

## **China's Labour Market Conundrum\***

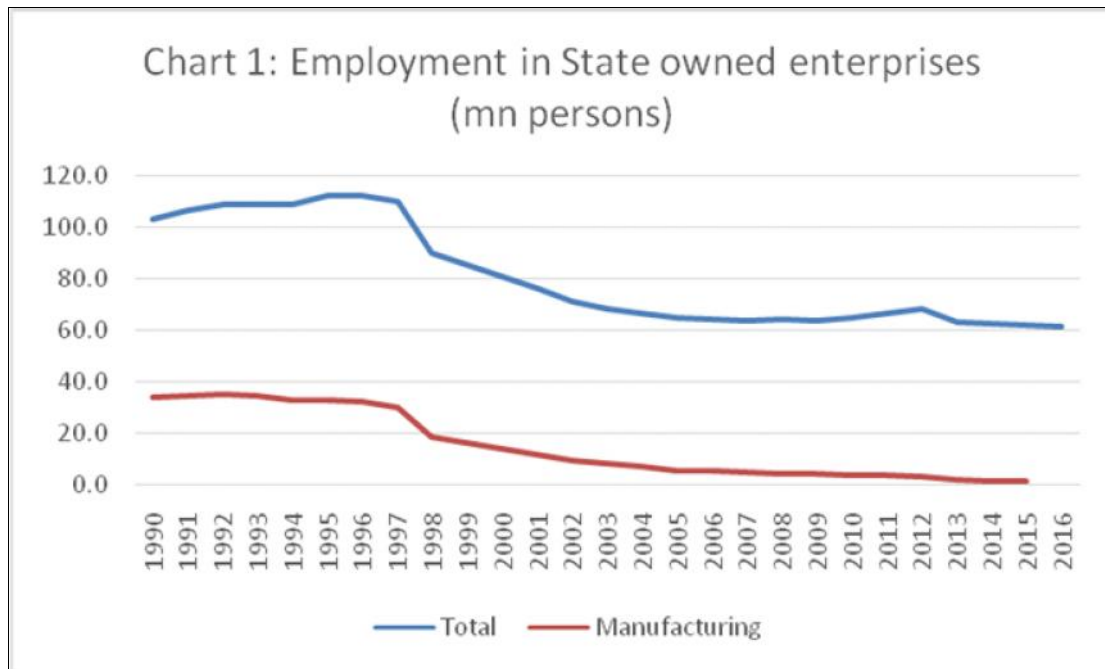
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All economic discussion on China, whether on the sustainability of its growth or the vulnerability of its financial system, tends to be controversial, with strong arguments expressed on both sides. One issue under discussion is the current state of its labour market and the implications that has for wages, export competitiveness and consumption demand in China. Many observers have argued that China has reached the Lewis turning point, at which a country no longer has access to an elastic supply of labour at a given, low wage. In this view, with the demand for labour outstripping supply, growth, especially in the non-agricultural sector, could be constrained by both the availability of labour as well as its cost.

