

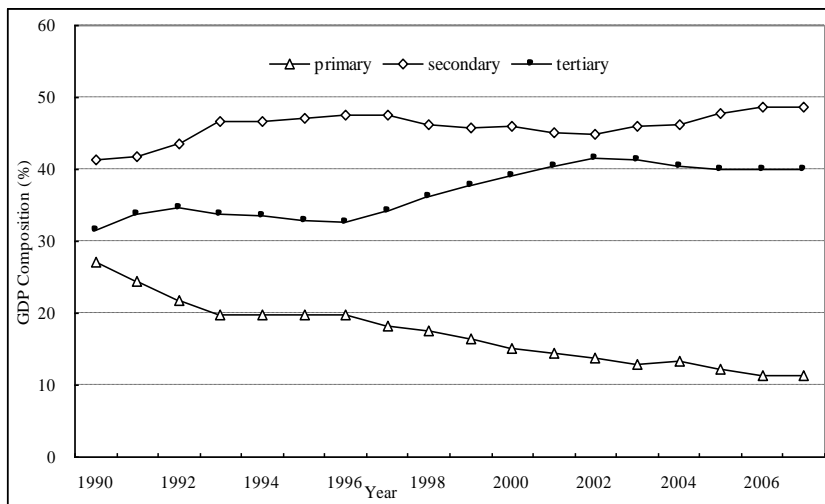
Recent Trend in the Chinese Labor Market and their Impact on Income Inequality

Du Yang

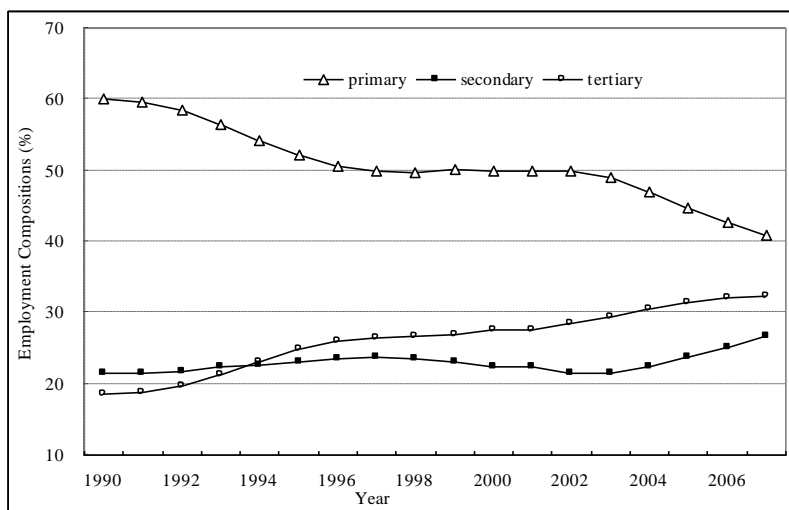
Main Contents

- Growth Patterns and Labor Market Outcomes
- Recent Development in the Chinese Labor Market
- The Impacts on Poverty and Inequality

Changes of GDP composition, 1990-2007



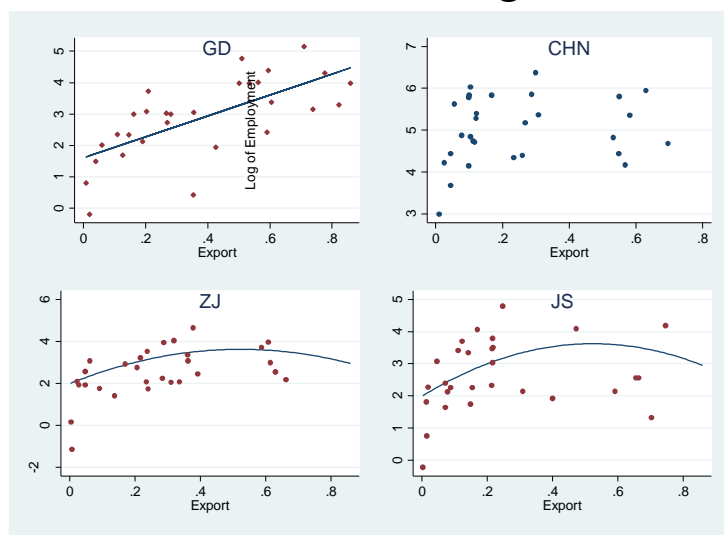
Employment by economic sector, 1990-2007



