

Background

As China restructures its economic model and upgrades to an innovation- and knowledge-based economy, the labor market is in a state of flux. The needs of employers and the demands of employees are mismatched, with many China-based companies unable to find the highly-trained workers they need and the workforce finding itself ill-equipped for the jobs available. Without reform, this disconnect is expected to increase as economic growth further slows.

China's demographic changes – an ageing population and shrinking workforce – have also created significant labor shortages. Companies complain of a shortage of suitable candidates while remaining reluctant to retrain current employees or train new employees. Despite growing numbers of new university and vocational graduates in the last decade, the demand for skilled labor is still expected to outstrip supply by 24 million in 2020.

“ Considering China's economic development, we cannot only focus on foreign talent and returnees. We should also nurture more local talents. How can we ensure that the talent development initiatives are linked to current market demands? The biggest challenge is to find an appropriate management system to develop China's human capital.



Ronnie Chan
Co-Chair, Asia Society

“ Instead of relying on traditional industries and infrastructure investment to propel China's development, innovation, technology, and consumption are now becoming significant drivers. While in the long term this is a very positive development, in the short term it is creating new challenges – including a lack of skilled workers capable of successfully fulfilling the requirements of companies in these sectors.



Nicolas Aguzin
Chairman and CEO, Asia Pacific, J.P. Morgan

To discuss these critical labor market issues in China, leaders from academia, business, and government gathered on November 3, 2016 in Beijing to take part in “Human Capital Transformation through Innovation in China,” a symposium sponsored by J.P. Morgan and organized by Asia Society, in partnership with the Center for China and Globalization. The half-day event focused on understanding and closing China's talent gaps; supply-side structural reforms to enlarge the talent pool; and practical solutions for such difficult employment challenges. Distinguished speakers included He Xian, Former Vice Minister of Human Resources and Social Security and President, Chinese Talents Society; Lu Mai, Secretary-General, China Development Research Foundation; Ma Jun, Chief Economist, Research Bureau, People's Bank of China; Jonathan Woetzel, Director, McKinsey Global Institute and Senior Partner, Shanghai, McKinsey & Company; Frank Ning, Chairman, Sinochem Group; and Zhang Yichen, Chairman and CEO, CITIC Capital Holdings.

“ Developing a pool of domestic talents who can meet China's economic and social development needs involves reforming several aspects related to the training, selection, evaluation, utilization, recognition, and incentive system for talent.



He Xian
Former Vice Minister of Human Resources and Social Security, and President, Chinese Talents Society



Summary

Symposium participants discussed pressing workforce issues in China, as the nation moves towards a knowledge-based economy, and shared feasible solutions to address the country's complex employment challenges. Considering micro- and macro-level views, panelists and speakers shared insights on how the government, educational institutions, and private enterprises can contribute to ensuring China's sustainable growth and a stable labor market.

As China faces widening skills gaps in the labor market, participants agreed that the improvement of educational and vocational training and the allocation of human resources according to market demand are critical. He Xian, Former Vice Minister of Human Resources and Social Security and President of Chinese Talents Society, shared his key insights on possible reforms to improve talent development, including enhancing vocational training; increasing incentives for skilled workers; improving performance evaluation systems; and developing a social atmosphere that improves the status of skilled workers. In the day's second panel, Frank Ning, Chairman of Sinochem Group, concurred and noted that the market, companies, and government should work together to solve China's skills shortages.

In the first session of the day, panelists considered impending changes and major challenges to China's labor force and how this affects different populations – from migrant workers to highly-skilled graduates. Jonathan Woetzel, Senior Partner of McKinsey & Company, added that China's net migration rate is negative, supporting the fact that China needs to attract foreign talent while also cultivating its own talent pool. Based on his own ground-level observations, Zhang Yichen of CITIC Capital noted that China has an evident lack of managerial talent, especially outside of major cities like Beijing, and that even with some professional careers, such as engineering, current training does not adequately prepare students for jobs. Throughout the symposium, speakers agreed that education at all levels – universities, vocational programs, and on-the-job training – needs to be addressed and improved in order to face China's skills gaps. The country's future growth and transition to high-valued-added manufacturing and modern service industries depends crucially on whether there will be a sufficient supply of skilled workers.



