Recent Employment Trends in India and China:
An unfortunate convergence?

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Introduction

It is now commonplace to regard China and India as the two economies in the developing world that are the “success stories” of globalisation, emerging into giant economies of the 21st century. The success is defined by the high and sustained rates of growth of aggregate and per capita national income; the absence of major financial crises that have characterised a number of other emerging markets; and substantial reduction in income poverty. These results in turn are viewed as the consequences of a combination of a “prudent” yet extensive programme of global economic integration and domestic deregulation, as well as sound macroeconomic management. These supposed success stories have therefore been used to argue the case for globalisation and to indicate the potential benefits that other developing countries can reap, as long as they also follow “sensible” macroeconomic policies.

Further, both China and India are seen as success stories in terms of changing employment patterns which are seen as heralding a major shift in the international division of labour. Thus China is typically described as becoming the “workshop” or “factory” of the world through the expansion of manufacturing production, and India as becoming the “office” of the world, in particular because of its ability to take advantage of IT-enabled service sector off-shoring. It is worth considering how far this view is justified by recent internal changes in employment structure in the two countries, and this paper will examine this more closely.

However, the main argument of the paper is that both China and India, despite the similarity of the current international hype about their future economic prospects and also despite their obvious differences, face rather similar economic problems at present especially with respect to the labour market. In both countries, the strategy of development is delivering relatively high growth without commensurate increases in employment, especially in the organised sector; and the bulk of new employment is in

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lower productivity activities under uncertain and often oppressive conditions. This appears to be a paradox given the rapid aggregate income growth in both countries, but it may even be a common result of what is currently a similar strategy of economic expansion in both countries.

Differences and similarities

It is important to note that we are not actually comparing fundamentally similar economies. Although there are some superficial attributes in common, such as large populations covering substantial geographical areas, regional diversity, relatively high rates of growth over the recent period and so on, the institutional conditions in the two economies remain very different. India was a traditional "mixed" developing economy with significant private sector participation (including a large private corporate sector) from Independence onwards, and even during the "dirigiste" regime the emphasis was dominantly on the regulation of private capital. Indeed, one of the problems of the so-called "planned economy" in India was the inability of the state to make the private sector behave in ways that fitted in with the plan allocations of the state, leading to mismatches between production and private demand as well as periodic macroeconomic imbalances. The neoliberal reforms undertaken in the phase of globalisation have further expanded the scope for private activity and reduced regulation. Essentially, in India macroeconomic policies have occurred in contexts similar to those in other capitalist economies, where involuntary unemployment is rampant and fiscal and monetary measures have to be used to stimulate effective demand.

However, China, by contrast, has had a very different economic structure for most of this period, where the basic elements of a command economy have been much more in evidence. Even after the quite sweeping economic reforms that have taken place since 1979, state control over macroeconomic balances remains substantial. Furthermore, because of the significance of state-owned enterprises and TVEs in total production, the ability to influence aggregate demand does not depend only upon fiscal policy in terms of purely budgetary measures, since many "off-budget" expenditures can be increased or reduced. Further, monetary policy as is generally understood in capitalist economies has very little meaning in China where private financial activity is limited and state-owned banks still dominate overwhelmingly in the provision of credit. This means that for most of the period under discussion, macroeconomic policies in China were necessarily very different and had very dissimilar implications, from those in capitalist developing economies. In particular, macroeconomic adjustment takes the form of "administrative measures", which typically involve a squeeze on credit provision to regional and provincial governments and public and private corporations ensured through administrative fiat rather than the use of specific economic levers. It is true that the Chinese economy is currently in a phase of transition into one where more traditional "capitalist macroeconomics" is applicable. But China's periodic macroeconomic imbalances and its ability to quickly ensure macroeconomic correction when seen as required are related to the fact that advance in this direction is still limited and the process already reflects its own tensions and challenges.

The control over the domestic economy in China has been most significant in terms of the financial sector. In India, the financial sector was typical of the "mixed economy" and even bank nationalisation did not lead comprehensive government control over the financial system; in any case, financial liberalisation over the 1990s has involved a progressive deregulation and further loss of control over financial allocations by the state in India. But the financial system in China still remains heavily under the control of the state, despite recent liberalisation. Four major public sector banks handle the bulk of the transactions in the economy, and over the past several decades the Chinese authorities have essentially used control over the consequent financial flows to regulate the volume of credit (and therefore mange the economic cycle) as well as to direct credit to priority sectors. Off-budget official finance (called "fund-raising" by firms) has accounted for more than half of capital formation in China even in recent years, and that together with direct budgetary appropriations have determined nearly two thirds of the level of aggregate investment.[2] This means that there has been less need for more conventional fiscal and monetary policies, although the Chinese economy is now in the process of transition to the more standard pattern.

Another difference is becoming less evident in recent years - the dramatically high rate of GDP growth in China compared to the more moderate expansion in India. The Chinese economy has grown at an average annual rate of 9.8 per cent for two and a half decades, while India's economy has grown at around 5-6 per cent per year over the same period. Chinese growth has been relatively volatile around this trend, reflecting stop-go cycles of state response to inflation through aggregate credit management. The Indian economy broke from its average post-Independence annual rate of around 3 per cent growth to achieve annual rates of more than 5 per cent from the early 1980s. It is only in the most recent period that the Indian economy has apparently grown at rates in excess of 8 per cent per annum, coming close to the Chinese average.

The higher growth in China has essentially occurred because of the much higher rate of investment in China. The investment rate in China (investment as a share of GDP) has fluctuated between 35 and 44 per cent over the past 25 years, compared to 20 to 26 per cent in India (very recently increasing to above 30 per cent). In fact, the aggregate ICORs (incremental capital-output ratios have been around the same in both economies.) Within this, there is the critical role of infrastructure investment, which has averaged 19 per cent of GDP in China compared to 2 per cent in India from the early 1990s.[3] It is sometimes argued that China can afford to have such a high investment rate because it

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[2] In 2003, for example, direct state budgetary appropriation accounted for less than 5 per cent of the financing of total fixed capital formation, but " fund-raising" accounted for 54 per cent and bank loans from the government controlled banking system accounted for another 20 per cent. (China Statistical Yearbook 2004)

[3] China Statistical Yearbooks, various years.

has attracted so much foreign direct investment (FDI), and is the second largest recipient of FDI in the world at present. But FDI has accounted for only 3-5 per cent of GDP in China since 1990, and at its peak was still only 8 per cent. In the period after 2000, FDI has accounted for only 6 per cent of domestic investment. In fact in recent times, the inflow of capital has not added to the domestic investment rate at all, macroeconomically speaking, but has essentially led to the further accumulation of international reserves, which have been increasing by more than $100 billion per year.

In terms of economic diversification and structural change, China has followed what could be described as the classic industrialisation pattern, moving from primary to manufacturing activities in the past 25 years. The manufacturing sector has doubled its share of workforce and tripled its share of output, which, given the size of the Chinese economy and population, has increasingly made China "the workshop of the world". In India, by contrast, the move has been mainly from agriculture to services in share of output, with no substantial increase in manufacturing, and the structure of employment has been stubbornly resistant to change. The share of the primary sector in national income has fallen from 60 per cent in the early 1950s to 25 per cent between 2001-03, but the share of the primary sector in employment continues to be more than 60 per cent, indicating a worrying persistence of low productivity employment for most of the labour force. The higher rates of investment in India over the past two decades have not generated more expansion of industry in terms of share of GDP, but have instead been associated with an apparent explosion in services, that catch-all sector of varying components. The recent expansion of some services employment in India has been at both high and low value added ends of the services sub-sectors, reflecting both some dynamism and some increase in "refuge" low productivity employment.

Another major difference relate to trade policy and trade patterns. Chinese export growth has been much more rapid, involving aggressive increases on world market shares. This export growth has been based on relocative capital which has been attracted not only by cheap labour but also by excellent and heavily subsidised infrastructure resulting from the high rate of infrastructure investment. In addition, since the Chinese state has also been keen on provision of basic goods in terms of housing, food and cheap transport facilities, this has played an important role in reducing labour costs for employers. In India, the cheap labour has been because of low absolute wages rather than public provision and underwriting of labour costs, and infrastructure development has been minimal. So it is not surprising that it has not really been an attractive location for export-oriented investment, its rate of export growth has been much lower, and exports were not an engine of growth until relatively recently. This difference was also reflected in employment patterns: in China until the late 1990s, the rapid export growth generated employment which was a net addition to domestic employment, since until WTO accession China had undertaken much less trade liberalisation than most other developing countries. This is why manufacturing employment grew so rapidly in China, because it was not counterbalanced by major losses of employment through the effects of displacement of domestic industry because of import competition. This is unlike the case in India, where increases in export employment were outweighed by employment losses especially in small enterprises because of import competition.

In terms of inequality, in both economies the recent pattern of growth has been inequalising. In China the spatial inequalities – across regions – have been the sharpest. In India, vertical inequalities and the rural-urban divide have become much more marked. In China recently, as a response to this, there have been some top-down measures to reduce inequality, for example through changes in tax rates, greater public investment in western and interior regions and improved social security benefits. In India, it is political change through electoral verdicts that has forced greater attention to redressing inequalities, though the process is still very incipient.