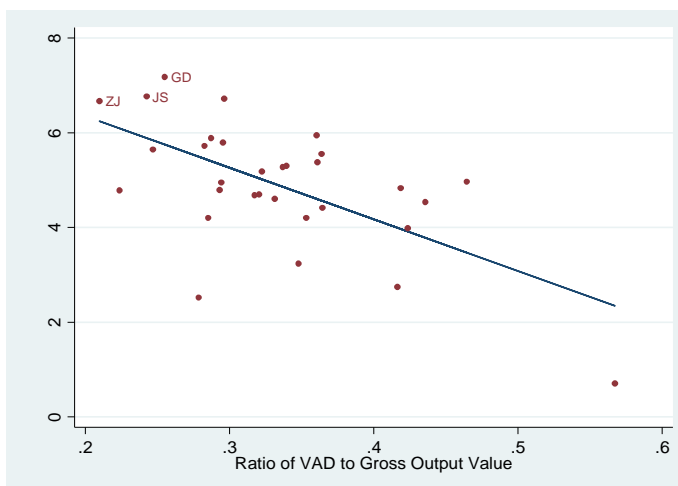
Main Labor Market Outcomes

Year	Economically Active Population (in million)	Total Employment (in million)	Urban Labour Market			
			Employment (in million)	Labour Force Participation (in percentage)	Surveyed Unemployment (in percentage)	Registered Unemployment (in percentage)
1990	653.2	647.5	170.4	78	3.26	2.5
1991	660.9	654.9	174.7	83	3.32	2.3
1992	667.8	661.5	178.6	72.6	3.41	2.3
1993	674.7	668.1	182.6	66.9	3.49	2.6
1994	681.4	674.6	186.5	72.3	3.52	2.8
1995	688.6	680.7	190.4	75.9	3.98	2.9
1996	697.7	689.5	199.2	72.9	3.93	3.0
1997	708.0	698.2	207.8	72.1	4.50	3.1
1998	720.9	706.4	216.2	71.2	6.29	3.1
1999	727.9	713.9	224.1	72.9	5.87	3.1
2000	739.9	720.9	231.5	66.1	7.61	3.1
2001	744.3	730.3	239.4	67.3	5.55	3.6
2002	753.6	737.4	247.8	66.5	6.14	4
2003	760.8	744.3	256.4	63.4	6.02	4.3
2004	768.2	752.0	264.8	64.0	5.78	4.2
2005	778.8	758.3	273.3	62.5	5.80	4.2
2006	782.4	764.0	283.1	-	6.12	4.1
2007	786.5	769.9	293.5	-	5.34	4.0

Exports and Employment in Manufacturing



The relationship between employment and the ratio of VAD to GOV



Labor Market Development

- Labor market development is one of the most essential components of economic transition in China
- The labor market development takes place in both rural and urban areas, and on their integration
- Besides, labor market institutions have been set up

Moving out of Agriculture

- The reforms initiated in rural areas (HRS) brought about labor transformation from agriculture to non-agricultural sectors
- Job creation by TVES: leaving land but without leaving hometown, dominated in 1980s
- Large scale rural to urban migration flow: since 1990s