One Step Ahead Series

Human Capital Transformation
Through Innovation in China

November 3, 2016

Post Symposium
Executive Summary

In partnership with
CCG | 中国与全球化智库
CENTER FOR CHINA & GLOBALIZATION



China's Changing Labor Market and Supply-Side Structural Reforms

“New Normal” Approach with Emphasis on Entrepreneurship and Innovation

China is undergoing essential structural reform, as it seeks to attain sustainable economic growth, with a new focus placed on entrepreneurship and innovation. The current disconnect between Chinese employer needs and employee demand is expected to intensify under this changed approach. Critical to the country's growth under the “New Normal” will be maintaining a relevant and stable labor supply that is adequately trained, including through greater skills-oriented training, training for newly automated jobs, or an expanded compulsory education period.

“ Two major challenges for companies are, first, how to look for the right talent and feed it back to China, and second, how to run a global company as one company and one platform. You also have to focus on talent experience and leverage your human assets to create the best value to the organization.



Lu Wei
President, CDP Group

“ How do we create more supply and more talented people? This is a problem for private companies: measure the changes going on in your own company and change your policies to respond to your changing workforce. On the government side and with skills training: nobody should be left behind. The government has a role to play in how to keep people up with technological change.



Jonathan Woetzel
Senior Partner, Shanghai, McKinsey & Company,
and Director, McKinsey Global Institute

Consolidation of State-Owned Enterprises and Other Structural Reforms

State leaders in China have called for fast-paced supply-side structural reforms to stimulate market vitality, including cutting bureaucracy, closing redundant factories, and consolidating torpid state-owned enterprises (SOEs). These reforms will have a direct effect on the workforce in the years ahead and need to be considered in the effort to ensure a stable labor market. While they may be shrinking, SOEs are expected to remain an important part of China's economy for the foreseeable future and will require fundamental reforms, particularly to equity ownership structures.



Li Qiang
Professor of Sociology & Dean,
School of Social Sciences, Tsinghua University

“ As China's growth is slowing down and the labor market and economy are undergoing significant changes, SOEs must carry out structural reforms. SOEs can provide employees with better benefits, especially for the lower-end talent pool, but they can also provide more training opportunities.



Frank Ning
Chairman, Sinochem Group

Changing Demographics and Contraction of the Workforce

China has an ageing population and shrinking labor force. The working age population in China fell 3.7 million in 2014 alone and is expected to continue to decline in the years ahead by amounts reaching 5 to 6 million annually. This contraction is one of the key negative factors in the country's long-term economic growth. There is a need to increase labor force growth or reduce its decline through population growth, in addition to attracting highly-skilled workers from other countries or potentially raising the retirement age. These efforts will also alleviate significant strains on China's pension system.



Ma Jun
Chief Economist, Research Bureau,
People's Bank of China



Challenges to Fulfilling China's Talent Gaps

Mismatch Between Market Demand and College Graduates' Skills

China's transition to a supplier of information products and high-end technology and services has led to greater demand for highly-skilled labor. Yet, higher education programs in China, developed by educational institutions that are constrained by the country's current system, are lacking up-to-date considerations of labor market demand. College graduates are often left with a lack of preparation for employment and unrealistic expectations on job placements. Working alongside enterprises, educational institutions need to be better equipped to respond and adapt to changing market needs.

“ Vocational students are the key component of China's future human capital development. Support to secondary vocational schools is especially important, including emphasis on students' physical and mental development as well as the overall vocational education system.



Lu Mai
Secretary General, China Development Research Foundation

Lack of Investment in Vocational Training and Education

Vocational education in China is experiencing a decline in applicants, enrolled students, and teachers. These institutions receive only about a third of the government funding per student allocated to general education universities. Further investment and government subsidies for vocational training are needed to increase the quality of education for skilled workers, including through teacher training and mental health initiatives. Privately funded education should also be further developed to complement the government's efforts. With an increasing supply-demand gap for highly-skilled workers, vocational training currently remains unable to fill that breach fast enough.