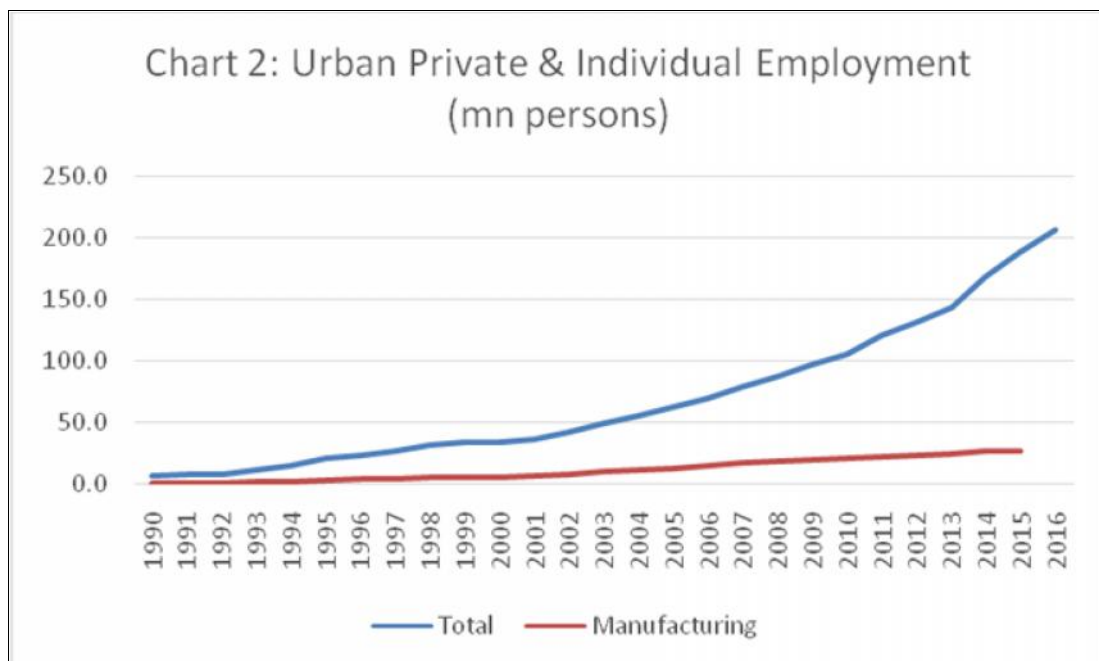
One set of numbers from the Ministry of Human Resources and Social Security in China suggests that this assessment could be right. They show that the demand-supply ratio in city labour markets, which was fluctuating between 0.65 and 0.75 in the early 2000s, rose continuously to cross the unity mark in early 2010, signalling that the “turning point” had arrived. Since then and going on to March 2017, the ratio has consistently been above 1. Needless to say, this figure would differ across cities, with numbers for the major metros like Beijing, Shanghai and Chongqing being well above unity in recent quarters.

This demand supply imbalance could have a salutary effect on wages in a country where inequality has reportedly been on the rise. However, it is not just demand and supply in the labour market that determines wage levels and working conditions. The bargaining power of workers, the legislative framework, and the nature of intervention by the state can be crucial in influencing labour market outcomes. One countervailing tendency in China preventing wage increases has been the dramatic shift in the structure of labour demand. This is reflected in the collapse of employment in the state-owned enterprises (SOEs), especially in the manufacturing area, and the growing role of employment in private enterprises and in self-employment.

As Chart 1 shows, total employment in the SOEs, which had peaked at 112.6 million in 1995, had fallen to a low of 61.7 million by 2016. The fall has been particularly sharp in manufacturing, where employment in SOEs has fallen from 34.8 million in 1991 to 11.9 million in 2001 and 1.8 million in 2015. Since the SOEs provided permanent lifelong employment with a reasonable wage and good working conditions, they served as the upper benchmark for employment characteristics in other sectors. The collapse in the volume of SOE employment would have limited improvements in labour market outcomes.



If despite this collapse the demand-supply balance in urban labour markets points to a significant tightening of labour market, this was clearly the result of increases in private and individual (self) employment. As Chart 2 indicates, Urban Private and Individual Employment rose from 6.7 million in 1990 to 34 million in 2000, 105.4 million in 2010 and a huge 207.1 million in 2016. Increases in private employment occurred in manufacturing as well, though the rate of growth there was much lower than displayed by the aggregate.