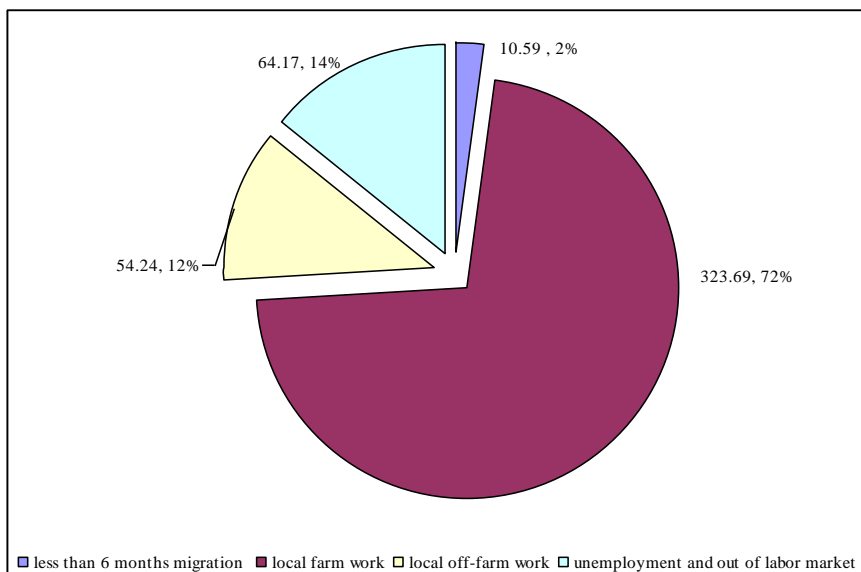
Migrant Workers in Urban Labor Market

Year	Migrant Workers (thousand)	Urban Employment (thousand)	Proportion of Migrants(%)
2000	78490	212740	36.9
2001	83990	239400	35.1
2002	104700	247800	42.3
2003	113900	256390	44.4
2004	118230	264760	44.7
2005	125780	273310	46.0
2006	132120	283100	46.7
2007	136490	293500	46.5
2008	140410	302100	46.5

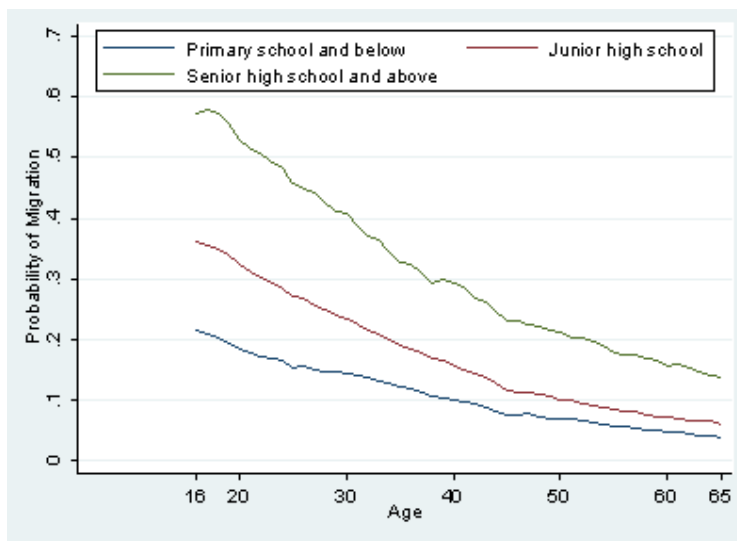
Facing the Lewisian Turning Point: Evidences

- The labor shortage was firstly reported in 2004 for coastal areas and then spread to interior China
- An investigation by MOLSS in 2005 confirmed the phenomena
- A survey in 2749 villages conduced by DRC in 2007 reported there is no young surplus labor for more than $\frac{3}{4}$ of the sampled villages
- Our study on national representative data confirmed the same trend

Distribution of Rural Labor Forces



Predicted Probabilities by Age with Different Level of Human Capital



Rural Labor Forces and Migration Probability

Age and Education Group	Number of labor (million)	Predicted Probability	Predicted Migrants (million)
16-20	17.16	-	4.97
Primary School or below	4.44	0.189	0.84
Jr. High School	12.03	0.315	3.78
Sr. High School or above	0.69	0.505	0.35
21-30	50.08	-	11.18
Primary School or below	15.39	0.142	2.18
Jr. High School	32.24	0.248	7.99
Sr. High School or above	2.46	0.410	1.01
31-40	88.96	-	13.44
Primary School or below	39.45	0.109	4.31
Jr. High School	46.69	0.178	8.29
Sr. High School or above	2.82	0.298	0.84

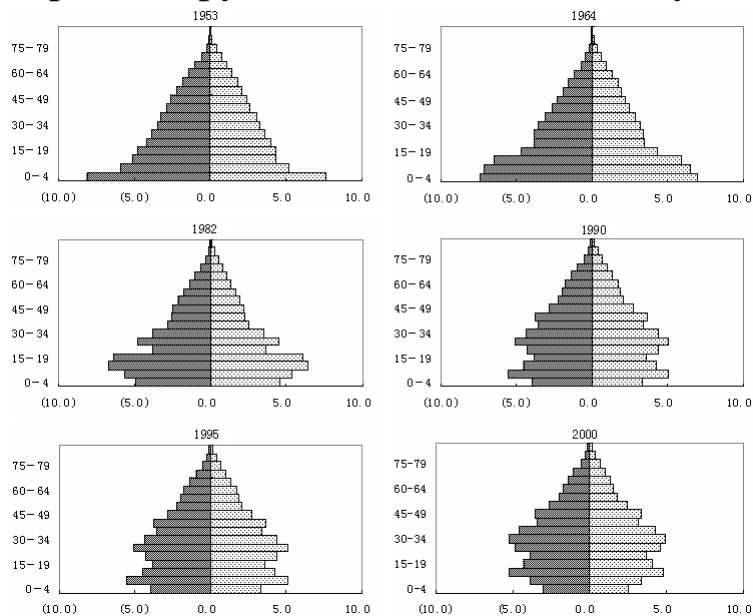
Rural Labor Forces and Migration Probability (cont.)

