



Regional Labour Market Integration since China's World Trade Organization Entry: Evidence from Household-level Data

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1. Introduction

For an economy in transition, development of the market is a sign of a successful transition and a premise for a sustainable form of economic growth. Development and integration of labour markets are key components that indicate the move towards a market system. Despite wide acknowledgement of success in China's market-oriented reform, there is disagreement about the effects of marketisation, especially in regard to the level of regional market integration. Reforms of production factor markets, for instance—especially in the labour and capital markets—have been considered less far reaching than the reform efforts made in commodity markets (Lardy 1994:8 - 4). There are also scholars who believe that segmentation of the market has become severe as a result of decentralisation in the reform process. Such scholars argue that although decentralisation rectified the concentration of decision making and resource allocation, it has also generated a 'border effect'—something present in independent economies and in administratively divided regions—thus preventing the labour markets of separate regions from integrating into a national market (Poncet 2001, 2003; Young 2000). Others suggest that the deepening of the Chinese reform process will increase the degree of marketisation in the country, including the regional integration of production factor markets (Fan and Wang 2001; Wang and Fan 2004; Fan et al. 2003).

Labour market integration is a historical concept. Studies in economic history show that during the era of pre-industrialisation, even in now-industrialised countries, labour markets were not integrated due to limited regional mobility. The process of labour market integration through industrialisation begins in the local labour market and then widens to regional labour markets and, finally, to the national labour market (Rosenbloom 1990, 1997). This process is integral to improving the market mechanism.

In addition to spontaneous forces of marketisation, outside shocks can be sources of encouragement for labour market integration. For example, the common market in Europe promotes labour market integration between member countries of the European Union. Another example is the impact that the North American Free Trade Agreement (NAFTA) has had on integration, bringing labour markets closer in border areas of the United States and Mexico (Robertson 2000).

China's transition from an administered labour system to a labour market is unique—not only because it is the largest economy in the world to experience such a process, but because it has adopted a typically Chinese style of gradual change. Three elements of China's labour market integration are important. Firstly, it has been carried out with an emphasis on incremental reforms, while not entirely negating the importance of shock reform. Secondly, economic globalisation has stimulated the process of labour market integration. Finally, the move towards a labour market parallels the transformation from a dual economy to one that is integrated.

As China's demographics change and the country approaches a turning point that will lead to a labour shortage, the speed of labour

market integration has increased. Through integration into the global division of labour, China has increased its production of labour-intensive exports and accepted world-wide employment opportunities. As a result, more than 100 million rural labourers have migrated to urban jobs, and laid-off and unemployed workers have been re-employed in an economy with high growth rates. With economic development, the pattern of resource endowment in China is being restructured, implying the coming of a historical turning point.

According to population predictions, the desirable population structure that has brought about a demographic dividend in the past three decades will disappear within the next 10 years. At this point, the dependant population ratio (the ratio of the population aged younger than 16 and older than 64 with respect to those aged between 16 and 64) will stop decreasing and begin increasing. When comparing the growth rates of labour forces in other countries, it becomes clear that China will have no advantage in labour supply within two decades. While the population shift will not occur overnight, it will be necessary to drink from the river while the water levels are high: labour abundance must be taken advantage of while it still exists. In fact, the outcome of demographic changes has already appeared in the labour market. The spread of labour shortages from coastal areas to the rest of the country not only indicates the end of an era of unlimited labour supply, it marks the coming of a 'Lewisian turning point'. This is also a driving force behind labour market integration, given that the competition for skilled and unskilled workers has intensified the level of labour mobility.

This paper seeks to demonstrate that economic reform, opening up and the transition from a dual economy have all encouraged integration of the labour market. Firstly, we explain how the labour market has developed and integrated with respect to three distinct changes in the economic order: the move from a planned labour system to market-based labour allocation; the move from a closed economy to one that is increasingly globalised; and, finally, the move from a dual economy characterised by unlimited labour supply to a Lewisian turning point. Secondly, we introduce briefly the effects on the urban labour market of migrant labour. The third section demonstrates empirically that the wages of migrant workers have converged, which is evidence of labour market integration.

The labour market in China has developed in two ways. Firstly, the expansion of the private sector has absorbed labourers made redundant as the planned system came to an end. Secondly, there has been competition from the private sector to force state-owned enterprises to reform their employment system and the State to deregulate the labour market. These aspects of reform tend to promote labour market integration, with an additional incentive provided by the pressures of a coming labour shortage. By employing a statistical method to household-level data, we are able to test the points made above. The final section concludes with some suggestions for further reform to the labour market.....

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