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Economy and Market in China: The State, Wage Labour and the Construction of the ‘China Price’

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ABSTRACT

China’s entry into the world trade, investment and production system and the economic growth of the last four decades have culminated in a rigid labour market duality that is based on the division of the urban-rural residential registry system, *hukou*. A migrant labour population has been created, the burdens of which have become augmented despite the long period of growth. Migrant labour is the producer of the “China price” which is the significantly low cost of production that the country provides to investors. This paper analyses the context of migrant labour and its origins. The discussion extends into the state policies on labour institutions (minimum wage system, All-China Federation of Trade Unions [ACFTU] and the welfare measures) and further analyses the conditions of the female and youth labour markets.

Keywords: Chinese economy, the state, market, growth, trade, economic geography, labour,

INTRODUCTION

China began to expand its economic relations with the rest of the world in the 1970s, and until the late 1970s, its role in world trade remained marginal (Imbruno 2016: 222). The nation joined the UN in 1971 and full diplomatic ties with the US became established in 1978. The two signed a bilateral trade deal in 1979 and a year later the US granted the most favored nation status (MFN) to China. From 1979 onwards, China began using Hong Kong as an entrepôt that intensified with the latter’s 1995 WTO entry (Shen 2008: 328). From the early 1980s onwards, Chinese state-owned-enterprises, began using Hong Kong Stock Exchange to access foreign capital (Zhang 2003: 702). The Shanghai Stock Exchange (presently the world’s fourth largest) began trading in December 1990 and the Shenzhen Stock Exchange (the eight largest) started in the following year and China slowly liberalized them throughout 2000s to allow foreign investment (He et al. 2014: 436). In 1986, China had already started negotiating for the GATT entry which continued from 1995 onward for its WTO membership (Rhodes and Jackson 1999: 498). China strove to enter the WTO to reduce its reliance on its MFN status with the US (Satchit 1999: 19). It sought to diffuse the US pressure to reduce its trade surplus by entering the WTO (Ren and Yuan 2001: 48). Following its 2001 WTO entry, China has kept increasing this surplus but has also become the biggest foreign holder of the US Treasury bonds, which is a topic already covered elsewhere (Cling 2014: 120, Dietrich 1999: 289, Zhu 2000: 87).

Under Deng Xiaoping’s leadership, ‘the four modernizations of agriculture, industry, national defense, and science and technology’ began in 1979 (Alexander and Chan 2004: 616, Chai and Song 2013: 75, Chan and Selden 2014: 601, Zhang and Rasiah 2015: 15, Zhang and Sun 2012: 351). These modernizations reached their latter phase in 2001 with China’s WTO membership and entry into the world trade, investment and production environment (Bayari 2015: 5). Thus, the Chinese economic model is an outcome of internal (‘modernizations’) and external inputs (MFN, access to the Hong Kong market, memberships to UN and WTO). The WTO accession has led to a reduction of the cost of consumption for all Chinese households and low-expenditure households netted the highest gain (Han et al. 2016: 230). China has utilized the WTO accession to normalize neoliberal globalization effects on itself and the foreign expectations of post-

accession political reform have been proven futile (Mahoney 2013: 385, 398). The Chinese state is now the owner of some of the largest corporations in the world, capable of affecting demand and supply in many markets. The nation's GDP growth averaged 10.5 percent per year between 1990 and 2010 and then hovered around 7 per cent till the end of 2015 (World Bank 2016: 30). This growth has brought about a momentous social transformation and pulled 600 million people out of poverty (World Bank Group et al. 2016: xv). Despite the ill effects of increased trade, investment and production movements of neoliberal globalization in most nations and trading blocs, China increased its economic sovereignty in this process that included its acquisition of manufacturing jobs from other nations (Taylor 2011: 176). China's accession to the world economy has substantially reduced the low skill and low-tech manufacturing employment in the US, the EU, Japan, South Korea and Taiwan (Autor et al. 2013: 2158, Ngai 2004: 29). Chinese manufacturing labour, in turn, has become subject to the international division of labour (Bieler and Lee 2017b: 179). Foreign MNEs have developed a strong buyer and investor presence in the supply chains of the Chinese manufacturing and the Chinese employment levels became overwhelmingly linked to exports (Gray and Jang 2015: 596). The disadvantage of this became visible during the 2008 global financial crisis [GFC] whereby a decline in demand for Chinese manufacturing-exports led to a decline in employment numbers, as touched upon later below. Foreign multinational enterprises have also invested in high technology manufacturing in China (Hart-Landsberg 2016: 5). At the same time, China has developed a domestic capacity that is a combination of low to medium levels of technology with increasing levels of advanced and very advanced technology whereby the domestic MNEs have been slowly moving up the value chain (Hardy 2016: 190, 196).

The labour market outcomes of the Deng modernizations and the entry into the world trade, investment and manufacturing have been mixed. The rise and expansion of the urban middle classes of professional people in public and private sector is one major result (Tomba 2009: 2). At the same time, China also developed a far less socially mobile labour category: the migrant labour which is the focus of this discussion. Tens of millions of layoffs from the loss-making state-owned-enterprises [SOEs] and re-employment of most of them in the expanding Chinese private sector characterized the 1990s and the early 2000s (Meng 2012: 76, Qi 2014: 1, Zhang and Liu 2013: 367). The SOE closures led to social anxiety but the expanding private sector began to absorb the pool of surplus labour and a great shift to the private sector had taken place by the early 2000s (Chan and Norlung 1998: 177, Deng et al. 2005: 10, Silver and Zhang 2009: 175). Decades of high rate of economic growth underwrote this great transformation. Private sector expansion and the new work opportunities attracted rural labour to cities. It has also created intra-urban migration due to the impermanency that characterizes the new labour market. Migrant labour may move at least once within an average span of four years (Wu 2006: 762). Urban and migrant labour market duality became clear quite early in this process due to the stark differences in their wages and conditions (access to labour contract being the primary one). This duality is the origin of the oft-repeated "China price". The "price" derives from the past four-decades of consistently low wages paid to migrant labour in China's export and export-dependent industries (Chan 2011: 664, Chan 2010: 360, Lambert and Webster 2017: 314, Thorbecke and Zhang 2009: 402). The term "price" thus describes an economic relationship that is an outcome of social and political relations that are covered below.

WAGES AND MIGRANT LABOUR

Wages snapshot: Chinese migrant labour earns up to 60 percent less than those who are urban-registered and the SOEs are the worst offending employers [controlling for differences in the cost of living in different regions, occupations and industries] (Lee 2012: 467, Song 2016: 1659, 1664). The Chinese gender wage gap is primarily two-fold. Within the migrant labour market, male wages, on average, are 21 per cent higher than that of females (Zhu 2016: 1649). Within the

urban-registered Chinese population, female labour earns up to 30 percent less than its urban male counterpart but in rural China this difference is around 10 percent (Song 2016: 1665). The reason for the larger gender wage gap among the urban-registered population is primarily the participation rate. China's economic transition and high growth periods have coincided with a decline in female participation (Liu 2012b: 31). This is expanded upon later.

Migrant labour regions: The Deng modernizations created four mega-city regions of industry which is where the rural population migrated to work. These are the Pearl River Delta Region (Hong Kong, Guangzhou, Shenzhen, Dongguan and Zhuhai), the Yangtze River Delta Region (Shanghai, Nanjing, Hangzhou, Suzhou, Wuxi and Ningbo), the Bohai Rim Region (Beijing, Tianjin, Qingdao, Qinhuangdao and Yantai), and the Chengdu-Chongqing Region (Taylor 2011: 175, Zhu 2016: 1644). These became the new homes of migrant labour that are employed in secondary and tertiary industries, with the latter developing to become the largest sector in the Chinese economy. This large-scale migration of labour, with limited economic means, has forced many to remain domicile at a range of workplace dormitories, semi-formal constructions, and peripheral urbanizing villages (Chan and Selden 2014: 605, Feng 2016, Kong 2010: 135, Webster et al. 2016: 463, Zhu 2016: 1650).

