

Trade Liberalisation, Social Policy
Development and Labour Market Outcomes
of Chinese Men and Women in the Decade
after China's Accession to the WTO

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Objective

- China's accession to the WTO in 2001 was a watershed moment in the path of the country's economic reform and opening to international trade and foreign investment.
- At the same time, after years of systematically dismantling of the 'iron rice bowl', China began to rebuild social welfare and protection systems under the leadership of President Hu Jintao and Premier Wen Jiabao.
- This paper surveys the major policy changes that have occurred in the decade after China's accession to the WTO and analyses the results from national surveys to obtain a picture of the changes in labor market outcomes of Chinese men and women over the period 2002-2010.

- How trade liberalization affects men and women in the labor market in developing countries has been a subject of considerable debates.
- Neoliberal perspective:
 - Trade liberalization is generally good for workers and women in particular in developing countries.
- Anti-neoliberal perspective:
 - Trade liberalization represents a shift in power toward capital and away from labor.
 - Therefore, trade liberalization means a decline in labor standards, an informalization of employment relations, and increased inequality.
 - The increase of women's labor force participation has coincided with an increase in informal and unprotected employment.
- Developmental state perspective:
 - The distributional outcomes of trade liberalization depend upon country specific conditions.
 - Preexisting distribution of assets and access to public goods
 - Most importantly, the role of the nation state

- This paper examines empirically how these competing perspectives played out in China in the decade after WTO accession.
- We compare three groups of men and women: urban hukou holders, migrants, and rural residents.
- We analyze the changes not only in labor force participation and employment but also the quality of employment measured by employment status, earnings, working poor rates, and low paying rates.
- We examine both the absolute change for men and women each as a separate group and the change for women relative to men.

Overview of policy reforms

- The labor system under Mao (1949 – 1976)
 - The labor market was segregated by a household registration system called “hukou”.
 - About 80% of the population held rural hukou. Rural and urban hukou holders had markedly different entitlements to employment, income, social welfare, and public services.
 - The hukou system prohibited labour mobility between the rural and the urban sectors. As a result, China had a larger share of agriculture in the labor force and a greater urban-rural divide than other developing countries at the same income level .
 - In the mid-1970s, poverty rate in China was more pervasive than that in India.
 - Nevertheless, the socialist legacy did create some favorable initial conditions for the subsequent economic transformation in the forms of more equitable distribution of assets such as land and education and greater gender equality in the labor market.

- Economic transition (1978 onward)
- 1978 – 2001:
 - The overriding concern of the Chinese government was to find the most efficient way of restructuring the economy, and inequality and social fairness were of secondary importance.
 - China underwent successive waves of reform: decollectivization, promotion and later privatization of township and village enterprises, relaxation of control over rural-urban labor migration, state sector reforms, and policies to encourage foreign direct investment and liberalize the trade regime.
 - The reform boosted labor productivity and sharply reduced poverty.
 - However, the dismantling of local collective- and employers-based social welfare systems also led to a sharp increase of inequalities, including gender inequalities, and widespread social discontent with the market reform.

- In November 2001, China joined the WTO.
- Increased access to world markets for Chinese manufactured goods and foreign investment should fuel growth in non-agricultural employment and further increase labor productivity and incomes.
- However, WTO membership has also committed China to opening up its domestic markets to foreign competition and reducing subsidies to agriculture as well as the previously protected industrial sectors, which may exacerbate inequalities and deepen economic insecurity for the poor.
- The Chinese state, far more than in most developing countries, has sought to manage the path of trade liberalization so as to both take advantage of the market and to constrain its more negative distributive consequences.

- 2002 – 2012
- Since President Hu Jintao and Premier Wen Jiabao took office in late 2002, China has moved from the initial reform period concentration on growth and efficiency to one which emphasizes a more balanced approach to economic and social development and to efficiency and social fairness.
- Analysts described this policy shift as state elite-led Polanyian ‘counter-movement’ (Wang 2008).
- Main policy measures:
 - Strengthening labor market regulations
 - Introduce formal minimum wage regulations in 2004
 - Enact the Labor Contract Law and the Employment Promotion Law
 - Expand the All China Federation of Trade Unions (ACFTU) to private enterprises and enhance the role of ACFTU in collective bargaining.

- Reducing inequality
 - Focus on regional disparity and urban/rural disparity
 - Privilege economic development over redistribution
 - Selective measures:
 - Increase investment in road, electricity, irrigation, and rural schools in less developed west and central regions, with the watchwords of “go west” and building a “new socialist countryside”
 - Target 148,000 of the poorest villages for state anti-poverty programs
 - Provide free nine-year compulsory education in all rural areas
 - Abolish agriculture taxes and levies and introduce comprehensive subsidies for agricultural production
- Given that almost all rural households have access to farmland, an increase of farm income pushes up the wage floors for less-skilled workers in non-agricultural sectors.

- Increasing social security
- Main components:
 - The minimum income guarantee program (dibao)
 - The program was expanded to covered all rural residents in 2007.
 - Basic medical insurance programs
 - The Rural Cooperative medical System was re-established in 2003 and it now covers all rural residents.
 - Pension insurance programs
 - The New Rural Pension Scheme was implemented in 2009.
 - Other programs include unemployment insurance, maternity insurance, housing programs for low-income households in the cities.
 - However, there are still a lack of converted efforts to address gender specific constraints on part of the government.

- **Maintaining macroeconomic stability:**
- The Chinese government has been very vigilant about maintaining macroeconomic stability, with a cautious approach to capital account liberalization and financial-sector deregulation.
- In response to the 2008 global financial crisis, the Chinese government launched a large fiscal stimulus program to cushion the impact of the crisis on the Chinese economy.
- Thus, after a brief phase of employment contraction, the rapid economic growth was back on track.
- **Macroeconomic trends**

Table 1: Macro Economic Indicators (2001-2011), China

	2001	2011	Average annual rate of growth (%)
GDP (billion yuan) ¹	11,640.6	38,856.3	12.0
GDP per capita (yuan)	9,153	28,908	11.5
Rural household consumption per person (yuan)	2,133	4,528	7.5
Urban household consumption per person (yuan)	7,506	15,547	7.3
Gross capital formation (billion yuan) (% of GDP)	4,221.8 (36.3)	1,848.9 (47.6)	14.8
Exports (\$US billion) (% of GDP)	266.1 (20.1)	1,898.3 (26.1)	20.3
Imports (\$US billion) (% of GDP)	243.6 (18.4)	1,743.5 (23.9)	20.5
FDI utilization (\$US billion) (% of GDP)	49.7 (3.8)	117.7 (1.6)	10.0
Government revenues (billion yuan) (% of GDP)	1,739.5 (14.9)	8,993.5 (22.0)	20.4
Government expenditures (billion yuan) (% of GDP)	2,006.6 (17.2)	9,458.7 (23.1)	19.3
Public expenditure on capital investment (billion yuan) (% GDP) ³	270.3 (2.3)	1,219.6 (3.1)	15.1
Public expenditure on education (billion yuan) (% of GDP)	216.1 (1.9)	1,428.3 (3.5)	18.9
Public expenditure on healthcare (billion yuan) (% of GDP)	59.2 (0.5)	556.7 (1.4)	22.4
Public expenditure on social security and protection (billion yuan) (% of GDP)	167.9 (1.5)	961.8 (2.4)	17.5
Public expenditure for agriculture and rural areas (billion yuan) (% of GDP)	86.9 (0.7)	860.4 (2.1)	22.9

Source: *China Statistic Yearbook* 2002 and 2012

Data description

- The data are from the 2002 Chinese Household Income Project (CHIP) and the 2010 Rural-Urban Migration in China Project (RUMiC).
- The sample consists of seven provinces that are covered by both surveys and have information on all three types of households. These provinces include Jiangsu, Guangdong, Anhui, Henan, Chongqing, and Sichuan.
- Focusing on working-age men and women between 16 and 64 years, our sample consists of 10,717 men and 10,680 women in 2002 and 17,877 men and 16,763 women in 2010.

