. No doubt, the Chinese state may be considered to be much stronger than the Indian state in dealing with such pressures. But the point remains that the state is constrained by the worsening of the income inequality to pursue policies that do not go against the rich. This is because the growth process is based on not any domestic demand oriented policy but on the basis of higher export earnings. This process itself generates the inequality as has been mentioned earlier. Now, since there is no alternative growth strategy based on domestic demand, the government cannot jeopardize the present inequality-generating growth process.

\(^{41}\) Chandrasekhar and Ghosh (2007b)
Thus, the growth process itself gets identified with this exacerbation of inequality. The fact that any such domestic-market and employment-oriented alternative is not being pursued by the state, which is committed to the well being of the poor, shows that the sections who have been the beneficiaries of the growth process now enjoy considerable influence at the level of policy-making, thwarting any attempt to change the growth process in the economy. Secondly, as has been already mentioned in the chapter on India, with the income distribution tilting in the favour of the rich, they demand commodities produced in the advanced capitalist countries, which are produced by labour-saving technology. This brings in another element which reduces the employment generating potential of the economy.

This is however not the only kind of inequality that has increased in the Chinese economy. Since the inception of the economic reforms, priority was actually given to the coastal areas for income generation and investment. This obviously had some historic roots, since Shanghai was a major industrial area even during pre-revolution era. This dichotomy between the coast and interior figured in Mao's "Ten Major Relationships". With Deng's policies of integrating the eastern coast of China into the global capitalist economy, more and more investment started to flow into these regions at the cost of the interior.

The other important inequality that has accentuated in China is that between the urban and rural areas. As we have already seen, the major thrust for investment in China since the mid 1990s has been its drive for exports, with
more and more integration with the global capitalist economy. This growth drive of the Chinese economy for external market has been accompanied by a reduction in investment by the government in the agricultural sector. This is evident from the following chart:

**Chart 5.6:**

Proportion of Government Expenditure and Investment in Agriculture and Rural Areas

Source: China Statistical Yearbook, 2007

From the chart it is evident that there has been a consistent decline in the proportion of government expenditure in agriculture as well as that of total investment in the rural areas. This has resulted in a deceleration in the agricultural growth rate, with the sector not being able to generate sufficient employment. This has resulted in a slowing down of the rate of rural poverty reduction in China.\(^{42}\) As a result people are forced to migrate to the urban areas in search of jobs. Indeed the pace of migration has increased drastically over the

\(^{42}\) Chandrashekhar and Ghosh (2006c)
reform period. These workers are swelling in number because of declining job opportunities in the rural or the interior areas and do not enjoy any social security benefit, even while working under deteriorating conditions.\textsuperscript{43}

It should be noted however that employment growth rate as well as the balance between agriculture and industry or rural and urban areas improved a lot during the first half of the reform period in China. This was because, the reform’s main thrust during this period was in the agricultural sector. The Chinese Government announced in 1979 an increase in the prices of agricultural products which increased agricultural production. Moreover, the long term investment of the state in developing rural infrastructure since the days of Mao, also helped to improve the conditions of the people in the rural areas.\textsuperscript{44}

At the same time since the days of Soviet type planning in China, the conflict between heavy industry and light industry in terms of employment generation had been a persistent theme.\textsuperscript{45} In fact the call for the Great Leap Forward was motivated as a remedy to the imbalance between heavy industry and small industry. After 1978, the Chinese planners went ahead with this understanding that small scale units can generate more employment. As a result, the town and village enterprises (TVE) were encouraged in a big way by the Government. This resulted in setting up large number of such units in rural China which provided

\begin{footnotesize}
\textsuperscript{43} Jha and Golder (2007)  \\
\textsuperscript{44} Han Yuhai (2006)  \\
\textsuperscript{45} Mao referred to this contradiction in ‘Ten Major Relationships’
\end{footnotesize}
20% of rural and 14.5% of the total employment in China.\footnote{Hart-Landsberg and Burkett (2006)} Both these measures (a) of strengthening the agricultural sector and (b) setting up of TVEs improved the condition of people in China and increased the employment level, in the initial phase of reforms.

