Towards a Labour Market in China

John Knight and Lina Song

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Towards a Labour Market in China

JOHN KNIGHT
and
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Preface

Our research interest in the subject of this book began in the early 1990s, when—in many respects—China did not possess a labour market. The old administered labour system remained largely intact in urban China, and restrictions on labour remained pervasive in rural China. Over the last twelve years we have witnessed, and studied, China’s movement towards the creation of a labour market. We have published or completed more than twelve research papers, written jointly or separately. As we explain in the book, China still does not possess a well-functioning labour market—that is for the future. Nevertheless, the changes which have already taken place present us with the opportunity to tell a fascinating story. We decided to collect our research studies together, to join them up and to generalize from them. That is how Towards a Labour Market in China was born.

Our motives for studying this subject are twofold. First, it is a phenomenon of utmost importance. With its labour force of 700 million, China is a labour-surplus economy par excellence. This highlights the questions: To ensure the efficient and equitable use of that labour, how should a society and economy be organized; in particular, what role should a labour market play? The remarkable transformation and growth of the Chinese economy—involving the development of many product and factor markets and the greatest migration in human history—has necessitated vast and rapid change in the allocation, the use, and the remuneration of labour. The accompanying labour market reforms have affected the quality of life of hundreds of millions of people.

Secondly, the subject presents an intellectual challenge which has not yet been comprehensively addressed. The growing availability of microeconomic household and worker sample surveys in China—some of which we were not only able to analyze but also to design with hypotheses in mind—offered the exhilaration of exploring virgin territory. Economists very rarely have the opportunity to examine the process by which a poor country moves step-by-step along the path of replacing a rigid labour system with a labour market. Such a study raises many issues of interest not only to labour economists but also to development economists and transition economists. We attempt to place the Chinese case within the broad theoretical framework needed to examine the efficiency and equity of the operation of the labour market. We hope that specialists in the Chinese economy will find much that is new to them but we are primarily writing for a broader readership of economists interested in labour, development, or transition issues.

Our general approach is in line with the detailed empirical methodology, involving specific hypothesis testing, that is conventional in economic research today. We write a series of chapters, each chapter examining particular questions
and sufficiently self-contained to be read on its own. A number of the chapters first appeared—in a different, usually narrower, form—as papers in refereed journals. However, we attempt to draw out the common themes—encapsulated in the phrase ‘the imperfect labour market’—throughout, but particularly in the concluding chapter. Our hope is that the whole adds up to more than the sum of the parts.

Since economic reform commenced, the amount of rigorous economic analysis of the Chinese labour market has grown exponentially, from small beginnings. We do not attempt to provide a survey of the research findings of other scholars. Rather, we make our own contribution to the literature. We choose to draw on other research only where it is directly relevant—in a distinctive or complementary way—to our arguments.

The research was made possible by the financial support of the Leverhulme Trust, the UK Economic and Social Research Council, the UK Department for International Development, the British Council, and the Ford Foundation. The Leverhulme Trust provided a grant (reference number F519/C) for our research project entitled ‘Towards a labour market in China’. The ESRC funded our project ‘Income distribution and the labour market in China’ (reference number R000236846), and DFID our project ‘The new urban poverty in China: efficiency versus equity?’ (reference number 7526). The British Council arranged our ‘Academic Link’ with the Ministry of Labour in China, and supported our research collaboration with the ministry. The Ford Foundation in Beijing funded the two labour force surveys which were the subject of that collaboration (linking into the Leverhulme-funded research), as well as the surveys which formed the basis of the ESRC- and DFID-funded research projects. We are grateful to these bodies for the confidence they showed in us.

Our many contacts in China played a vital role in the research. We owe a great deal to our friend and collaborator, Li Shi, who contributed much to the success of the project by helping to plan and conduct the surveys, and in their analysis during several visits to Oxford. The Institute of Economics of the Chinese Academy of Social Sciences provided support and cooperation, in particular by enabling Zhao Renwei and Li Shi to visit Oxford and collaborate with us. We are extremely grateful to the officials and researchers in the Ministry of Labour and Social Security with whom we collaborated, including Zhang Xiaoqian (now Vice Minister), Liu Danhua, Chai Haishan, Jia Huaibin, Mo Rong, and Huang Huabo. We were fortunate to be invited to several international conferences on related topics, mainly in China but also elsewhere, which enabled us to present our ideas and findings to assembled experts and receive feedback.

