

## KEY POINTS

- The labor market of the People's Republic of China was hard-hit by the COVID-19 pandemic, and this particularly affected young people.
- Demand- and supply-side factors contributed to a higher youth unemployment rate that has been aggravated by mismatches between the skills provided by college education and those employers need.
- In the short term, it is important to stimulate economic growth and to promote services and the private sector to help create jobs for young people. Meanwhile, policy support can be increased for low-skilled migrant youth and college students from low-income families.
- In the long term, the government can continue to improve the skills of the labor force.

## A Closer Look at Causes of Youth Unemployment in the People's Republic of China

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## INTRODUCTION

The People's Republic of China (PRC), the country with the world's largest labor force (792 million in 2021), faces significant demographic challenges—notably an aging population, a shrinking labor force, and a declining young population. The share of young people is projected to decline in the next decades, and they will stay longer in education before entering the workforce. The gross enrollment rate in tertiary education almost doubled to 58% in 2021, with a 28 percentage point increase from 2012.

At the same time, young workers are increasingly likely to be employed in service industries, working for private enterprises, and holding gig jobs,<sup>1</sup> while the share of youth employment in manufacturing has decreased steadily over time.

Note: ADB recognizes “China” as the People's Republic of China.

<sup>1</sup> The gig economy “comprises three key components: independent workers paid by the ‘gig’ (an individual task or project), consumers who need a specific service, and companies that connect the worker to the consumer in a direct manner, including through app-based technology platforms. A key feature of a gig is that it is a temporary work engagement and the worker is paid only for that specific job.” Asian Development Bank Institute (ADBI). 2022. *Strengthening Active Labor Market Policies to Drive an Inclusive Recovery in Asia*. <https://www.adb.org/publications/strengthening-active-labor-market-policies-to-drive-an-inclusive-recovery-in-asia>.

These developments made young workers more vulnerable to the impact of the coronavirus disease (COVID-19) as employment is more volatile and procyclical in the private sector compared to the state sector (Feng and Guo 2021), and the consuming service industries are more prone to major anti-COVID lockdown measures.

The COVID-19 crisis and related mobility restrictions have severely impacted the PRC’s labor market, particularly for the youth. While the unemployment rate for prime-age workers (25–59 years) improved swiftly and fell nearly to its prepandemic level by the end of 2022 after peaking at 5.6% in February 2020, the recovery of youth employment has lagged behind (Figure 1). The surveyed unemployment rate for workers aged 16–24 years averaged 17.6% in 2022, up from 11.9% in 2019 before the pandemic.

The structure of this brief is as follows. This brief first analyzes the driving factors that contributed to the PRC’s rising unemployment rate for urban youths, including college graduates and rural-to-urban migrants, prior to the pandemic, as well as the impacts during the pandemic. It then summarizes current government policies in response to rising unemployment. Finally, some recommendations for key areas that need policy attention are proposed.<sup>2</sup>

As this brief uses various sources in addition to official youth unemployment data, such as the China Household Finance Survey and China Family Panel Studies, it provides longer-term trends in the PRC’s youth labor market and offers a deeper analysis on the PRC’s youth employment challenges.