Migration in numbers: The process of migration to urban China is constant. At the end of 2016, the migrant numbered 282 million, as per the Ministry of Human Resources and Social Security data (Xinhua 2017). By 2050, 292 million more rural citizens will have migrated to cities (United Nations 2014: 12). In 2016, the Chinese state issued 28.9 million new urban registrations to existing migrants, which is a mere fraction of the migrant population (Sheehan 2017). As per the official statistics, China has 771.2 million urban dwellers (National Bureau of Statistics of China 2016c). Thus, approximately one-in-three urban dwellers is a migrant from rural China. Migrant labour has refashioned and expanded urban geography. One example is Shenzhen, one of the most frequently mentioned migrant labour-driven manufacturing cities. Shenzhen had a population of 20,000 in 1978, which is presently over 11 million, close to 82 percent of which are migrants (Brachet et al. 2013: 11, Sala 2016, Wang and Wu 2010: 1462). In 2014, Shenzhen was voted 'The City Most Favored by Migrant Workers' and it is also a city of migrants as they actually made it. The ramshackle urban villages with their own markets and facilities that housed migrants for decades in Shenzhen have come into government sights for redevelopment to be included in the new commercial districts (Feng 2016). Without the labour input and consumption levels of its migrant labour population, Shenzhen would not have developed its present geographical coverage and civic urbanity in which migrants, who built it, cannot have a *hukou* [household registration-based personal identity to which all citizenship rights are connected].

Before the start of the Deng modernizations, the Chinese state sought to ensure close to full employment by overstaffing the public service and SOEs (Knight et al. 2011: 597). This social policy ensured high labour market participation rates. At the time, no clear demarcation existed between the wage and non-wage income for the public employees, as the state distributed centrally-determined wages, housing, education, welfare and pension payments. As the Deng modernizations unfolded, the Chinese public service and SOEs' employee numbers diminished significantly (Lisha et al. 2014: 177, Meng 2012: 81, Yan 2014: 24- 25). The market exchange replaced the state as the wage labour allocation institution (Chan and Norlund 1998: 176, Ding and Warner 2001: 315).¹ Thus, one of the most significant of the Deng modernizations has been

¹ Social and political power-networking and favoritism to access work and other resources in China, that have characterized both pre-and-post Deng reform eras, will not be treated here for lack of space (see Barbalet 2015, Xiong et al. 2017). Hao and Clark (2012: 38) suggest that such

the state's subjection of labour to the privatised market demands and regulations (Ngok 2008: 61). The state began combining its post-1950s permeation of all aspects of social, political and cultural life with a hegemony over the privatised labour market since the start of the Deng modernizations. This has been enforced by redefining and subdividing the labour process and allowing migrant labour to be employed on wages and conditions that place it at the bottom segment of the market, thus creating the "China price". A significant part of the Chinese model is the Chinese state's ability to guarantee the domestic (including the SOEs that spread far and wide around the world) and foreign investors, this market duality of urban labour and migrant labour that compels the latter to act as subsidizer of the cost of production. Migrant labour exploitation is not solely a private sector practice. The state also hires migrant labour. The SOEs in the mining sector are among the major employers of migrant labour that receives less than the minimum wage without insurance of any kind (Shu et al. 2011: 2232). Chinese energy sector is said to be the state's most strategic concern with overwhelming SOE presence and the nation has massive foreign currency reserves utilized at the command of the state (Bayari 2015: 2). The state ownership in the energy production and distribution sector also effectively subsidizes the cost of Chinese manufacturing and contributes to the "China price".

Hukou: *Hukou* is the most basic Chinese state policy regarding the economy. Since the Mao era, the state has attempted to prevent urban slum developments and social upheaval through the modification and strengthening of the centuries-old *hukou* system to stop mass migration to cities (Meng 2014: 380). The state has also used it to guarantee food supply chain from the rural to urban China without which the political system could not be sustained. Thus, *hukou* has thus long been the primary method of governing the nation's human and material resources. The 1951 *Regulations Governing the Urban Population*, and the 1955 *Directive Concerning Establishment of a Permanent System of Household Registration* formed the basis of dividing the population with the urban-rural registration *hukou* method (Alexander and Chan 2004: 16). The urbanization process in China stagnated in the late 1960s and early 1970s during the cultural revolution (United Nations 2014: 9). This reduced the pressure on the administration of *hukou*.

However, the Deng modernizations and the subsequent economic growth have undermined the moral hegemony of *hukou* as tens of millions began to move around the country to seek work, on their own resources, as new jobs that were created by the industrialization wave attracted rural people to cities. From 1996 to 2008, the increase in rural-urban migration did not increase unemployment in urban labour markets (Liu 2013: 124). Thus, the primary dynamic behind urban migration has been the urban demand for labour. Yet, *hukou* has always been used to justify the migrant labour wages and conditions to create the "China price". *Hukou* is a powerful instrument of the state authority over the population. It defines individuals' identities and access to social, economic and political rights. The creation and maintenance of the substratum of migrant labour provides a form of subsidy that reduces the cost of national economic output, which is a process that simultaneously politically disenfranchises a large segment of the citizenry. Historically feeble ACFTU responses, as discussed below, to the needs of migrant workforce contributes to this condition.

By 2020 migrants will constitute about two-thirds of urban employment and the residual rural labour force will be about one-third lower (Knight et al. 2011: 599). By 2050, 292 million more Chinese rural residents will have migrated to cities (United Nations 2014: 12). This will further erode the legitimacy of *hukou*. With the elimination of *hukou*, increased labour mobility would substantially strengthen the dominant position of today's largest cities in China, reinforcing the

networks, in association with more important elite kinships, may be indicated in China's relatively low social mobility in the 1949-2012 period.

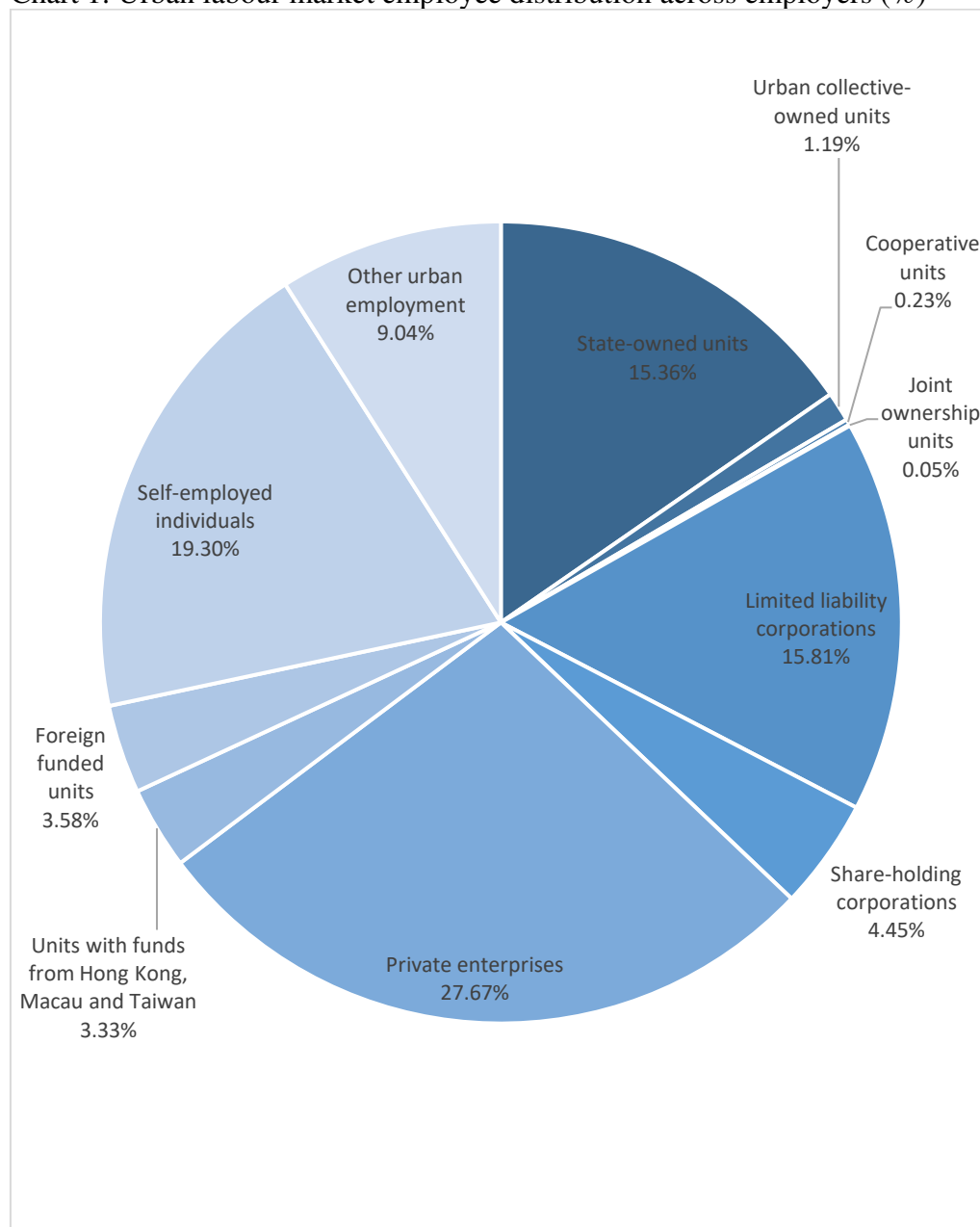
present economic geography (Bosker et al. 2012: 262). *Hukou* has always been a multifaceted institution. It does not only determine residency rights of the living but can also restrict the burial locations of the deceased migrants (Wong 2017). If *hukou* is eliminated, there is likely to be a faster influx of migrant labour, driving down the wages, which in turn will plunge the prices of labour intensive goods (Xu 2014: 124). This may create a new ‘China price’, if the world economy maintains its trade, investment and production regime. If *hukou* is not abolished, the issue of the advancement of migrant labour rights is likely to mutate into urban politics based around migrant labour neighborhood movements.