We wish to thank a number of our co-authors for allowing us to make use of research reported in our joint papers with them. These include Li Shi (Chapters 4, 7, 9), Zhao Renwei (Chapter 4), Simon Appleton and Qingie Xia (Chapter 6), Linda Yueh (Chapters 7, 10), Xue Jinjun (Chapter 2), and Jia Huaibin (Chapter 5). In no case is this joint work simply reproduced, and in each case further acknowledgement is made at the relevant point in the text. Linda Yueh (Oxford) and Qingjie Xia (Nottingham) also provided excellent research support.

We are grateful to the small but global and growing band of researchers on the Chinese labour market with whom we have had helpful discussions or from whom we have received comments. In addition to those mentioned above, there are our colleagues on the various international research projects to which our research has been affiliated (including Björn Gustafsson, Azizur Khan, Xin Meng, Carl Riskin, and Hiroshi Sato) and others with whom we share interests (including Bai Nansheng, Arne Bigsten, Loren Brandt, Cai Fang, Sarah Cook, Dong Xiaoyuan, Belton Fleisher, John Giles, Ted Groves, Denise Hare, the late D. Gale Johnson, Luo Xiaopeng, Margaret Maurer-Fazio, Katsuji Nakagane, Barry Naughton, Albert Park, Tom Rawski, Scott Rozelle, Terry Sicular, Wei Zhong, Zhao Yaohui, Yao Yang, Yue Ximing, and Zhou Qiren). At the Department of Economics (formerly the Institute of Economics and Statistics) in the University of Oxford, which provided outstanding support, we wish to thank Gillian Coates, who administered our grants, Giuseppe Mazzarino for his computing advice, and Ann Gibson for all her secretarial support. Laura Wu created the index.
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## Contents