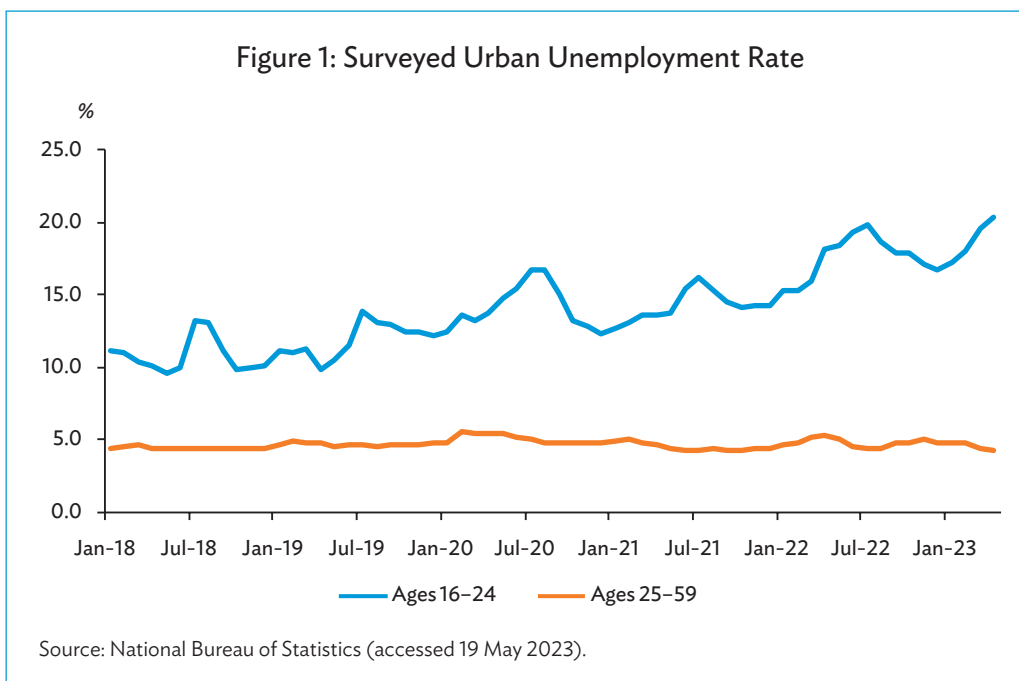
## UNDERSTANDING YOUTH LABOR MARKET CHALLENGES IN THE PEOPLE’S REPUBLIC OF CHINA

The PRC’s youth unemployment rate has been increasing steadily since 2018 when official data became publicly available. During the pandemic, this rising trend has become more pronounced and is high compared with other large economies (ADB 2023). This section examines the underlying reasons for this high unemployment rate among the youth, including both demand- and supply-side factors.

### A. Demand-Side Factors

#### Weak job creation due to the economic downturn.

Weak economic activity tends to be associated with higher unemployment as per Okun’s law (Okun 1962). This relationship seems to be more significant for young workers.



<sup>2</sup> This brief is the summary of the ADB–PRC Policy Dialogue Webinar (Deep Dive into PRC’s Youth Employment Challenges) on 16 December 2022 and the background paper written by Shuaizhang Feng, dean of School of Economics and dean of Institute for Economic and Social Research, Jinan University; and Jingliang Lu, Institute for Economic and Social Research, Jinan University. The panelists of the ADB–PRC Policy Dialogue Webinar included Min Tang, counsellor, State Council of PRC; Shuangyuan Wen, director of Employment Department, the Student Services and Development Center, Ministry of Education; Haizheng Li, professor at Georgia Institute of Technology; Zhilei Tian, assistant professor at the China Institute for Educational Finance Research, Peking University; and Boqing Wang, president of MyCOS Data.