In terms of the future prospects, surprisingly both economies end up with very similar issues despite these major differences. There are clear questions of sustainability of the current pattern of economic expansion in China, since it is based on a high export-high accumulation model which requires constantly increasing shares of world markets and very high investment rates. Similarly, the hope in some policy quarters in India that IT-enabled services can become the engine of growth for the entire economy is one which raises questions of sustainability, quite apart from questions about whether it will be enough to transform India's huge labour force into higher productivity activities. The most important current problems in the two economies are also rather similar – the agrarian crisis and the need to generate more employment. In both economies, the social sectors have been neglected recently by public intervention. In both countries, therefore, despite the very different institutional conditions and the dissimilarities even in the way that recent economic trends have played out, the crucial policy concern is still that of ensuring sustainable productive employment generation for the majority of the labour force.

Employment patterns in India

The economic growth process in India exhibits a problem which is increasingly common throughout the developing world: the apparent inability of even high rates of even high rates of output growth to generate sufficient opportunities for "decent work" to meet the needs of the growing labour force. This was already evident from the data emerging from the 2001 Census, but the more comprehensive data from the National Sample Survey suggest some more disturbing recent trends. The quinquennnial large sample rounds of the NSSO provide the most exhaustive data on employment trends and conditions in India. The results of the latest survey – the 61st Round, covering 2004-05 – reveal that there have been notable changes in the employment patterns and conditions of work in India over the first half of this decade.

The first important change from the previous period relates to aggregate employment growth itself. The late 1990s was a period of quite dramatic deceleration of aggregate employment generation, which fell to the lowest rate recorded since such data began being collected in the 1950s.[4] Thus, in the period 1993-94 to 1999-2000, all forms of rural employment (including subsidiary or part-time work) increased by only 0.66 per cent per annum, while urban employment increased by 2.27 per year. However, the most recent period indicates a recovery, to 1.97 per cent for rural areas and 3.22 per cent for urban areas. These are still below the rates of employment expansion achieved in the period 1987-88 to 1993-94, but certainly some improvement from the immediately preceding period. This in turn reflects a slight increase in labour force participation rates for both men and women. This includes both those who are actively engaged in work and those who are unemployed but looking for work – interestingly, both have increased! This aggregate increase incorporates declining rates of labour force participation among the youth, that is the age group 15-29, and a rise for the older age cohorts.

But what is particularly noteworthy is the shift in the type of employment. There has been a significant decline in the proportion of all forms of wage employment. While regular employment had been declining as a share of total usual status employment for some time now (except for urban women workers), wage employment had continued to grow in share because employment on casual contracts had been on the increase. But the latest survey round suggests that even casual employment has fallen in proportion to total employment.

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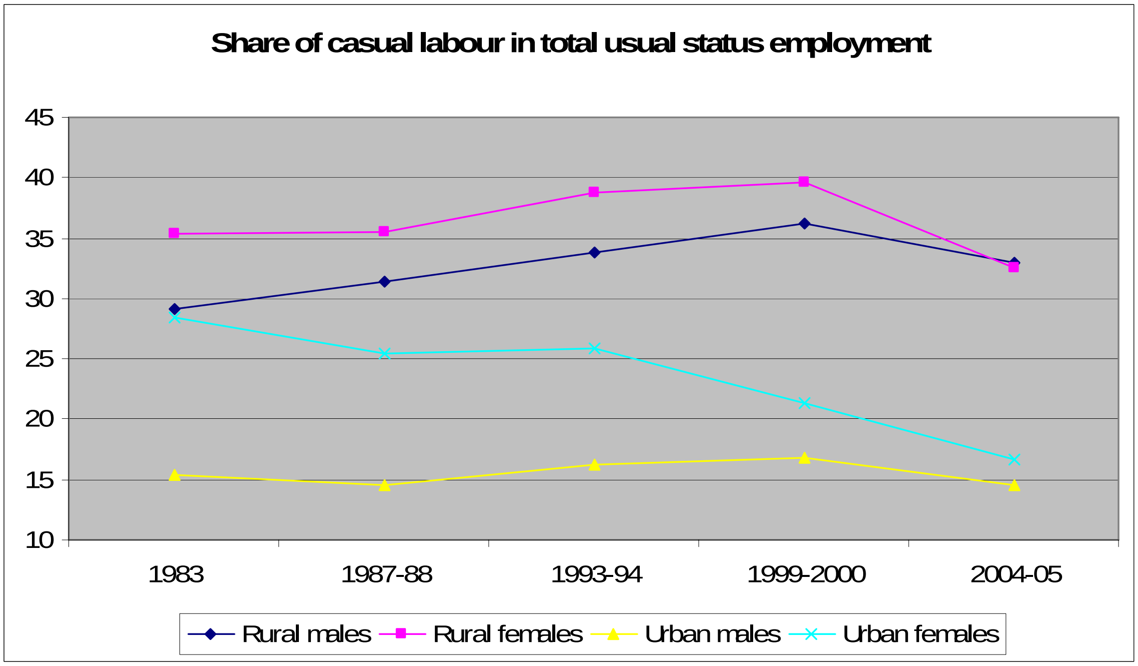
[4] Aggregate employment is calculated here by using NSS workforce participation rates and population estimates of the Registrar General of India based on Census data.



For urban male workers, total wage employment is now the lowest that it has been in at least two decades, driven by declines in both regular and casual paid work. For women, in both rural and urban areas, the share of regular work has increased but that of casual employment has fallen so sharply that the aggregate share of wage employment has fallen. So there is clearly a real and increasing difficulty among the working population, of finding paid jobs, whether they be in the form of regular or casual contracts.

The fallout of this is a very significant increase in self-employment among all categories of workers in India. The increase has been sharpest among rural women, where self-employment now accounts for nearly two-thirds of all jobs. But it is also remarkable for urban workers, both men and women, among whom the self-employed constitute 45 and 48 per cent respectively, of all usual status workers.

All told, therefore, around half of the work force in India currently does not work for a direct employer. This is true not only in agriculture, but increasingly in a wide range of non-agricultural activities. This in turn requires a significant rethinking of the way analysts and policy makers deal with the notion of "workers". For example, how does one ensure decent conditions of work when the absence of a direct employer means that self-exploitation by workers in a competitive market is the greater danger? How do we assess and ensure "living wages" when wages are not received at all by such workers, who instead depend upon uncertain returns from various activities that are typically petty in nature? What are the possible forms of policy intervention to improve work conditions and strategies of worker mobilisation in this context? This significance of self-employment also brings home the urgent need to consider basic social security that covers not just general workers in the unorganised sector, but also those who typically work for themselves, which is what makes the pending legislation on this so important.

If the new jobs being generated are dominantly in the form of self-employment, where exactly are they to be found? The sector-specific data also provides some surprises. While it is expected that there has been a significant decline in agriculture as a share of rural employment, the share of manufacturing employment has not gone up commensurately for rural male workers. Instead, the more noteworthy shift for rural males has been to construction, with some increase in the share of trade, hotels and restaurants.

Employment by industry
[per cent of employment according to Usual Status (PS+SS)]

	1993-94	1999-2000	2004-05
Agriculture			
Rural males	74.1	71.4	66.5
Rural females	86.2	85.4	83.3
Urban males	9	6.6	6.1
Urban females	24.7	17.7	18.1
Manufacturing			
Rural males	7	7.3	7.9
Rural females	7	7.6	8.4
Urban males	23.5	22.4	23.5
Urban females	24.1	24	28.2
Construction			
Rural males	3.2	4.5	6.8
Rural females	0.9	1.1	1.5
Urban males	6.9	8.7	9.2
Urban females	4.1	4.8	3.8
Trade, hotels & restaurants			
Rural males	5.5	6.8	8.3
Rural females	2.1	2	2.5
Urban males	21.9	29.4	28
Urban females	10	16.9	12.2
Transport, storage & communications			
Rural males	2.2	3.2	3.9
Rural females	0.1	0.1	2
Urban males	9.7	10.4	10.7
Urban females	1.3	1.8	1.4
Other services			
Rural males	7	6.1	5.9
Rural females	3.4	3.7	3.9
Urban males	26.4	21	20.8
Urban females	35	34.2	35.9

For urban males, on the other hand, the share of trade, hotels and restaurants has actually declined, as it has for other services. Manufacturing is back to the shares of a decade ago, still accounting for less than a quarter of the urban male work force. The only consistent increases in shares have been in construction, and to a less extent transport and related activities.

Interestingly, the big shift for urban women workers has been to manufacturing, the share of which has increased by more than 4 percentage points. A substantial part of this is in the form of self employment. Other services continue to account for the largest proportion of women workers, but the share of trade hotels and restaurants has actually fallen compared to 1999-2000.

