



## Employment and Inequality Outcomes in China

文章作者：蔡昉；都阳；王美艳 发布时间：2010-6-4 11:11:03

### TABLE OF CONTENTS

EMPLOYMENT AND INEQUALITY OUTCOMES IN CHINA .....	1
EXECUTIVE SUMMARY .....	3
1. Growth patterns and labour market outcomes .....	4
1.1. Growth patterns in China .....	4
1.2. Increasing total employment .....	6
1.3. Sectoral shift in employment .....	7
1.4. Export-oriented employment .....	8
1.5. Impact of economic crisis on employment .....	9
2. Development in the Chinese labour market .....	10
2.1. Moving out of countryside .....	10
2.2. Shattering Iron Rice Bowl .....	11
2.3. From deregulation to regulation .....	13
2.4. Facing turning point .....	13
3. Evolution of the informal sector .....	17
3.1. Trend of informalization .....	17
4. The impacts of labour market on poverty and income inequality .....	22
4.1. The impact of migration .....	22
4.2. The implication of Lewisian turning point to inequality .....	23
4.3. Impacts of informality .....	25
4.4. The impact of social policies .....	25
5. Conclusions and discussions .....	30
REFERENCES .....	33

### EXECUTIVE SUMMARY

China has experienced fascinating economic growth during the past three decades. Despite of the interruption by the Asian financial

crisis and recent economic crisis, China has been one of the economies with the highest economic growth rates in the world since 1990. Thanks to the fast economic growth, the total employment has kept increasing, accompanying a significant shift of employment from primary sector to secondary and tertiary sectors.

The changes in the Chinese labour market are characterized by the increasing flow of rural to urban migration, a restructured urban employment system, and the stricter regulations.

The total employment growth and employment sectoral shift lead to a large flow of labour migration. In 2007, the total number of rural migrant workers reached 136 million. This massive and still growing internal migration, described as the largest peacetime movement of people in history, is one of the most significant phenomena characterizing the contemporary Chinese labour market. The first outcome of this increasing migration flow is to exhaust young and well educated labour forces in rural areas. Combining with the demographic transition resulting in decreasing new labour market entrants, it is good to believe that China is going to face a turning point of development with limited labour supply. It seems that the recent financial crisis stop the trajectory of the movement. It is reported that 20 million of migrant workers returning home towns because of the shrinking employment opportunities. If we separate long term effects from cyclical factors, however, the judgment facing Lewisian turning point will still hold.

In mid-1990s, urban economic restructuring and reforms on SOEs caused urban labour market dislocations, as evidenced by high unemployment rates at that time. The unemployed, who enter informal sectors, combining with rural migrant workers, drive the trend of informalization in the Chinese labour market. Workers in the informal sectors tend to work with low pay, less social protection, and more vulnerability. To deal with the informalization, some social policies have been proposed in urban areas, however, the migrant workers and rural residents have not been covered effectively so far. Empirical studies using urban household survey data indicated that the social assistance programs reduced poverty and income inequality in urban areas.

The impacts of the labour market changes on income inequality are mixed. Rural to urban migration is an effective way to eradicate rural poverty and to equalize the regional income disparities. With coming Lewisian turning point, it could be a possible way to reduce the rural-urban income difference. The informalization increased the total employment, which is helpful for income equality, but could increase the difference among income earners. The social policies have been directly targeting the low income group, which is an effective policy instrument to reduce poverty and inequality in urban areas. However, the social assistance programs do not sufficiently cover the rural residents and migrants, which could be a source of inequality between urban and rural areas.

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