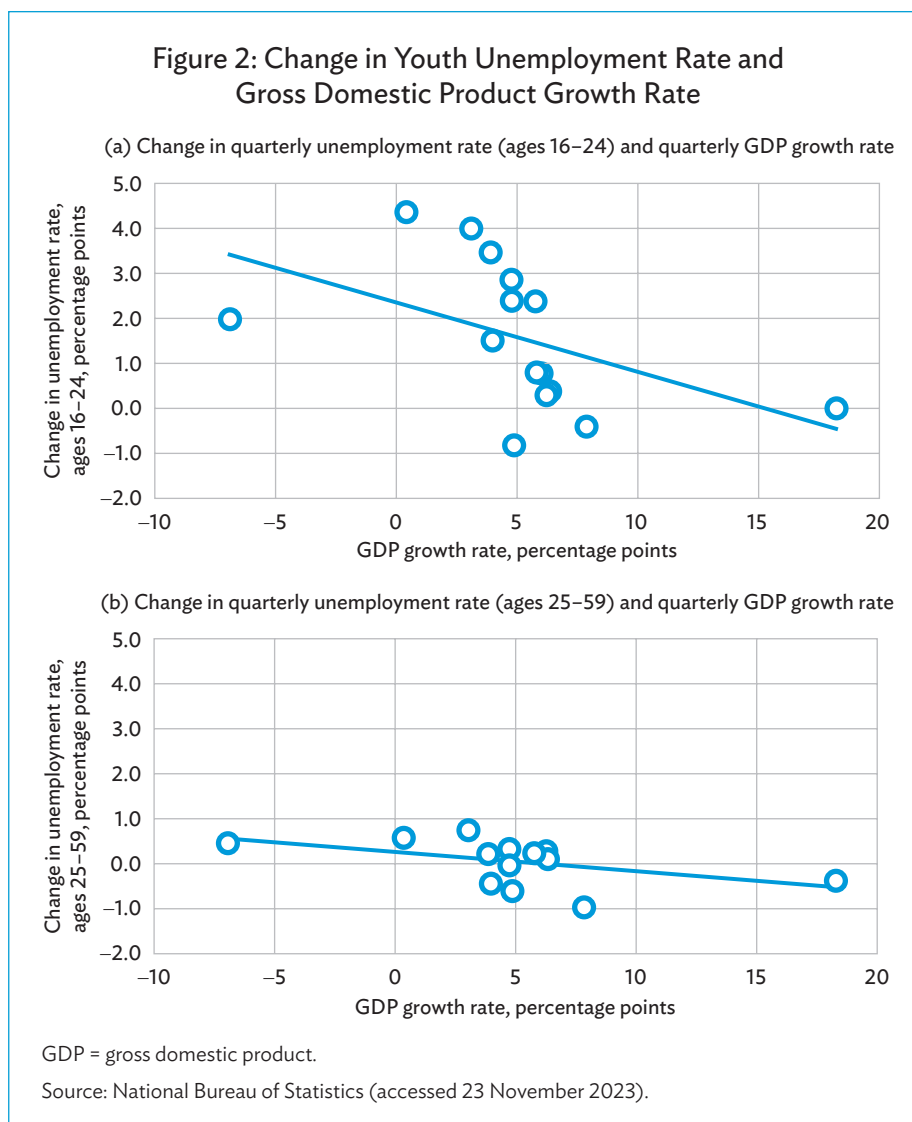


Figure 2 shows that compared to prime-age workers, youth unemployment has been affected more by the deteriorating macroeconomic situation. During 2020–2022, repeated lockdowns and mandatory quarantines disrupted economic activity and dampened labor demand. Gross domestic product grew by 4.5% on average during this time, down from 6.5% before the pandemic (2017–2019 average). At the same time, the average net increase in urban jobs was significantly lower than its prepandemic level in 2019.

**Sectors with more young workers hit hard by the pandemic-related restrictions.** Along the growth of service industries in recent years, young people are increasingly more likely to be (i) employed in service industries, (ii) working for private enterprises, and (iii) holding gig jobs. This implies that young workers were hit harder by the pandemic as detailed below.

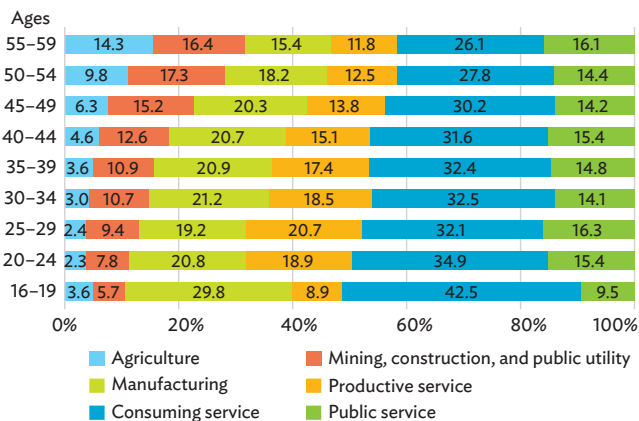
(i) **Tertiarization.** Youth employment in the tertiary sector has increased significantly. According to the 2010 and 2020 census data, the share of young workers aged 16–19 in service sectors increased by 12 percentage points and those aged 20–24 by 4 percentage points. In 2020, 42.5% of youth aged 16–19 and 34.9% of those aged 20–24 worked in consumer service industries which rely on face-to-face interactions (Figure 3). Therefore, they have been more impacted by anti-COVID lockdown measures.

(ii) **More likely to be working in the private sector.** Private enterprises are the predominant employers for the urban youth. About 50%–60%<sup>3</sup> of urban employed people aged 16–24 work for private firms, which is around 20 percentage points higher than prime-age workers, during 2013–2020. This trend is more

<sup>3</sup> Based on data from the China Household Finance Survey and China Family Panel Studies. The two data sets are designed by academicians and conducted by survey centers in universities in the PRC. The data were pooled from multiple waves from these two data sets.

