

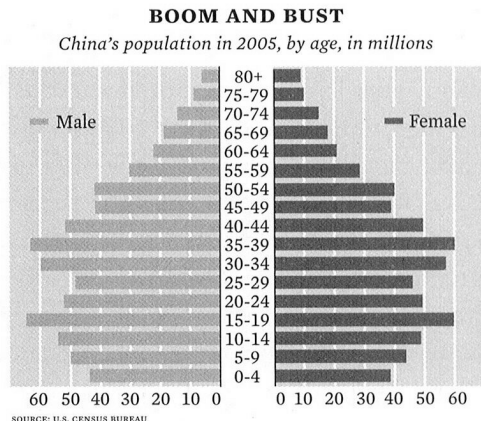


China's Looming Labor Shortage

by Dali L. Yang

SINCE THE REFORM era began, one of the Chinese government's primary concerns has been the creation of enough new jobs for the young people reaching working age and those members of older generations who were laid off from money-losing state enterprises. Today, however, China is entering a new phase. The peak of new entrants to the job market is passing, and the population is beginning to age rapidly. This brings new challenges, but it also means that some of the problems that China-watchers now rate as grave will begin to recede.

Beijing started promoting family planning in the 1970s, culminating in the promulgation of the one-child policy in 1979. Partly in response to this Draconian program and socio-economic changes, China's total fertility rate declined precipitously, and by the 1990s, it had dropped below the replacement level. It is only



because of an equally dramatic improvement in longevity that the country's population has continued to increase until now.

As the population pyramid for 2005, shown nearby, indicates, the age structure of Chinese society is presently dominated

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by people of working age (15-64). Thus the country's current difficulties in providing employment, compounded by the strains of state sector reforms, are in large measure a byproduct of the baby booms prior to the 1980s. The huge influx of new entrants to the labor force has served to depress wages for workers not only at home but all over the world.

The current demographic shift is already having an effect, however. Helped by a booming economy, recovering agricultural prices and lower agricultural taxes, the supply of migrant labor from rural areas is tighter than it has ever been in the reform era. Take the Pearl River Delta region in Guangdong province, a bellwether because of its huge migrant labor population. According to an estimate by the Guangdong provincial government, the number of migrants in Guangdong reached 21.3 million in February 2004. One out of every three jobs in Guangdong is held by someone whose "household registration" is elsewhere, mostly migrants from the countryside in China's interior. Yet in 2004, the region's factories, especially the assembly lines that demand long work hours and offer the lowest pay, experienced difficulties recruiting migrant workers.

This came as a surprise to the many observers who considered China's labor supply inexhaustible, particularly since the Ministry of Labor and Social Security still reports a surplus of labor nationally. But assuming relatively stable economic growth, demographic trends predict that the supply of entry-level, low-skilled industrial workers will now start to shrink.

As the number of new 15-year-olds steadily declines over the next 15 years or so, this will translate into more bargaining power for those entering into the labor force in the future. It also means that those who lose their jobs in middle age and beyond will stand a better chance of finding new employment.

CHINA'S REFORM AND opening coincided with the arrival in the labor force of the huge age cohort born in the 1960s and '70s. First there was a surge in births following the Great Leap famine (1959-61), and then an echo boom as that generation reached child-rearing age. As these two bulges in the population pyramid rumbled through, they served to diminish the bargaining power of each individual worker, even as employment opportunities in the export-processing and service sectors grew steadily.

This was particularly disadvantageous for the 15- to 19-year-olds joining the labor force in the early 2000s. As a result of labor supply and demand as well as government connivance, many workers in the export processing sector, particularly migrant laborers working in coastal provinces, have had to live with very low pay and abysmal working conditions. That's why China's inequality indices have continued to increase despite the availability of employment opportunities for migrant labor from inland areas.

Moreover, scholars such as Anita Chan and Dorothy Solinger as well as human rights organizations have conducted a growing number of studies documenting

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infringements of labor rights, particularly the rights of migrant workers. These studies, confirmed by Chinese reporting, showed that migrant workers have not been treated as citizens in the host cities in which they found work. They frequently do not receive their pay on time, are mostly excluded from retirement and health benefits, and their children have difficulty obtaining public education. In some sense, labor rights activists have it right that much of China's economic boom has been built on the exploitation of cheap labor.