“ We need to think about how we can improve education quality for our next generation and provide the right skills needed in the labor market. In particular, we should focus on markets where there is a high demand for skilled talents, by improving the quality and structure of education, as well as by supporting the development of vocational training programs.



Chauncy Lennon
Managing Director and Head of Workforce Initiatives,
Global Philanthropy, JPMorgan Chase



Lack of Education and Skills Development for Migrant Workers

In 2015, migrant workers in China numbered close to 160 million, making up an important portion of the working age population. Such workers from rural areas are employed mainly in manufacturing and construction and have little access to formal skills training, reducing their upward mobility prospects. Migrant workers aged 16 to 29 are among the most vulnerable to unemployment and need greater access to training opportunities to enhance their skill levels and job prospects.



Yuan Zhigang
Distinguished Professor of Cheung Kong (Chang Jiang)
Scholar and Director, Employment and
Social Security Research Center, Fudan University



Zhang Yichen
Chairman and CEO, CITIC Capital Holdings

“ In the globalization era, human capital is a fundamental driving force to push [China's] ongoing economic transition forward. We need to address the development of migrant workers' skills, the quality of state and private education, and the need for highly-skilled workers from other countries.



Wang Huiyao
President, Center for China and Globalization



David Li
Senior Country Officer, China, J.P. Morgan

Proposed Solutions

Improve Quality of and Increase Access to Vocational Education System

Broadening access to vocational training, especially for migrant workers, will provide crucial upward mobility channels for workers and their families. Government subsidies, loans, or other forms of financial aid can be provided to those in need to ensure that vocational training is accessible. At the same time, vocational education can be improved by establishing a system that allows for partnerships with companies, ensuring that skills training meets employers' hiring demands. Domestic companies and multinationals themselves can also provide skills training for employees based on their unique needs. Training programs with formal agreements that ensure trainees return to work for the given firm can alleviate the reluctance of companies to spend ample time and money on such training. Government subsidies may also serve to encourage private companies to provide training. Finally, the different stages of vocational training should become better integrated and vocational certification systems should be improved to create trustworthy standards for professional skills.

Adapt Higher Education to Enterprises' Labor Needs

Greater interaction between universities and enterprises should be promoted in order for educational institutions to better adapt to market needs and cultivate highly-skilled workers who will be in demand by employers. Working mechanisms may be established that involve companies, universities, and the public in new curriculum design, although universities may need to be granted greater autonomy to do so. Higher education institutions can also ready their students for the realities of the labor market by providing career advice and realistic employment expectations.

Eliminate Barriers to Talent Mobility

At the macroeconomic level, better institutional design is needed to help allocate human resources more efficiently – including the dismantling of administrative and industrial monopolies. Optimizing policies relating to talent and population can foster a better functioning labor market, one that promotes participation, job mobility, and entrepreneurship. In pursuit of equal opportunity, systems including household registration, social security, and education should be looked at for reform. Education, for one, is increasingly more expensive and is seen as less beneficial for those without the means to pay for it. Indeed, public debate about the declining return of a college degree has been prevalent in recent years. Addressing these issues while they are still manageable will allow for China to build a strong institutional framework for talent development.

Research Spotlight

The symposium also marked the launch of a year-long research study commissioned by J.P. Morgan, *Skills Shortages in the Chinese Labor Market*, which was conducted jointly by Tsinghua University and Fudan University. The study highlights gaps in the supply and demand for highly-skilled labor and regional differences in the type of skills required, at a time when businesses across China are facing an acute skills shortage. More than 30 researchers contributed to the project, analyzing multiple datasets ranging from official macro Chinese labor market data to first-hand national representative micro-level surveys. This study represents a far more systematic and comprehensive analysis of Chinese labor market trends than anything attempted in previous studies and offers several policy recommendations to help resolve skills shortages, which were echoed by symposium participants.

