HS4008 Literature Review: Unemployment of China's Fresh Graduates

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HS4008: Contemporary Chinese Institutions

**Literature Review:**
*Unemployment Problem of China’s Fresh Graduates*

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Introduction

China is experiencing a phenomenon of educated unemployment. More and more fresh Chinese graduates are finding it increasingly difficult to secure employment, thus it is commonplace for a large pool of them to remain jobless upon graduation. In 2013, the number of college graduates hit a record high in the People’s Republic’s history. Statistics obtained from the TIME news report (2013) revealed that a staggering amount of seven million students graduated from college that year, with only 26% having successfully signed an employment contract and guaranteed a place in the labor market.

Unemployment among local graduates is a regular in the headlines, sparking concern within the Chinese society. The severity of the matter even drew the attention of its president, Mr. Xi Jinping. This alarming crisis is very real, and is perhaps one of the greatest obstacles contemporary China is faced with. The problem of educated unemployment in China is a favorite among academics worldwide, with considerable amount of literature written on said topic. Thus, gathering the relevant written works by various researchers, this paper seeks to better understand the phenomenon of educated unemployment by identifying the various root causes.

Educational Reforms

The main trigger for the current crisis is in large part due to the earlier education reforms in 1999 (Wu, 2009; Zhao & Huang, 2010; Zweig & Han, 2008). When China opened up in the late 1970s, it brought economic prosperity to the nation. As couple of decades passed, its economy has progressed to one that is increasingly diversified and sophisticated. To meet the challenges of this rapidly growing economy, the government instituted an educational reform of
expanding tertiary admissions by virtually 50% in 1999 (Zhao & Huang, 2010). Four years later in 2003, the first batch of college graduates under the reformed system poured into the labor market in large numbers. The sudden surge in university graduates imbalanced the availability of the labor market and for the first time in history, a large number of these highly educated individuals experienced unemployment. In a short period of time, the enrollments for higher education increased too rapidly for China’s job market to catch up. Years later, it never quite did.

The educational quality deteriorated as a result of a shift in priorities. Zhao and Huang (2010) posit that universities in China today are commoditized and oriented toward the pursuit of size and profits, thus gradually losing focus of its main objective to nurture its students holistically. Tertiary institutions are now more concerned with designing profitable programs than developing a conducive and effective learning environment. This is evident from the addition of more but impractical subjects, which according to Wu (2009) are disjointed from social realities. Such subjects promote rote learning, churning out graduates who may be well-read in theories, but lacking in creativity, practical and ethical abilities. During the Tang Dynasty, civil examination subjects included poetry, rhymed prose and the classics. Xiao and Li (2013) critique that such form of examination served as neither accurate indicators of moral virtues nor technical skills. Under such an education system, children who were supposed to be taught civic morals education were instead made to study impractical subjects behind closed doors. As a result, these children grew up being well-versed in said subjects, but lacked experience with affairs in the real world. The history of a flawed education system is regretfully still existential in contemporary times.

In a nutshell, universities in China today are not responsive to changing demands of the job market; they prioritize economic gains over the employability of their students, thus failing
to provide the necessary skills to match the increasingly complex economy. Statistics reveal that the rate of change in market demand for professionals, managers, executives and technicians (PMETs) is two to four times faster than structural adjustments in colleges (Zhou, 2010). As a result, there exists a mismatch between the nature of the job and practical competencies of young graduates, resulting in what Zhao and Huang (2010) term as ‘structural unemployment.’

**High Job Expectations**

The Human Capital Theory connects a positive correlation between the level of education attained and the employability of an individual (Zhou, 2010; Zweig & Han, 2008). In layman terms, the theory believes that the greater the investment in education, the better the career prospects of the individual. After having spent a significant amount of money on obtaining a higher education, it is only natural that most would expect high returns. Two of the major considerations taken into account when making their career choices include the amount of remuneration and the location of the job. According to Zhou (2010), jobs which are white collared, in the government sector or termed as “iron rice bowl” are favored among graduates.

However, the legitimate concept of high returns on educational investments no longer coincides with present situation in the labor market. A survey conducted in 2010 revealed that the average starting salary offered for that year fell short of college graduate’s expectations by 9%. Monetary returns falling short of expectations may be disappointing, but the more devastating issue that a large number of Chinese graduates face today is the high possibility of not getting any returns at all after dedicating years of effort and money in the quest to be more knowledgeable. Educated individuals are finding it increasingly difficult to secure employment. Since obtaining a degree in present day China guarantees neither high earnings nor social status,
Zhao and Huang (2010) suggest that it may have a negative impact on the education decisions of poor households. According to Yu (2004), a student’s expenses at a standard university account for 62% of the average Chinese household budget, and this percentage would be much higher and thus more taxing for poor rural families to bear. With the problem of educated unemployment, there is no longer any incentive for poor parents to make economic sacrifices to enroll their children in college. Most of the rural youths tend to stop schooling after fulfilling the mandatory minimum number of years as imposed by the state, which in turn hinders social mobility and widen class stratifications.