NATIONAL LABOUR PROFILE²

As per the official statistics, of 1,374,620,000 million population, 771,160,000 million are urban dwellers and 603,460,000 reside in rural China. Of 800.9 million economically active Chinese, urban labour market employee numbers total 404.1 million, with 9.7 million unemployed people (National Bureau of Statistics of China 2016b, 2016c). As per Chart 1, in urban areas, ‘private enterprises’ and ‘self-employed individuals’ are the largest categories (National Bureau of Statistics of China (2016b). Rural China (Chart 2) has far less number of medium and large size employers. Of 370.41 million-strong rural labour market, 14 per cent work in private sector, 11 per cent are self-employed and 75 per cent form the rest of the rural labour force (National Bureau of Statistics of China (2016b). Despite its image as the world’s factory, China’s tertiary industries are the largest employers and, in 2011-2015, these industries increased their share, as per Chart 3. As per Chart 4, which is based on another official data set, in the 2010-2015 period, employment in ‘manufacturing’ and ‘import/export trade and wholesale’ were the only ones to record a decline. In urban China (Chart 1), ‘self-employment’ and ‘other urban employment’ (either of which includes the informal labour market, as discussed below) has a massive labour market share which is larger than the share of ‘private enterprises’.

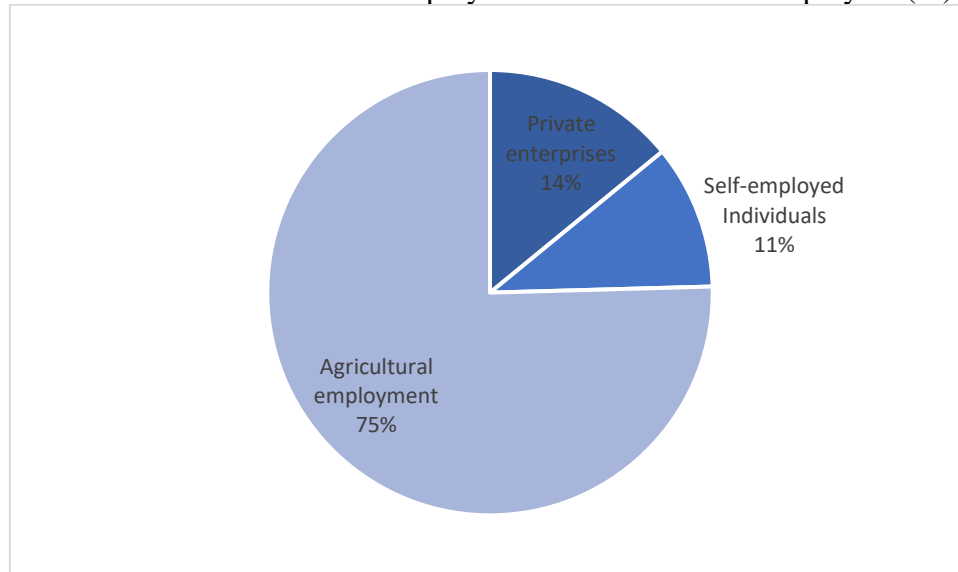
² All the charts and table are prepared by the author by using the numerical data from the identified data sources. In the Chinese official statistics, not all the labor market variables cover the same years. The official statistics provide a primary division of rural and urban labor markets and the latter segment has more detailed information.

Chart 1: Urban labour market employee distribution across employers (%)



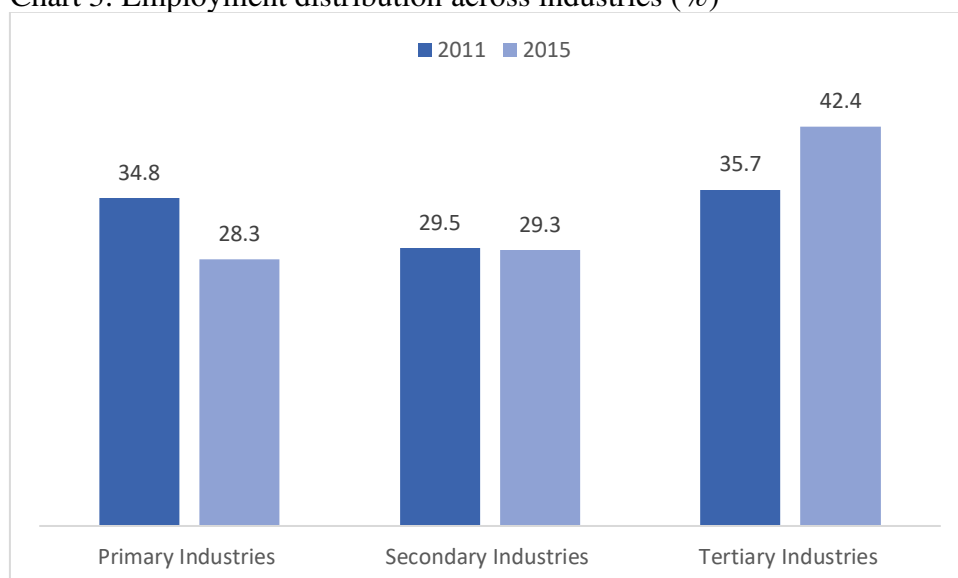
Data source: National Bureau of Statistics of China (2016b)

Chart 2: Rural labour market employee distribution across employers (%)



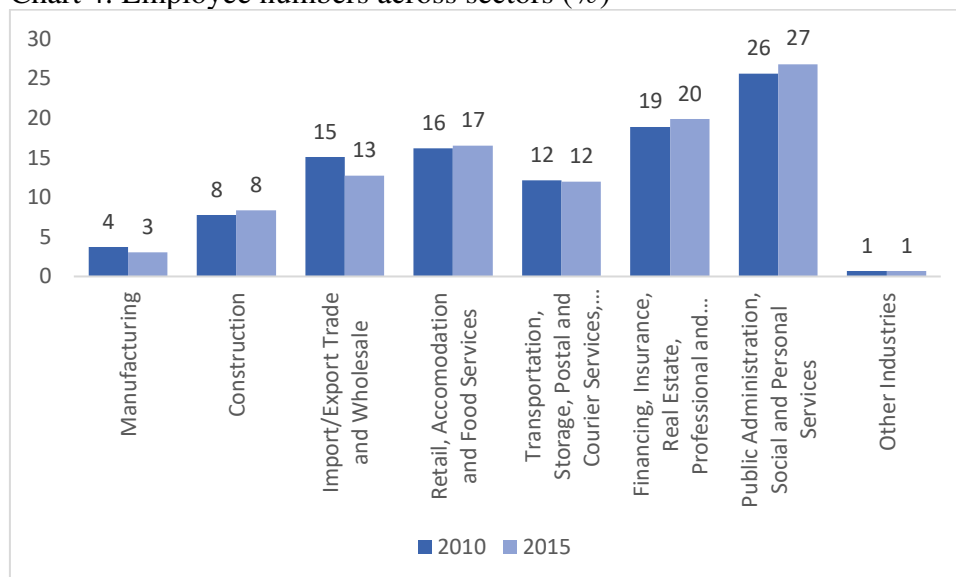
Data source: National Bureau of Statistics of China (2016b)

