



Has China run out of surplus labour?

Jane GOLLEY^a, Xin MENG^{b,*}

^a Australian Centre on China in the World, CAP, Australian National University, Canberra, ACT 0200, Australia

^b Research School of Economics, CBE, Australian National University, Canberra, ACT 0200, Australia

ARTICLE INFO

Article history:

Received 7 April 2011

Received in revised form 11 May 2011

Accepted 6 July 2011

Available online 21 July 2011

JEL classification:

O14

Keywords:

Chinese labour markets

Surplus labour

Rural-urban migration

ABSTRACT

Many recent studies claim that China has reached a Lewisian ‘turning point’ in economic development, signalled by rising wages in urban areas and the exhaustion of rural surplus labour. In this paper we show that despite some evidence of rising nominal urban unskilled wages between 2000 and 2009, there is little in the data to suggest that this wage increase has been caused by unskilled labour shortages. China still has abundant under-employed workers with very low income in the rural sector. We argue that China’s unique institutional and policy-induced barriers to migration have both prevented many rural workers from migrating to cities and also reduced the migrants’ length of stay. We project that under alternative institutional settings, the migrant stock could easily be doubled from the current 150 million to 300 million by increasing either the average length of migrant stay, or the migrant inflow, or both.

© 2011 Elsevier Inc. All rights reserved.

1. Introduction

China has had three decades of unprecedented economic growth, which, to a significant extent, has been related to the large-scale movement of surplus labour from the low productivity rural sector to the high productivity urban sector. This migration has provided Chinese industries with cheap labour and facilitated the rapid growth of labour-intensive manufacturing exports concentrated along China’s south-eastern coastline, and in Guangdong in particular. Since 2004, news of labour shortages in Guangdong began to appear on the internet and in newspapers. Shortly after that, a number of academic studies emerged, claiming that China is either close to, or has already reached, a turning point in economic development in which rural surplus labour has been exhausted, resulting in labour shortages and rising wages in the urban sector (Cai & Wang, 2007a, 2007b; Du & Wang, 2010; Garnaut & Huang, 2006).

This paper provides a range of empirical evidence to show that, despite some evidence of rising *nominal* wages in urban areas, there is little to suggest that this has been caused by a labour supply shortage. Instead, we show that China still has abundant workers who are under-employed with very low income in the rural sector, and we argue that it is China’s unique institutional and policy-induced barriers to migration that has prevented many of these workers from migrating to cities.

Whether China has run out of surplus labour has significant implications for China’s future pattern of economic growth and development. Critically, the appropriate policy responses to the end of China’s labour surplus are fundamentally different from those to address barriers to employment in the modern sectors of the economy. One such barrier stems from the fact that China’s rural migrants still operate under a guest worker system whereby migrants have limited or no access to the social welfare provisions available to the urban residents. This impacts negatively on rural residents’ migration decisions and therefore reduces rural workers’ willingness to migrate to urban areas. Thus potentially hundreds of millions of workers who are in fact surplus to requirements in the rural sector choose to stay there anyway, indicating not an ‘end of surplus labour’, but a discriminatory and segmented labour market instead. While others (such as Garnaut, 2010) have acknowledged this point, they have not conducted the empirical work to verify just how important it might be.

* Corresponding author.

E-mail addresses: jane.golley@anu.edu.au (J. Golley), xin.meng@anu.edu.au (X. Meng).

Much of the empirical work below draws on the survey conducted under the Rural–urban Migration in China and Indonesia (RUMiCI) project, which commenced in 2008 and will run through to 2011. The survey covers three groups of Chinese households: 5000 urban migrant households who worked in 15 designated cities (migrant survey); 5000 urban local incumbent households in the same cities (urban household survey), and 8000 rural households with and without migrant members from the nine provinces where the 15 cities are located (rural household survey). The nine provinces or metropolitan areas are Shanghai, Guangdong, Jiangsu, Zhejiang, Anhui, Hubei, Sichuan, Chongqing and Henan. The first four of these are the largest migrant destinations, the remaining five are the largest migration sending areas. The RUMiCI survey of migrant workers in urban cities, to the best of our knowledge, is the only random sample of migrant workers for China so far.¹ The representative of the sample and the comprehensive nature of the data allow us to investigate our hypothesis from a range of different angles in a relatively consistent way.