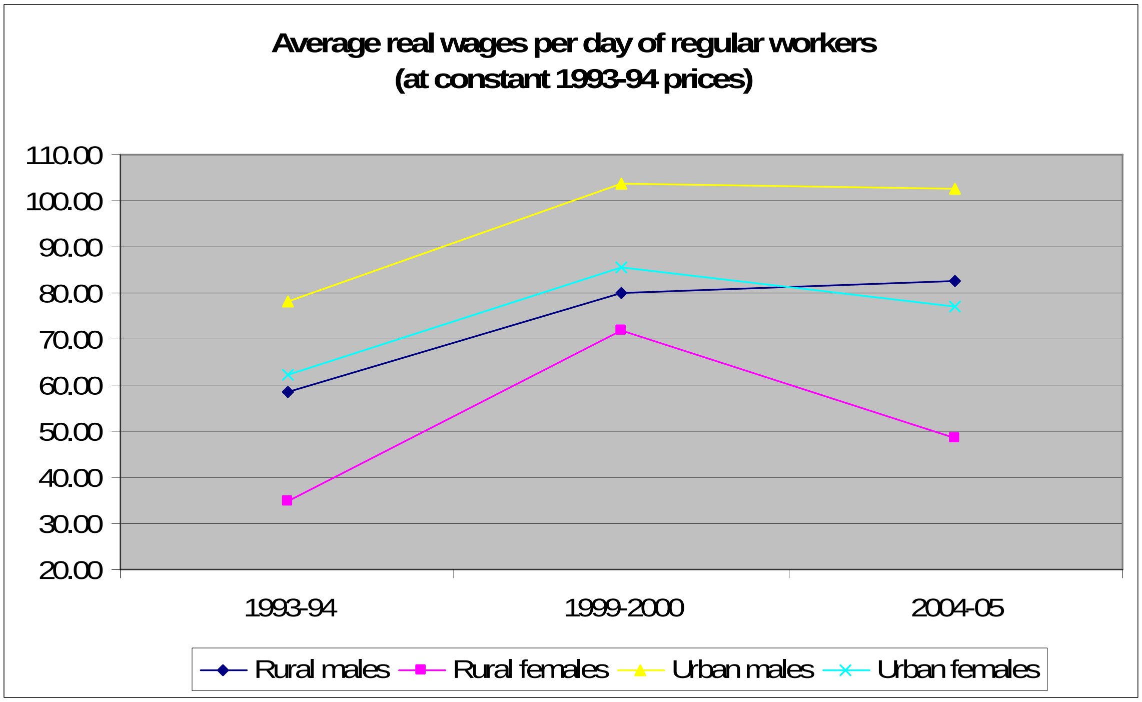
Growth rates of employment
(Annual compound rates per cent)

	1993-94 to 1999-2000	1999-2000 to 2004-05
Agricultural self employment	-0.53	2.89
Agricultural wage employment	1.06	-3.18
Total agricultural employment	0.03	0.83
Rural non-agri self employment	2.34	5.72
Rural non-agri wage employment	2.68	3.79
Rural total non-agri employment	2.26	5.27
Urban non-agri employment	3.13	4.08
Secondary employment	2.91	4.64
Tertiary employment	2.27	4.67
Total non-agricultural employment	2.53	4.66

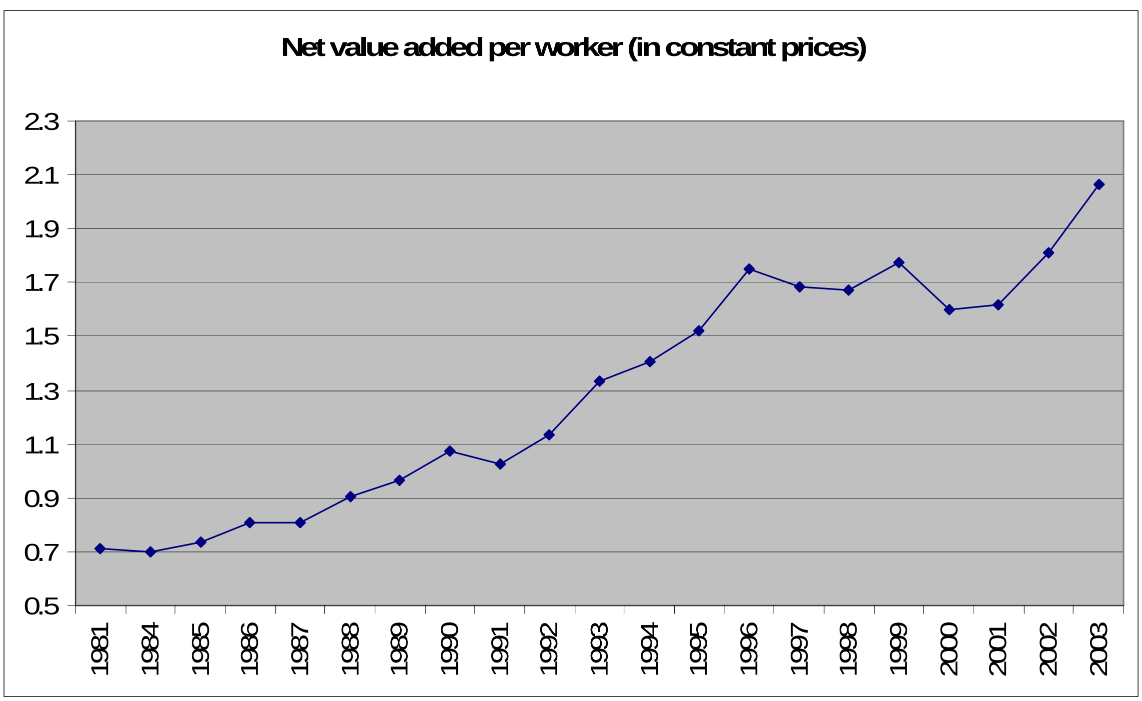
Overall, therefore, while there has been a slight recovery in the rate of growth of agricultural employment, this is essentially because of a significant increase in self-employment on farms (dominantly by women workers) as wage employment in agriculture has actually fallen quite sharply. However, urban non-agricultural employment certainly appears to have accelerated in the latest period. In rural areas, this is the case for both self and wage employment, although the rate of increase has been more rapid for self employment. In urban areas, the increase has been dominantly in self employment.

At one level, this should definitely be good news, especially if it represents a Lewisian movement out of agriculture to activities with higher labour productivity. However, this is not self-evident, and requires further investigation, in particular with respect to the remuneration and conditions of the newer employment. Such expansion would indeed be a sign of a positive and dynamic process if it is also associated with constant or rising real wages.

But this turns out not to have been the case. For most categories of regular workers, the recent period has not been one of rising real wages. While real wages have increased slightly for rural male regular employees, the rate of increase has certainly decelerated compared to the previous period. For all other categories of regular workers, real wages in 2004-05 were actually ***lower*** than in 1999-2000. The economy has therefore experienced a peculiar tendency of falling real wages along with relatively less regular employment for most workers.

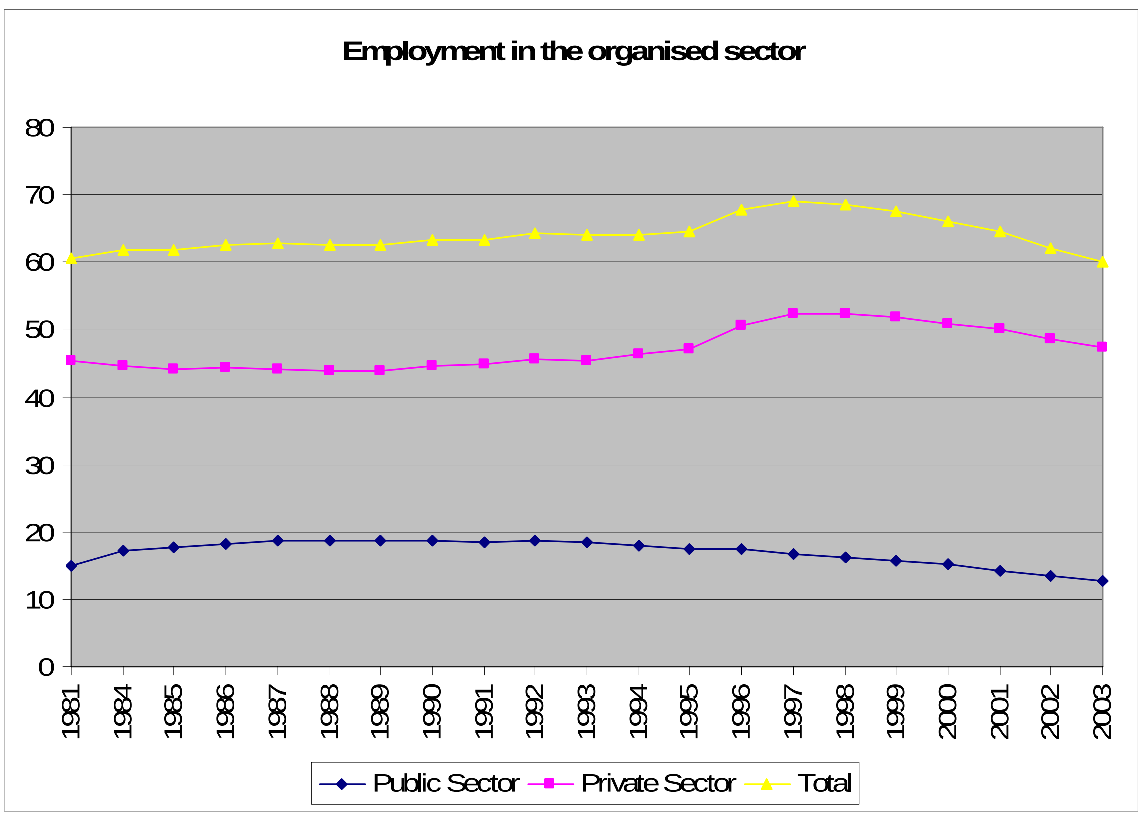


This is corroborated by what has been happening to wages within organised industry. One striking feature of the organised manufacturing sector during the years of liberalisation has been a sharp and persistent increase in labour productivity as measured by the net value added (at constant prices) generated per worker. Labour productivity tripled between 1981-82 and 1996-97, stagnated and even slightly declined during the years of the industrial slowdown that set in thereafter, and has once again been rising sharply in the early years of this decade.