Chart 3: Employment distribution across industries (%)



Data source: National Bureau of Statistics of China (2016b)

Chart 4: Employee numbers across sectors (%)



Data source: National Bureau of Statistics of China (2016h)

REGULATION FOR MINIMUM WAGE

In 2004, the new ‘minimum wage regulations’ [the ‘2004 system’] became enacted to force local/regional governments to introduce biannual minimum wage increases for all contracted labour. This strengthened the 1994 Labour Law that had incorporated the regulation of minimum wage. Three amendments to the Labour Law, the Labour Contract Law, the Law on Mediation and Arbitration of Labour Disputes, and the Labour Promotion Law all came into effect in 2008 to tighten the scope of standard labour contracts and regulate work conditions but three labour categories, migrant, female and youth have continued to form the low-wage, non-permanent segment of the labour market (Allard and Garot 2010: 535). The Labour Contract Law’s 2012 amendments obligated employers to provide written labour contracts to all their employees, with a view to end the exploitation of migrant labour (Cheng et al. 2013: 14). That is, only labour contract can formalize employment, which then falls under the jurisdiction of the state, via the ACFTU-affiliated unions but the enforcement is weak. The Chinese state’s strategy of maintaining the “China price” ensures that contracts remain a rarity for migrant labour (Lan et al. 2015: 288). Migrant labour bargaining power can also be dependent on local conditions of specific industries in some cases (Chung 2015: 253).

To be sure, minimum wage is not the ‘final take-home pay’. In China, for the reproduction of their labour power workers are forced to do excessive amounts of overtime work (Bieler and Lee 2017a: 202). As per one study of the above-mentioned Pearl River Delta, computer, communication, and consumer electronics manufacturing industries staffed by migrant labour, minimum wage provides less than the half of the regular income, which employees are required to top up with overtime (Lüthje and Butollo 2017: 224).

In China, minimum wage is a co-requisite of a labour contract which means labour without the latter has no legal standing to receive the former. Neither labour contracts nor the payment of the minimum wage are part of the present labour market enforcements, as discussed below. Employers can appear to be providing contracts and paying minimum wages at unionized workplaces but can also increase unpaid overtime and the food and accommodation charges at company dormitories (Lan et al. 2015: 280). This shows that the minimum wage system and union power, which is debatably an indication of a relatively higher level of the state oversight in China, does not amount to state enforcement. Since their inception, Chinese minimum wage

regulations have sought to target the lowest segment(s) of the Chinese labour market, the majority, to guarantee a standard of living (Huang et al. 2014, Fang and Lin 2015, Xing and Xu 2016, Wang and Gunderson 2015). China's minimum wage system has become the de facto wage-indexed welfare measure. Minimum wage as an anti-poverty measure is a topic that has long engaged academia and one seminal opinion holds it to be insufficient and ineffectual (Stigler 1945: 465). Later opinions suggest that particularly during economic downturns, minimum wage increases have little effect on poverty alleviation (Sabia 2015: 2). Other approaches, following Stigler, question the effectiveness of minimum wage system an income distribution method in place of the redistributive effectiveness of the state using the tax revenue for social spending (Gramlich 1976: 410). Such a system may well be applicable to China (Chen et al. 2014: 491). The Chinese state legislates for minimum but has not set up efficient institutions, such as for progressive redistribution, that can address the shortcomings of the minimum wage system. If established however, such institutions may well be immediately overwhelmed.

Wages and conditions can be measured objectively only with a starting point of the analysis of supply and demand (Murphy and Welch 1992). Measurement of the effect of the Chinese minimum wage is unreliable when the state is skewing the environment of wages and conditions. The state inhibits migrant labour's ability to negotiate contracts. Migrant labour receives the bottom of the market wages and conditions and has limited access to the representation of the ACFTU, which is a labour market institution that is an extension of the state. China's minimum wage system is dependent on an arguably incorrect assumption (with the hindsight of the last four decades' growth) that there is always a sufficient rate of economic growth, which may be supporting another incorrect assumption that such a growth would always translate into an increase in employment. During the 2008 GFC, world GDP contracted for the first time in at least 50 years, China's GDP expanded more than 9 percent, fueled by exceptionally strong domestic stimulus (World Bank Group et al. 2016: 30). Yet, there was substantial negative impact on the Chinese migrant labour. The crisis caused up to 45 million migrant workers to return to their rural homes (Meng 2012: 88). The primary factor was the collapse in employment numbers in export-dependent of industries. When new jobs became available in the post-2008 economic environment, a considerable time lag occurred in re-migration of sufficient numbers of rural population to urban China (Banister and Cook 2011: 46).

The Chinese minimum wage system is not an institution that is capable of alleviating poverty (Wang and Gunderson 2015: 526). The state dictates that it is illegal to employ people without a contract but the enforcement is weak. The "China price" relies on migrant labour wages and conditions. The state enacted the minimum wage system. Yet, the labour market characteristics and the provincial and city officials who set minimum wage levels of their respective jurisdictions, act to decentralize the implementation of the policy all of which lead to large regional variations in minimum wages (Meng 2012: 90-91). Consequently, cross country minimum wage differences are varied primarily for the reasons of regional politics. One view supports the so-called 'race-to-the-bottom' theory in which local officials push down wages as they believe that higher minimum wages drive up labour costs, deterring investment, harming growth and hence their promotion opportunities in the Chinese Communist Party and the state hierarchy (Xing and Xu 2016: 19).

Overall, legislations, so far, have been insufficient to alter the Chinese labour market conditions. For one, *hukou* system undermines the bargaining position of migrant labour, as discussed in detail below. If *hukou* was reformed and all migrant labour received urban residency, the present justification for their lower wages would disappear (Holz and Mehrotra 2013: 6). This would undermine the "China price" and hence the Chinese model. The '2004 system' is not an equalizing force for migrant labour wages (Golley and Meng 2011: 570, Meng 2017: 63). Migrant

employees continue to work in low-skill manufacturing and services industries, have higher labour participation rates than the locals, earn slightly more than half the locals' wages, have less job security, but cannot access the local welfare institutions (Lam et al. 2015: 11). The state does not enforce its authority over the labour market as migrant workers does not all receive insurance entitlements and toil longer for lower wages under difficult work conditions (Lee 2012: 469). The "China price" is maintained by strategies that range from withholding contracts, which is illegal, to very short-term contracts with the ACFTU's acquiescence (Lambert and Webster 2017: 317). Since the 2008 GFC, China has been increasingly producing higher-technology products and shifting labour intensive production to countries including Bangladesh, Cambodia, Indonesia, Laos, Myanmar and Vietnam (IMF 2016: 29). However, the shift has not impacted on the 'China price' (Lan et al. 2015: 280).

THE ACFTU

In 1925, communist unions established the ACFTU which came under immediate Kuomintang attacks and suffered violent crackdowns (Traub-Merz 2011: 4). The ACFTU did not benefit greatly from the establishment of the new state in 1949. In the 1957-1978 period, the state prohibited the ACFTU congresses (Perry 1995: 302). The 1950 *Trade Union Law*, which covered the role, and responsibilities of the ACFTU, became amended only in 1992 (Gao 2006: 97). Thus, the ACFTU's rehabilitation occurred after the start of the Deng modernizations. The ACFTU is the sole trade union organization in China and federates all trade unions across the country (Roberts 2016: 1). The ACFTU is a state institution (Warner and Zhu 2008: 6). The chair of the ACFTU is a member of the standing committee of the Chinese Communist Party and has a more senior position than the Head of the Ministry of Labour and Social Security, and the career patterns for cadres within the unions and the party are permeable (Taylor and Li 2010: 708). Chinese labour governance is thus based around the premises that employees accept the ACFTU and the Party leadership within the workplace and that labour discontent should not spill over to the rest of the society (Estlund and Gurgel 2013: 107).