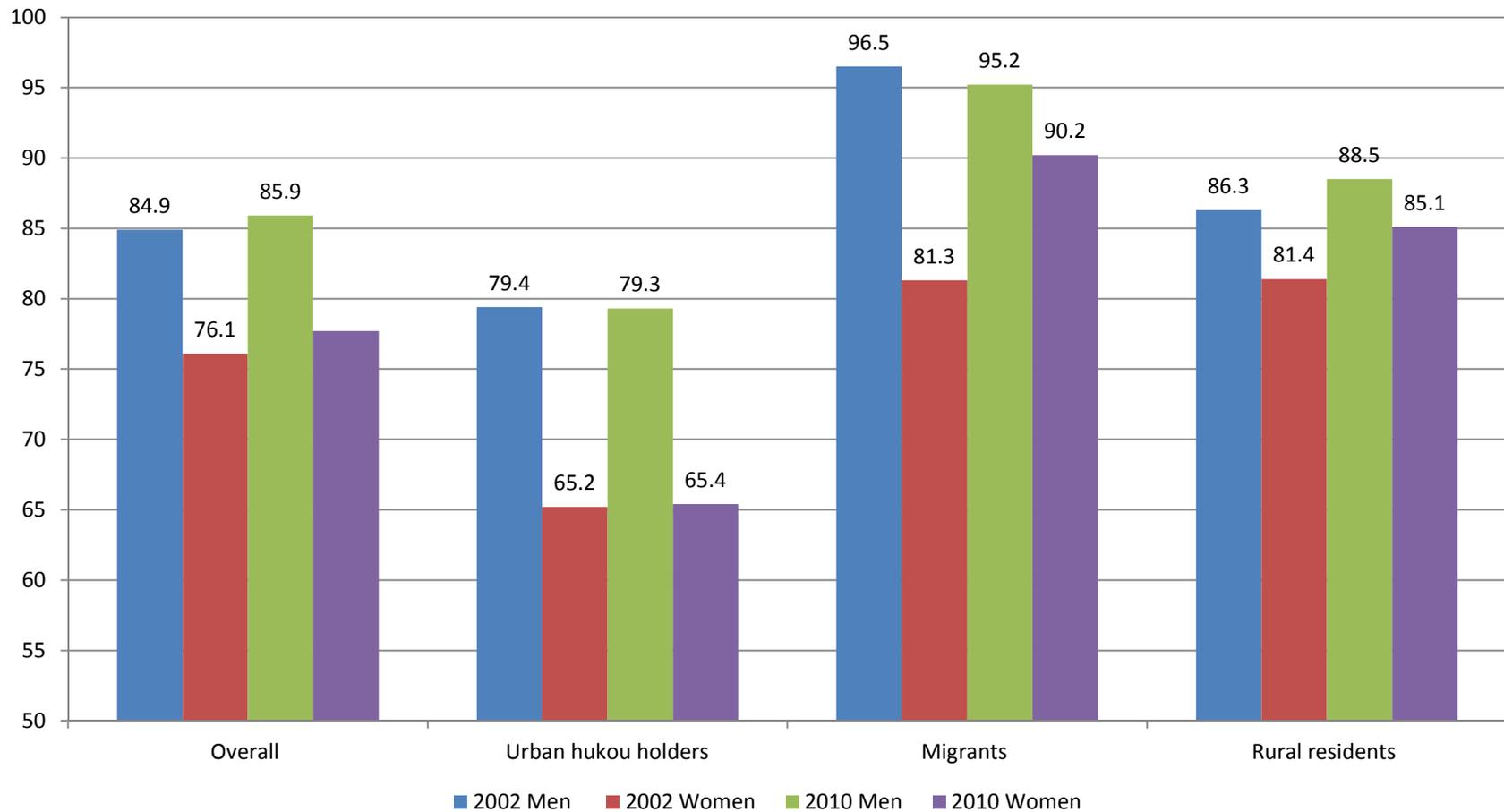
Main results

- Women's LFPRs and employment rates have increased, primarily as a result of more migrant and rural women entering the labor market.
- The rising of women's labor force participation and employment has been associated with a dramatic shift from farm work to wage employment in industry and services.
- The incidence of vulnerable employment has declined for both men and women, while women's share in wage employment in non-agricultural activities has gone up.
- In non-agricultural employment, the proportion of men and women in informal employment has also declined.

- The real earnings of both men and women have more than doubled, and the earnings of migrant and rural workers have grown faster than that of urban *hukou* workers.
- The working poor rate (WPR) has decreased markedly, and the WPR gap between urban *hukou* and rural workers has narrowed.
- The WPRs of urban *hukou* workers are reduced primarily through social income transfers, while the decline in WPRs for migrant and rural workers is, for the most part, due to the expansion of more productive employment opportunities.
- Men and women at all income quintiles in our sample enjoyed rapid wage growth and, remarkably, the real wages of workers at the lower quintiles grew faster relative to those at the higher quintiles.
- As a result, the low pay rates (LPR) have declined significantly for both men and women, and the primary beneficiaries of this process are young, less educated migrant and rural workers.

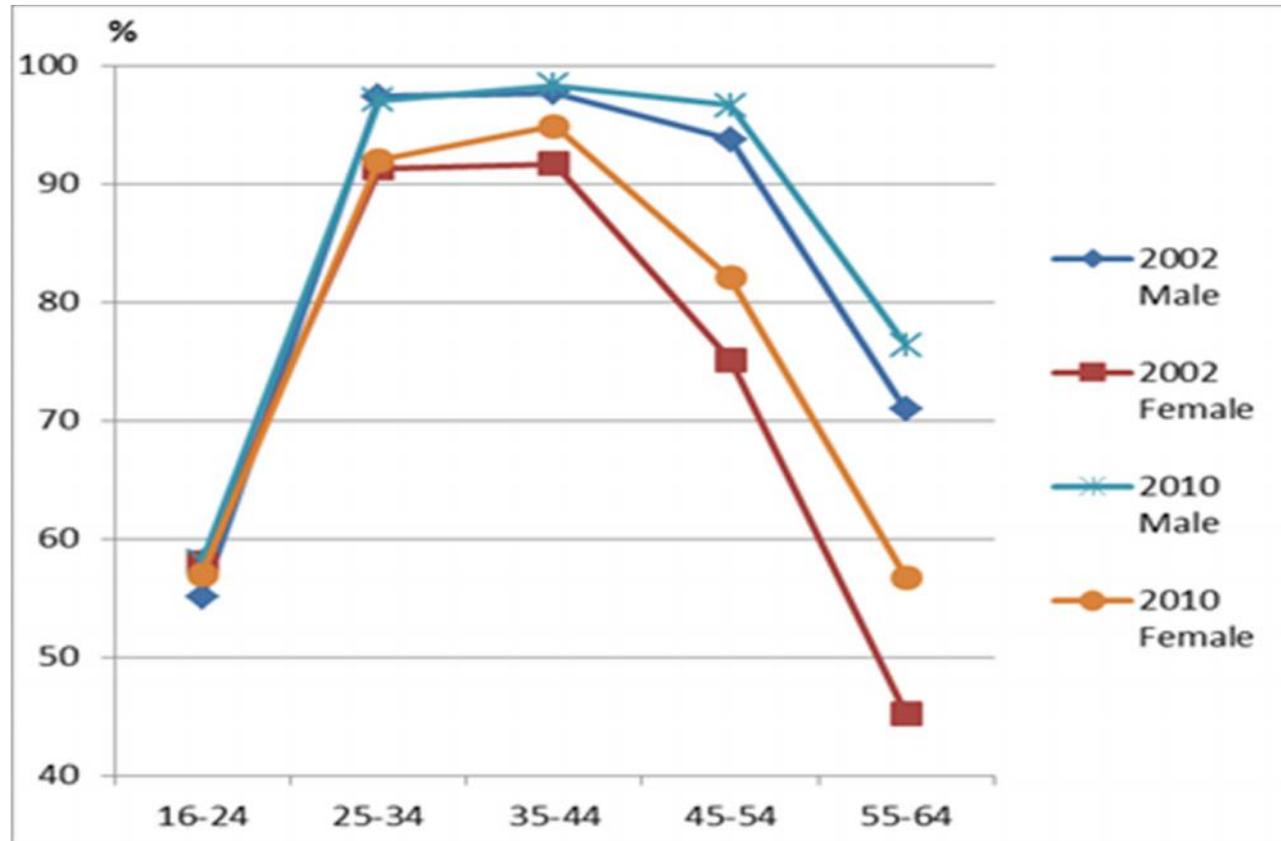
- However, women remain disadvantaged in the labor market.
- Women's LFPRs and employment rates are lower than men's and their unemployment rates are higher.
- Despite the decline in agricultural, vulnerable, and informal employment, women still account disproportionately for a large share of the low-paying, less-secure types of employment.
- While the gender earnings gap for migrant workers has decreased, the gender earnings gap for urban *hukou* and rural workers continued to grow.
- Older or less-educated urban *hukou* workers did not fare as well as other workers, and the LPR of urban *hukou* workers has increased, more for women than men.
- The gender gap in LPR has also increased.