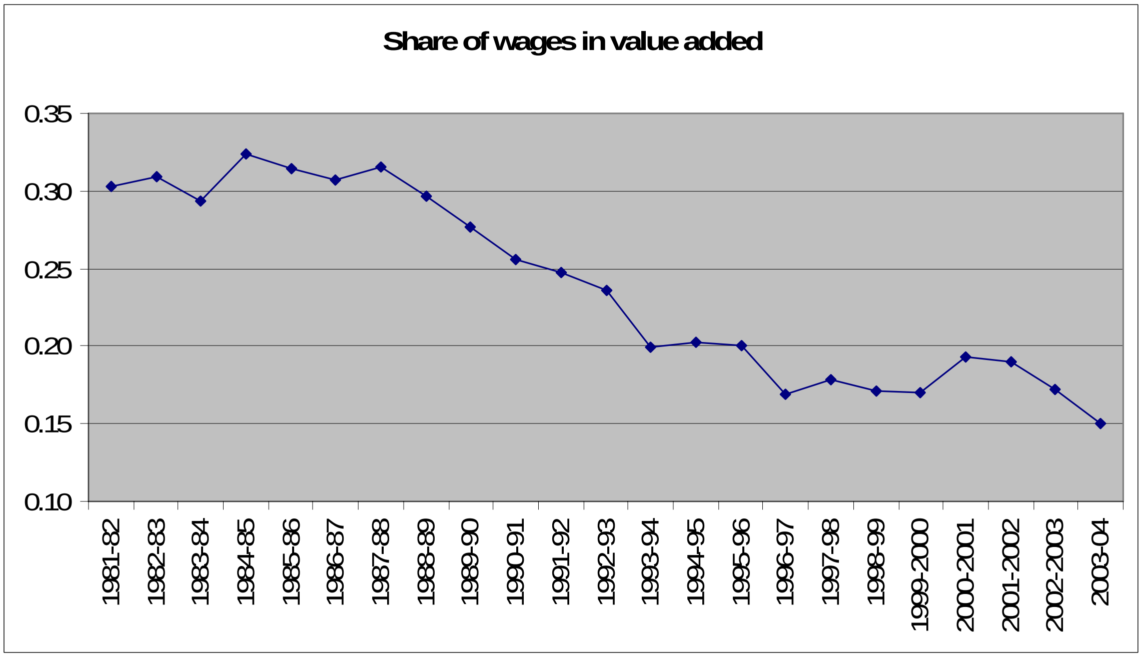


However, the benefits of this labour productivity increase went largely to those deriving rent, interest and profit incomes, rather than workers. The share of wages in value added, which was stable through much of the 1980s, has been declining almost consistently since the late 1980s till 1996-97 and then after a period of stability fell sharply to less than half of its level in the mid 1990s. Wages now account for only 15 per cent of value added in organised manufacturing, which is one of the lowest such ratios anywhere in the world.

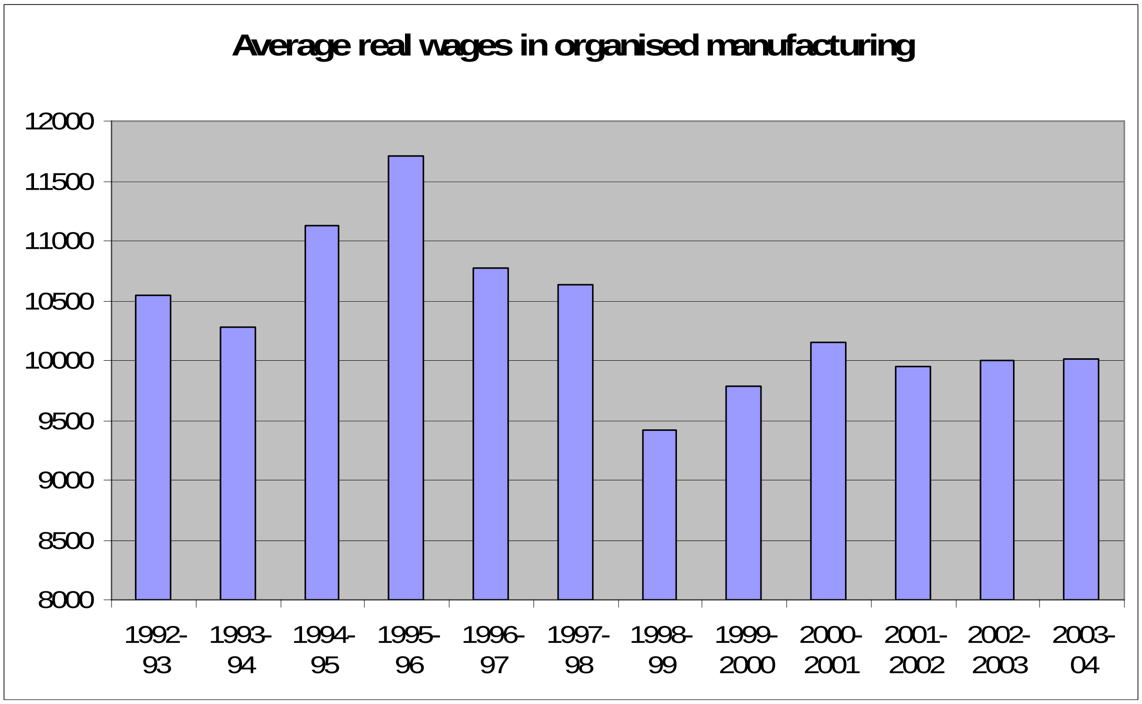
This was the result of two developments: the fall in the number of workers and the decrease/stagnation in real wages of those workers, even as the value of output kept increasing. Restructuring of the public sector has meant that public sector manufacturing employment which was rising during the 1980s, was on the decline during the years of liberalisation and fell particularly sharply after 1997. Private organised manufacturing employment which was stagnant during the 1980s, rose marginally during the early 1990s and particularly sharply during 1995-97, after which it has declined to return to its mid-1990s level by 2003. In the event, aggregate (public and private) organised manufacturing employment rose from 6.1 million in 1981 to 6.4 million in 1994 and 6.9 million in 1997, and then declined sharply to 6 million in 2003.



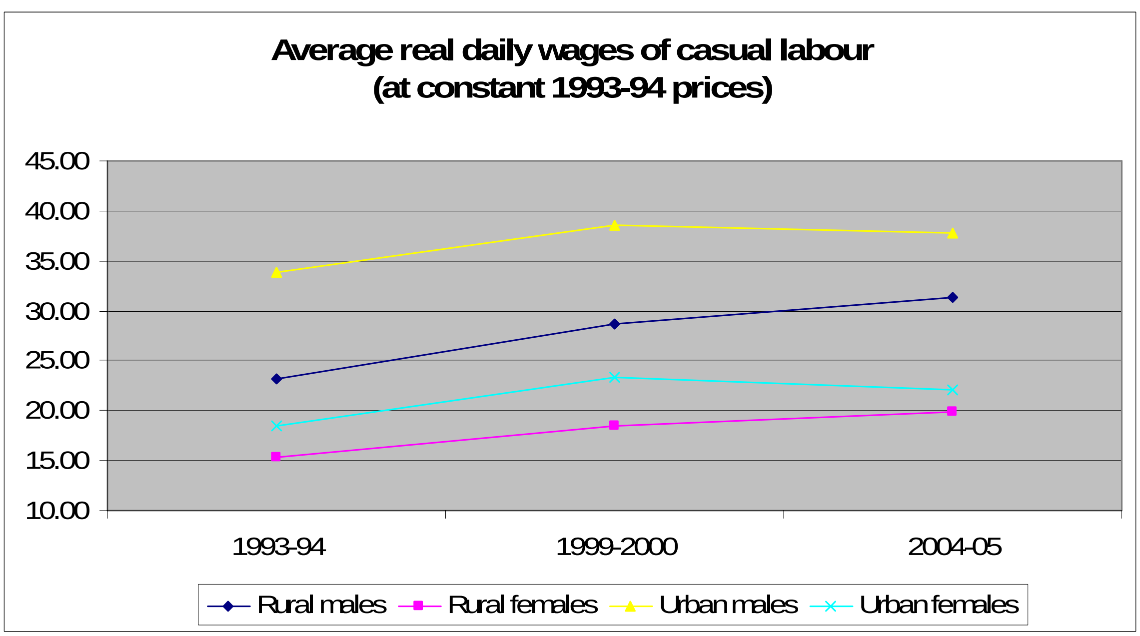
Meanwhile, contrary to public perception, the average real wage of workers in the organised manufacturing sector has been more or less constant right through the 1990s. Average real wages increased in the early years of the 1990s, until 1996-96, and then fell quite sharply. The subsequent recovery after 1998 has been muted, and real wages have stagnated since 2000. As a result, real wages in the triennium ending 2003-04 were around 11 per cent lower than real wages in the triennium ending 1995-96.