The Chinese state has created an industrial relations system in which enterprise level trade unions are politically and judicially controlled by the state, administratively dominated by the ACFTU, and financially dependent on the employers, foreign and domestic (Kim et al. 2004: 35, Zhu et al. 2012: 120). Employees have the right to seek collective bargaining at company level by setting up a company union but it must be federated with the ACFTU (Bain et al. 2015: 10). The Chinese labour is subject to the national authority, international and domestic investment, and the labour oligarchy simultaneously. The state-sponsored imagery of labour in the media depict their role in the economic growth but make no reference to unions as social agents (Funari and Mees 2013: 241). Workers and unions organisers are inhibited from developing a power base that would enable them to counter disparities in wages and conditions or demand non-market wages (via a universal welfare system). The ACFTU and the state both enforce the official anti-strike policy (Cao and Meng 2017: 272).

The ACFTU is instrumental in the maintenance of the 'China price' (Lambert and Webster 2017: 322). It is a wage suppressant labour institution. From 2008 onwards, the ACFTU began making efforts to absorb some of the migrant workers to its fold and has campaigned for them to receive pay increases and their wages in arrears (ITUC 2010: 6). However, as of 2017, the ACFTU website states the entity to have 280 million members (ACFTU 2017). This is mere 35 percent of the national labour market of 800.9 million. It is also well short of the official urban labour market of 404.1 million.

In a labour market, when unionized employees gain a wage rise, the increase has a form of premium content, which is at the expense of those employees who are not unionized (Freeman

1980: 23). If such a ‘premium’ is available in a labour market that is directed by the state and regulated by the official union movement, then the success of the system depends on its inhibitive, suppressive and restrictive aspects. One study measures the Chinese union-membership premium in wage differences to be in a range of 0 to 42 percent, depending upon the employer type [SOEs, foreign-invested, etc.] (Gunderson et al. 2016: 624).

This is principally because the ACTFU exhibits an uneven, selective labour law enforcement and enforces formalistic and inauthentic collective bargaining agreements and the state, since late 2015, has instituted a new anti-labour activism strategy to prevent the establishment of non-ACTFU platforms (Liu and Kuruvilla 2017: 209). The ACFTU has been ineffectual in countering many instances of serious violations of labour law, including withholding of contracts to which everyone is entitled, payment of below minimum wages, non-payment of wages, employer suppression of labour protests all of which have led to wild cat strikes (Traub-Merz 2011: 4). Consequently, unionized Chinese labour has become divided into two primary camps, those who pragmatically accept the ACFTU authority and the rest who have experienced wild cat strikes and push for the creation of independent unions (Wang 2016: 737).

High unionization levels in the ranks of the low skill employees can counter pressures to reduce minimum wage levels, as per the evidence from Canada and the US (Card 1996: 976, Dinardo et al. 1996: 1039). Chinese unions have only a limited role in the labour market, in comparison to the ones in North America. Therefore, it is not suggested here that should the unionization levels in China increase, a similar outcome would ensue as the North American research results are stated here for a primarily descriptive purpose, and its comparative value is secondary. Chinese labour market has fragmented state-governance (central, regional and local) and was molded in the last four decades with the purpose to segment the market into migrant and urban duality. The level of enforcement is systematically weak. As the Chinese labour relations take place in an environment that is governed by the state via the ACFTU, the question of minimum wage determination refers to the state power and not to the market.

MINIMUM WAGE, SOCIAL SPENDING AND NATIONAL INCOME

There is a debatable relationship between minimum wage increases and rise in unemployment, in varying degrees, at the lowest segment(s) of labour markets (Burkhauser et al. 2000: 676, Card 1992: 36). The significance of the relationship is different in each case and this paper does not defend a position on the strength of the relationship. As per this paradigm, employers tend to reduce wages bill by reducing employee numbers when faced with the prospect of a minimum wage increase. For example, the ‘shock effect’ paradigm, states that some, but not all, employers, are able layoff labour to increase efficiency in response to wage increases (Brown et al. 1982: 8). Similarly, as per the ‘trade off’ paradigm, a minimum wage increase, in a labour market, causes some to become unemployed while the rest receive higher wages (Neumark and Wascher 2007: 124, Neumark et al. 2013: 36). In China, when there is a minimum wage increase for urban labour and migrant labour on contracts, the shape of ‘trade off’ may be distributed among uncontracted migrant labour in the following paradigm. Some of them lose jobs, some remain employed at the same wages, and the rest may start receiving even lower wages. The politically and financially significance of locations of Beijing and Shanghai and the highly-developed manufacturing-export significance of locations, such as in Guangdong, Jiangsu, Shandong, and Liaoning, have led the faster rise in minimum wage levels in comparison to elsewhere but their labour markets have suffered a decrease in jobs available for the most vulnerable labour groups, female employees, young workers and the low skilled (Fang and Lin 2015: 7-9). The ‘2004 system’ has decreased employee numbers primarily in low wage firms (Gan et al. 2016: 81, Huang, Lougani and Wang 2013: 22). There has also been a decrease in investment in labour training at company level (Haepf and Lin 2015: 19). Some of the Chinese manufacture exporters that increased their

employee wages have remained viable via reduced profit margins (Holz and Mehrotra 2013: 13).³ However, many companies that could pay higher wages to retain labour have gone out of business (Mayneris et al. 2014: 2). The applicability of the ‘trade off’ paradigm herein is complex due to the heterogeneous nature of the Chinese industries.

Social spending: The establishment of the Chinese model has aggravated the existing poverty levels (Zhang 2016: 122). Yet, the state has remained a relatively low welfare spender (Table 1).⁴ With the Deng modernizations, the state has withdrawn from the areas of labour reproduction and welfare as the economy needs the labour of the rural population but does not need the urban-based survival of that population once market demand for rural-to-urban migrants labour shifts in either location or industry (Chan et al. 2010: 133, 137). Urban China has long had a form of welfare system but a universal system has never developed (Chen et al. 2014: 491, Sun et al. 2011: 5277). *Hukou* has functioned well for a long time as the state used it to bind rural population to farming, with an aim to maintain a centrally planned economy and to support the development of urban heavy industries (Liu 2012a: 312). Urban labourers were the employees of the state and received a host of state-funded medical, educational and retirement benefits while rural people were barred from urban jobs (Lee 2012: 461).⁵ Urban *hukou* has thus long contained an exclusive urban welfare system. Among the top five economies (the US, China, Japan, Germany, the UK), China has the lowest expenditure as percentage of GDP, for health care and social security, despite its economy’s phenomenal growth in the last four decades. The labour market developments discussed herein did not lead to a form of welfare universal system. The state has thus created a malleable workforce out of the rural population.

Table 1: Chinese state spending

	1995	2014
General government expenditure on health as % of GDP	2	3
Social security funds as % of GDP	1	2
General government expenditure as % of GDP	11	30
GDP (current US\$)	0.7 trillion	10.4 trillion
GDP per capita (current US\$)	609	7,683

Data source: World Health Organization (2017)

In urban China, the state employees’ co-contributory insurance/welfare system consists of social insurance, pension plans, medical, unemployment, work injury and maternity insurance (Qin et al. 2013: 163). Private sector has its own insurance providers which form a smaller segment of the market (Rickne 2013: 65). Some major cities also accept migrant labour into their insurance systems or create a separate system for them (Gallagher et al. 2015: 223). Employees and employers are required by law to register and co-contribute to insurance systems, however, migrant employees without formal labour contracts lack legal status and consequently membership coverage (Gao et al. 2012: 1196). As migrant employees lack job security; they must move frequently between employers and they may receive a contract only intermittently. However, as there is no universal welfare system, migrant employees cannot transfer the scheme

³ The topic of market determination of skilled labor wages in companies which pay above minimum wage is covered elsewhere (Huang and Zhang 2017, Kang and Peng 2017).

⁴ Due the differences in market economy histories of the other top five, it is problematic to rely on direct comparisons. The data for other economies is available at the same source.

⁵ The official welfare system statistics only cover the urban labor market with two data sets: ‘contributors in urban employees basic pension insurance’ and ‘contributors in urban employees basic medical insurance’ (National Bureau of Statistics of China 2016c).