Not that the Chinese government hasn't paid attention to labor rights. A visit to the Web site of the Ministry of Labor and Social Security (www.molss.gov.cn) reveals a large number of government laws, regulations and policy documents, many of which are designed to protect the interests of workers. In reality, however, government regulations on labor protection are honored in the breach. Local authorities in charge of labor regulation, eager to compete for investment from overseas and sometimes subverted by corruption, appear more interested in protecting the interests of capital. In Dongguan, workers in shoemaking factories often work in cramped quarters for more than 10 hours a day, endure substantial pollution and make only about \$50 per month. The most egregious cases of abuse, widely reported in Chinese newspapers such as *Southern Weekend*, occur in the numerous private coal mines where mine operators reap profits through the steady

sacrifice of lives they deem expendable.

In the last few years, Beijing has made some improvements in the regulation of working conditions. Pro-rural policies include a phasing out of the agricultural tax, a major investment program to reduce the price of power for rural residents, a massive drive to help migrant workers claim back wages, assistance for the education of migrant workers' children, and a potentially substantial program to provide welfare for rural residents who have followed the government's birth-control programs.

To some extent, these policies, particularly those that help boost rural incomes, may have had the effect of keeping some potential migrant laborers from venturing into the cities. That, in turn, may have tipped the supply-demand balance for migrant labor in the Pearl River Delta. In the first half of 2004, buoyed by higher grain prices and reduction in the agricultural tax, rural personal income recorded its fastest rise since 1997.

In response, some employers in the Pearl River Delta have already started to offer more attractive benefits—including better pay and improved living conditions—in order to retain and attract workers. The increase in migrant-labor wages is beginning to make up for the stagnation of recent years. Most interestingly, those cities such as Shanghai and Tianjin that have adopted measures to improve educational access for the children of migrant workers in addition to better work and pay conditions have not suffered from the

“shortage of migrant labor.” Some of the major employers in Guangdong already offer a substantial pay premium plus health care and social security benefits.

Down the road, the competition among cities and factories for a dwindling supply of young migrant workers thus has the potential to improve labor-rights protection. Indeed, labor authorities in Guangdong, which accounted for an estimated 40% of the back pay cases in China in 2003, last year began more vigorous promotion of measures to protect the rights of migrant workers. Among the new measures being considered: removal of extra education charges for children of migrant workers, a new permanent residency policy for migrant workers who have lived in Guangdong for five years and have legitimate businesses, and special bank accounts for construction workers to help protect them from unscrupulous employers. In the meantime, some companies have begun to move farther inland to provinces such as Hunan and Jiangxi in search of a stable supply of cheap labor. While this has yet to become a major phenomenon, it could help alleviate the income disparities between coastal regions and the interior.

SO FAR, CHINA has benefited economically from a comparatively young population structure. However, because the fertility rate has declined and life expectancy has increased, Chinese society is ageing quickly. By the middle of the 21st century, the median age is expected to reach 45 years, just like that of the developed world (North America,

Japan, Europe and Australia/New Zealand). Most remarkably, whereas it is taking 100 years (1950-2050) for the median age in the developed world to rise from 29 to 45 years, China is expected to make the same transition in about half the time.

This transition presents a major challenge even for governments of wealthy countries. The pay-as-you-go pension schemes found in the largest OECD countries are already unsustainable. For China, the situation will be even more dire. The country might become the first developing country to grow old before it becomes prosperous, leaving many millions of seniors in poverty.

The conventional measure of an ageing society is the old-age dependency ratio, which is the ratio of the population aged 65 years and older to the population aged 15-64. Given present policies on retirement age, however, the old-age dependency ratio is not an appropriate measure for China. The State Population and Family Planning Commission has issued its own forecasts, using the percentage of the population aged 60 and older. The SPFPC forecasts that this percentage will increase to about 31% in 2050 from 10% in 2000. In absolute numbers, the number of elderly will jump to an astounding 355 million in 2030 and 450 million in 2050 from 133 million in 2001.

These astronomical numbers call for immediate measures to improve China's rudimentary welfare system. Given how politicians work, however, it is unlikely that they will treat the issue with the urgency required until they are forced to do so. In the end, a combination of measures, including tax increases, curtailment of so-

The competition for a dwindling supply of young workers could improve labor-rights protection.

cial welfare programs and the raising of the retirement age, will have to be adopted. The current birth planning policies will also need to be relaxed to allow for a higher population growth rate.