Age and Education Group	Number of labor (million)	Predicted Probability	Predicted Migrants (million)
41-50	76.48	-	8.29
Primary School or below	39.86	0.078	3.10
Jr. High School	30.52	0.123	3.76
Sr. High School or above	6.10	0.235	1.43
50 and above	93.7	-	5.69
Primary School or below	76.3	0.053	4.04
Jr. High School	15.51	0.084	1.30
Sr. High School or above	1.88	0.182	0.34
All	326.39	-	43.57

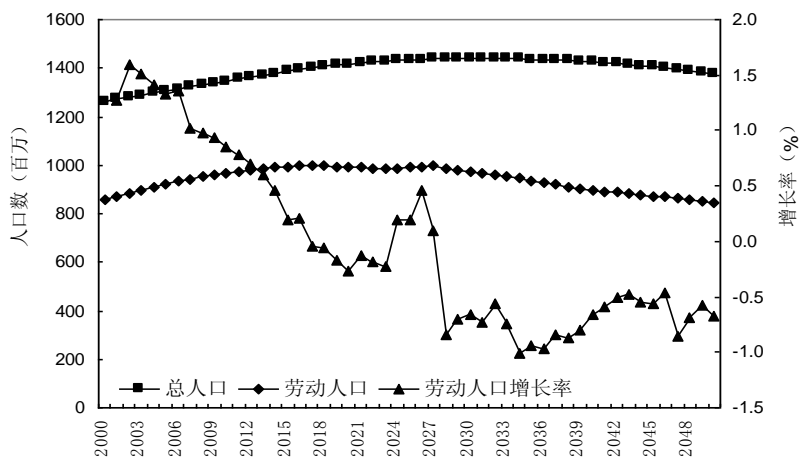
LTP: long term trend vs. short term fluctuation

- We see LTP as long term outcomes of economic and labor market development
- Recent economic crisis and growth slowdown has already been reflected in the labor market, evidenced by increased return migrants
- But since LTP is mainly dominated demographic transition, the long run trend will not be changed at one night
- It is good to believe that the labor market situations will be back to the previous trajectory when the economy recovers (shortage appears again)

Population pyramids in various census year



Decreasing of New Entrants to the Labor Market



Moving out of Agriculture: Effects

- reallocative effect: the transformation of workforce from low productivity sector to high productivity sectors and sustain growth
- income effect: more and more important income sources of rural households and poverty reduction
- Labor market development
- Informalize the urban labor market

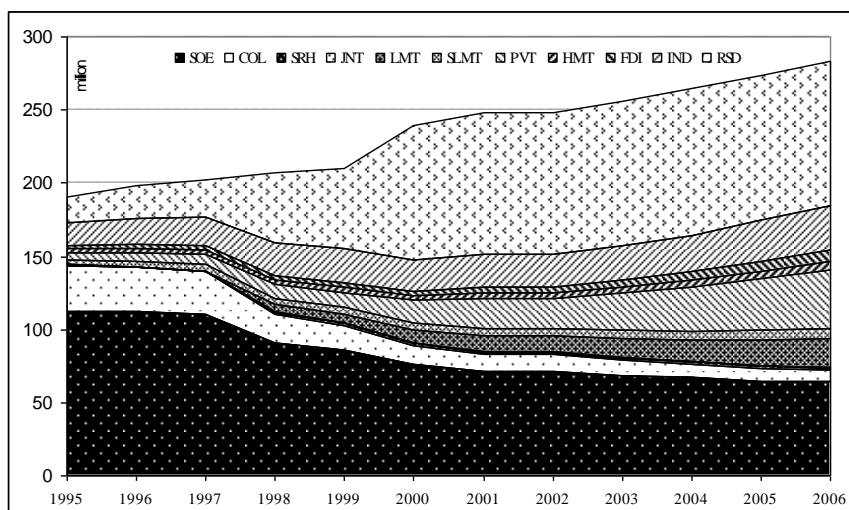
Shattering the iron rice bowl

- More radical reforms on SOEs happened in the middle of 1990s
- Urban economic restructuring brought about labor market dislocation in urban China
- The shock of the urban labor market was evidenced by a declining labor force participation rate and an increasing unemployment rate