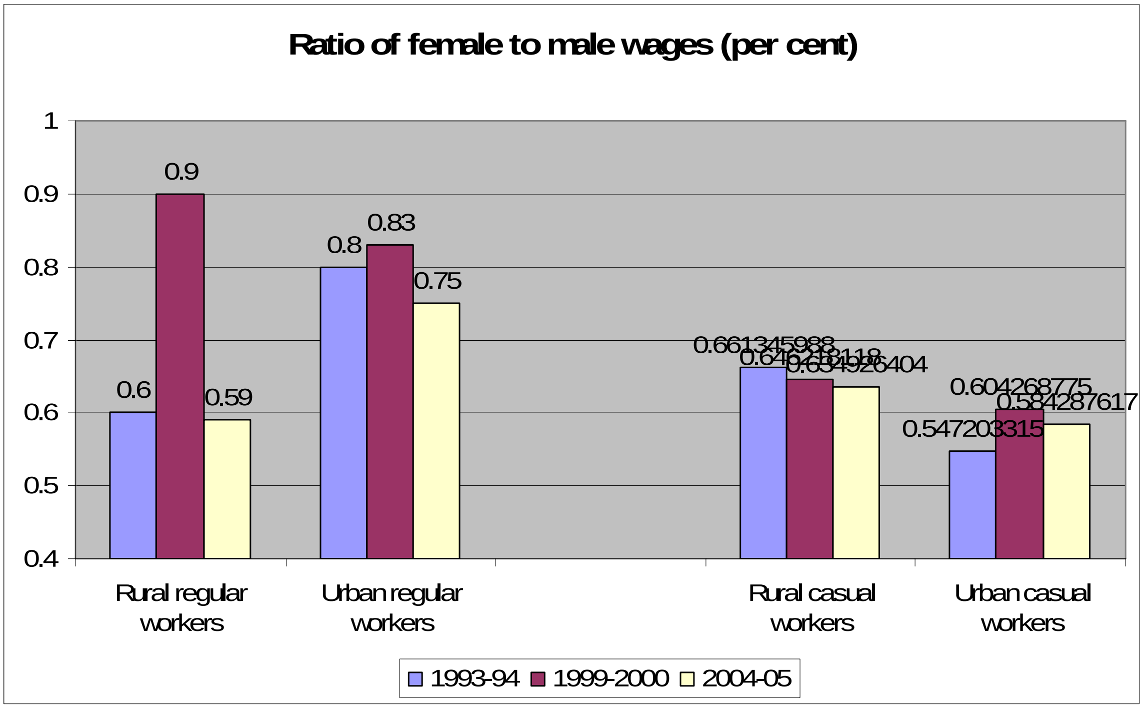
This is despite the rapid growth in industry, and contributes to an explanation of the explosion in corporate profits in the very recent period. There could not be stronger confirmation of the dramatically reduced bargaining power of workers in organised industry over the past decade. Together, these have ensured that the benefits of the rise in labour productivity have largely gone to the surplus earners in the sector, who have been the main beneficiaries in the organised manufacturing sectors of the policies of liberalisation.



Even outside the organised sector, real wages for casual work have declined for most categories of workers. It is true that average real wages of casual labour increased slightly in rural areas, although once again the rate of increase has slowed down compared to the previous period. However, for both men and women workers in urban areas, real wages for casual work in 2004-05 on average declined compared to 1999-2000. This is truly remarkable for a country in which real GDP has been growing at an average rate of 8 per cent over this period, and where much of this growth has been concentrated in urban areas.



In addition, the gender gap in wages, which was already quite large, has been increasing over time. Female casual workers get only around 58 per cent of the wages received by male casual workers. This ratio is relatively low even by the standards of other developing countries. Further, the gender gap in wages has increased for all categories of workers – urban and rural, regular and casual - between 1999-2000 and 2004-05.



The gender wage gap tends to be much larger for casual work than for regular work (where female wages are , but regular employment of women has increased in the latest period, and now accounts for around 36 per cent of all urban women workers, even though it is still less than 4 per cent of all rural women workers. But despite the lower gap, real wage trends for women workers have been disturbing. Over the first half of this decade, real wages of regular women workers declined for every category of education level, and in both rural and urban areas!

In rural areas the average decline in regular women workers' real wages over the first five years of this decade was by 32 per cent, and in urban areas by 10 per cent. Illiterate women workers in regular employment in rural areas faced average wage cuts of 20 per cent, while those who had secondary and higher secondary education faced average cuts of nearly 30 per cent! It should be noted that in 2004-05, more than 66 per cent of all rural women workers were illiterate, and 37 per cent of urban women workers were illiterate. In urban areas, illiterate women workers experienced the sharpest declines in real wages, at more than 22 per cent. Graduate women had the lowest real wage decline of around 5 per cent – but the point is that even for this category, real wages on average fell.

All this should be seen in conjunction with dramatically increasing rates of open unemployment, especially for women. Unemployment rates according to this latest survey are now the highest ever recorded. Unemployment measured by current daily status, which describes the pattern on a typical day of the previous week, accounted for 8 per cent of the male labour force in both urban and rural India, and between 9 and 12 per cent of the female labour force.

The real expansion in employment has come in the form of self-employment, which now accounts for around half of the work force in India. The increase has been sharpest among rural women, where self-employment now accounts for nearly two-thirds of all jobs. But it is also remarkable for urban workers, both men and women, among whom the self-employed constitute 45 and 48 per cent respectively, of all usual status workers.

This makes the issue of remuneration in self-employment a particularly important one. If working people are moving away from paid jobs to more independent and more remunerative forms of self-employment, then that is certainly to be welcomed. But if they are forced to take on any activity on their own in order to survive, simply because a sufficient number of paid jobs is not available, then that is another matter altogether. This is especially the case for less educated workers without access to capital or bank credit. Self-employment for such workers often means that they are forced into petty low productivity activities with low and uncertain incomes.

The latest NSS report confirms this, with some very interesting information about whether those in self-employment actually perceive their activities to be remunerative. It turns out that just under half of all self-employed workers do not find their work to be remunerative. This is despite very low expectations of reasonable returns – more than 40 per cent of rural workers declared they would have been satisfied with earning less than Rs. 1500 per month, while one-third of urban workers would have found up to Rs. 2000 per month to be remunerative.

Perceptions regarding remuneration in self-employment

	Per cent finding their self-employed activity remunerative	Per cent finding this amount of Rs. per month remunerative					
		0-1000	1001-1500	1501-2000	2001-2500	2501-3000	> 3000
Rural males	51.1	12.9	17.5	16.5	11.4	12.9	27.3
Rural females	51.4	34.2	23.5	15.4	8.9	7.2	9.9
Rural persons	51.2	21.2	19.7	16	10.5	10.7	20.5
Urban males	60.9	4.9	8.2	9.9	7.2	12.2	56.5
Urban females	50.9	32.8	20.2	12.6	7.7	8.1	18.3
Urban persons	58.6	10.4	10.6	10.4	7.4	11.5	48.9

As is to be expected, the material expectations of women workers were far below those of men, yet despite this, around half of self-employed women did not find their activity to be remunerative. Even in the case of the relatively most satisfied group of self-employed workers, the urban males, around to-fifths did not find their activity to be paying economically.

This suggests that a large part of the increase in self-employment – and therefore in employment as a whole – is a distress-driven phenomenon, led by the inability to find adequately gainful paid employment. So the apparent increase in aggregate employment growth may be more an outcome of the search for survival strategies than a demand-led expansion of productive income opportunities.

Despite the fact that labour force participation rates among the young population have decreased or not increased much (except for urban women in the age group 20-24 years), open unemployment rates have increased. Table 9 reveals that youth unemployment was substantially higher than unemployment across all the working age population, and what is more it also increased across all categories of young people – men or women, rural or urban. So the youth are far more prone to be actively seeking work and not finding it. Given that open unemployment by "usual status category" has generally been low in India because of the absence of any sort of social protection for the unemployed, it is disturbing to note that as many as 6-8 per cent of young rural males and 12-14 per cent of urban male youth describe themselves as available for work and seeking it but not finding it. The proportions of young women describing themselves as usually unemployed are even larger.