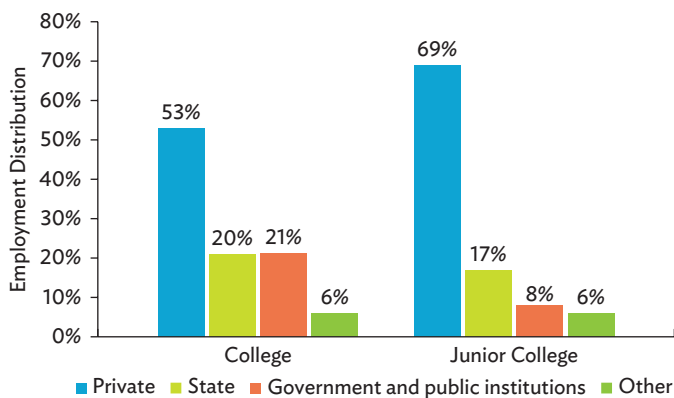
significant among vocational college graduates, of whom almost 70%<sup>4</sup> are employed in the private sector (Figure 4). This makes young workers more vulnerable to economic slowdowns than the prime-age workers as employment is more volatile and procyclical in the private sector compared to the state sector (Feng and Guo 2021).

**Figure 3: Urban Employment Distribution by Sectors in 2020**



Source: Calculations based on the tabulations of census data 2010 and 2020.

**Figure 4: Employment Distribution by Ownership of Employer and Education**



Sources: Chinese 4-year college graduates' employment annual report (2022) and Chinese 3-year vocational college graduates' employment annual report (2022), published by MyCOS company.

(iii) **Increasing taste for gig jobs.** Gig employment, which is based on flexible, temporary, or freelance jobs, has become more popular among young workers. According to the 2022 college student employability survey report by Zhaopin, among new college graduates in 2022, 18.6% chose to take up a flexible job, around a 3 percentage point increase over 2021. However, gig employment is more likely to offer a low level of social protection and is less stable when economic conditions worsen (ILO 2020).

Pandemic-related mobility restrictions have dampened job creation in the abovementioned sectors and private enterprises, especially in small and medium-sized enterprises. For example, job creation in tertiary industries was only 2.5 million in 2020 and 0.6 million in 2021, much lower than prepandemic levels (6.5 million in 2019 and 9.1 million in 2018).

**Regulatory interventions reduced job opportunities for youth.**

Tighter regulation on technology, private tutoring, and the property sector also weighed on the youth labor market, given that information technology, education, real estate or construction, and finance and consulting are popular industries among jobseekers (Zheng, Zhang, and Zhu 2021). This, together with the economic downturn, imposed uncertainties on business, making firms cancel or delay their hiring plans, and reducing job opportunities for the youth.

**B. Supply-Side Factors**

**Increased supply of college graduates.** While the supply of rural migrants has remained stable at around 170 million since 2014, the supply of college-educated youths has increased steadily. Owing to the continued expansion of enrollment in higher education and growing opportunities to study abroad, the number of college graduates entering the labor market has been rising.<sup>5</sup> In the past 10 years, annual college graduates increased from 7 million in 2012 to 10.76 million college in 2022, 1.7 million more than the previous year (Figure 5).