Figure 1 Labor force participation rates in China in 2002 and 2010 by sex and sector



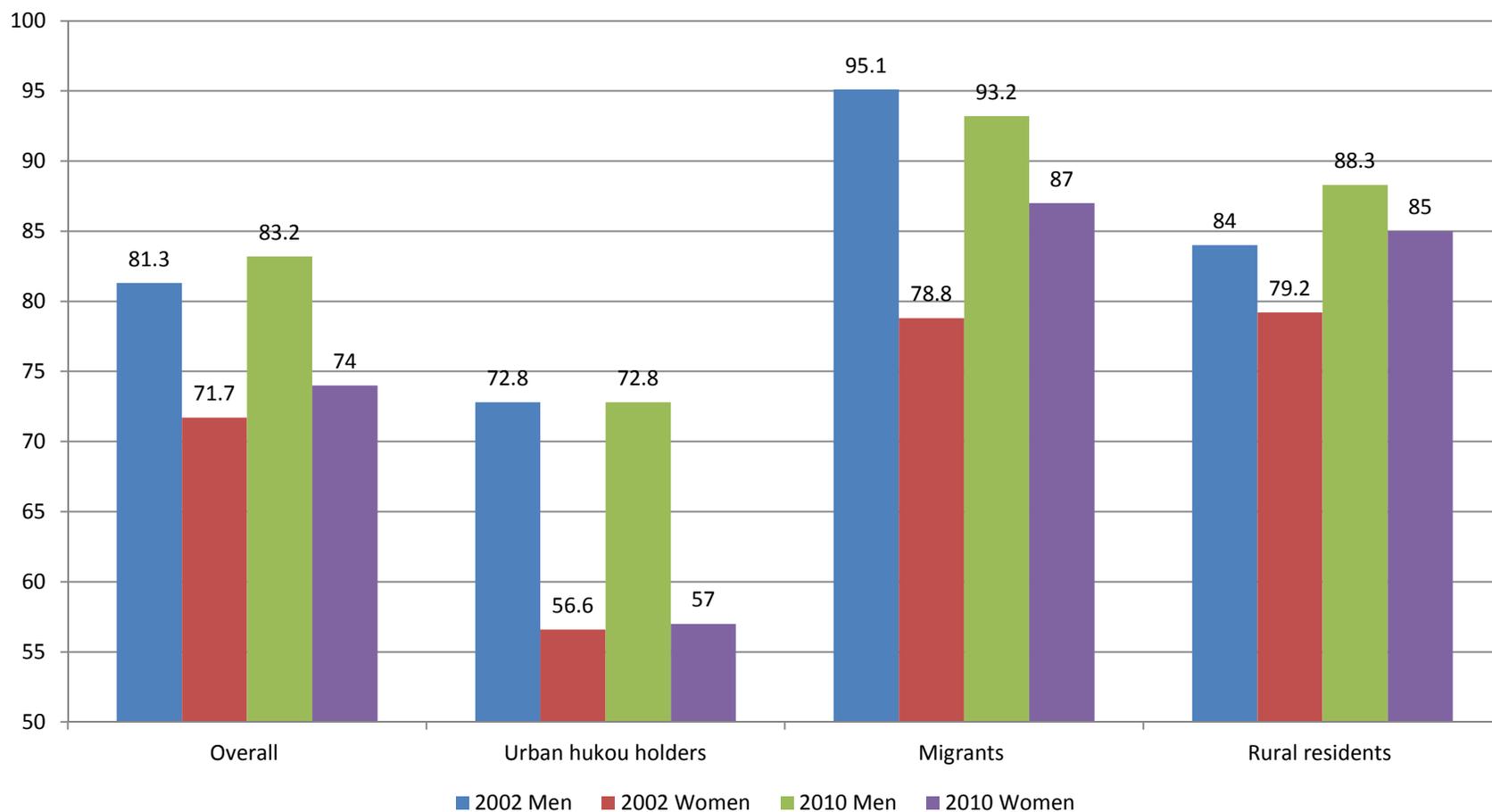
Source: 2002 CHIP and 2010 RUMiC

Figure 2 Labor force participation rates in China in 2002 and 2010 by sex and age