Unemployment rates among young people and overall population

		Rural India			**Urban India**		
		15-19	**20-24**	**All 15+**	**15-19**	**20-24**	**All 15+**
Males							
Usual Status	1993-94	3.3	4.9	2.0	11.9	12.6	5.4
	1999-00	5.5	5.2	2.1	14.2	12.8	4.8
	2004-05	7.9	6.2	2.1	14	12.5	4.4
Current Daily Status	1993-94	9.0	10.3	5.6	16.2	17.0	6.7
	1999-00	13.1	11.7	7.2	19	17.1	7.3
	2004-05	15	12.9	8.0	18.4	15.8	7.3
Females							
Usual Status	1993-94	1.9	2.8	1.3	12.8	21.7	8.3
	1999-00	3.2	4.9	1.5	13.2	19.4	7.1
	2004-05	6.7	9.3	3.1	15.6	25.8	9.1
Current Daily Status	1993-94	8.3	8.2	5.6	18.6	28.5	10.4
	1999-00	12.8	12.1	7	18	25.9	9.4
	2004-05	12.6	14.9	8.7	16.4	27.3	11.6

The current daily status criterion describes the nature of activity on a typical day of the reference week, and therefore can be thought of as a "flow" measure of work possibilities. By this indicator, open unemployment levels for the young are truly alarming, accounting for nearly 20 per cent of urban young men in the age group 15-19 years and 30 per cent of urban women in the age group 20-24 years. These numbers translate into an estimated 36 million young people of between 15 and 29 years who were "usually unemployed" at the start of 2005, and as many as 58 million young people who were unemployed on any particular day.

What is particularly striking is that even falling real wages in a context of relatively strong growth in organised industry and rising labour productivity have not been sufficient to ensure growth in employment. The negative effects of openness on employment generation have been strong enough to offset any supposed "benefits" of labour becoming cheaper in real terms for employers. This new trend therefore suggests that greater employment generation is not a necessary result of more growth in organised industry – indeed, it could even be associated with falling employment in future as well.

Employment patterns in China

China's exceptional growth performance over the past three decades is most fundamentally a reflection of the high investment rates that have characterised the economy over this period. Capital formation as a share of GDP has been very high by international standards, varying between 32 per cent and 44 per cent of GDP. There has also been substantial volatility in this indicator, around an increasing trend. Since rates of growth of GDP have been strongly associated with investment rates, the cyclical pattern of aggregate income growth around a high trend rate in the past 25 years therefore appears to a result of the pattern of investment growth over this period.

This has also been accompanied by substantial structural change in the form of a shift in the distribution of the work force, as evident from the table below. The major shift of workers out of the primary sector has really been evident in the past three decades, and particularly since 1985. It is worth noting that the increase in the share of secondary sector workers has not been so marked in the last two decades: rather, as in India, service sector activities have increasingly taken up those workers released from the primary sector.

Distribution of work force in China

	Primary	Secondary	Tertiary
1952	83.5	7.4	9.1
1965	81.6	8.4	10.0
1975	77.2	13.5	9.3
1985	62.4	20.8	16.8
1995	52.2	23.0	24.8
2005	44.8	23.8	31.4

This provides a slightly different picture from the one generally conveyed of China as the manufacturing powerhouse of the developing world, to which manufacturing jobs from the North are increasingly being transferred. In fact, while the secondary sector has increased in importance in work force distribution, it still accounts for less than a quarter of China's workers, and this ratio has barely increased over the past decade.

Much of this is because the pattern of growth has been – as elsewhere in the world – much less labour-absorbing than in the past. Employment elasticities of output growth have been low, but more to the point, they appear to have fallen sharply in the 1990s compared to the previous decade. It is predictable that primary sector employment elasticities will be low, and indeed they turned negative in China in the 1990s, as they have done in India. But even industrial employment generation has been very inelastic, and the elasticity has fallen by five times between these decades, to only 12 per cent over the 1990s. This explains the low aggregate employment elasticity to GDP for China as a whole over the decade until 2000.

Rates of growth of output and employment in China, 1980-2000

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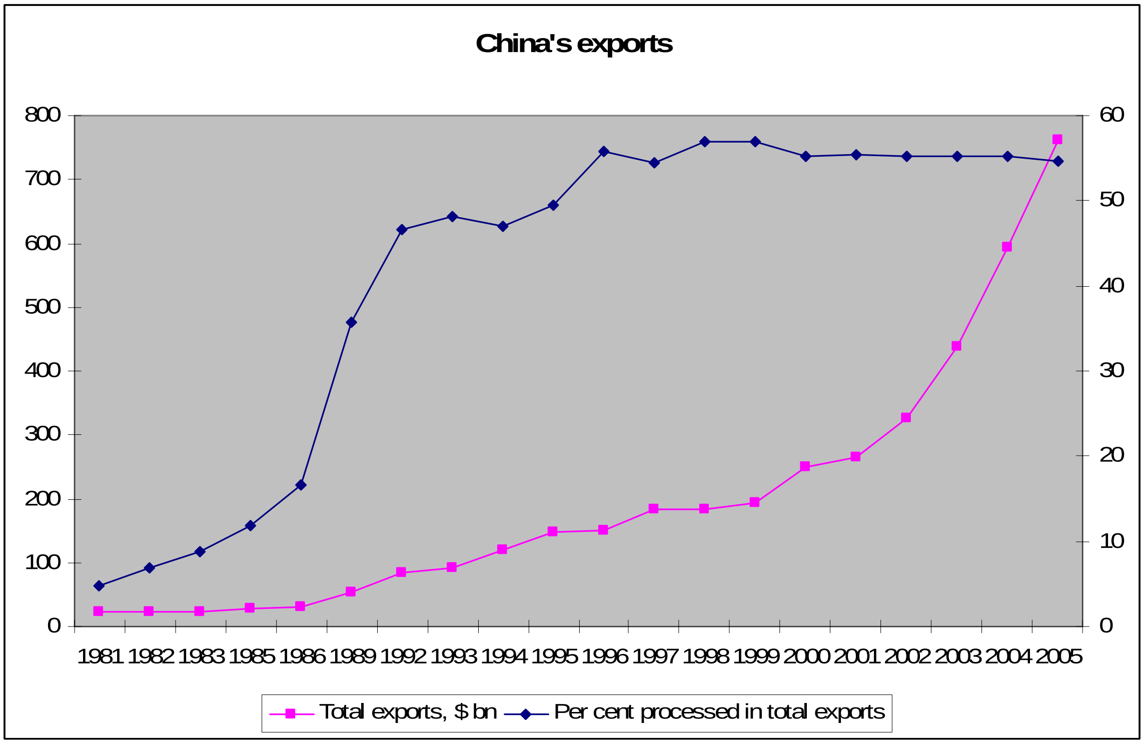
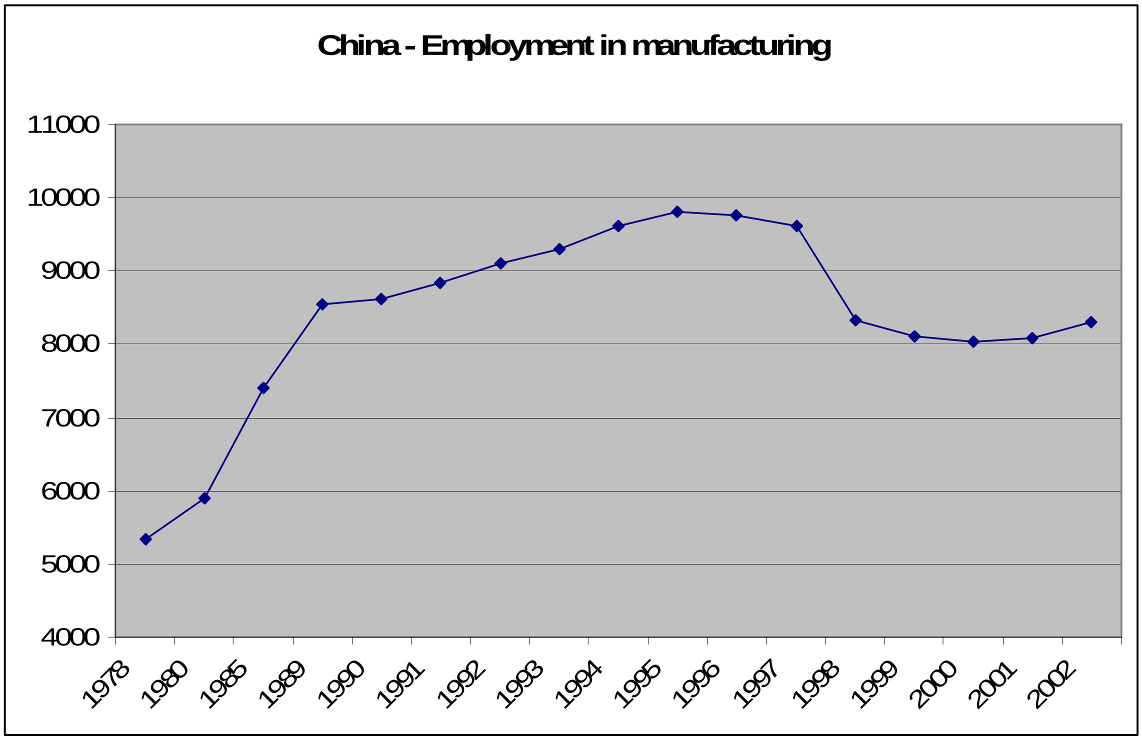
	1980-90	1990-2000
Primary sector		
Annual employment growth	2.8	-0.8
Annual Value Added growth	6.2	3.8
Employment elasticity	0.45	-0.21
Secondary sector		
Annual employment growth	5.9	1.6
Annual Value Added growth	9.5	13.5
Employment elasticity	0.62	0.12
Tertiary Sector		
Annual employment growth	7.9	5.1
Annual Value Added growth	12.2	9.1
Employment elasticity	0.65	0.56
All sectors		
Annual employment growth	**4.1**	**1.1**
Annual Value Added growth	**9.3**	**10.1**
Employment elasticity	**0.44**	**0.11**

For any other developing country such figures would hardly be surprising, but China has become synonymous internationally with rapid economic growth based on the export of relatively more labour-intensive commodities. This naturally leads to the expectation that manufacturing growth will be such as to generate relatively more employment, and that the employment elasticity of manufacturing output at least would be relatively high. As the chart below shows, the exports have grown dramatically in the past ten years in particular, and within that the share of processing exports has increased sharply also in the last decade, going from less than 20 per cent of the total value of exports in the 1980s to more than 55 per cent in the most recent period. Processing exports are seen as generating less value added but more employment, and therefore more likely to involve more employment generation than resource-based or capital-intensive exports. This makes it all the more to be expected that the pattern of Chinese growth would be such as to create more employment in manufacturing.