These overall improvements in the economy, had an obvious impact on the poverty level in China. “According to China's State Statistical Bureau, 31% of its population were below the poverty line defined by the consumption of 2100 calories in 1978. By 1985, this was cut to half and the World Bank estimated the numbers to be 89 million\footnote{Yochury (1999)}. This was an unprecedented improvement. Subsequently, however, the thrust of the growth process shifted towards catering to the demands of the world market, which entailed an erosion of the welfare and employment opportunities of the people as has been enumerated above.

\textbf{5.4.3 Sustainability Of The Chinese Growth Process}

Already doubts are being raised from many quarters regarding the sustainability of the growth process in China. Mainly, the issue of China hitting a resource constraint with regard to energy and raw materials is being highlighted. It has also been suggested that the environmental degradation caused by the Chinese economy will negatively impact upon the world as a whole, in response to which China has to slow down its growth. All these mechanisms through which the Chinese economy can come to a halt are perfectly plausible. However, even if
these environmental and resource constraints are not limiting for the Chinese growth process, still other doubts can be raised about its sustainability, which are enumerated below:

Firstly, as has been already discussed, the Chinese economic model is one of export led growth. Therefore, the growth rate of the economy depends on the growth rate of world demand for Chinese commodities. Now, the biggest export market for China is the USA, which is facing a recessionary situation in its own home market. This will adversely affect China's export to USA, thereby slowing down its growth. Moreover, today China has accumulated huge foreign exchange reserves, which is creating pressure on the Chinese currency to appreciate. In the case of any appreciation of the Chinese currency, the exports will be negatively affected, creating an adverse effect on the growth process of the economy. Added to this is the possibility of some advanced countries putting restrictions on the import of Chinese goods, which will also result in a slowing down of the growth rate of the economy.

The irony of the Chinese growth story is that, given its present predicament, it has to rely on the world capitalist set up to sustain its growth rate. Thus, any external shock to the Chinese economy as a result of the working of the global capitalist system would be even more detrimental to the people, since a decline in the rate of growth of GDP will invariably lead to more unemployment and hardships. On the other hand, the tethering of the growth rate of the Chinese economy to external conditions, implies that even with a higher level of growth
rate, the unemployment problem is not getting resolved.

5.5 Conclusion

The Chinese economy over the years has been subject to many policy twists and turns. The Chinese revolution promised the people of China a better and more egalitarian society. However, in the initial years of planning, problems started to come up in terms persistent unemployment as well as a bureaucratic approach to development. In response to these problems of planning, Mao advocated decentralized production in the Great Leap Forward which was also expected to take care of the problem of unemployment in the economy. There were however huge social and economic costs involved in the Great Leap Forward. As a result of these experimentations of the Great Leap Forward and the Cultural Revolution the Chinese society faced a great number of serious problems. It was thought that by relying on the market mechanism at least to a limited extent, the problems in China, particularly with regard to achieving higher growth and a modern production structure improving the conditions of the people will be solved.

Given the circumstances of the Chinese economy as well as those of the international system, with the Sino-Soviet divide and an ascendancy of imperialism at the world scale, it was deemed fit by the policy makers that China should integrate itself with the global capitalist system in order to improve the conditions of the economy and the people. This ensured a sustained growth in the
GDP, but with a concomitant deterioration of employment and working conditions.

It must however be noted that the state in China has a reasonable amount of control on the functioning of the economy. This is evident from the fact, that the state could manage to change the course of the economy many times in order to control certain problems and crisis. This is most evident in the financial sector of China, which is till date overwhelmingly under state control. This in fact is what saved the Chinese economy from the fate of the so called East Asian miracle economies which faced a serious financial crisis in 1997. Thus, China in spite of its integration with the capitalist market has managed to insulate itself from the policies dictated by finance capital. In this sense, the economy of China is distinct from that of the Indian economy, where the state's autonomy in terms of pursuing policies for the betterment of the poor, has been greatly compromised by the economy's integration into the world of ascending international finance capital.

The positive part of the China growth story is that there has been a realization of the problems cropping up due to the pursuit of the current set of policies. This is evident from the recent policy pronouncements about building a 'harmonious society' and the call for a 'socialist countryside'. If at all such concepts are to be realized, there has to be greater stress on domestic demand based balanced growth, with employment generation as its main fulcrum.