Shattering the Iron Rice Bowl: Effects

- Diversify the urban employment
- Encourage the labor market integration across the regions and among sectors
- Informalize the urban labor market
- Push the reforms (on-going) on social protection system

Declining Share of Employment in SOEs

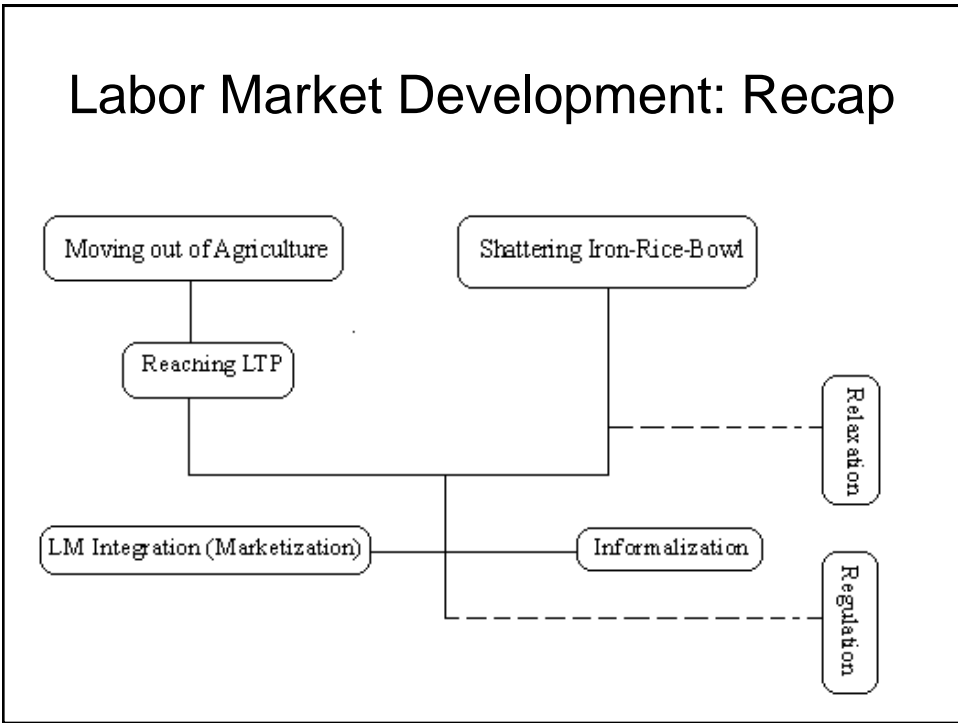
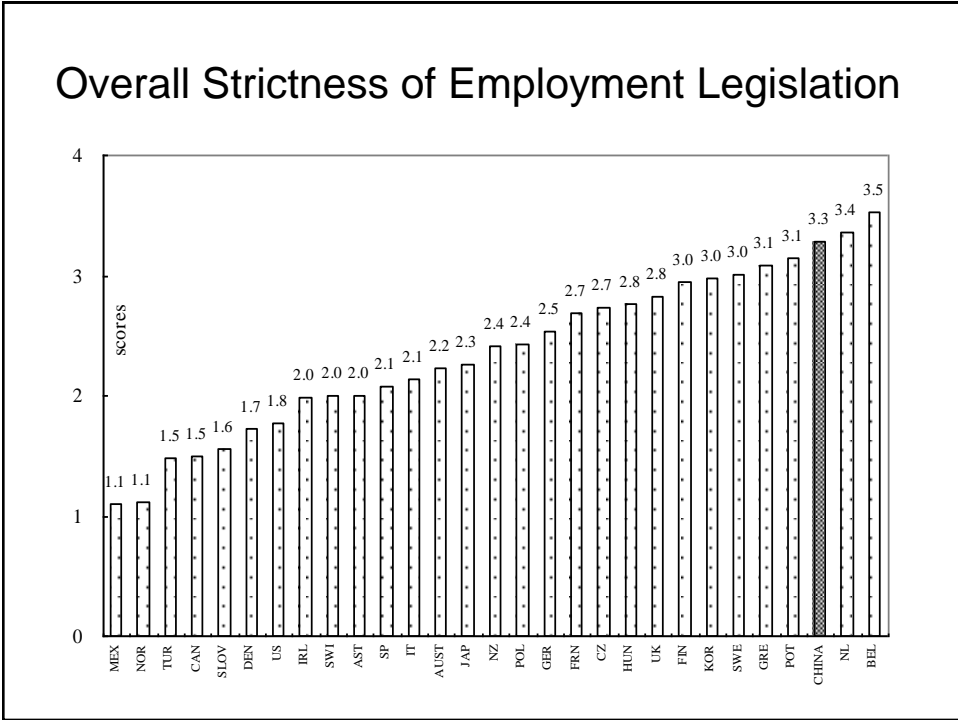