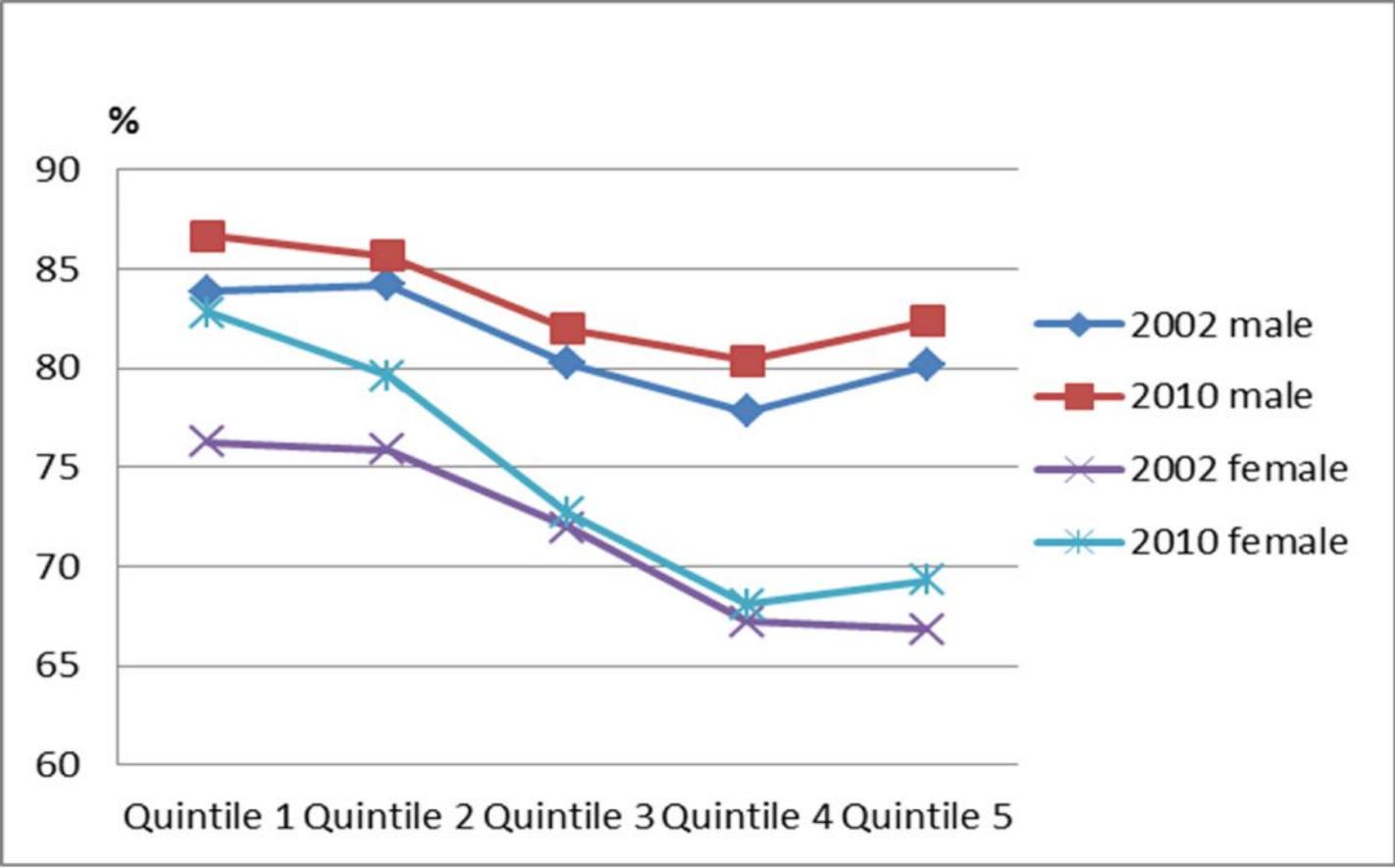
Source: 2002 CHIP and 2010 RUMiC

Figure 3 Employment-to-population ratio in China in 2002 and 2010 by sex and sector



