



Wage Structure and Gender Earnings Differentials in China and India

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Summary. — This study analyzes how changes in overall wage inequality and gender-specific factors affected the gender wage gap in Chinese and Indian urban labor markets in the 1990s and 2000s. We observe the significant expansion of skilled workers and the increase in overall wage inequality in both countries over the period. Analyses of micro data present that contrasting evolutionary patterns in gender wage gap emerged over the period, showing a widened wage gap in China but a dramatically reduced gap in India. In both countries, female workers' increased skill levels contributed to reducing the gender wage gap. However, increases in observed prices of education and experience worked unfavorably for high-skilled women, counterbalancing their improvement in labor market qualifications. Decomposition of changes in the gender wage gap shows that China's widened gap was attributable to gender-specific factors such as deteriorated observable and unobservable labor market qualifications and increased discrimination, especially against low- and middle-skilled female workers. For India, gender-specific factors and relatively high wage gains of low- and middle-skilled workers reduced the male–female wage gap. Our study suggests that consideration of overall wage structure, unobserved skills, and gender-specific factors such as unobserved labor market qualification and discrimination against women should be included in designing policies to promote gender equity and inclusiveness in labor markets.

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1. INTRODUCTION

Labor markets in the People's Republic of China (China) and India experienced dramatic changes over the past two decades. In the 1990s and 2000s, the urban labor markets of both countries experienced significant increases in wage inequality and skill premium. Increased wage inequality is found to work against gender wage differentials in developed countries as female workers on average have lower level of skills than their male counterparts (Blau & Kahn, 1997). Similarly, increasing wage inequality found in the two large developing countries can also aggravate the position of women in their labor markets. This paper makes contribution to existing literature by analyzing the effect of overall wage structure and unobserved characteristics on gender wage differentials in these countries using long-run microdata of two countries.

The comparison of China and India—two of the world's largest countries that have undergone significant economic and social transformations—contributes to understanding major developments in labor markets and gender gaps of developing countries over the past decades. The analyses based on cross-country comparison enable us to grasp the similarities and differences in labor market developments between China and India and draw useful implications for further improvement. The two countries had very different starting points in terms of gender gap in the labor market. In pre-reform China, almost all working age men and women were equally employed and also equally paid according to the administratively determined wage structure (Meng, 2012). On the other hand, India had stagnant female labor force participation rate and significant male–female wage gap for more than two decades. This paper contributes to understanding how the benefits of economic development were distributed between men and women in the two developing countries.

A substantial body of literature has analyzed the evolution of gender wage gap and its sources in the United States and other advanced countries. Blau and Beller (1988) examined

earnings differentials by gender from 1971 to 1981 and found increased female–male earnings ratio in the United States.

Blau and Kahn (1997), employing a technique developed by Juhn, Murphy, and Pierce (1991), found that females in U.S. had to counterbalance this unfavorable change in wage structure by improving their own human capital. They described this as “swimming upstream” and pointed out that the gender wage gap depends on overall wage structure as well as gender-specific factors. Blau and Kahn (2003) examined the change in gender wage gap in 22 countries during 1985–94 and found the inverse relationship between collective bargaining agreements and higher relative wage of women, suggesting the importance of wage-setting institution on gender wage gap. Datta, Oaxaca, and Smith (2006) employed the same technique to U.S and Denmark and found that Denmark women experienced worsening wage gap due to increased returns to experience and deterioration of their relative position in residual. Also high-skilled women in Denmark experienced the greatest increase in the gender wage gap entirely due to their falling behind men in unobservable characteristics. This paper implements the same technique to disaggregate the gender wage gap into gender-specific factors and general wage structure factors and assess the relationship between overall wage inequality and gender wage differentials in China and India.

A number of papers have analyzed wage inequality and skill premium in labor markets in China and India. In China, returns to schooling were very low compared to other developing countries until the mid-1990s. Since the mid-1990s, however, wages in China have increased significantly for each additional year of schooling (Fang, Eggleston, Rizzo, Rozelle, & Zeckhauser, 2012). Empirical studies based on micro data from the China Urban Household Survey and the Chinese Household Income Project Series (CHIPS) have found that rates of return to education in China were higher than those in most industrialized economies, and have

increased over time (Ding, Yang, & Ha, 2013; Li & Ding, 2003; Zhang, Zhao, Park, & Song, 2005).

Rising education returns in China, beginning in the mid-1980s, have been partly attributed to the liberalization of labor markets and wage setting, particularly in urban areas (Zhang *et al.*, 2005). Market-oriented reforms in China caused an upward shift in the demand for skilled workers and thereby increased the skill premium for educated workers (Knight & Song, 2003; Meng, 2012). Foreign-owned firms in China (Xu & Li, 2008) and trade liberalization (Han, Liu, & Zhang, 2012) are also found to be driving forces behind the rising skill demand in China.