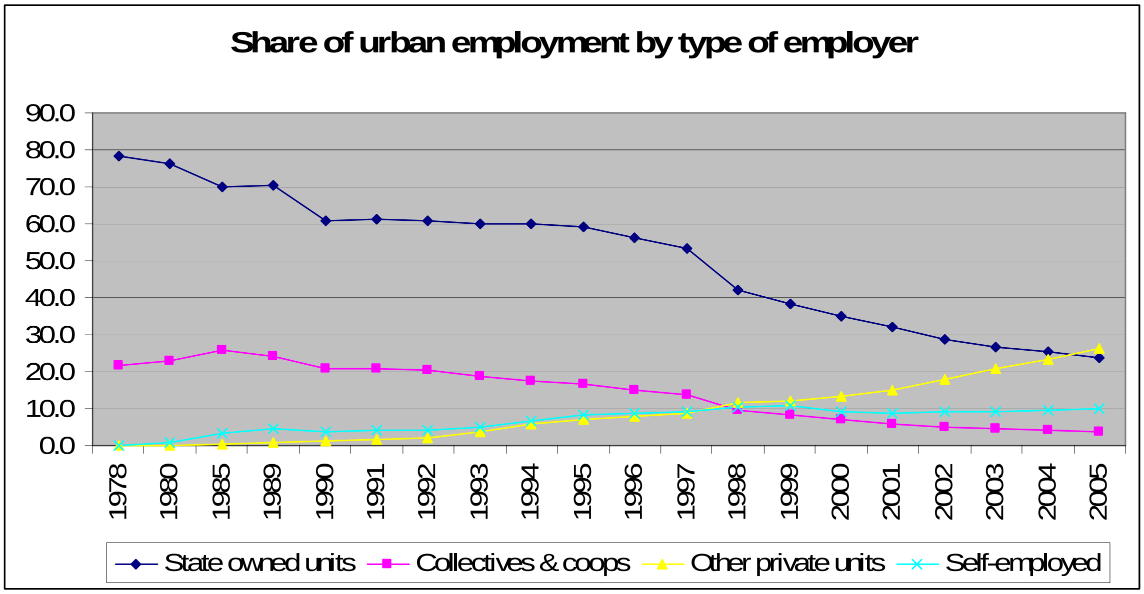


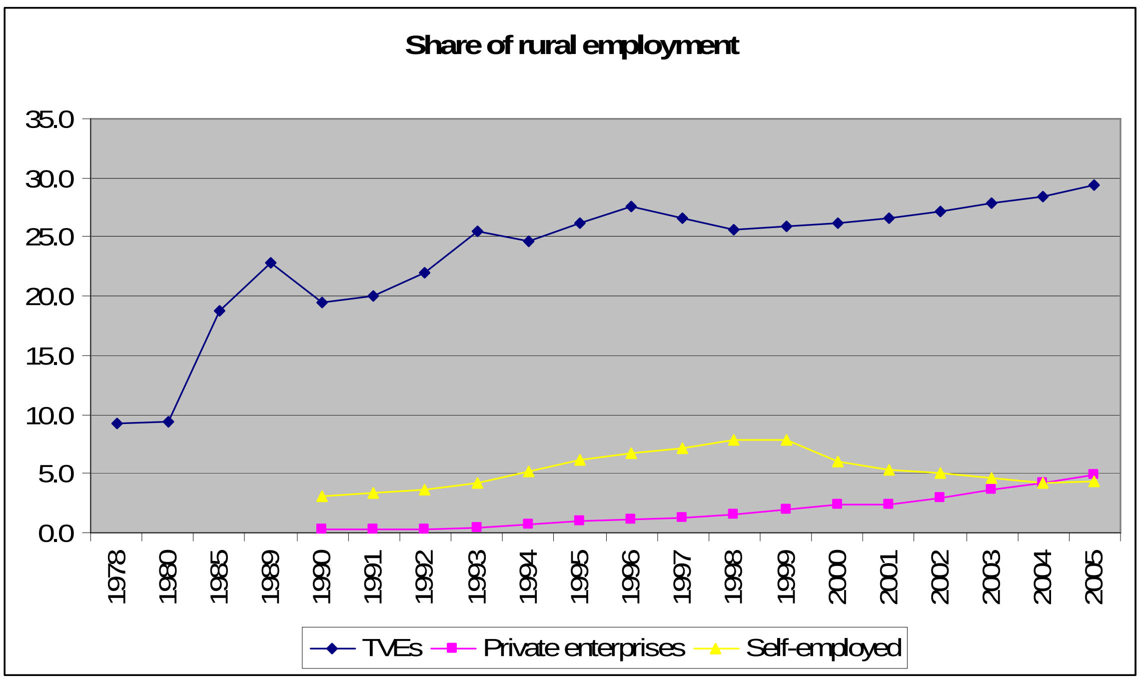
The extraordinary thing is that despite all these favourable features, the expansion of manufacturing employment has tapered off in China. The chart below shows that manufacturing employment in China peaked in 1995, when it was still less than 100 million workers. Thereafter, and remarkably in the context of the enormous boom in export-oriented manufacturing that has been evident over the past decade, total manufacturing employment has actually fallen! There has been a slight recovery in recent years, but it is still below the levels of the mid-1990s. The reason for this apparently surprising result is that China is now becoming more like other countries of the developing world that have gone in for export-oriented manufacturing production along with trade liberalisation. Other “successful” exporting countries of East and Southeast Asia, as well as Latin America, have seen domestic production eroded by import competition which has adversely affected employment-intensive small producers in particular. The loss of employment in import-competing units has in most cases not been enough to offset the increase in employment in export-oriented activities. This has typically meant a net decline in manufacturing employment even in the most dynamic exporting countries.



In the case of China, the process of trade liberalisation has been more belated and was certainly more limited until the early years of this decade, and comparable trade liberalisation has occurred only after the accession to the WTO, which has exposed many more domestic producers to the same tough external competition. This is why the process of net manufacturing employment loss which began even in many dynamic exporters in the early 1990s, began somewhat later in China, in the late 1990s. As a result, the rapid expansion of export-oriented manufacturing in recent years has still not been enough to compensate for the loss of jobs in manufacturing production that has been threatened or eliminated by import competition.

To this must be added the effects of the ongoing "reform" of state-owned enterprises in China, which has involved substantial reduction of the work force in these . The loss of manufacturing employment has been most sharply felt in the state sector. The chart below describes how the share of state owned enterprises in urban employment has fallen from more than 70 per cent in the early 1980s to less than 30 per cent in this decade. Indeed, in 2005, the share of private units was more than that of state enterprises for the first time. In the rural areas as well, the recent period has witnessed a rise in the share of the Town and Village Enterprises (TVEs) and private units.





