China's high pre-crisis growth rate of over 10 per cent per annum, stretching back nearly three decades, weakened significantly as the financial crisis of late 2008 spread across the globe (figure 1). The effects were relatively short-lived, however. From a trough of 6.8 per cent in Q1 of 2009, quarterly annual growth in output regained momentum from the second quarter, and by Q1 2010 the growth rate had reached 12 per cent. Since then, quarterly GDP growth has stabilized at about 10 per cent per annum.

Return of pre-crisis employment growth

Managing the world's largest labour force of over three-quarters of a billion has always been challenging. Pre-crisis urban registered unemployment in 2007 was 4 per cent; however, urban unemployment was estimated at 8 per cent.\(^1\) Estimates of rural surplus labour are as high as 150 million.

The impact of the crisis on employment (figure 2) tracks the GDP growth rate pattern shown in figure 1. Pre-crisis, with GDP growth over 10 per cent per annum, the Chinese economy was able to generate about 1.2 to 1.3 million new urban jobs per month, or some 12 million to 14 million per year. As GDP growth declined, urban job creation shrunk as well, falling to just 380,000 in December 2008.

Estimates of the cumulative job loss due to the crisis from the Ministry of Human Resources and Social Security (MOHRSS) and ILO concur at around 10 million.\(^2\) The composition of job losses is important because the policy response during the crisis appears to have addressed them with some efficacy. The brunt of the job loss was borne by rural-urban migrants, some 3 to 5 per cent of whom were jobless in early 2009. In this context, the urban registered unemployment rate rose to 4.3 per cent from 4 per cent. In addition to this, some 3 million university graduates were jobless in 2009, of whom 2 million may have been crisis victims. During the first half of 2009, the labour market situation improved. As GDP growth rebounded to near 10 per cent per annum, urban job creation regained momentum to reach pre-crisis levels of over 1 million monthly.

Recovery in GDP and employment growth has been V-shaped for China, which can be attributed to an effective mix of policies and efficient targeting.\(^3\) Efforts to maintain and generate employment during the crisis period balanced measures across macroeconomic, sectoral, and labour market policies.

Figure 1. Quarterly GDP growth rate, 2008–11 (%)
Macro policies leading to renewed growth

The macroeconomic policy response to the global crisis in China comprised conventional monetary policy as well as a large fiscal stimulus package based on expenditure increases and tax cuts. In the depth of the crisis during the second half of 2008, the Chinese Central Bank cut the deposit reserve ratio and the benchmark lending rates in aggregate by about 3 percentage points. It also reduced the issuing of bank bills to ease liquidity and put downward pressure on interest rates. The target beneficiaries were small and medium-sized enterprises which had lost export markets and were struggling to survive by reducing costs.

On the fiscal policy side, the Government increased expenditure by 4 trillion yuan (CNY) (US$588 billion) on housing, infrastructure, education, health, consumption subsidies and the environment. Of this, CNY1.2 trillion was through the central Government, and the remainder through local governments and the private sector. On top of this, some CNY 7 trillion in credit was channelled through the banking system to counter the impact of the credit crunch.

Tax cuts were also made for housing investments, mortgage rates were reduced, and the VAT on consumption was lowered. There were also sectoral rebates on exports.

The efficacy of these macro policy measures can be seen in table 1. The crisis cut exports by 11 percentage points of GDP from 2007 to 2009, and consumption by 1 percentage point of GDP over this period. However, the return to double-digit growth in 2009 was led by a surge in investment, which rose to 46 per cent of GDP in 2009. It was this recovery in GDP growth which arguably led to the pick-up in job creation seen in figure 2.

Sectoral policy

In terms of support for individual sectors, for agriculture, minimum grain purchase prices were increased and agricultural product prices were kept stable to increase production and incomes. In manufacturing, cars, textiles, machinery, steel, and information technology were targeted. Measures largely took the form of tax rebates for exports, especially for textiles, steel, and machinery. Measures were taken to expand the rural market for consumption goods. The car industry was restructured through mergers and reorganization of enterprises. The information technology industry was boosted by increasing access and facilitating new generation communication.

The effectiveness of these measures is more difficult to judge, and certainly took longer to work through to GDP growth. Table 1 shows that neither exports

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**Table 1. GDP composition, 2006–09 (%)**

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Household final consumption expenditure, etc. (% of GDP)</td>
<td>35.2</td>
<td>36.0</td>
<td>34.9</td>
<td>34.9</td>
</tr>
<tr>
<td>General government final consumption expenditure (% of GDP)</td>
<td>14.1</td>
<td>13.5</td>
<td>13.3</td>
<td>13.0</td>
</tr>
<tr>
<td>Gross fixed capital formation (% of GDP)</td>
<td>40.7</td>
<td>39.1</td>
<td>40.8</td>
<td>45.6</td>
</tr>
<tr>
<td>Exports of goods and services (% of GDP)</td>
<td>39.1</td>
<td>38.4</td>
<td>35.0</td>
<td>26.7</td>
</tr>
<tr>
<td>Imports of goods and services (% of GDP)</td>
<td>31.4</td>
<td>29.6</td>
<td>27.3</td>
<td>22.3</td>
</tr>
</tbody>
</table>

Source: World Bank, World Development Indicators.
nor consumption recovered over 2009; a more detailed breakdown of 2010 demand is however not yet available.

**Labour market policies**

In parallel with the macroeconomic and sectoral policies, a number of complementary measures were implemented to maintain and generate new employment, primarily by the MOHRSS. These measures primarily focused on lowering certain non-wage labour costs and subsidizing others, implementing training schemes and providing micro-credits to entrepreneurs and SMEs in rural areas.