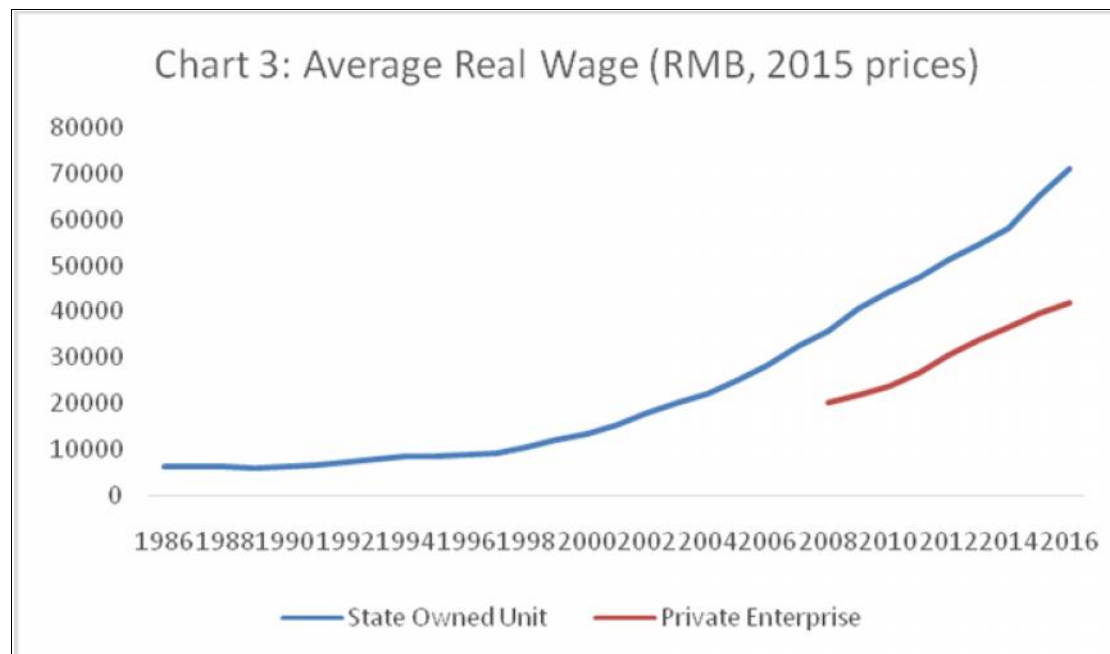
If much of the increase in employment has been in the private and self-employment sectors and if workers are being absorbed in sectors other than manufacturing, which in urban areas must be predominantly in services, the implications for wages and working conditions need not be all positive. Moreover, a large proportion of those

employed in the urban sector have been migrant workers who under the hukou system are not eligible for the same rights as registered urban residents.

The lower bargaining power of the migrant worker comes through in the differential in wages earned by urban workers on average and the migrant workers in particular. While the average monthly wage of an SOE worker stood at RMB 6045 at the end of 2016, that for a Private Enterprise worker stood at RMB 3569 and for a migrant worker at RMB 3483. In sum, the availability of migrant workers and the lower wage paid to them kept private sector wages in general down.

Despite all this, the tightening of labour market conditions has resulted in increases in real wages in both the SOE and Private Enterprise sector. This should not be belittled and stands out in comparison with many other emerging markets. According to Euro monitor International, quoted in the Financial Times, average hourly wages in China's manufacturing sector trebled between 2005 and 2016 to \$3.60, whereas over the same period manufacturing wages fell from \$2.90 an hour to \$2.70 in Brazil, from \$2.20 to \$2.10 in Mexico, and from \$4.30 to \$3.60 in South Africa.

But as is clear from Chart 3, for the years in which data for both public and private sectors in China are available, the rate of increase was higher in the SOE sector and the gap in real wages between the SOE sector and the private enterprise sector has been widening. Clearly, despite the recent spate of strikes in China, the collective bargaining strength of non-agricultural workers has not increased to allow them to fully exploit the benefits of the increase in labour demand that resulted from long years of relatively high growth. Moreover, the government has not come out clearly in favour of the workers. This is indicated by the fact that the monthly minimum wage even in Beijing and Shanghai stood at RMB 1890 and RMB 2190, which is well below even the wages paid out to migrant workers.



Anecdotal evidence on some of the new jobs in urban China – such as couriers servicing the booming e-commerce activities or domestic workers catering to the newly rich professional and middle classes – also points to the possibility that many

of the new jobs available especially for younger and less skilled workers, are of poorer quality in terms of both wages and working conditions. This means that growth of employment in itself need not be a harbinger for significantly better conditions of work.

Whether the overall evidence of a tighter labour market translates into more widespread “decent work” ultimately does not depend only on economic conditions: it is also very much a result of the interplay of political and social processes, policy decisions and regulations that affect labour markets. In China, the eventual outcome is still to be revealed.

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