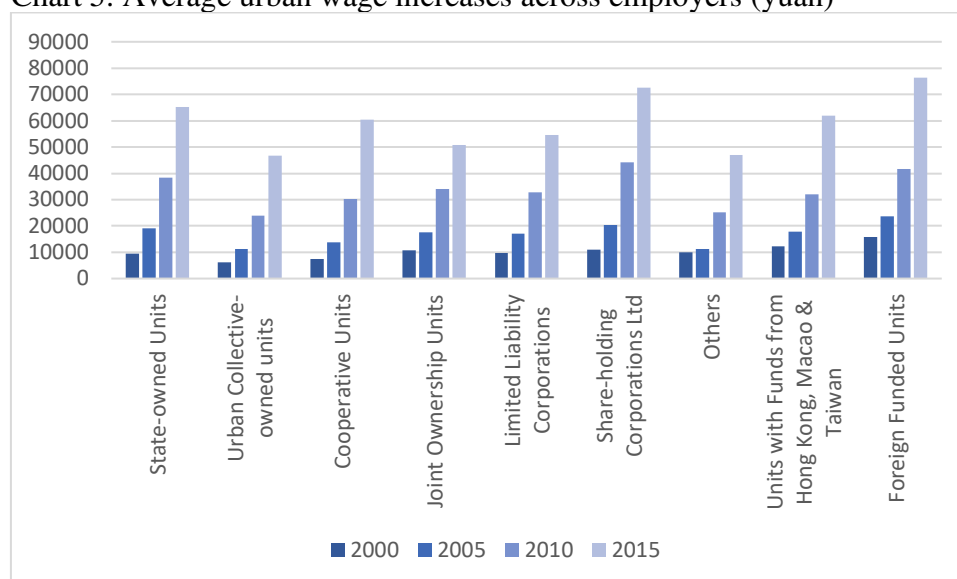
account set up by one employer to another and accumulate their funds. As a result, employers usurp the accumulated funds. The existing migrant labour population have many retirees in their ranks, struggling with the state to receive access their pension accounts that are spread across different employers (Lau 2016). This is a chronic symptom of the labour market. Migration labour ranks are continually replenished with new arrivals. Removing the *hukou* disadvantages from the labour market would not lead to a more equitable situation without the establishment of a universal welfare system as a redistributive institution (Lam et al. 2015: 28-29). Migrant labour's bottom of the market wages and conditions wages despite the decades of high growth, are a consequence of the lack of such an institution, without the creation of which the status quo is unlikely to change (Sicular 2013: 4).

The share of labour compensation in national income: China's official statistics do not cover minimum wage levels but they report on the levels of urban average wages ('total wage bill of employed persons' divided by 'average number of persons employed') of employees with labour contracts, across industrial sectors. In the period of 2000-2015 'cooperative units' average wages increased 8-fold. The lowest increase occurred in 'state-owned units'. 'Foreign-funded units' have consistently paid higher wages. This is not surprising as foreign corporations have long been characterized by relatively higher wage levels (Chan et al. 2016: 16). They are pace setters, as their wage levels have been instrumental in increases in other employers (Huang and Zhang 2017: 1995). The number of people they employ, however, is one-tenth the size of numbers employed by Chinese private enterprises.

Chart 6 shows that the average annual gross wage in urban China has increased more than ten-fold in 1995-2015. From 1990s onwards, in the G20 the EU28 economies (noting the cross-membership), wages growth lagged well behind productivity growth in both manufacturing and service industries and caused the 'share of labour compensation in national income' to decline (ILO and OECD: 2015: 7). While technological change and globalization are both implicated as factors in the decline of the labour share globally, there are country-specific factors, including public policy settings, that play a significant role in shaping the effects of these factors on the 'share of labour' (Schwellnus et al. 2015: 16-19).

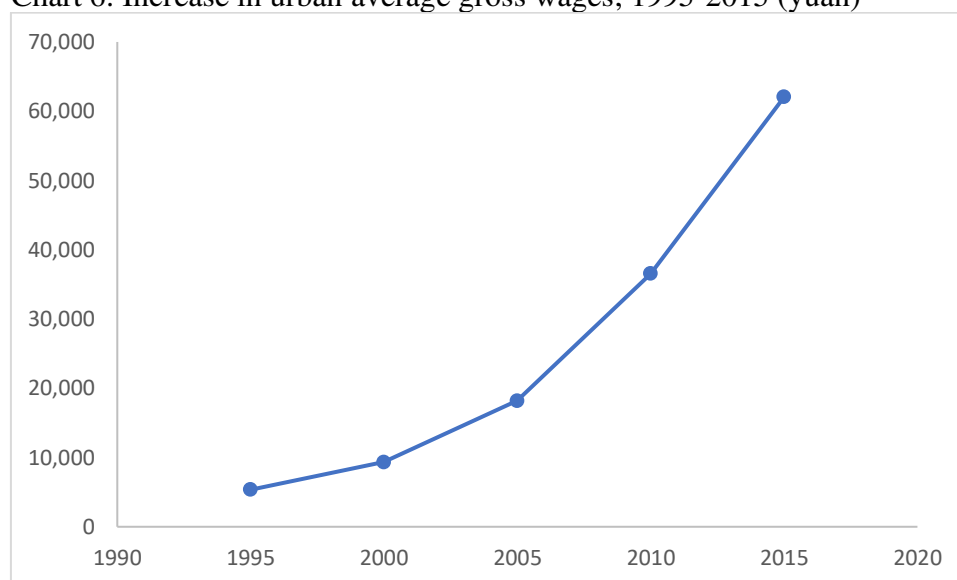
In China, the 'share of labour compensation in national income' in 2016 was lower than what it was in 1992 (ILO 2017: 12-18). The above-stated increases in average wages, thus, appears to be insignificant. The reasons for the decline in the 'share of labour' in China are debatably interrelated and include the labour transfers from SOEs to private enterprises, labour migration to urban areas, ineffectual labour unions, and the rise of industrial monopolies (ILO 2016: 5). China has low domestic consumption (relative to other major Asian manufacturers/exporters, Taiwan, South Korea and Japan) high volume exports of a wide range of goods, and China's purchase of the currency and government bonds of nations that import these goods (Mistral 2011: 4). Overall, as the 'share' in China has fallen continuously, arguments over the benefits of the '2004 system' need to be further assessed (Chi and Qian 2013: 290). To be sure, Chinese minimum wage needs to be higher for consumption-based growth, rather than the present export-based model, to dominate the economy (Dreger et al. 2016: 12).

Chart 5: Average urban wage increases across employers (yuan)



Data source: National Bureau of Statistics of China (2016g)

Chart 6: Increase in urban average gross wages, 1995-2015 (yuan)



Data source: National Bureau of Statistics of China (2016i)

FEMALE LABOUR

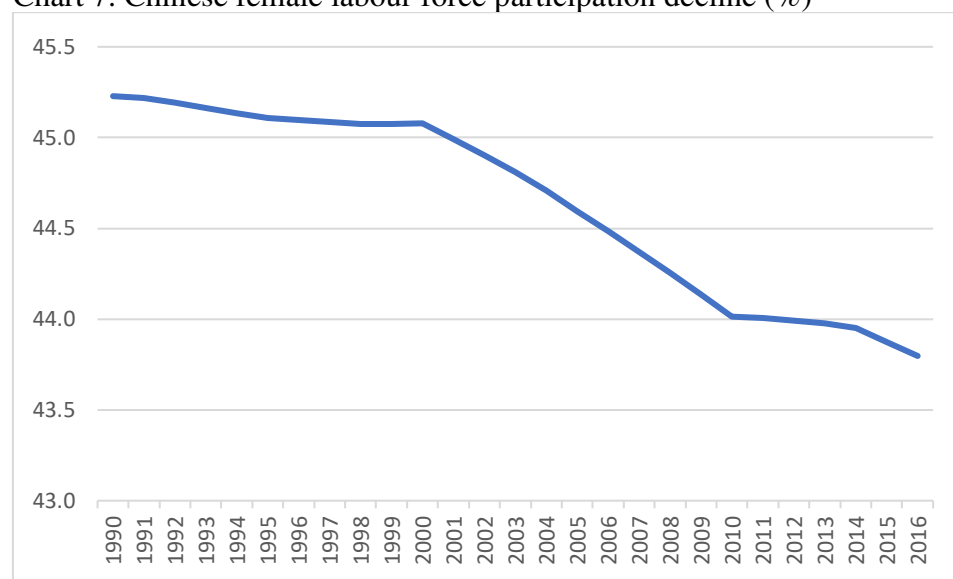
The significant relationship between the youth and female labour and minimum wage has long been established as these two groups are highly represented at the bottom segments of the labour market (Gramlich 1976: 422, Murphy and Welch 1992: 324, Oaxaca 1973: 708). Across the OECD membership, the labour market participation gap is the largest among females and the youth (OECD 2016: 175, 185, 187). The WEF statistics⁶ place China at the 59th spot, among 123 countries, in the ‘estimated earned income female/male ratio’ and despite its ‘upper middle income’ categorization in ‘income rankings’, it is behind many nations that are categorized as ‘low income’ category (WEF 2017: 25, 47). In Asia, large gender wage gaps are present even in