Labor Market Policies and Regulations

- Migration policies
- Active Labor Market Programs
- Social safety nets: social security system and social assistance programs
- A host of new regulations have been enacted : Minimum Wages, Wage Guidelines, Employment Contract Laws, Labor Disputes Mediation and Arbitration Law, etc.

More Regulated Labor Market

- When facing the LTP, unskilled workers are possible to seek protection
- Chinese government starts emphasizing social protection, as component of construction of social protection
- China needs to seek the balance between flexibility and security---flexicurity



Understanding the income inequality in China

- The most important thing is what the basic fact is;
- However, we don't exactly know because the data is not sufficient and the current statistical system can not capture the labor market development very well
- Even though, most researchers have some consensus (R/U; Regional....)

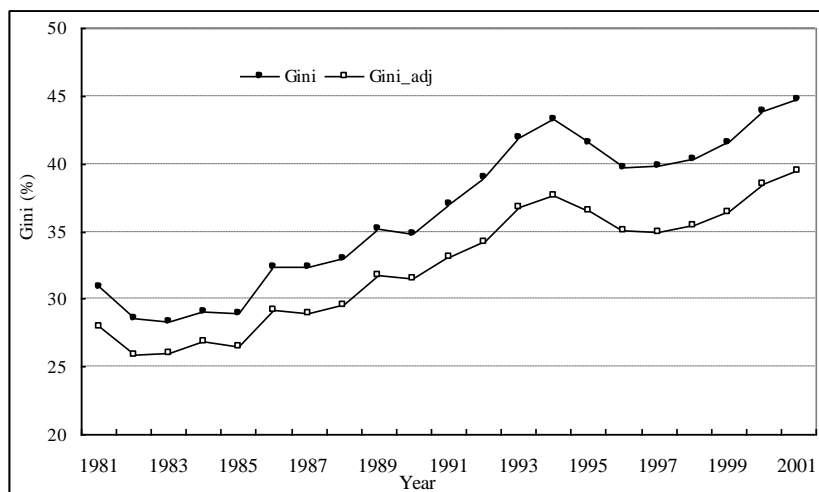
Has the Employment Contract Law Been Enforced?

- Does a strictly regulated law increase the difficulties to enforcement?
- The capacity of labor monitoring and inspection
- Competition between local governments
- Institutional difference: effectiveness of union

.....

No strong empirical evidences so far, but some complaints from business people come true during the financial crisis

Understanding the income inequality in China



Understanding the income inequality in China

- Ravallion and Chen (2007) suggest that, using RHS and UHS conducted by NBS, the overall inequality had kept growing in the first two decades since the reform
- It is the best study so far but subject to some systematic limitations
- It is also worthwhile to look at the impacts of labor market changes in the new century on income inequality

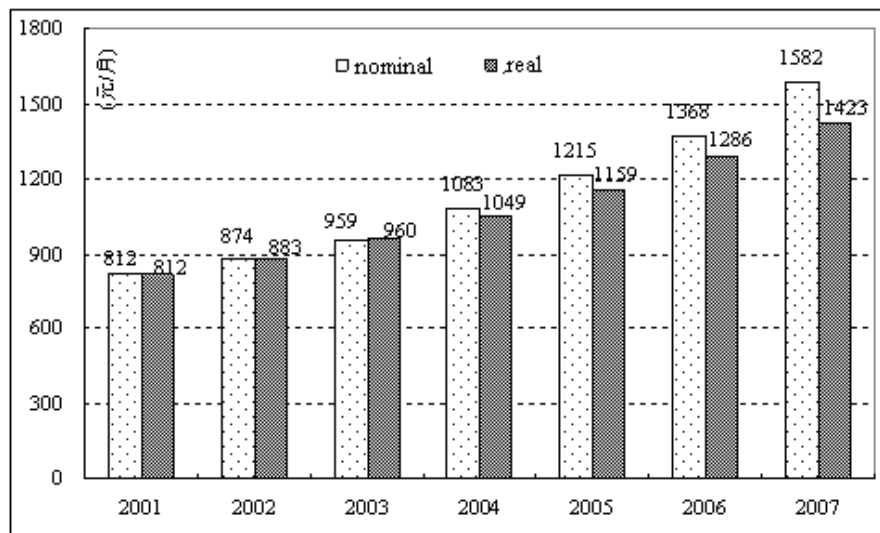
Understanding the income inequality in China: components