Zhou (2010) asserts that a large number of graduates still remain unemployed today not because there is a lack of jobs, but because of the high job expectations graduates have and are unwilling to compromise. According to the Labor Market Segmentation Theory, the labor market is divided into primary and secondary markets. In the primary sector, college education is the prerequisite for securing a relatively stable job with good career prospects, excellent employee welfare and high incomes. In the secondary sector, completing high school education is sufficient for working jobs which are relatively unstable with low wages. In recent years, the primary division is shrinking, with fewer and fewer jobs available for professional or specialist positions; the secondary sector on the contrary is expanding, with more and more generalist jobs (Zhao and Huang, 2010). Basically, the present labor market constitutes a large manufacturing sector with a small service industry. Fresh graduates who are unable to secure employment opportunities in the primary market are unwilling to take up jobs in the secondary segment because of the disparities in benefits. It could also be due to the elitist complex graduates have, many of whom would rather remain unemployed than work labor-intensive jobs regarded as beneath their statuses, thus creating what is termed as ‘voluntary unemployment.’
Additionally, graduates prefer to source for employment in major cities like Shanghai and Beijing. These developed cities house nearly 80% of college equivalent positions in the labor market (Zhao and Huang, 2010). Furthermore, this salient preference of location is made clearer when Yu (2004) highlights the difference in income of more than 40% between the big cities and smaller regions. After four years of hard work and driven by the intention to recoup the investment spent on attaining a higher education, these graduates are obliged to seek better paying jobs in major cities where it already is saturated. A large pool of graduates competing for a limited number of positions has contributed to unemployment among many.

**Poor Environment for Entrepreneurship**

China is not the best place for budding entrepreneurs (Liao and Sohmen, 2001; Zhao and Huang, 2010). As compared to the United States where nearly 20% of its fresh graduates choose to become their own bosses, China records only 0.3% of enterprising graduates in 2009. Liao and Sohmen (2001) attribute this low percentage of budding Chinese entrepreneurs to the three environmental barriers existential in China. Firstly, there is political and legal ambiguity. Government policies in China are infamously buoyant; businesses are subjected to the volatile and conflicting regulations set by the local, provincial and central governments. Secondly, there is limited access to resources such as capital, manpower and technology. Funds for most start-ups usually come from personal savings, family and friends; bank loans and venture capital are not popular because the Chinese are not accustomed to borrowing from others and having to practice equity sharing. Although there is a large pool of unemployed graduates to meet labor demands, majority of them lack work experience; academic expertise may be important, but so does being equipped with the technical know-hows. Moreover, most Chinese are unwilling to quit their stable jobs for high-risk ones in the private sector, thus impeding the technological
level of the entrepreneurial firms. Lastly, setting up one’s own business in China is associated with a low social status. This belief is rooted in historical times, when merchants occupied the bottom rung of the Chinese society. In contemporary times, attitudes toward owning a private business have changed, but some prejudice still remains.

In a nutshell, entrepreneurship can be a viable option for graduates who have failed to secure a position in the labor market. However, this alternative is made difficult with the presence of various environmental barriers. As a result, most graduates are caught in the cycle of unemployment.

**Contrasting Views**

Several of the researchers have acknowledged that although the phenomenon of educated unemployment is very real, it is not a cause for social panic as they believe that the problem is being overstated and amplified by the media (Yu, 2004; Zweig & Han, 2008). They argue that it is only a temporary crisis as the market failure will eventually regulate itself, thus neither the government nor the public should be overly concerned.

It is important to note that Zweig and Han (2008) used a different point of reference in their analysis. They examined the problem from the perspective of overseas returnees in China. Findings from three surveys conducted previously by the Ministry of Education’s Chinese Service Center for Scholarly Exchange (CSCSE) and the Southern China Overseas Human Resource Center (SCOHR) have shown that most returnees secured employment which pays relatively good incomes within three months and only a small number suffered from a longer job hunt of more than six months. To be fair, Zweig and Han (2008) took into account that perhaps
these returnees, with their “transnational human capital” gives them a competitive advantage over other Chinese graduates from local colleges.

Zhao and Huang (2010) may not agree that the market will eventually adjust itself and solve the unemployment crisis, but they acknowledged that not all college graduates face the dire problem. Certain attributes contribute to a speedier job securement. The quality of the degree certainly is a major factor in securing employment; those who graduate from top universities are still able to find jobs which pays relatively well. Kong and Jiang (2011) agree that students from colleges of higher reputation find it easier to secure employment and suggested that the type of discipline goes toward making an impact as well. According to survey data, graduates from Engineering and Business majors are most sought after in the labor market, followed by the Arts and Social Sciences students. Those from the Law and Science disciplines however, find it more difficult to source for jobs. This could be in large part due to what Zhao and Huang (2010) have suggested as having limited number of jobs offered for professional or specialist positions.

Conclusion

Due to the educational reform in 1999 which expanded tertiary enrollment significantly, the first batch of graduates which entered the labor market in 2003 hit a record high in China’s history. The surge in the number of graduates has created a situation where there are more job seekers than jobs available. Essentially, the reform of the education system triggered the massive unemployment problem. The quality of education has declined over the years as universities are increasingly focused on the expansion of size and revenue, thus compromising the welfare of the students. As a result, most graduates today do not possess the relevant skill sets required in performing a job well.
A college degree in contemporary times is considered an elite achievement, thus naturally many of the graduates have high job expectations. The ideal job is one which pays well and is located in a big city. However, the number of available jobs in major cities is limited and many find themselves stranded with none. There are many labor-intensive jobs in the secondary sector but graduates rather remain unemployed than take up those jobs as it is way beneath their expectations. Starting one’s own business may be a viable option out of unemployment, but China’s environment is currently not conducive for budding entrepreneurs.

In conclusion, some researchers say that this phenomenon of educated unemployment is a major obstacle that China has to tackle, while others deem it as a temporary crisis which will eventually regulate itself. These two contrasting theories make a good area for future research. Even so, experts can only speculate. Thus meanwhile, we can look into some effective solutions or remedies to help alleviate China’s graduates out of the vicious cycle of unemployment.
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