*List of Figures*  
List of Tables  
PART I INTRODUCTION  
1. Setting the Stage  
   1.1 Issues  
   1.2 Theoretical Framework  
   1.3 Sources of Evidence  
   1.4 Plan of the Study  
2. Labour Policy and Progress: Overview  
   2.1 Introduction  
   2.2 The Pre-reform Labour System  
   2.3 The Political Economy of Economic Reform  
   2.4 The Evolution of Labour Reform Policies  
   2.5 Conceptualizing the Labour Market  
   2.6 Labour Market Trends in the Reform Period  
   2.7 Conclusions  
PART II THE URBAN LABOUR MARKET  
3. Increasing Wage Inequality  
   3.1 Introduction  
   3.2 The Change in Wage Structure  
   3.3 Decomposing the Wage Increase  
   3.4 Decomposing the Rise in Inequality  
   3.5 The Rise in Wage Inequality: Quantile Regression Analysis  
   3.6 Conclusions  
4. The Spatial Behaviour of Wages  
   4.1 Introduction  
   4.2 Convergence in Inequality: Evidence
<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.3</td>
<td>Convergence in Inequality: Explanation</td>
<td>69</td>
</tr>
<tr>
<td>4.4</td>
<td>Divergence in Means: Evidence</td>
<td>74</td>
</tr>
<tr>
<td>4.5</td>
<td>Divergence in Means: Explanation</td>
<td>78</td>
</tr>
<tr>
<td>4.6</td>
<td>Conclusions</td>
<td>83</td>
</tr>
<tr>
<td>5</td>
<td>Rural Migrants in Urban Enterprises</td>
<td>86</td>
</tr>
<tr>
<td>5.1</td>
<td>Introduction</td>
<td>86</td>
</tr>
<tr>
<td>5.2</td>
<td>The Survey</td>
<td>87</td>
</tr>
<tr>
<td>5.3</td>
<td>The Rewards for Migrant Labour</td>
<td>91</td>
</tr>
<tr>
<td>5.4</td>
<td>Migrant and Non-migrant Earnings Compared</td>
<td>96</td>
</tr>
<tr>
<td>5.5</td>
<td>The Perspective of the Migrants</td>
<td>99</td>
</tr>
<tr>
<td>5.6</td>
<td>The Perspective of the Enterprises</td>
<td>103</td>
</tr>
<tr>
<td>5.7</td>
<td>The Perspective of Government</td>
<td>109</td>
</tr>
<tr>
<td>5.8</td>
<td>Conclusions</td>
<td>111</td>
</tr>
<tr>
<td>6</td>
<td>Redundancies, Unemployment, and Migration</td>
<td>115</td>
</tr>
<tr>
<td>6.1</td>
<td>Introduction</td>
<td>115</td>
</tr>
<tr>
<td>6.2</td>
<td>Employment in Chinese Enterprises</td>
<td>115</td>
</tr>
<tr>
<td>6.3</td>
<td>The Redundancy Policies</td>
<td>117</td>
</tr>
<tr>
<td>6.4</td>
<td>Redundancy, Unemployment, and Re-employment</td>
<td>119</td>
</tr>
<tr>
<td>6.5</td>
<td>Retrenchment and the Re-employment Wage</td>
<td>124</td>
</tr>
<tr>
<td>6.6</td>
<td>Urban Unemployment Versus Migrant Employment</td>
<td>128</td>
</tr>
<tr>
<td>6.7</td>
<td>Conclusions</td>
<td>130</td>
</tr>
<tr>
<td>7</td>
<td>Immobility and Segmentation of Labour</td>
<td>134</td>
</tr>
<tr>
<td>7.1</td>
<td>Introduction</td>
<td>134</td>
</tr>
<tr>
<td>7.2</td>
<td>Immobility Among Jobs</td>
<td>134</td>
</tr>
<tr>
<td>7.3</td>
<td>Segmentation Among Workers</td>
<td>141</td>
</tr>
<tr>
<td>7.4</td>
<td>Segmentation Among Firms</td>
<td>152</td>
</tr>
<tr>
<td>7.5</td>
<td>Conclusions</td>
<td>163</td>
</tr>
<tr>
<td>PART III</td>
<td>THE RURAL LABOUR MARKET</td>
<td>169</td>
</tr>
<tr>
<td>8</td>
<td>Rural Labour Allocation</td>
<td>171</td>
</tr>
<tr>
<td>8.1</td>
<td>Introduction</td>
<td>171</td>
</tr>
<tr>
<td>8.2</td>
<td>Labour Allocation by Workers and Households</td>
<td>173</td>
</tr>
</tbody>
</table>
List of Figures

2.1 A model of the Chinese labour market .......................... 14
2.2 Ratio of average urban/rural income, and consumption, per capita, 1952–2002 .......................... 36
2.3 Average real wage in urban units, 1978–2000 ..................... 39
3.1 The efficiency–equality trade-off .................................. 48
5.1 Employment of migrants and non-migrants ....................... 108
10.1 Urban labour demand and supply, 1990–2010 .................. 248
List of Tables

1.1 The sample surveys 8
2.1 The labour force and its distribution, China, 1952–2000, millions and percentage of total 15
2.2 The labour force and its distribution, China, urban and rural, 1980–2000 32
2.3 Change in the labour force, China, 1980–9 and 1990–2000, millions, percentage distribution, and percentage change per annum 33
2.4 Census and administrative estimates of urban unemployment in China, 1982–2000 35
2.5 The composition of wages in state-owned units, 1978–93 (total = 100), total and basic real wages (1978 = 100) 40
3.2 Earnings functions for individual workers in urban China, 1988 and 1995 52
3.3 Decomposition of the increase in mean real wages: urban China, 1988–95 54
3.4 Decomposition of earnings inequality by the determinants of earnings: urban China, 1988, 1995, and 1988–95 56
3.5 The coefficients on selected variables in quantile regressions, 1988 and 1995 58
4.1 The level and change in the Gini coefficient of earnings per worker and of income per capita in urban China, 1988–95, by province 67
4.2 The inter-province relationship between initial Gini coefficient of earnings, and income, and its growth: urban China, 1988–95 68
4.3 The growth of the Gini coefficient of income per capita and earnings per worker, 1988–95, as a function of their initial values, by city, urban China 68
4.4 Percentage shares of earnings components in total earnings: urban China, 1988 and 1995 71
4.5 Contribution of earnings components to change in earnings inequality: urban China, 1988–95 72
4.6 The inter-province relation between the contribution of a component to the change in earnings inequality and the initial contribution of the component or the initial Gini coefficient 72
4.7 The inter-province and inter-city relation between the Gini coefficient of earnings and the proxy for the extent of reform: urban China, 1988 73
4.8 The coefficient on the initial value of the Gini coefficient of earnings in the inter-province equations predicting the change in the Gini coefficient: urban China, 1988–95