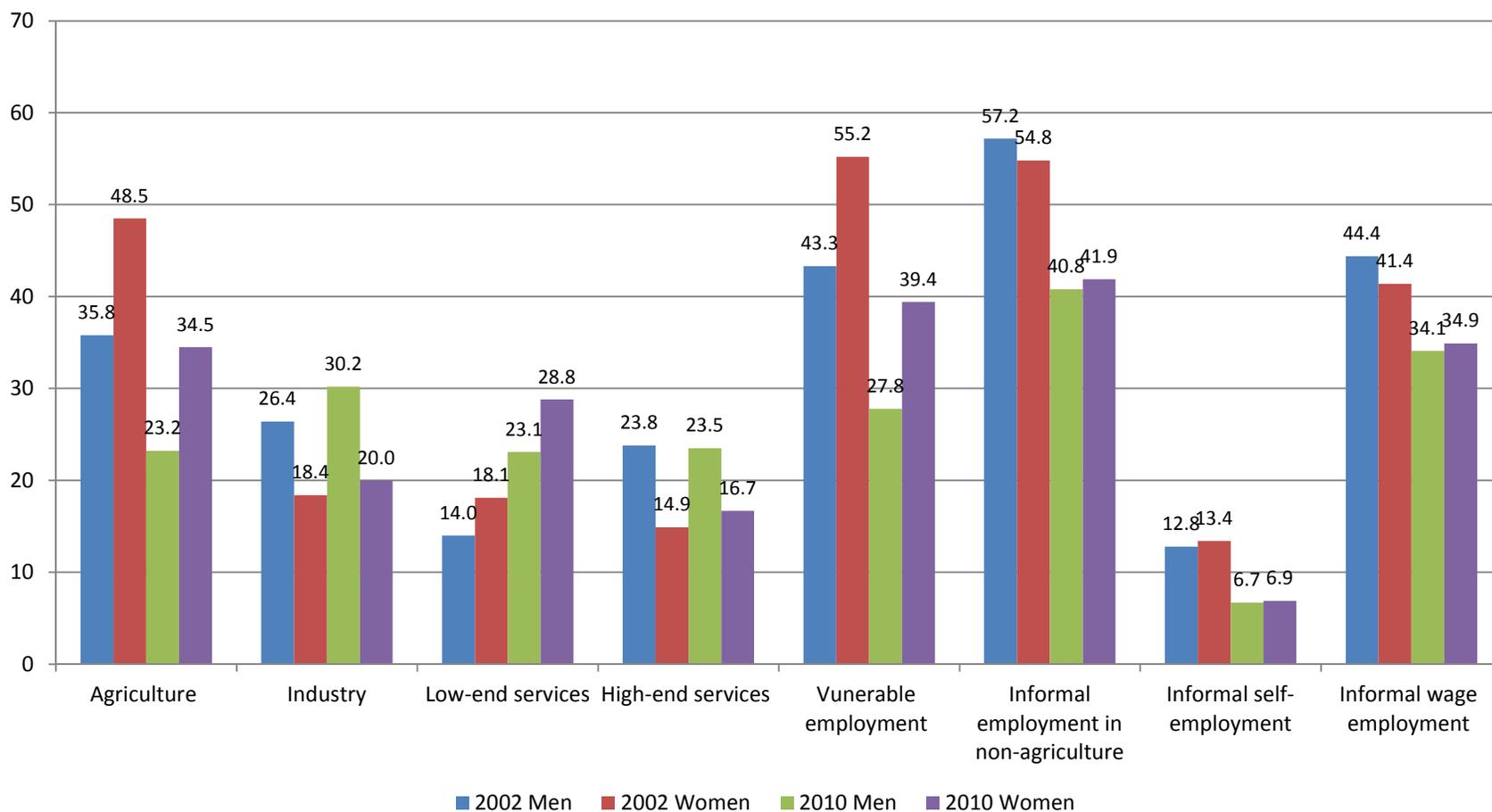
Source: 2002 CHIP and 2010 RUMiC

Figure 4 Employment rates in China in 2002 and 2010 by sex and income quintile



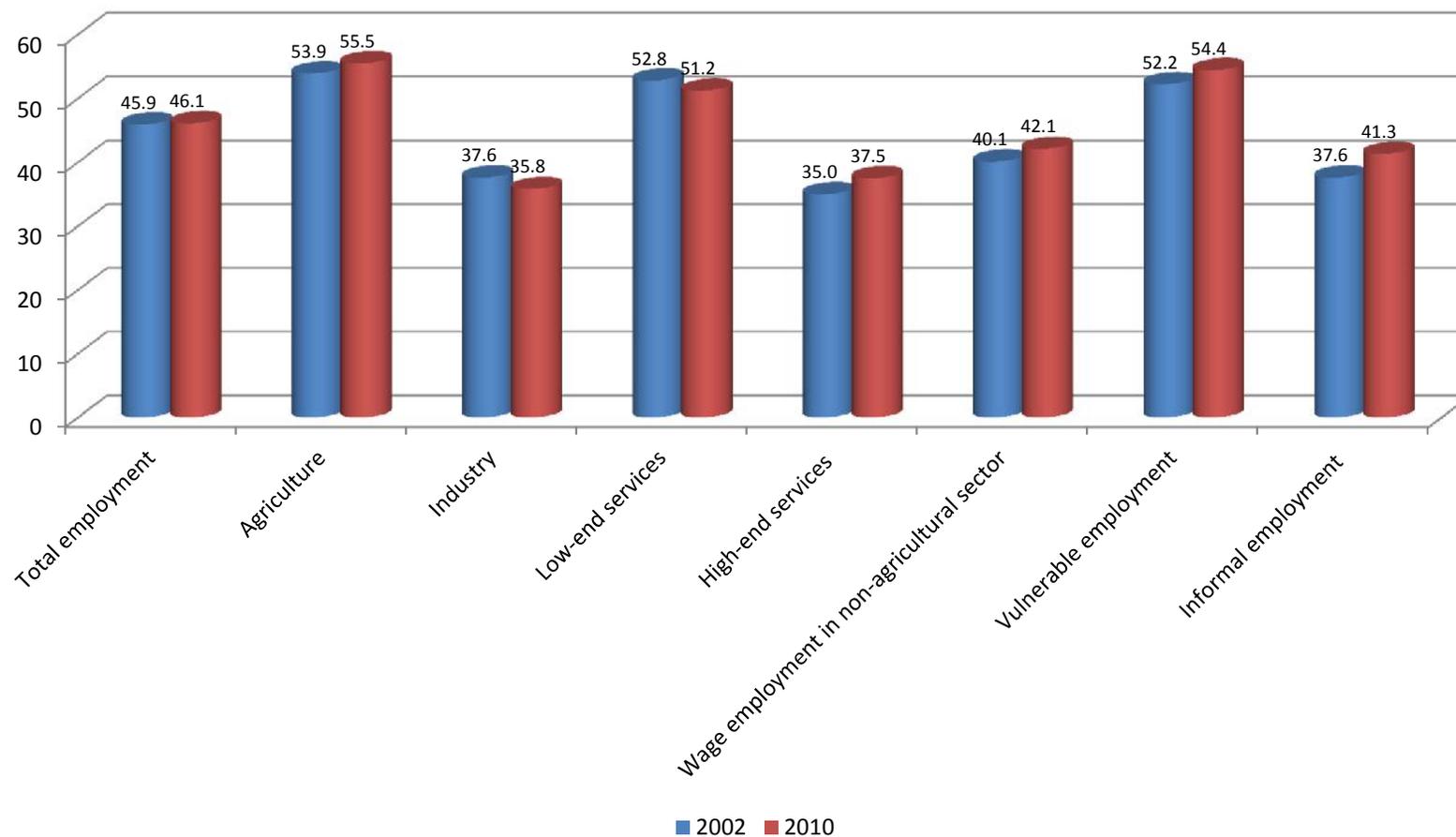
Source: 2002 CHIP and 2010 RUMiC

Figure 5 Distribution of employment in China, 2002 and 2010



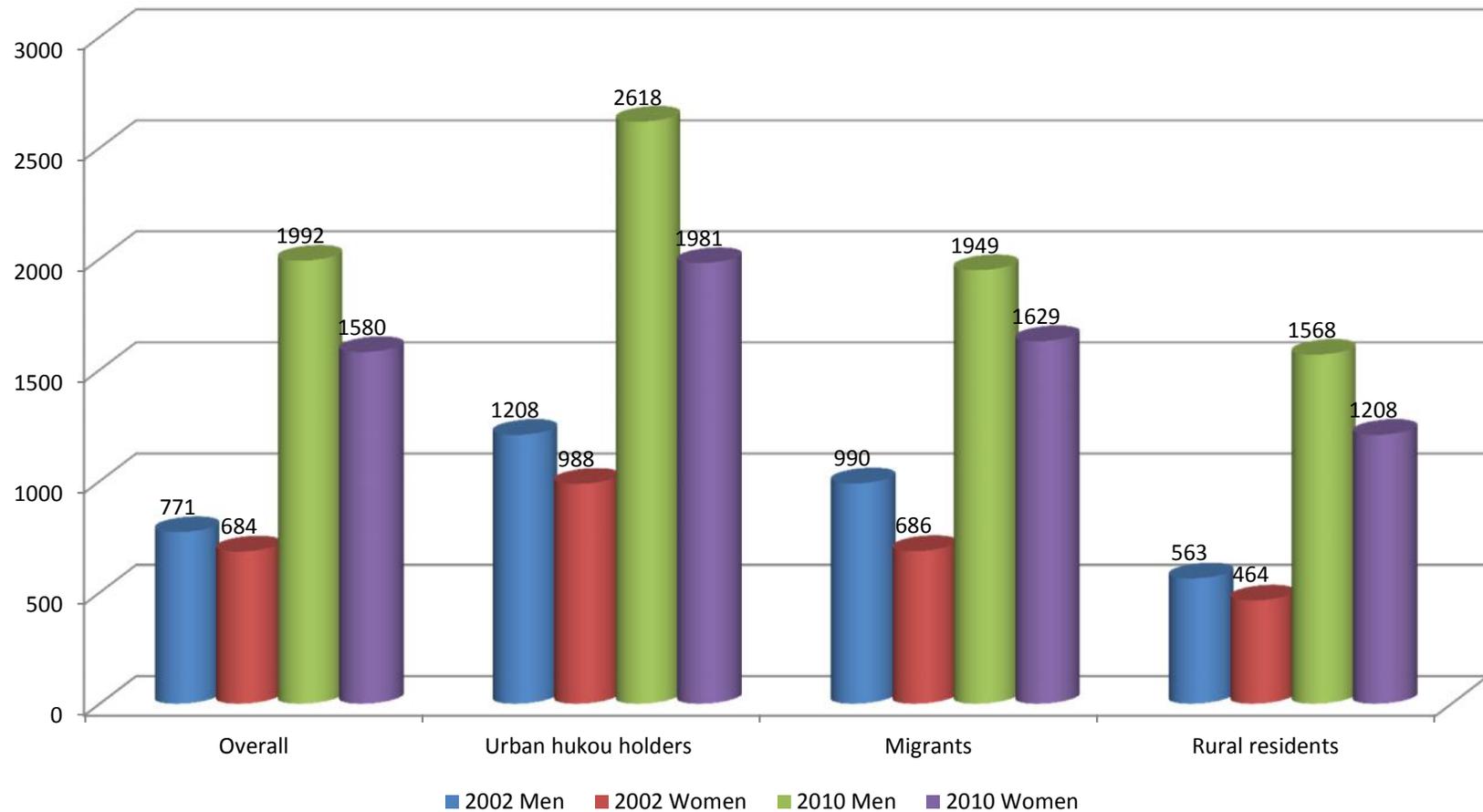
Source: CHIP 2002 and 2010 RUMiC

Figure 6 Women's share of employment in China, 2002 and 2010



Source: CHIP 2002 and 2010 RUMiC

Figure 7 Earnings of men and women in non-agricultural sectors in China, 2002 and 2010 (yuan/month in 2005 constant price)