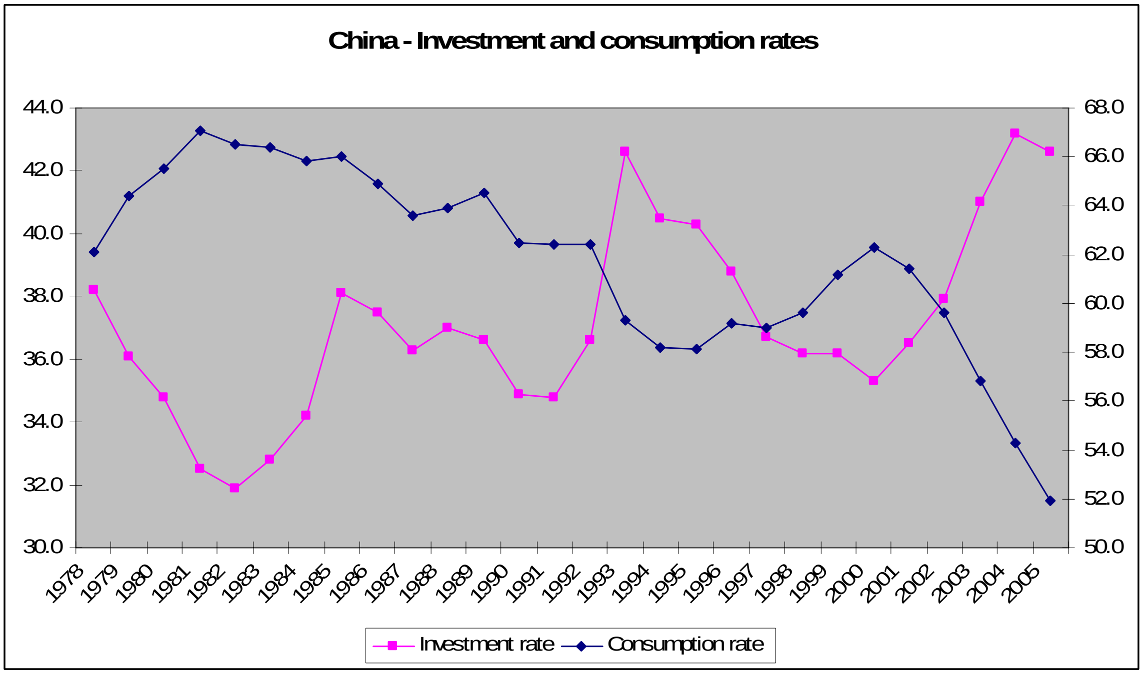
The problem of unemployment is deeper than is revealed by official statistics, which show relatively low open unemployment (between 4-6 per cent) but do not capture a significant proportion of jobless rural migrants. Further, official data do not include the number of laid off workers from state-owned enterprises and urban collectives. The share of state owned enterprises and collectives in total employment has come down quite sharply. While a high level of employment was sustained in the past by the state's policy of keeping surplus workers in both SOEs and agricultural collectives, this policy was abandoned in the move towards a market economy. In a more competitive atmosphere, the SOEs and collectives have also had to restructure their operations and adopt more capital-intensive technologies. When the number of laid off workers, most of whom are from these units, is included in the official unemployment figures, the actual rate is much higher at around 12.5 per cent of the working population in 2000 (Riskin et al, 2004). This in any case does not include most of the migrants from the rural sectors, many of whom are underemployed.

However, unlike the evidence from India, the growth in China has been accompanied by rising real wages. The table below indicates relatively buoyant increases in real wages across various types of employment units, in most of the years since 1978. These wages have been particularly marked in the current decade.

Annual percentage change in real wages in China

	Average of all units	State-owned units	Urban collective units	Units of other ownership type
1978	6.0	6.2	5.1	
1980	6.1	6.0	6.9	
1985	5.3	4.8	6.6	22.5
1989	-4.8	-4.6	-6.1	-2.3
1990	9.2	9.7	6.6	8.9
1991	4.0	3.2	5.6	10.5
1992	6.7	7.0	4.1	5.3
1993	7.1	5.7	5.9	7.9
1994	7.7	8.7	0.2	1.5
1995	3.8	0.4	3.7	1.4
1996	3.8	2.6	0.6	1.7
1997	1.1	4.2	1.7	3.2
1998	7.2	6.7	3.1	-1.7
1999	13.1	12.9	9.7	11.0
2000	11.4	10.9	7.6	10.9
2001	15.2	16.2	8.9	9.7
2002	15.5	16.3	12.7	9.9
2003	12.0	12.3	12.2	9.3
2004	10.5	11.1	9.5	8.0
2005	12.8	13.6	13.2	10.4

However, it should be noted that these real wage data refer to organised sector workers, and leave out the increasing proportion of unorganised workers, most particularly the rural migrants who operate in the most oppressive labour market conditions in urban China. A recent study by Li Shi, based on a large survey organised by CASS, revealed that in 2005 a majority of migrant workers typically faced long hours of work for all days of the week, for less than minimum wages and with poor residential conditions. Therefore it is unlikely that the real wage increases evident for organised sector workers would have been matched by similar increases for unorganised workers, especially migrants.



This may help to explain ability of the Chinese economy to base its accumulation strategy so dramatically on high and rising investment rates. Technological changes have improved labour productivity, but only a relatively smaller proportion of these income gains have been retained by workers – indeed, as in India, the macro evidence suggests a shift in the functional distribution of income away from direct producers and workers to surplus in general. Thus, investment as a share of GDP indicated in the accompanying chart – has fluctuated around a high and rising trend, while the consumption rate has fallen quite sharply, especially in the recent period, to just above half the national income. The basic accumulative thrust therefore appears to be similar in both India and China, in terms of relying on investment driven by rising profit shares (similar to some "exhilarationist" models of economic growth) and generating less employment per unit of investment or output.

Conclusion

The most fundamental question that has been posed by the recent experience of both India and China – that of the apparent disjunction between economic growth and employment generation – clearly deserves at least an attempt at an answer. In fact, the explanation is not so difficult to find, as there are reasons to believe that the pattern of manufacturing growth under an open economic regime tends to be such that the responsiveness of employment growth to the growth in output declines. It is worth noting that this combination of high output growth and low employment growth is a feature that has characterised both India and China essentially during the years when they have opened their economies to trade and investment.

There are several reasons for this. The most obvious is the impact of trade liberalisation on the pattern of demand for goods and services within the country. As tastes and preferences of the elites in developing countries are influenced by the "demonstration effect" of lifestyles in the developed countries, new products and processes introduced in the latter very quickly find their way to the developing countries when their economies are open. Further, technological progress in the form of new products and processes in the developed countries is inevitably associated with an increase in labour productivity. Producers in developing countries find that the pressure of external competition (in both exporting and import-competing sectors) requires them to adopt such technologies.[5] Hence, after external trade has been liberalised, labour productivity growth in developing countries is more or less exogenously given and tends to be higher than prior to trade liberalisation. This is the probably the primary cause of the growing divergence between output and employment growth in the case of Indian industry and some services.

In agriculture, the combination of agrarian crisis and greater use of mechanised techniques of cultivation have reduced the demand for labour per unit of output. In other sectors, employment growth has been affected by the slowdown or reduction in government expenditure which has strong direct and indirect employment generating effects. So the reduction in public spending directed towards the rural areas, or towards "social sectors" such as health and education, have all meant that there has been less direct job creation by government, and also less indirect impact through multiplier effects. In the circumstances, the lack of access to paid employment has forced workers to find any other economic activity, in the form of "self-employment", largely as a survival strategy rather than a positive choice. Increased competition among such petty providers of goods and services, along with the heightened material insecurity of such production, has meant that the risks of production have been shifted down to workers while profits are more concentrated at the top.

A common tendency is to blame technological change for this. But technological change is itself the outcome of several forces, including not just the incentives created by relative prices but also the changing structures of demand which are in turn determined by changing shares of income. So the pattern of growth is extremely significant to ensure desirable employment generation. And in this regard, macroeconomic policies and overall growth strategies play a crucial role.

Developments over the past decade have changed perceptions across the world about the nature of desirable macroeconomic policies, especially in the context for achieving growth and sustainable employment generation. The Asian financial crisis of the late 1990s and the meltdown in Argentina at the turn of the decade showed the

[5] These factors have been elaborated upon by Prabhat Patnaik "Technology and unemployment in an open underdeveloped economy", IDEAs Working Paper 2006/1, www.networkideas.org.

possibility of apparently "prudent" fiscal strategies still being associated with unsustainable macroeconomic processes that created the possibilities of crises. Increasingly, there is recognition that macroeconomic management in open developing economies needs to be developed within a co-ordinated framework, so that fiscal, monetary, exchange rate and capital management policies are consistent.

But what still has to be more explicitly recognised is that economic growth, livelihood stability and employment generation must be given significance, and should not be "crowded out" by an *overly narrow* focus on macroeconomic stability and inflation control. Given that the pattern of growth is crucial, a moderate but sustainable rate of growth which involves employment generation and poverty reduction is preferable to a higher rate of growth that is based on greater income inequalities and has more potential for volatility and crisis.

If the primary goal is productive employment generation providing "decent work", this also requires industrial policies providing carefully considered incentives to promote desired investment and financial policies including directed credit will play a role. The significance of public expenditure in sustaining and expanding the productive human resource base of the country through social spending is also important. Macroeconomic policies must ensure that public expenditure in the social sectors is increased and maintained at adequate levels. This also has a critical role in employment generation.

Given these principles, the messages of the past pattern of growth and employment in India seem to be fairly obvious. Clearly, for more inclusive growth, the generation of good quality productive employment is the most critical variable. Therefore economic policies have to be more explicitly directed towards this goal, and target "decent work" generation as well as pure growth and macroeconomic stability.

The relationship between technological progress and employment generation obviously cannot be forgotten. The promotion of more employment clearly should not involve a glorification of drudgery, especially when newer technological developments open up possibilities for less arduous and tedious ways of working. It is no one's case that low productivity employment must be perpetuated, or that labour-saving technological change must necessarily be resisted. Rather, the point is to ensure that jobs are continuously created in the economy in other activities.

A critical requirement for this is public expenditure, especially (but obviously not exclusively) in the social sectors. This is typically much more employment generating than several other economic activities, and therefore also has substantial multiplier effects. There is therefore a strong case for evolving a growth strategy that allows and encourages labour productivity increases overall, while significantly expanding expenditure – and therefore income and employment opportunities – in social sectors that positively affect the conditions of life of most citizens. This in turn requires a major role for state intervention, through direct public investment and through fiscal, monetary and market-based measures that alter the structure of incentives for private agents.