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DIGITAL TRANSFORMATION AND EMPLOYMENT STRUCTURAL ADJUSTMENT: THE SPECIFICS OF STATE LABOR MARKET REGULATION IN CHINA

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Annotation. This paper investigates the contemporary challenges of unemployment within China's evolving labor market, characterized by a structural mismatch between emerging digital demands and the existing workforce's skill set. By analyzing recent macroeconomic indicators and state-led policy interventions, this study delineates the specific characteristics of China's labor market regulation. The findings reveal that the Chinese government has pivoted towards active, digital-era

governance—leveraging fiscal incentives, large-scale vocational reskilling, and targeted support for vulnerable groups. This state-centric and adaptive regulatory model not only stabilizes domestic employment but also offers valuable insights for developing nations navigating the dual pressures of technological disruption and economic transition.

Key word: Unemployment, Labor Market, State Regulation, Digital Economy, China

1. Introduction

The confluence of global economic fluctuations and aggressive domestic technological upgrading has placed unprecedented pressure on China's labor market. As the world's second-largest economy undergoes a critical transition towards a digital and innovation-driven model, the phenomenon of structural unemployment has become increasingly pronounced. Traditional industries, such as manufacturing and conventional retail, are contracting, while the digital economy—encompassing e-commerce, artificial intelligence, and green energy—is expanding rapidly.

Addressing domestic employment stability is not merely a domestic concern but a prerequisite for China's sustained role as a vital economic partner within the «Belt and Road» initiative (BRI. A stable workforce ensures robust consumption and provides the necessary human capital for outbound investment and international cooperation, particularly with partner countries like Kazakhstan.

This paper aims to analyze the current landscape of unemployment in China and critically evaluate the specific mechanisms of state labor market regulation. By moving beyond passive relief efforts, China has developed a unique, proactive governance model tailored to the digital age. This study contributes to the broader understanding of how large economies can effectively manage labor market transitions amidst technological disruption [1, 2].

2. Theoretical Framework and Methodology

Theoretically, this study is grounded in the concept of structural unemploymentand active labor market policies(ALMPs). Traditional economic theories, such as Okun's Law, establish a direct correlation between GDP growth and employment rates. However, the digital transformation introduces a nuanced variable: productivity gains from automation may decouple economic growth from traditional job creation, necessitating state intervention to facilitate labor reallocation.

Methodologically, this research employs a qualitative policy analysis combined with a quantitative assessment of recent labor market data (covering the period from 2020 to 2024). The primary data sources include official reports from the National Bureau of Statistics (NBS) of China, the Ministry of Human Resources and Social Security (MOHRSS), and authoritative national economic censuses [3].

3. The Current Landscape of Unemployment in China

Despite global economic headwinds, China's overall employment situation has remained remarkably stable, thanks to robust macroeconomic momentum and

targeted policy interventions. According to the NBS, the average national urban survey unemployment rate stood at 5.1% in 2024, slightly decreasing by 0.1 percentage points compared to the previous year. Furthermore, the unemployment rate for rural migrant workers—a highly vulnerable demographic—averaged 4.6% in 2024, marking a 0.3 percentage point decline year-on-year.

However, beneath this stable macro-surface lies a significant structural challenge driven by digitalization. The proliferation of automation and the platform economy has triggered a dual effect of «job displacement» and «job creation». On one hand, traditional low-skilled positions in manufacturing and routine services are being rapidly automated. On the other hand, the digital economy has emerged as a formidable engine for employment. Data from the Fifth National Economic Census reveals that by the end of 2023, China's core digital economy sectors comprised 2.916 million corporate entities, employing 36.159 million people, and generating 48.4 trillion RMB in revenue. Additionally, the broader digital industry recorded 20.6 million direct employees in 2024 [4].

The core challenge, therefore, is not a lack of jobs, but a severe skills mismatch. The labor market is experiencing a paradox where industries struggle to fill newly created high-tech positions due to a shortage of qualified talent, while a surplus of low-skilled workers face displacement. This structural friction disproportionately affects younger generations and older, less adaptable workers.