**Lower non-wage labour costs**

To promote job retention in enterprises facing declining demand conditions and falling profitability, non-wage labour costs were temporarily reduced. In particular, in 2008 insurance payments for unemployment, sickness, work accidents and maternity leave were delayed for a period of six months. In addition, during 2008–10 insurance rates for enterprises were reduced for 12 months. This latter measure reduced enterprise costs by an estimated CNY 40 billion over 2009, and by CNY 14 billion in 2010.

During 2009, MOHRSS also offered three-year tax reductions to enterprises hiring retrenched workers. Small and medium-sized enterprises also had their tax rates lowered from 30 per cent to 20 per cent for 2010. The total budget for this programme was CNY 73 billion.

**Subsidies offered to employers**

To stabilize employment in troubled enterprises, MOHRSS allowed them to use of their unemployment insurance funds to pay for social security insurance during 2009. To promote job retention, the enterprises were encouraged to develop on-the-job training, shift work and salary negotiations. This scheme is estimated to have had a budget of CNY 11 billion.

These two schemes aimed at stabilizing employment worked in tandem, with a significant reduction in non-wage labour costs for firms in difficulty. These measures contained job losses and contributed to the pick-up in job creation observed from the first quarter of 2009 (see figure 2).

**Access to credit for rural entrepreneurs and SMEs**

Prior to the crisis, China experienced very large migration flows from rural to urban areas. By 2007, some 150 million people were rural migrants in urban areas. The crisis hit rural migrants very hard and some 20 million went back home because of the bleak employment prospects in the urban provinces. This increased rural surplus labour and put pressure on rural incomes.

In response to this emerging challenge, the China Banking Regulatory Commission, in collaboration with other institutions, launched a programme of micro-credit for small and medium-sized rural enterprises and entrepreneurs over 2009. Loans of CNY 30,000 to CNY 50,000 were made for a period of 3–5 years. An early estimate shows some 237,000 beneficiaries based on a budget of CNY 10 billion.

The Government estimates that all rural-urban migrants that had gone to the provinces returned to the urban labour market, but about 5 per cent of them did not initially have jobs until GDP growth picked up in the latter part of 2009.

**Training**

Training is usually seen as a supply management policy tool. However, in the Chinese case it was used to manage both demand and supply responses to rising unemployment that resulted from the global crisis. These training measures were in large part implemented over 2009–10 through the Special Vocational Training Plan by MOHRSS along with the Ministry of Finance and the National Commission of Reform and Development. MOHRSS and the Ministry of Housing and Urban-Rural Development jointly used Special Employment Funds from the central government, the local governments, and unemployment insurance funds for these training measures.

On the demand side, enterprises in difficulty were encouraged to retain workers through skills improvement and job transfer training for current employees. The budget of CNY 10 billion for this on-the-job training programme was financed from staff education funds. Youth and migrants were specifically targeted in an effort to increase employment among these groups. MOHRSS estimates that 2 million workers benefited from this programme. Given the observed estimated increase in unemployment of some 10 million during the crisis, these 2 million beneficiaries who remained employed held down the level of unemployment by some 16 per cent.

On the supply side, another programme provided vocational training, including entrepreneurship for rural migrant workers who had lost their jobs. A mid- to short-term training programme was also implemented to help unemployed to find a new job. The needs of new entrants to the labour market were also addressed with a 6–12 months’ training module. The first module helped 400,000 school leavers to improve their skills. In addition, 200,000 migrant youth received support. The Sunshine Employment Action programme prioritized 152,000 college graduates from low-income families for employment. One of the programmes aimed at hiring graduates as public village officials was targeted at 130,000 graduates.

According to aggregated numbers provided by MOHRSS statistics, as many as 40 million people underwent vocational training during the period. On the demand side, it is estimated that 7 million enterprise employees
were trained. On the supply side, training programmes are estimated to have reached some 18 million rural unemployed workers, and 8 million urban unemployed, targeting some 2 million for entrepreneurship training and, as mentioned above, 400,000 school leavers.

Regarding future steps, the Government’s Policy Document on Strengthening Vocational Training provides the broad policy guidelines to scale up vocational training programmes, and sets out the strategy of promoting employment from the demand side as “Training once employed” and from the supply side as “One trained-one employed”.

**Tandem macro and labour market policies**

A combination of policies was put in place during the crisis to sustain aggregate demand and tackle labour market pressures. This package was rather successful in promoting a quick recovery. Macro policy worked through three countercyclical instruments, monetary policy cuts in interest rates, a fiscal stimulus of CNY 4 trillion including tax cuts and training measures, and channelling CNY 7 trillion through the banking system. The result was an investment-led recovery in GDP growth and employment growth, with the share of investment rising to 45 per cent of GDP.

The rapid recovery may well however have led to overheating of the economy, with current concerns of inflation rising above 6 per cent per annum, led by food prices. This has entailed a reversal in monetary policy, with tightening of investment credit, and increase in lending rates.

Labour market policies to maintain and generate employment seem to have been highly prioritized, timely, and well targeted towards the groups hardest hit, like migrants and education leavers, hardest hit sectors like construction, and the more vulnerable low-income groups.

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1 Chinese Academy of Social Sciences, 2009.
2 ILO: G20 Country Brief – China (Geneva, 2010).
3 The ILO’s Policy Inventory Project for the global financial crisis reviews some 80 country policies in collaboration with the World Bank, and affords some good insights into China’s policies that have delivered this V-shaped recovery in GDP growth and employment.