Source: 2002 CHIP and 2010 RUMiC

Figure 8 Gender earnings gap in China 2002 and 2010

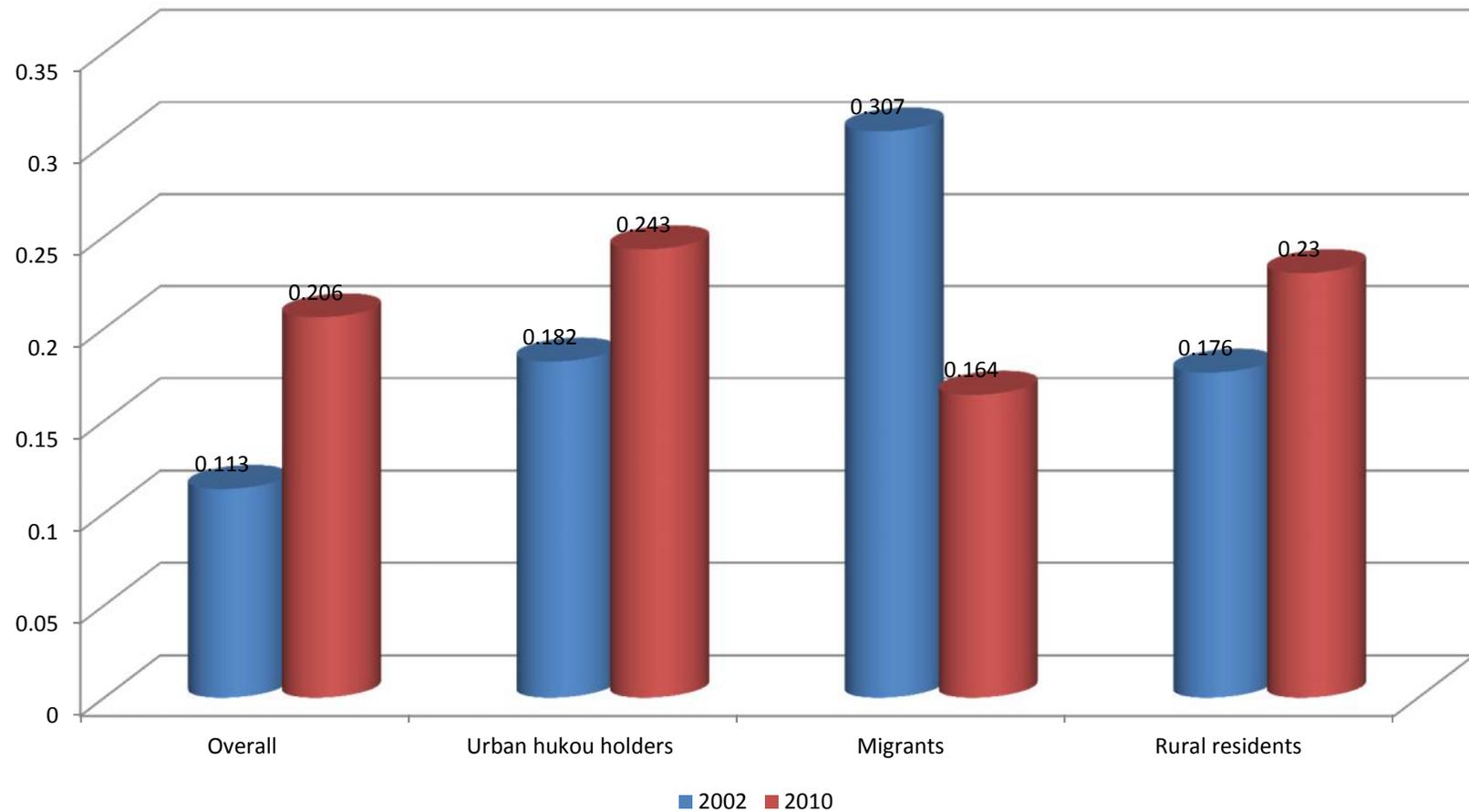


Figure 9: The growth of real monthly wage in China in 2002 and 2010 by sex and quintile