⁶ The OECD gender pay gap statistics do not include data on China.

the fastest growing sectors of the economies (ILO 2014: 61). The lack of strong institutions is indicated in the persistence of the gender gap (ILO 2017: 31). Female labour is a primary contributor to the “China price”. This is more evident in the fact that female labour’s share of wages has suffered a two-fold fall, first as part of the broader decline and second due to the lack of redistributive institutions that can cancel the effect of gender roles in the family (Hare 2016: 22, Jia 2014: 61). Female migrants form a weaker segment of the migrant labour market due to the existing sexual division of labour and the lack of institutional frameworks that address inequalities (Liu 2012a: 312). The limited progress China made on gender equality in the early decades of Mao’s rule has been abandoned in the years since start of the modernizations and the state-led paternalism has begun to disallow female empowerment (Yang and Li 2009: 296, 305). The reduction in female political leadership at local, regional and national levels intensified since the 1980s onwards, with the rise of Chinese model (Jacka 2008: 502).

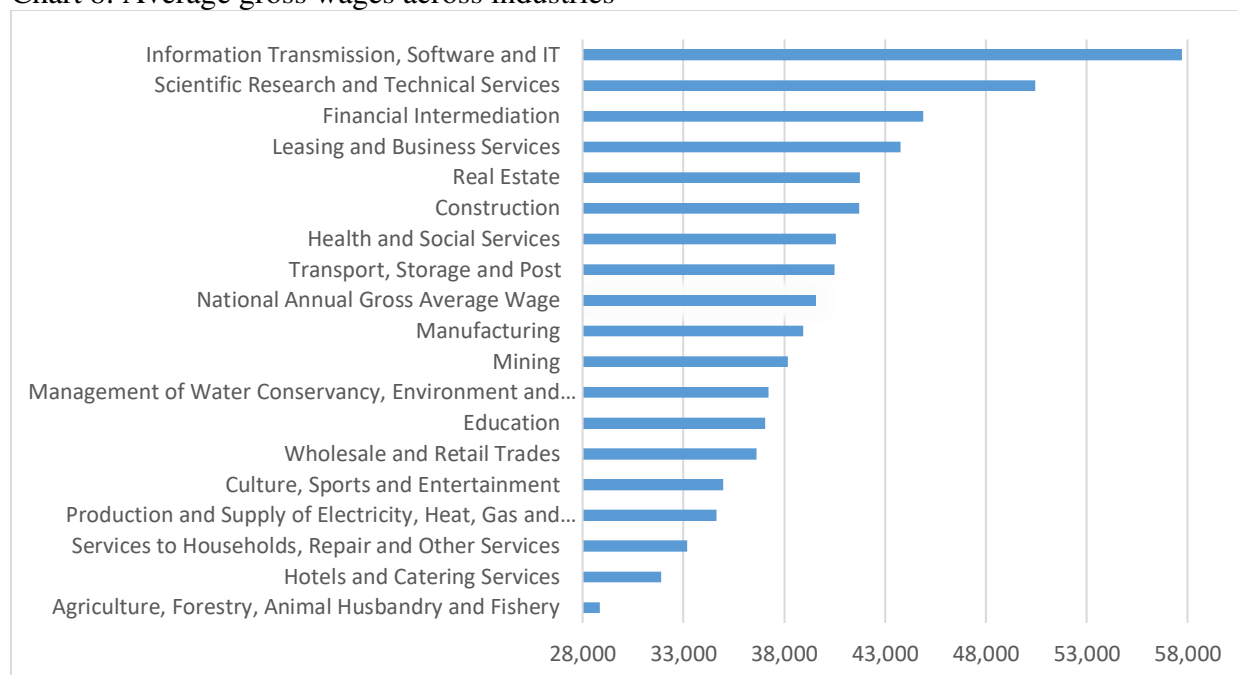
Possibility economic independence via urban work attracted female migrant labour which met a new sexual division of labour in industries that paid low wages and demanded flexibility (Liu 2012a: 312). The comparison of the post-Deng modernizations and the earlier period suggest that within the realm of gender relationship in China there are components that are separate from the economic domain and consequently the growth of the markets does not contribute to gender equality (Shu and Bian 2002: 302). In the 1990-2016 period, overall participation in the labour market has increased (Chart 9) but the female participation has declined (Chart 7). In the same period, there has been a decline in the youth participation (15-25 age group) but it was higher among the female youth (World Bank 2017d). The SOE retrenchments of the Deng modernizations targeted female labour disproportionately, aggravated its labour market marginalization and limited its future earning capacity in the restructured economy (Dong and Pandey 2012: 394). The present trend is one of the outcomes of that process. China lacks labour market institutions that make it easier for retrenched labour to re-enter the market.

Chart 7: Chinese female labour force participation decline (%)



Data source: World Bank (2017a)

Chart 8: Average gross wages across industries

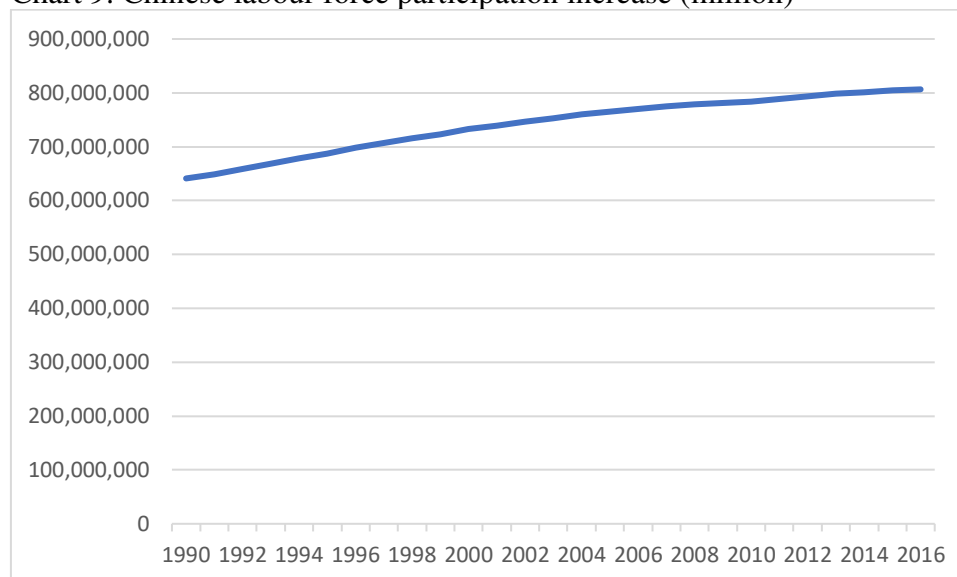


Data source: National Bureau of Statistics of China (2016j)

Rural China carries a large burden of the labour force reproduction (Chan et al. 2010: 137).⁷ It has the lowest average wages, approximately 74 per cent of the national average (Chart 8). In rural economy, among the families in which males migrated to the urban labour market, females who remained behind are forced to give up paid work to look after their extended family (even those of others who migrated) and work family land, which reduce the female labour market participation in paid work (Chang et al. 2011: 2206, Lu et al. 2016: 59, Mu and Walle 2011: S84). The decades-long economic growth has not led to the establishment of institutions to assist working mothers (Chen et al. 2014: 491). Some rural regions, to repopulate themselves, offer non-wage income and forms of family welfare support to attract female migrant labour back home (Li et al. 2013: 20-21). Paid as well as unpaid rural labour has thus become increasingly feminized (Lei et al. 2013: 672). The state has somewhat encouraged this by cancelling taxes for agricultural producers (Xu 2016: 16). The cost of food production in rural China is proportionately related to the rural female labour conditions. Agricultural production contributes to the entire economy (Bieler and Lee 2017b: 182). The unpaid and low-paid female rural labour provides a subsidy to the cost of labour reproduction across China. Female labour wages and conditions, in urban as well as rural industries, underwrite the creation and sustenance of the “China price”.