In India, there has been a steady increase in the skill premium and wage inequality since the early 1980s (Kijima, 2006), with rising demand for skilled male workers (Chamarbagwala, 2006). Some studies point out that skill-biased technological changes in India have caused increasing returns to skills (Berman, Somanathan, & Tan, 2005; Kijima, 2006). According to Mehta and Hasan (2012), the increase in wage inequality during 1993–2004 was largely attributable to changes in industry wages and skill premiums.

Using the 2005 India Human Development Survey, a nationally representative survey, Agrawal (2012) showed that private returns increased with the level of education in India due to an increasing demand for skilled workers and a limited supply of employable graduates. In India, graduates from quality colleges and universities can be hired by global firms and foreign enterprises, as well as call centers that provide significantly higher salaries than small-sized, domestic firms. On the other hand, Shastry (2012) suggested that globalization measured as costs of learning English across Indian districts increases education of workers and thereby mitigates the increase in wage inequality.

There are a growing number of empirical studies on the gender earnings differential in each country, but they do not reach clear consensus. According to Gustafsson and Li (2000), the gender wage gap in urban China was relatively small, but increased during 1988–95 as a result of the deterioration of wages paid to female workers with limited experience and skill. A more recent study by Zhang, Han, Liu, and Zhao (2008) found that the same trend continued across the earnings distribution, at least until 2001, but the gap widened greatly at the upper end of the distribution during the years 2001–04. They argued that the widening of the urban gender wage gap over this period reflected rapid increases in returns to both observed and unobserved skills in China, which worked more favorably for men's higher skill levels. Fang *et al.* (2012) also found a striking gender disparity in returns to education, with the returns for each additional year of schooling for males being higher than for females from 1997 to 2006.

Gender differences in wage are quite pervasive in India. Women wage workers work fewer days per year, and are paid considerably less than men across educational levels (except those who have completed a secondary-level education in urban areas), in both rural and urban areas (Desai *et al.*, 2010). Bhalla and Kaur (2011) suggest that gender wage differences in India are partly due to gender differences in education and work experience. On average, compared to males, female workers are less educated and less experienced, which is partly due to childbearing. Chamarbagwala (2006) argued that during the 1980s and 1990s, despite a considerable widening of the skill–wage gap, the gender wage differential narrowed significantly among high school and college graduates, suggesting increased demand for skilled workers and especially for skilled women contributed significantly to the decline in gender disparity. Menon and Rodgers (2008) analyzed household data

from India over the years 1983–2004 and suggested that India's trade liberalization increased women's relative wages and employment as increased competition, caused by trade, diminished discrimination against female workers.

Using micro data, this paper focuses on analyzing changes in wage inequality and gender earnings differentials in China and India during the 1990s and 2000s. We find significant increases in wage inequality and skill premium in urban areas of China as well as India. We also observe significant gender earning differentials in both countries throughout the period. Interestingly, the gender wage gap evolved very differently in each country, as it increased in China while improving in India.¹ Although there is ample literature on the labor markets and wage structures in these economies, as far as we are aware no paper has explicitly focused on comparing these two countries, especially on the striking differences in the evolution of their respective gender wage gaps.² An important issue is to analyze the role of wage structure and skill premium in influencing the gender wage gap. Since an increasing skill premium tends to widen the gender wage differential if females, on average, have lower skill levels and less experience, the trend in decreasing gender wage differentials in India is more surprising and needs a more thorough analysis.

Women's education and experience levels have steadily increased over the last two decades, contributing to a declining gender wage gap in both the Chinese and Indian economies. However, increasing skill premium can negatively affect women since they are relatively less skilled and experienced. If the price of observed and unobserved skills increases, it not only affects overall wage inequality, but also widens the gender wage differential by punishing relatively unskilled female workers. Also, changes in unobserved qualification or discrimination can play a major role in gender wage gap over time.

The remainder of this paper is organized with Section 2 describing our micro data sources and presenting an overview of recent trends in wage structure and gender wage differentials in China and India. In Section 3, we examine whether change in supply and demand of labor inputs in different categories can explain change in the gender gap over two decades by utilizing the methodology of Katz and Murphy (1992). Section 4 adopts the methodology of Juhn *et al.* (1991) and Blau and Kahn (1997) to decompose changes in the overall gender wage gap and explore the differences in the Chinese and Indian labor markets. Section 5 uses the same methodology to further examine changes in the gender wage gap by skill level and concluding remarks follow in Section 6.

2. DATA OVERVIEW AND RECENT TRENDS IN WAGE STRUCTURE AND GENDER WAGE DIFFERENTIALS

(a) Trends in wage inequality and skill premium

(i) Data descriptions

An examination of the evolution of the wage structure and its relationship with skill level requires good quality micro data with detailed information on workers' wage and skill levels. Availability of longitudinal data that is consistent over time is crucial in order to determine whether the changes in wage structure are a secular trend and not caused by temporary shocks in the economy.

For India, we use the National Sample Survey's (NSS) Employment and Unemployment data, which is considered to be reliable and consistent over time. To examine long-run

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