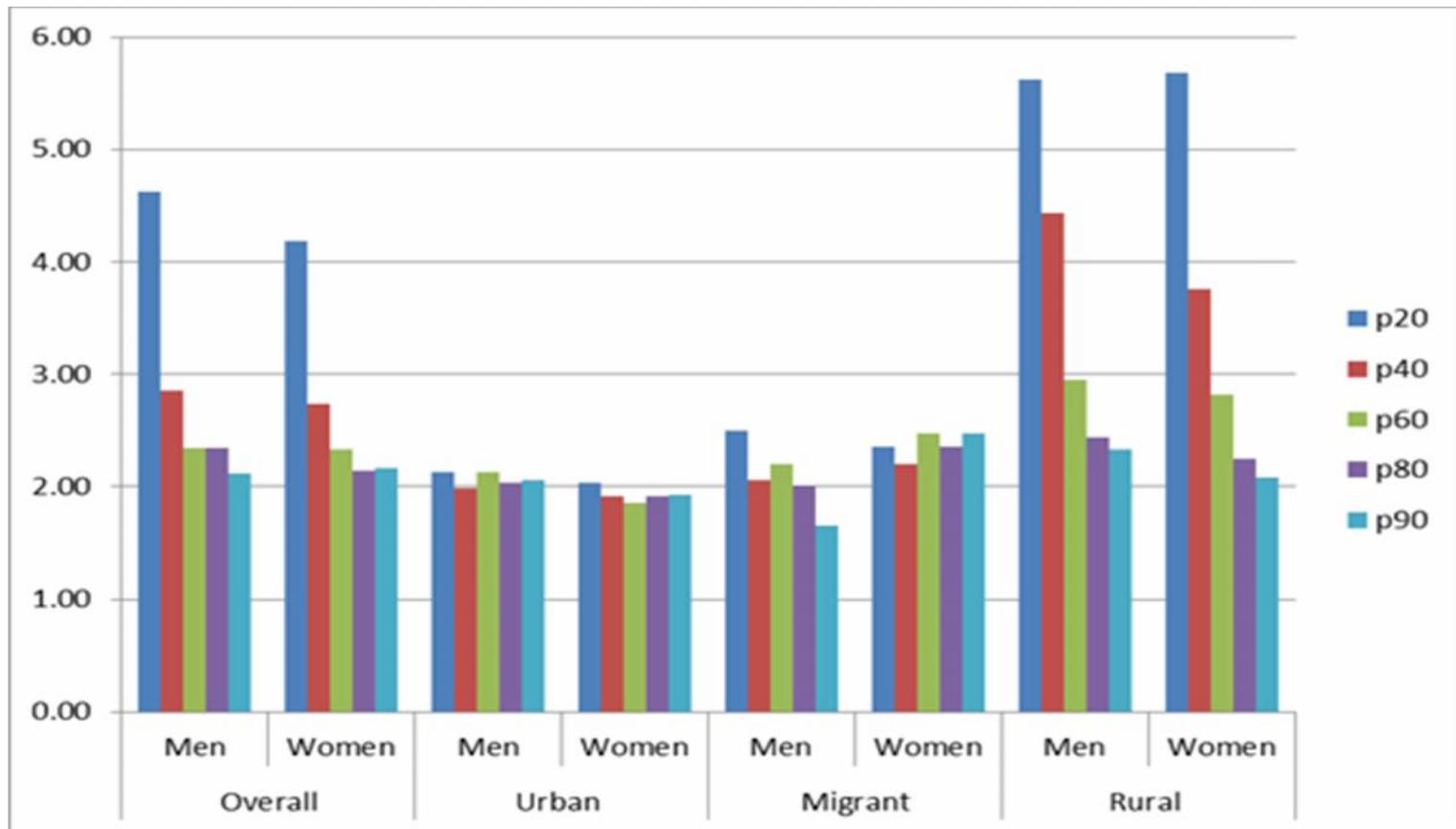


Figure 10a: Working poor rate in China and by sector, 2002 and 2010, \$1.25/day

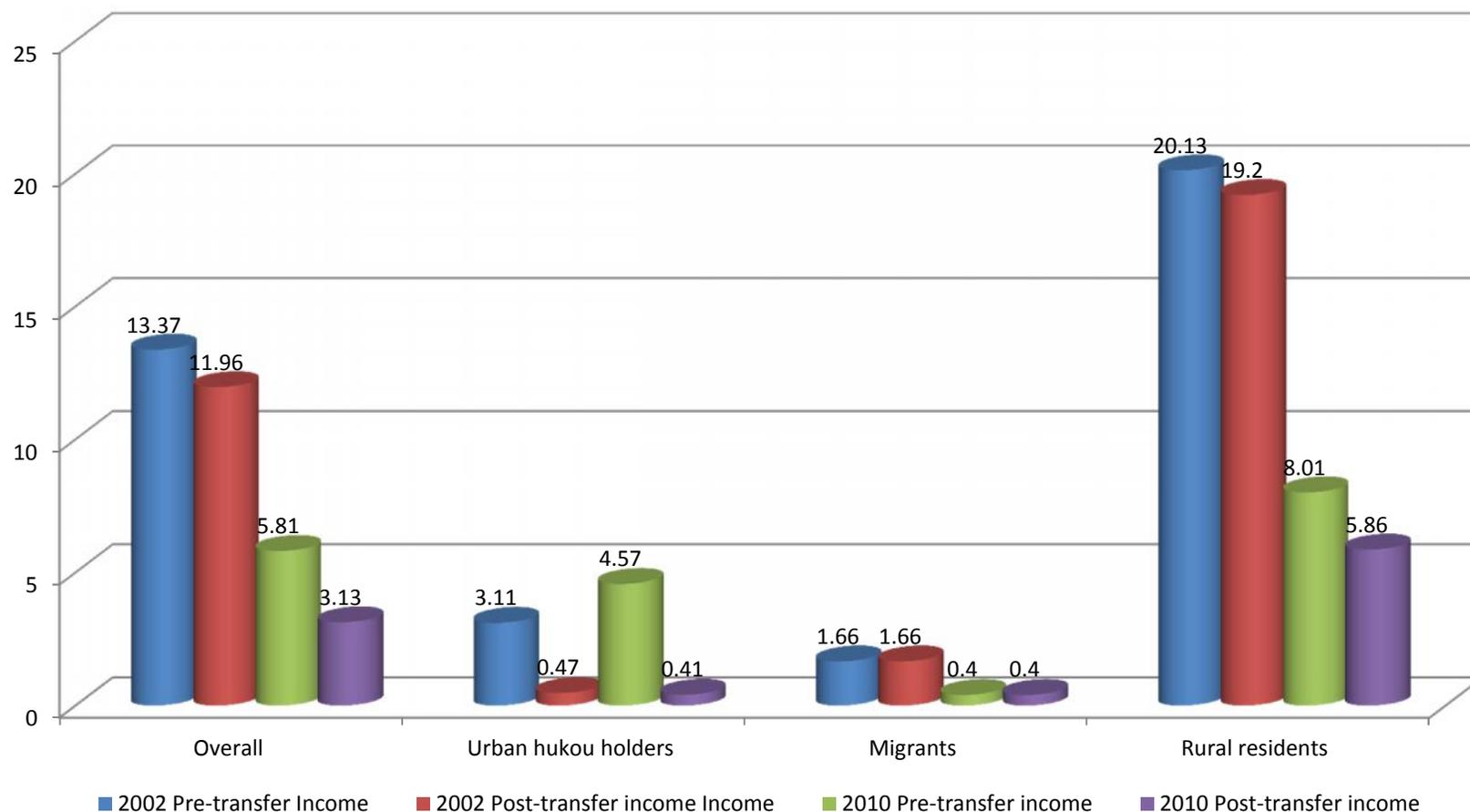


Figure 10b: Working poor rate in China and by sector, 2002 and 2010, \$2.00/day

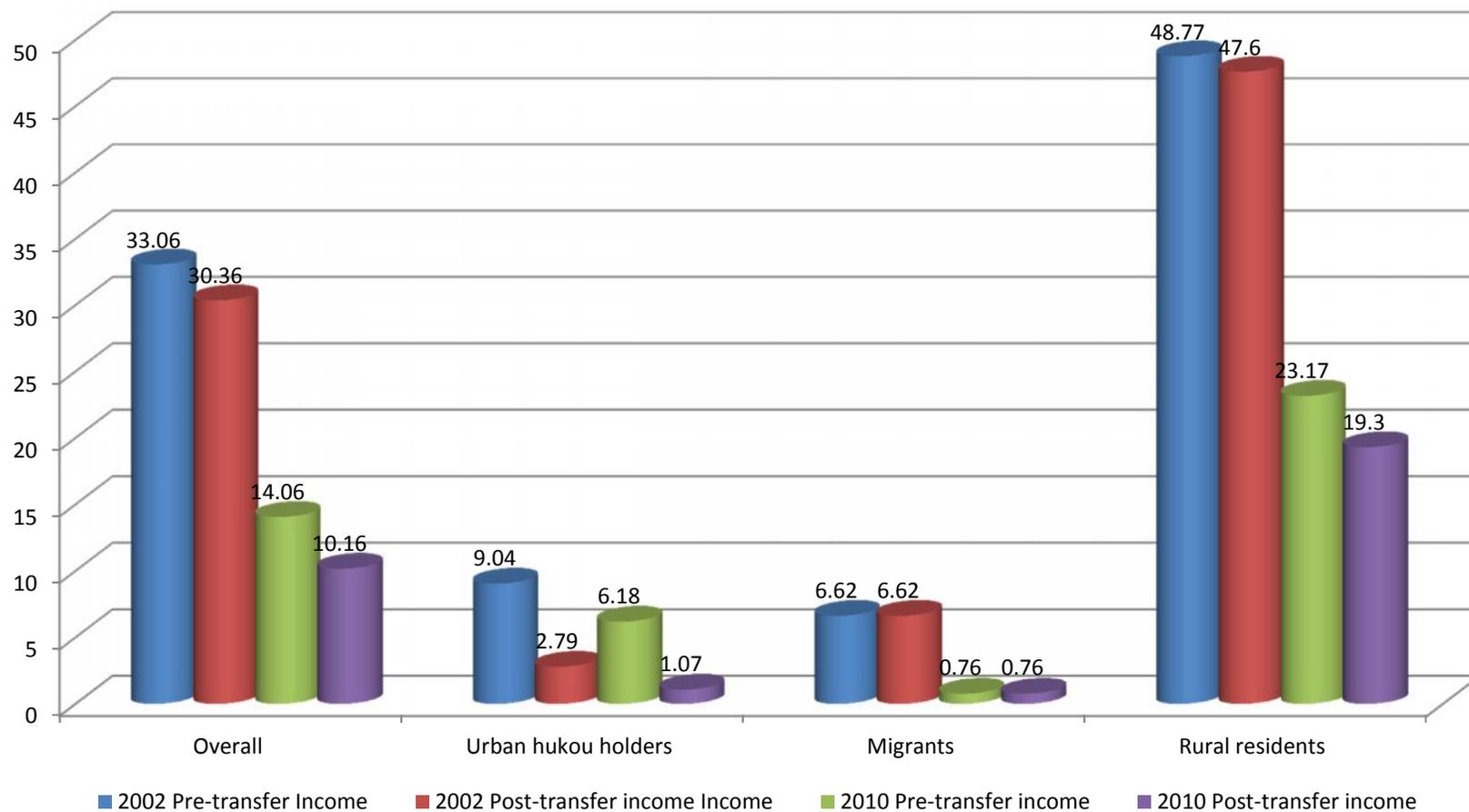


Figure 11a: Working poor rate in China, by sex and sector, 2002-2010

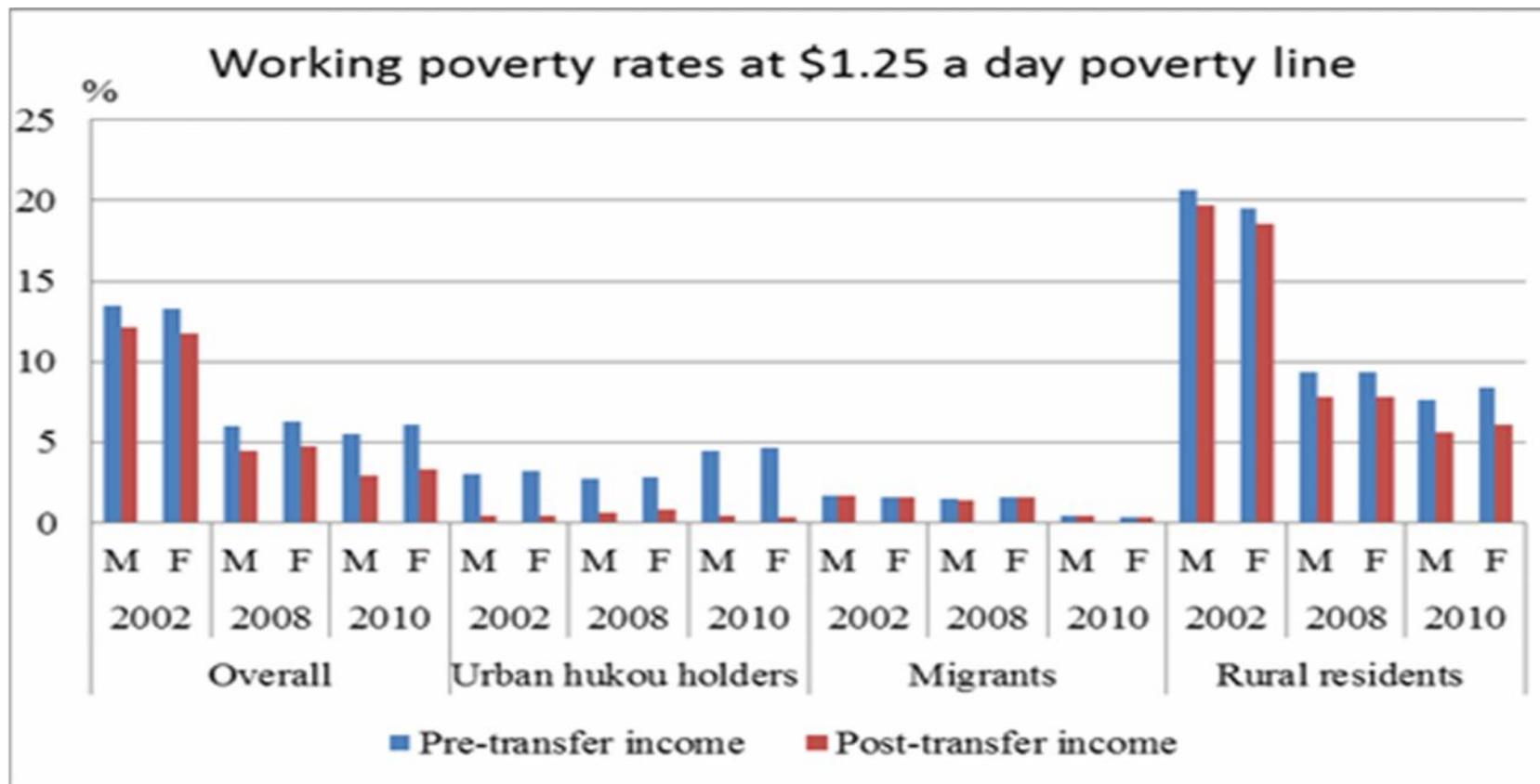
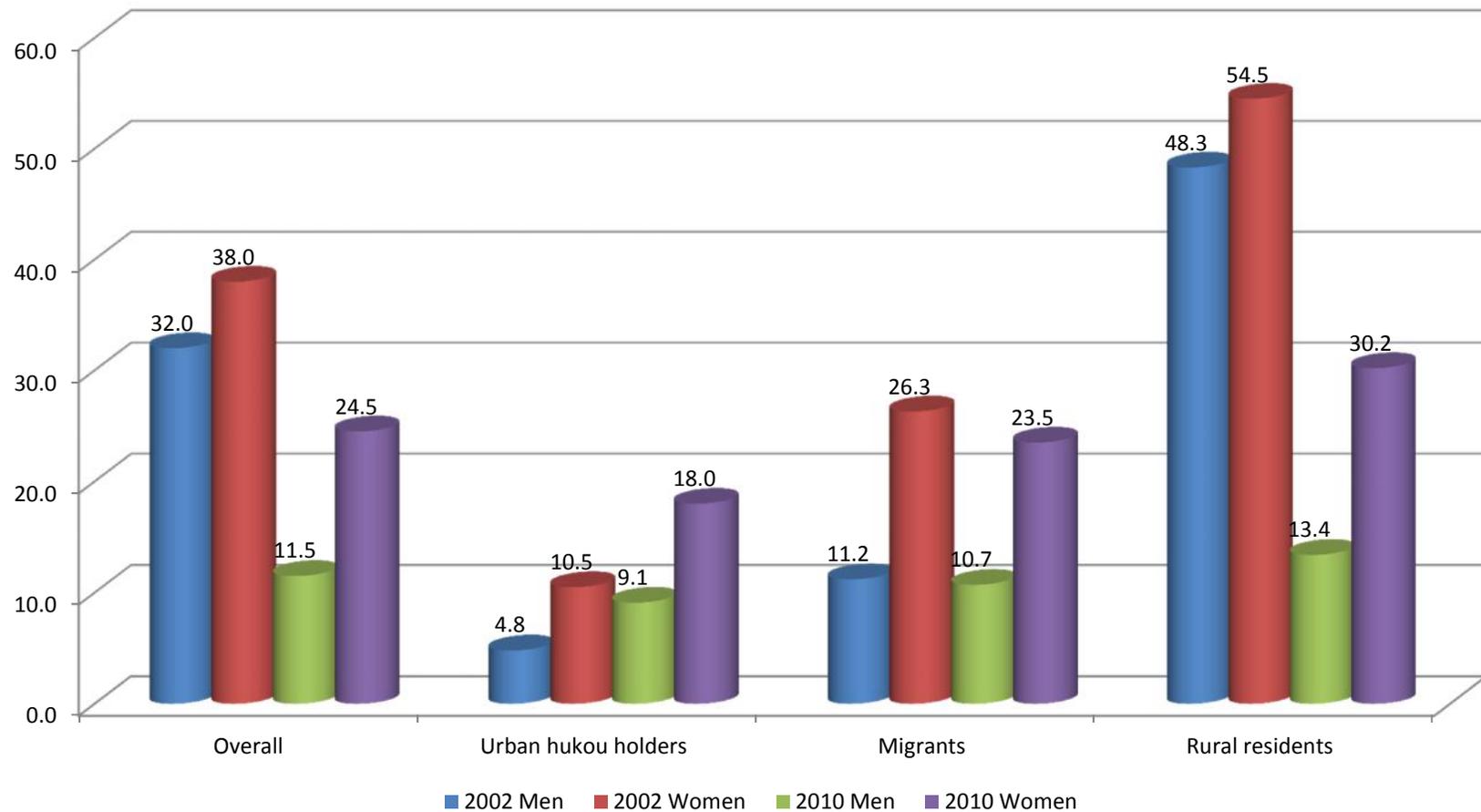


Figure 12: Low pay rates of men and women in China, 2002-2010



Conclusions

- The results show that China has been remarkably successful in creating productive employment for its rural surplus labor by taking advantage of global economic integration while making concerted efforts to contain its negative impacts on workers.
- This result lends support for the view that the nation state can still play an important role in determining the distributional outcomes of globalization.
- However, economic growth, even together with gender neutral social policy, is insufficient for ensuring equal labor market outcomes between women and men.
- To attain gender equality in the labor market, steps must be taken to address the institutional constraints women face.