- Rural-urban inequality is widely accepted as the main sources of income inequality in China
- Regional disparities: a V-shaped
- Sectors: hotly debating, but no convincing studies
- Individuals

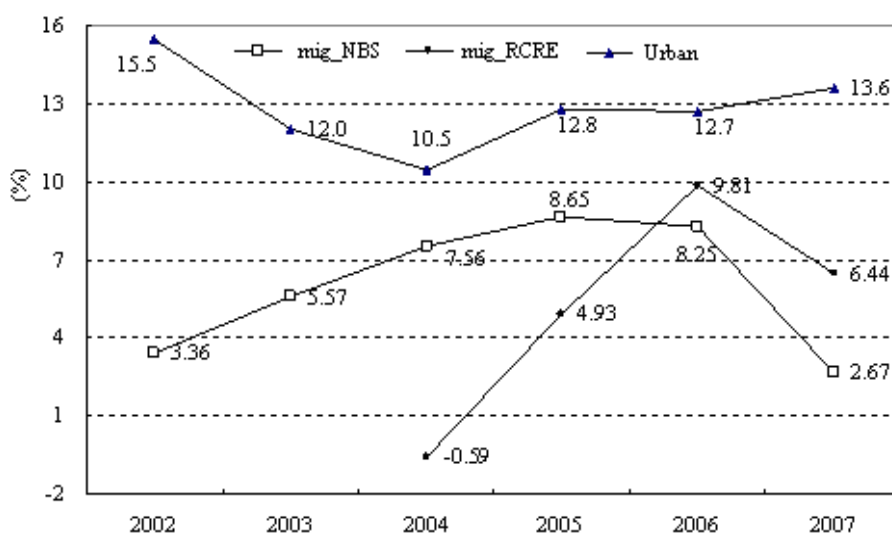
The implications to income inequality

- One way to reduce rural-urban inequality :Increasing migration flow and rising wage rates
- Urban labor market restructuring: reducing sectoral inequality, but unclear for others
- Informalization: employment effects
- Regulation: unclear

