# Labour Market Reform in China

XIN MENG

*Department of Economics, Research School of Pacific and Asian Studies,*
*The Australian National University*

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# 1

# *Introduction*

## Purpose of the book

China is in transition from a planned economy towards a market-oriented one. The economic reforms begun in the late 1970s have brought about remarkable economic growth, initially through transformations in the agricultural sector and subsequently through rapid export growth. The proportion of exports in the country's GDP has quadrupled in less than two decades, to 20 per cent in 1997. Whether China can sustain its rapid growth rate will depend heavily on the government's willingness to pursue further internal structural reforms.

Unlike its East European counterparts, economic reform in China has proceeded in a piecemeal manner, with the aim of establishing a 'socialist market economy under state planning'. This goal has been poetically described by China's most influential economist, Chen Yun (1995):

> The bird must not be held tightly in the hand or it will die. It should fly, but only within the cage: without a cage, it will just fly away. If the bird is a market economy, then the cage is state planning. Naturally, the size of the cage has to be appropriate.

While the reforms have not been sweeping, partly to avoid socio–political upheaval, keeping 'the bird in its cage' is inherently problematic. Recent economic growth has not been accompanied by significant labour market reforms within state enterprises, which have remained heavily over-staffed and inefficient. This book contends that achieving sustainable economic growth will require a more thorough overhaul of the current labour market arrangements.

This book covers new ground in documenting and analysing institutional changes in the Chinese economy over the last 20 years from a labour market perspective, and offers empirical evidence that further labour market reform is necessary if high growth rates are to continue.

## Plan of the book

Prior to the reforms, rural and urban labour arrangements were inefficient and resulted in low productivity in both rural and urban sectors of the economy. Chapter 2 of the book analyses the drawbacks of these pre-existing labour market arrangements, and the remainder of the book is then divided into three parts.

Part 1 examines the impact of rural economic reform on labour markets in rural agricultural and non-agricultural sectors. It describes how economic reform brought about institutional change in the rural agricultural labour market and analyses the changes in labour supply behaviour and income distribution patterns (chapter 3). Emphasis is also given to institutional change in the rural non-agricultural labour market – in particular, employment and wage determination patterns in this sector (chapter 4). Finally, an interesting phenomenon that has emerged in the rural labour market – the widening wage gap between the rural agricultural and non-agricultural sectors – is analysed (chapter 5).

The implementation of urban labour market reforms and the impact of enterprise reform on the urban labour market are studied in part 2. The major reform measures implemented in the urban labour market since the beginning of the economic reform are introduced and their impact on wage determination in the state sector scrutinised (chapter 6). Following this, the impact of the current enterprise ownership structure on the determination of compensation and employment at the enterprise level is investigated (chapter 7). Particular attention is subsequently given to the important issue of necessary and possible paths for reforming China's urban social security system (chapter 8).

Part 3 analyses the unfolding patterns of rural–urban migration since the reforms began. The impact of massive rural–urban migration on China's economic growth is studied through empirical testing of a three-sector model (chapter 9). The issue of how to efficiently allocate migrant labour to regions with varying rates of economic growth is discussed: the main constraint in this regard is found to be a lack of reliable and impartial information about job markets in various parts of China (chapter 10). Finally, emphasis is given to the existing segregation of the rural migrant and urban resident labour markets and the impact of eliminating such segregation on the urban labour market – in particular, on unemployment, hidden unemployment and labour costs (chapter 11).

The book concludes in chapter 12 by providing an overview of its main findings and its contributions toward enriching our understanding of Chinese labour market reform.