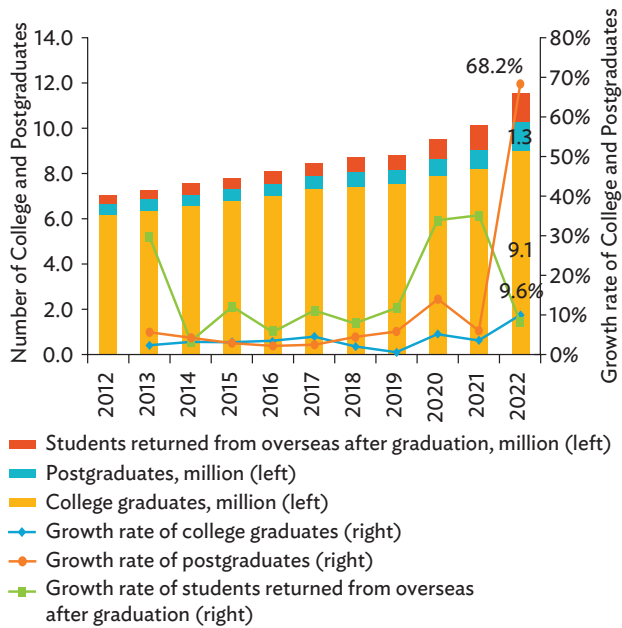
**The quality of labor and job-skills mismatch.** The quality of the youth labor supply has improved in the PRC as young people stay longer in education, impacting labor market behavior and outcomes.<sup>6</sup> First, there is an increasing number of college graduates due to the growing enrollment in higher education. Second, as Figure 6 shows, in the PRC, young people aged 16-24 with more education usually have a higher level of unemployment than prime-age people aged 25-59. Given that educated youth have higher career aspirations and their skills are more specialized, it can take longer for them to secure suitable jobs. Moreover, educated young jobseekers may be overqualified for low-skilled jobs and do not possess the practical skills demanded by employers. The job opening-to-applications ratio in the PRC has been constantly higher for all jobseekers than for college students, indicating a mismatch between the skills held by

<sup>4</sup> Based on data from mycos.com which surveys college and junior college graduates.

<sup>5</sup> College students include those with bachelor's and postgraduate degrees, and those who got a degree overseas and returned home after graduation.

<sup>6</sup> According to the calculations based on the tabulations of census data for 2010 and 2020, 61.9% of those aged 20-24, and 85.4% of those aged 16-19 had only high school or less schooling in 2010. These two proportions decreased significantly to 39.5% and 70% in 2020.

Figure 5: Number and Growth Rate of College and Postgraduate Youth Labor Supply



Note: The number of students who returned from overseas after graduation in 2022 (in yellow) was estimated based on a polynomial regression.

Sources: National Bureau of Statistics and author’s estimates.

college education and those demanded by the market (World Bank 2022). Finally, the quality of education, training, and work-based learning provided to the youths was negatively affected by the pandemic and has made college graduates and other youths disadvantaged in the job market (Barford, Coutts, and Sahai 2021).

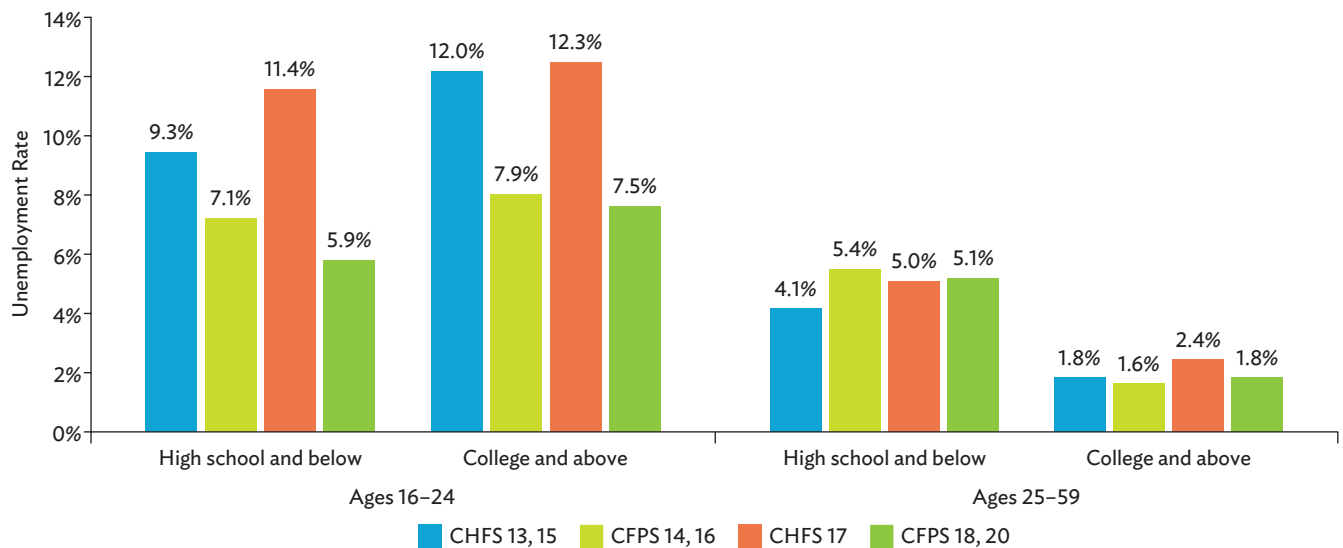
**Job preference changed.** In the wake of the pandemic, young jobseekers have become more risk-averse and prefer safe jobs with less challenge and more stability, such as public sector jobs. A survey conducted by Peking University (2021) found that 49.3% of college graduates gained employment in civil service, public institutions, and state-owned enterprises in 2021, up from 39.3% in 2019 (Yue, Xia, and Qiu 2020).