4.9 The mean values of earnings per worker and income per capita, 1988 and 1995, at constant (1988) prices, urban China, by province, and their percentage rates of growth

4.10 The inter-province relationship between initial mean earnings, and income per capita, and their growth: urban China

4.11 The growth of income per capita and earnings per worker, 1988–95, as a function of their initial values, by city: urban China

4.12 The growth of income per capita and earnings per worker, 1988–95, as a function of their initial values, by cities within provinces: urban China

4.13 Percentage growth of real earnings components, urban China, by province, 1988–95

4.14 The contribution of earnings components to the divergence of real earnings across provinces: urban China, 1988–95

4.15 Decomposition analysis of the difference in mean earnings in urban China: coast–interior, 1988–95

4.16 The percentage contribution of each worker characteristic to the regional difference in mean earnings attributable to coefficients: urban China, 1988 and 1995

5.1 Basic data on the migrants

5.2 Basic data on the enterprises

5.3 Basic data on the four cities

5.4 Earnings function for migrants: mean values and coefficients

5.5 Earnings functions for migrants, by city: mean values and coefficients

5.6 The training of migrants

5.7 Average earnings and employment by occupation: urban, rural, and total workers

5.8 Decomposition of the differences in average earnings between rural and urban workers

5.9 Earnings functions for urban and rural workers using enterprise-level data

5.10 Reasons for migrating: percentage of respondents reporting each reason

5.11 Multinomial logit analysis of tenure choice: the determinants of indefinite stay

5.12 The determinants of migrant remittances: tobit regression equation

5.13 Managerial attitudes towards migrants

5.14 Estimates of urban and rural employees per enterprise

5.15 Estimates of the enterprise production function
6.1 Probit model for the probability of retrenchment: coefficients and marginal effects, 1999 urban resident sample 120
6.2 Semiparametric model for the duration of unemployment: 1999 urban resident sample 123
6.3 Estimates of earnings functions for re-employed workers: urban resident sample, 1999 127
6.4 The determinants of migrant employment in urban enterprises: province analysis, 1995 and 1996 129
7.1 Percentage of job separations by period of entry into the labour market and by period of job separation, for those with one job change: urban resident sample, 1999 (number of observations in parentheses) 137
7.2 Percentage of voluntary, and of involuntary, separations by period of entry into the labour market and by period of job separation, for those with one job change: urban resident sample, 1999 (number of observations in parentheses) 138
7.3 Transition matrix for those who had changed jobs once, row percentage in each ownership category, by ownership category of previous sector: urban resident sample, 1999 (number of observations in parentheses) 139
7.4 Variable definitions used for the analysis of worker categories 144
7.5 Wage functions for the non-retrenched, re-employed, and migrant workers, 1999 146
7.6 Predicted mean log wage from the wage functions, 1999 (standard error in brackets) 148
7.7 Fixed effects estimates of changes in wage function coefficients for urban workers, 1995–9 150
7.8 Notation and descriptive statistics of the variables used for the analysis of profit-sharing, 1995 and 1999 157
7.9 Earnings functions for urban residents, 1995 and 1999 158
7.10 Coefficients on the profit variables in earnings functions for various components of earnings of urban residents, 1995 and 1999 159
7.11 Earnings functions for urban residents, containing interaction terms, 1995 and 1999 161
8.1 Degrees of labour specialization, diversification, and utilization, households and workers: weighted sample 174
8.2 Worker preferences and opportunities for labour allocation: weighted sample 176
8.3 Attitudinal response, according to household income and activity type: weighted sample 179
8.4 Production functions for farming and non-farming activities: translog model 181
8.5 Average and marginal returns to the factors of production 182