4. The Specifics of State Labor Market Regulation in China

The Chinese government's response to these challenges is characterized by a centralized, multi-tiered, and highly adaptive regulatory framework. The state has shifted from a passive welfare approach to an active, market-oriented governance model. The specifics of this regulation can be categorized into three primary mechanisms:

4.1 Fiscal, Monetary, and Enterprise Incentives

The state actively manipulates fiscal and monetary levers to encourage private enterprises—the primary engines of job creation—to retain and expand their workforce. In 2024, the government implemented a series of aggressive pro-employment financial policies. Notably, the government reduced the unemployment insurance premium rate to 1% and provided substantial subsidies to enterprises. By the end of 2024, the state had distributed 38.6 billion RMB in unemployment insurance funds to stabilize and expand employment across 6.65 million enterprise accounts. Additionally, over 10 billion RMB in employment subsidies were allocated to 2.63 million enterprises. These «direct-to-business» financial injections have been highly effective in maintaining low layoff rates in the private sector [5, 6].

4.2 Institutional Adaptation for the Platform and Gig Economy

Recognizing the rapid rise of the platform economy (e.g., food delivery, ride-hailing, live-streaming e-commerce), Chinese regulators have pioneered new legal and social frameworks to protect gig workers. Traditional labor laws, designed for full-time employees, struggled to accommodate the flexible nature of digital platform

work. In response, the state introduced pilot programs for occupational injury insurance specifically tailored for gig-economy workers, ensuring that this burgeoning, flexible workforce retains access to fundamental social security nets. This regulatory adaptation has been crucial in legitimizing and stabilizing the millions of jobs created by digital platforms.

4.3 Large-Scale Educational Reskilling and Targeted Youth Programs

To directly combat structural unemployment, the state has heavily invested in vocational training and youth employment initiatives. The government launched the «1 Million Employment Trainee Positions Plan» in 2024, aiming to provide substantial internship and training opportunities for young people struggling to enter the formal job market. Concurrently, large-scale government-funded digital literacy and vocational training programs have been deployed nationwide. In 2024 alone, 51.3 billion RMB in skill-enhancement subsidies were issued to 3.1 million individuals, equipping the workforce with the necessary competencies to thrive in the digital economy [7].

5. Discussion and Policy Implications

The efficacy of China's state-led labor market interventions lies in its pragmatic blend of market forces and state oversight. Unlike the purely laissez-faire models that rely solely on market correction, or the antiquated welfare states that foster dependency, China's model emphasizes employabilityand structural adaptation. The proactive fiscal subsidies successfully incentivized businesses to absorb the initial shock of technological upgrading without massive layoffs.

However, limitations persist. While the overall unemployment rate remains stable, youth unemployment continues to pose a significant social challenge, prompting the government to temporarily suspend the publication of specific youth unemployment data in August 2023 to recalibrate its statistical approach. Nevertheless, the state's agile policy corrections—such as the intensive rollout of the «Spring Breeze Action» and public job fairs providing over 30 million job opportunities in early 2024 - demonstrate a highly responsive regulatory apparatus [8].

For other Belt and Road Initiative countries, particularly developing nations in Central Asia like Kazakhstan that are also undergoing digital transitions, China's experience offers several key takeaways:

Proactive Reskilling is Non-Negotiable Governments must anticipate technological disruptions and invest heavily in aligning workforce skills with future industry needs.

Flexible Labor Protections: As the gig economy grows globally, creating hybrid social security models that protect flexible workers without stifling platform innovation is essential.

Financial Incentives Work: Direct fiscal transfers and tax breaks for SMEs are highly effective tools for rapid employment stabilization during periods of economic volatility.

6. Conclusion

In conclusion, China's labor market is navigating a profound structural transformation fueled by digitalization and global economic shifts. While challenges such as youth unemployment and skills mismatches persist, the Chinese government's regulatory response has been remarkably adaptive. Through a sophisticated toolkit of enterprise subsidies, innovative gig-economy protections, and massive vocational reskilling programs, the state has successfully maintained overall employment stability [9]. This state-centric, digitally-aware, and highly targeted regulatory model provides a compelling case study for developing economies. As China continues to deepen its economic integration with Belt and Road partners, the stability of its domestic labor market will undoubtedly serve as a robust foundation for sustained international cooperation and shared regional prosperity.

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