THE AGING OF a population usually brings one benefit, a decline in the crime rate. However, China may not fully enjoy this blessing. Its crime rate is already low by international standards, but the growing imbalance in the sex ratio could create instability.

There is broad agreement among demographers that implementation of China's Draconian population-control policy has further enhanced the pre-existing social preference for males, leading to a significant rise in the ratio of baby boys to girls. Chinese demographers have researched the causes of the reported rise in sex ratio since the mid-1980s, including female infanticide, underreporting of females, and the selective abortion of female fetuses with the aid of the ultrasound machine and amniocentesis. There is now broad agreement that sex-selective abortion has become the predominant factor behind the sustained rise in the sex ratio.

Psychologists have long known that acts of violence tend to be perpetrated by 15- to 30-year-old males. In China, 95.6% of the prison population in mid-2003 was male, according to data from the Prison Administration Bureau. Marriage and fa-

therhood are associated with lower testosterone levels in males, thereby decreasing the likelihood that a father will engage in competitive behavior.

The higher propensity of single males to commit crimes raises a disturbing specter given the millions of Chinese men who won't be able to marry. In a comparative study focused on Muslim countries, Steven Fish found that most have sex ratios skewed toward males, large literacy gaps between men and women, and low participation by women in government. These indicators of female subordination, also found in China and India, correlate strongly with authoritarianism. Mr. Fish noted, "If conditions in India may darken the prospects for the endurance of democracy, those in China may undermine possibilities for its emergence." Likewise, Valerie M. Hudson and Andrea M. Den Boer, drawing on the broader literature, argue that high sex-ratio societies are "governable only by authoritarian regimes." Most provocatively, they contend that the gender-skewed societies of China and India, characterized by "a disproportionate number of low-status young adult males," could threaten not only domestic stability but also international security.

Last year, the State Population and Family Planning Commission formally announced that China's sex ratio at birth had by the 2000 census reached 117 boys to 100 girls, compared with the normal range of 103-107 to 100. In some provinces, including Jiangxi, Guangdong and Henan, the

sex ratio at birth exceeded 130. This was up dramatically from the 1990 census birth sex ratio of 111 to 100 and the 1982 census ratio of 108.5 to 100. The Chinese press has widely reported that, if current trends persist, there will be 30 million to 40 million males who won't be able to marry.

Demographic historians such as James Lee suggest that China has long had a skewed sex ratio and thus the current trend may not be that worrisome. Yet there is growing concern among Chinese policy makers about gender imbalance. Speaking at the 2004 central symposium on population, resources and environment, President and Communist Party General Secretary Hu Jintao stated that redressing the unbalanced sex ratio at birth would be a major task for the Chinese government and gave his imprimatur to a State Population and Family Planning Commission program of using positive inducements to promote a more balance.

Assuming moderate success in the implementation of these measures, the problem of surplus males could be an issue of limited duration. Such temporary gender imbalances, such as in mainland China in the mid-1960s and Taiwan in the 1950s, resulted in a serious marriage squeeze for males but did not produce major social and political consequences. Nonetheless, the surplus male population in China (and India) is particularly large and will be reflected in various social behaviors, some of which, such as the trafficking in women, are already troubling. It will prompt local governments to adopt measures to help males find marriage partners and perhaps even prompt society to show

more tolerance for homosexuality and prostitution.

However, even with these measures, the skewed sex ratio is already bound to be pronounced and its effects far-reaching. The imbalance created since the 1980s will begin to haunt China shortly as the men born after 1985 reach the age for courtship and marriage. According to Zhang Weiqing, minister of the State Population and Family Planning Commission, even if the new initiatives being taken are effective, there will still be 24 million more males than females by 2020.

NONETHELESS, THE potentially destabilizing influence arising from the skewed sex ratio should be counteracted by the aging population. Moreover, the fact that in the last two decades China has already passed through a difficult economic transformation should give us hope.

Disruptive socio-economic reforms—economic diversification, greater population mobility, and rapid downsizing of the state sector—in conjunction with a large cohort of youths have provided fertile ground for criminal activities and made the Chinese polity more prone to authoritarianism. China is fortunate to have run this demographic gantlet and come out with significant economic momentum. As the dislocations of reform fade and the population ages, Chinese society should become calmer and perhaps tamer, though perhaps no less dependent on government intervention when it comes to provisions for the elderly. ■