The paper is structured as follows. The next sections summarises the theory of the turning point and the current debate as it applies to China. Section 3 focuses on the wage growth of Chinese urban unskilled workers between 2000 and 2009 to demonstrate that there is nothing about this growth that convincingly implies the exhaustion of migrant labour supply. Section 4 examines rural survey data to reveal low migration rates, substantial earnings differentials between rural migrants and both agricultural and non-agricultural rural workers, and an abundance of rural workers who are under-employed with extremely low earnings. In Section 5 we conduct projections of the rural migrant workforce through to 2020 to demonstrate just how much larger the migrant stock could be under alternative hypothetical but plausible assumptions about future patterns of migration. Section 6 concludes the paper.

2. The current debate

The theoretical starting point for this inquiry is the theory of the ‘turning point’, which was first developed by Arthur Lewis (1954), later refined by Ranis and Fei (1961) and Fei and Ranis (1964), and subsequently became one of the cornerstones of development economics. According to Lewis, in the early phase of economic development, an unlimited supply of unskilled rural labour from the ‘subsistence’, ‘traditional’ or agriculture sector is available for employment in the expanding ‘capitalist’, ‘modern’ or industrial sector. A significant proportion of this unskilled labour is ‘surplus’ in the sense that its marginal productivity is assumed to be below the subsistence wage, which in turn sets a wage floor in the capitalist sector. Thus drawing workers away from the subsistence sector has a negligible impact on output in that sector while enabling the expansion of the capitalist sector without any impact on wages, for as long as the surplus labour exists. Once the labour surplus runs out, however, wages begin to rise in both sectors, and inequalities between the two sectors begin to fall. This Lewisian turning point – or more accurately a turning period – necessitates structural change towards a more capital- and technology-intensive growth pattern, as evidenced by the growth experiences of most advanced economies.

Claims that China is either close to, or has already reached, this turning point in economic development are based on a number of inter-related points. First, some coastal urban areas have recorded double-digit wage growth in recent years, which has been coupled with anecdotal evidence of labour shortages in those areas. Even the wages of unskilled migrant workers rose strongly in the first decade of this century, according to Zhao and Wu (2007) and Du and Wang (2010). Second, as China's population has entered a period of rapid aging, its ‘demographic dividend’ is coming to an end, implying a tightening of labour supply in the near future. Third, improvements in rural education have reduced the supply of unskilled workers (Cai, 2010, Du & Wang, 2010). Fourth, based on certain assumptions about the labour productivity and re-employability of rural workers, only 40 million people in the agriculture sector can actually be considered surplus labour (Cai, 2007). Much of this work was recently published in a special issue of the *China Economic Journal*, published by the China Center for Economic Research at Peking University. According to Garnaut (2010a: 31), “data and analysis presented in [this special issue] suggest that the Chinese economy has now moved more decisively and deeply into the turning period”.

While some of these points are valid in their own right, whether or not they actually reveal that China has reached the turning point remains highly contentious, from a variety of different angles. In a ‘normal’ market economy (i.e., of the type Lewis was describing), the turning point may be identified by a sharp increase in wages in both the rural agricultural and urban industrial sectors, while there is also predicted to be a narrowing of the gap between the two. The wage increase should be most notable for unskilled workers in the urban sector, rather than for skilled workers who are not in direct competition with the largely unskilled pool of rural migrants. A key assumption is that labour markets are perfectly competitive, so that all workers are paid the value of their marginal product and that unskilled workers will be paid the same amount wherever they are employed. However, there are numerous reasons why the Chinese economy cannot yet be characterised in this sense as normal and why, therefore, rising wages in either sector may not indicate the arrival at the turning point but something else altogether.

As noted by World Bank (2007), the concentration of labour shortages in certain areas, and also in specific industries and companies, does not necessarily imply labour shortages more generally. Evidence of rapid wage growth based on aggregate wage statistics give an incomplete and biased picture, reflecting only official employment in state-owned enterprises and large private enterprises, while ignoring significant parts of the urban economy in which many low-skilled workers and migrants are employed. Even where the data is specifically for unskilled migrant workers (as in Du & Wang, 2010), failing to control for all the demand- and supply-side factors that may have contributed to rising wages risks attributing wage increases to labour shortages when they

¹ The detailed sampling procedure can be found in Meng and Manning (with Li and Tadjuddin) (2010) or at <http://rumici.anu.edu.au>.

Download English Version:

<https://daneshyari.com/en/article/5047873>

Download Persian Version:

<https://daneshyari.com/article/5047873>

[Daneshyari.com](https://daneshyari.com)