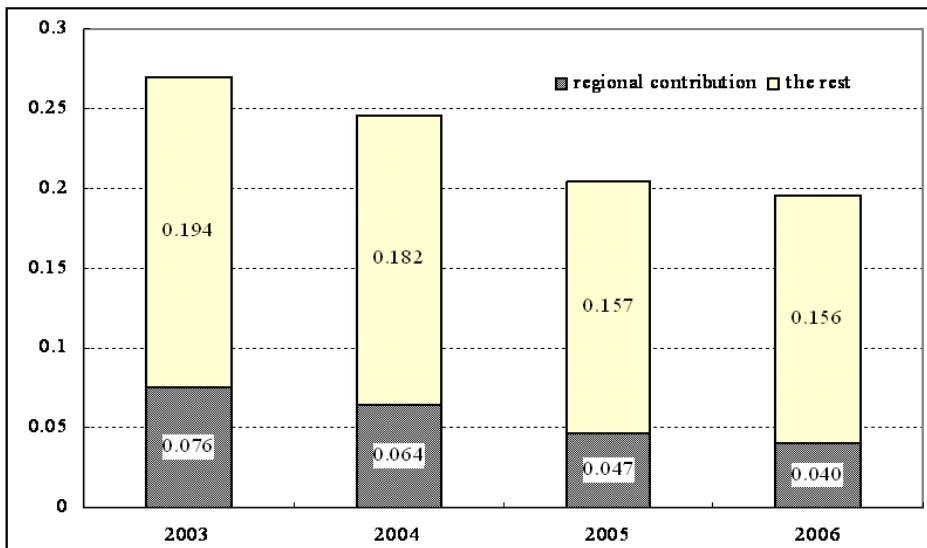
Weighted Wages on Urban Labor Market



Real Wage Growth Rates by Group

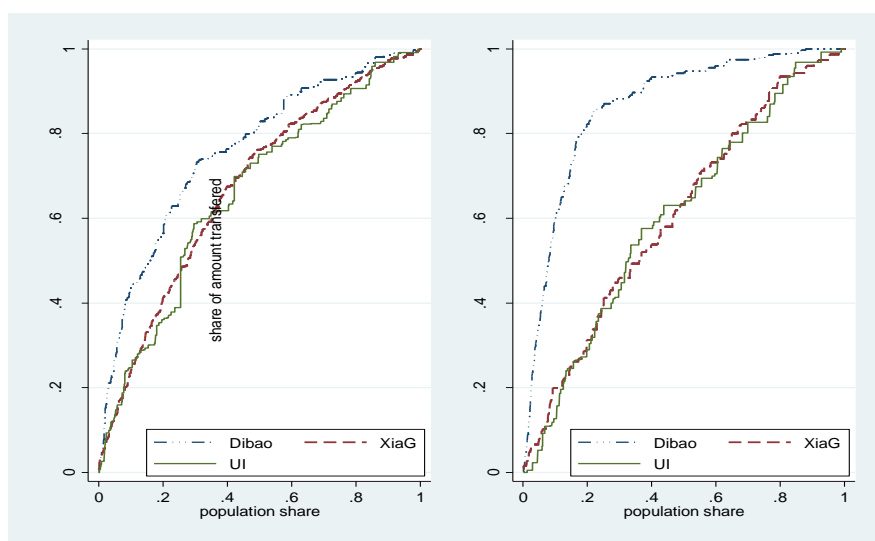


Migrants' Wage Convergence and Decreasing Inequality



Source: Cai, Du and Zhao (2007)

Income Transfer of Social Programs



Inequality Changes after Various Income Transfer

Lines	Pre-Transfer	After XG	After UI	After DB	Post-Transfer
CULS1					
p90/p10	6.326	6.544	6.291	6.195	6.407
GE(-1)	0.932	0.873	0.931	0.607	0.552
GE(0)	0.289	0.286	0.289	0.278	0.276
GE(1)	0.275	0.268	0.275	0.272	0.265
GE(2)	0.430	0.385	0.429	0.426	0.382
Gini	0.387	0.388	0.387	0.385	0.387
A(0.5)	0.128	0.127	0.128	0.126	0.125
A(1)	0.251	0.249	0.251	0.242	0.241
A(2)	0.651	0.636	0.651	0.548	0.525
CULS2					
p90/p10	6.818	6.667	6.667	6.429	6.164
GE(-1)	0.551	0.524	0.549	0.425	0.379
GE(0)	0.280	0.278	0.278	0.265	0.260
GE(1)	0.263	0.262	0.262	0.257	0.254
GE(2)	0.339	0.337	0.338	0.335	0.330
Gini	0.391	0.390	0.390	0.387	0.384
A(0.5)	0.125	0.125	0.125	0.122	0.120
A(1)	0.244	0.243	0.243	0.233	0.229
A(2)	0.524	0.512	0.523	0.459	0.431

Conclusions and Discussions

- The Chinese economy has maintained a fast growing pattern in the past three decades. The economic restructuring happened simultaneously with fast economic growth.
- Employment growth and the employment sectoral shift lead to large flows of labour migration. Combining with demographic transition, China is facing the *Lewisian* Turning Point in the labor market

Conclusions and Discussions

- China has also witnessed labour market development in the past three decades
- However, labour market development has been accompanied by a growing trend towards labour market informalization
- The informal sector has two main components: a) workers affected by labour market shocks entered the informal sector; and b) rural migrants working in urban areas.

Conclusions and Discussions

- To cope with the informality, China has improved social protection system and the social assistance program in the urban labor market effectively reduced poverty and inequality
- The *Employment Contract Law* enacted in 2007 is a milestone symbolizing China's approaching a more regulated labour market, but its effect on inequality is not clear so far

Conclusions and Discussions

- Recent economic crisis did cause labor market shocks and the migrant workers are most affected group
- A recovery plan that focuses on the extension of the social protection system to rural residents and migrants will have immediate effects to mitigate the negative impacts of the economic crisis and will translate into domestic demand through incremental consumption