<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>8.6 Allocation and mean income of specialist workers according to specialization: weighted sample</td>
<td>183</td>
</tr>
<tr>
<td>8.7 Marginal income per worker day from household specialist activities: coefficient in regression analysis</td>
<td>184</td>
</tr>
<tr>
<td>8.8 Multinomial logit analysis of peasant choices</td>
<td>189</td>
</tr>
<tr>
<td>8.9 The choice between non-farm local and migrant work: binomial logit analysis and the interaction terms in an earnings function, with non-farm local work as the omitted category</td>
<td>192</td>
</tr>
<tr>
<td>8.10 The determinants of total, farm, and non-farm days worked by workers in 1994: regression analysis</td>
<td>196</td>
</tr>
<tr>
<td>9.1 The characteristics of the migrants, their households, and their villages</td>
<td>209</td>
</tr>
<tr>
<td>9.2 Information about the labour market: type, source, and relation to migration behaviour</td>
<td>210</td>
</tr>
<tr>
<td>9.3 Types of information received by migrants</td>
<td>211</td>
</tr>
<tr>
<td>9.4 Determinants of the types of information received: probability values generated from multinomial logit coefficients</td>
<td>212</td>
</tr>
<tr>
<td>9.5 The economic benefits and costs of migration, by source of specific information</td>
<td>215</td>
</tr>
<tr>
<td>9.6 Determinants of the cost of migration: OLS regression</td>
<td>216</td>
</tr>
<tr>
<td>9.7 Estimates of migrants' current income, expected income, and the difference between them: OLS analysis</td>
<td>218</td>
</tr>
<tr>
<td>9.8 The determinants of income for employed individuals aged 19–55: urban resident sample</td>
<td>221</td>
</tr>
<tr>
<td>9.9 The determinants of income for employed individuals, by ownership sector of employer: urban resident sample</td>
<td>224</td>
</tr>
</tbody>
</table>
PART I INTRODUCTION
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1 Setting the Stage

1.1 ISSUES

For many years, under the planned economy, China had no labour market. Instead, from the 1950s to the 1980s, it had a system of wage administration and labour allocation. This system gave the state—essentially the Chinese Communist Party (CCP)—great powers to pursue its various objectives, including egalitarianism and party control.

With the death of Mao the new Chinese leadership changed objectives in favour of economic improvement. A process of economic reform began, from the late 1970s in rural areas and from the mid-1980s in urban areas. Among the reforms was a move towards the creation of a labour market in China—slow and faltering at first but quickening and becoming cumulative in recent years. Even today, however, China does not possess a free labour market—one which involves market responses to supply and demand, potential for labour mobility, and economic incentives for efficiency—of the sort that characterizes most other developing countries. It is a market in transition, a market in formation. In this book we shall explore the move towards a labour market in China—what came before it, where it has got to, and how it might, and should, develop.

The legacy of central planning under old-style communism has inevitably moulded the nature of the new labour market. Crucial to its evolution is the rural–urban divide, an institutionally imposed ‘invisible Great Wall’. This phenomenon was the subject of our previous book *The Rural–Urban Divide. Economic Disparities and Interactions in China* (Knight and Song 1999). A powerful urban bias in state institutions and government policies shielded urban people from the labour market competition of rural people, and for the most part continues to do so.

In this and other ways the Chinese urban labour market remains segmented. Perhaps the main division now is between those urban workers—largely in the state sector—who continue to enjoy government favours, on the one hand, and rural–urban migrants and urban short-term contract and private-sector workers, on the other. The former group has disproportionate political power, albeit latent. The rapid growth in importance of the latter group—although relatively powerless—has enlarged the scope of the labour market and put competitive pressure on the labour system as a whole. We shall explore the various institutional and political constraints on the operation of the labour market, and their evolution over time.