### POLICIES TO STABILIZE THE LABOR MARKET

Various government policies have been implemented to stabilize and promote employment during the pandemic. Many of these policies target younger workers, especially recent college graduates. These policies include the following:

- (i) **Delaying labor market entry.** During the pandemic, college graduates were encouraged to apply to enroll for master’s or PhD degrees or enter military service in response to reduced job availability.

Figure 6: Unemployment Rate by Education



Note: The numbers were calculated from various waves of CFPS (Years 2014, 2016, 2018, and 2020) and CHFS (Years 2013, 2015, and 2017).

Sources: China Household Finance Survey (CHFS) and China Family Panel Studies (CFPS).

(ii) **Creating employment and subsidizing firms.** A series of measures were launched to promote job creation after the breakout of the pandemic. For example, the Government of the PRC provided direct employment opportunities for young people by offering more government positions and sponsoring job programs. Meanwhile, the government also subsidized firms to encourage job retention and new hiring. Pension, unemployment insurance, and work-injury insurance premium payments were lowered for firms heavily affected by the pandemic and social security contributions were temporarily waived.

(iii) **Providing skills training and employment services.** The government provided employment search services such as job fairs and recruitment campaigns, offered internship opportunities and training programs, and supported self-employment and flexible employment.

(iv) **Offering income support and temporary relief.** The government increased unemployment benefit payments, provided food subsidies and other types of living assistance, extended coverage of the minimum living guarantee program, and provided temporary assistance programs to people who were in financial difficulties due to the pandemic.

## SUMMARY OF EXPERTS' DISCUSSION AND REMAINING QUESTIONS

**In the short term, the government should prioritize improving demand conditions.** Weakening economic activity is likely to be the main reason for the recent rise in youth unemployment, whereas supply-side factors are the continuation of the long-run trend. In this regard, it is important to stimulate economic growth and promote the service sectors and the private sector more generally as they are predominant youth employers.

**Support to vulnerable groups should be increased.** The government has launched a series of policies to support youth employment during the pandemic, mainly focusing on college graduates. Moving ahead, support could be increased for low-skill migrant youth and college graduates from low-income families. Migrant youth are vulnerable because of their double disadvantage in terms of low educational attainment and lack of *hukou*.<sup>7</sup> In addition, college graduates from low-income backgrounds have less financial support to weather an economic downturn.

**In the long run, government should continue to improve the quality of the labor force.** The quality of college education has suffered from the short-term effects of the pandemic and the

government can mitigate the negative impacts of COVID-19 on human capital. To this end, the government and colleges can provide retraining programs (i.e., on-the-job training and vocational training) for college students to meet labor market demands.

**There are remaining questions for further study.**<sup>8</sup> During the pandemic, many countries launched policies and programs to support young jobseekers. To help policy making, areas that warrant further investigation include (i) effective support to the private sector, in particular the service sector employers during an economic recession; (ii) behavior changes of young workers during the pandemic and other economic downturns (e.g., job preference change); (iii) skills mismatch when countries experience a transition to a more educated workforce and industry transformation; and (iv) policy options to improve social protection for gig workers.

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<sup>7</sup> *Hukou* is a household registration system in the PRC that categorized PRC citizens based on their place of residence and eligibility for certain social benefits.

<sup>8</sup> Besides the policy suggestions proposed during the discussion, additional actions such as providing skills training demanded by the new economy and enhancing labor mobility and job creation in provincial areas with high unemployment are also crucial. For more details, please see *Observations and Suggestions in Youth Employment and the Pandemic Recovery in the People's Republic of China*. <https://www.adb.org/publications/youth-employment-pandemic-recovery-peoples-republic-china>.

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