⁷ Rural China’s segregation is a permanent affair. Massive infrastructure upgrades that match the economic growth, such as high-speed railways, create efficient trans-urban transport links that bypass rural China, augmenting its state of isolation (Qin 2014, Xiao et al. 2017).

Chart 9: Chinese labour force participation increase (million)



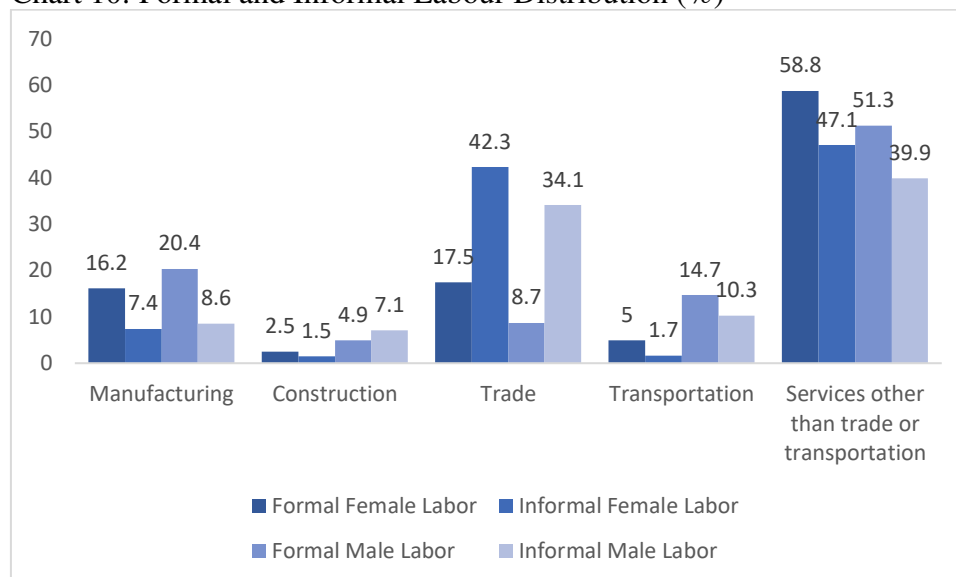
Data source: World Bank (2017f)

Female labour forms a significant segment of the informal market in China. Informal employment encompasses people whose main jobs lack basic social or legal protections, employment benefits, legal status, basic records and registrations (ILO 2012: 3).⁸ Informal sector and informal employment are major employment sources in many countries that have not been able to develop an economy that can provide adequate employment opportunities despite growth (ILO 2013b: 6). Informal labour⁹ in China is understood as the combination of two categories in the emergent economy, residual traditional occupations and the occupations that have emerged in the past four decades, especially in the tertiary industries (Chart 10). As per the ILO data from a single sample of 36 million (17.2 million women and 18.8 million men) of China's six urban areas (Fuzhou, Guangzhou, Shanghai, Shenyang, Wuhan and Xian), 32.6 per cent of the labour force (higher proportion of females than males) is working in the informal economy (ILO 2013a: 78). Female (formal and informal) labour has higher representation in 'services other than trade or transportation' and 'trade'. Such a large informal labour market is confronting for migrant labour in relatively more regular employment.

⁸ The ILO data excludes all the agricultural sector, and by the ILO definition, people in informal employment consist of self-employed people, small business owning individuals and families and casual employees. Essentially these categories are of the working people who do not have a formalized status in sector of economy and do not require any form of formalization for the continuation of their economic activities.

⁹ ILO's 'informal labor category' combines the employees in the 'informal sector' with those who are in 'informal employment' outside the 'informal sector'.

Chart 10: Formal and Informal Labour Distribution (%)



Source: ILO (2013a: 78)

YOUTH LABOUR

Chinese migrant labour displays a chronic low human capital growth potential despite the decades of economic expansion (Fu and Gabriel 2012: 480). It has relatively far less access and opportunity for retraining and further education (Holz and Mehrotra 2013: 6). The Chinese model exudes an image of market-based meritocracy but the reproduction of the migrant labour via the lack of intergenerational social mobility is a social problem (Lan 2014: 258). Over 38 million youth, in one estimate, from migrant families are barred from access to education, medical care and welfare services in urban areas, which ensures the reproduction of migrant labour (Lan 2014: 263, Liu and Laura 2017: 17, Xiang et al. 2017: 6). China lacks strong labour market institutions that can assist its youth. Even in the urban *hukou* registered population, youth poverty is a major social problem (Zhang 2016: 126). The increase of the informal migrant schools in urban China has not alleviated the psychosocial challenges of migration (Ye et al. 2016: 8). Urban vocational schools, the lowest segment of the tertiary education system, are instrumental in this process as they are the only educational option for this group which are not allowed to sit university entrance exams as they cannot attend urban high schools (Ling 2015: 131). These schools are a significant part of the labour market and provide the so-called intern labour to many corporations where they work for below minimum wage without the insurance to which they are legally entitled (Chan et al. 2015: 18). Even when the vocation-trained youth interns move into full time employment their wages remain below the minimum (Chan and Selden 2017: 267). The state policies that have created the migrant labour also allow its reproduction. Without reform, this can continue for generations and create a social landscape in urban China that is characterized by exclusion of masses of people. Ethnicity is an also factor in this process of reproduction. Chinese migrant labour market is also segmented by the factor of Mandarin proficiency, which further disadvantages migrant labour, especially females and the youth, from ethnic minorities, that are placed at the lowest segments of the wage scales (Gao and Symth 2011: 350). Rural youth left behind by migrant families also suffer poor living standards, abuse and low education attainment conditions and the females fare worse (Zhao et al. 2014: 2). Migrant parent-child relations are highly gendered, placing more burden on daughters in the absence of universal welfare (Ling 2017: 11). Urban residing migrant parents' economic situation does not greatly assist those who are left behind (Xu and Xie 2015: 14). In China, early exposure to poverty seriously inhibits later labour market participation, especially for females (Liu and Hannum 2017: 80). Child labour is not a negligible social phenomenon in China where 7.74% of the children, mostly in rural areas,

aged from 10 to 15 are engaged in work (Tang et al. 2016: 17). With the rural education system in disrepair, rural youth group faces a labour market which offers lesser number of low skill jobs in comparison to what was available the earlier generation (Jefferson 2016: 21). Migration, for those youth who are left behind and those who migrate with their parents, prove to be a traumatic experience with long term problems beyond economic disadvantages of the chronic reproduction of migrant labour and bode ill for the Chinese society (Chang et al. 2017: 12, Shen et al. 2015: 7, Zhou et al. 2015: 7). Needled to state, there are acute and multidimensional inhibitions on social mobility. The lack of institutional framework for establishing universal welfare and the maintenance of *hukou* cause the migrant youth to reproduce the migrant labour market. China's migrant labour conditions cannot be reformed without the establishment of a universal system that governs pensions, welfare, health and family support systems (Chen et al. 2014: 491).

CONCLUSION

The Deng modernizations and the entry the world trade, investment and production environment have fashioned the conditions for the migrant labour to be a malleable productive force and created the "China price". The state is a guarantor of migrant labour being appended to the success of the "China price" at cost borne by the latter. Despite the history of legislative developments, the state regulation of the labour market does not ensure migrant labour access to labour contract, minimum wage and universal welfare. The urban/rural duality appears simple but functions in a way that reproduces heterogeneities in the labour market. Migrant labour market is expanding with the continuation of migration to urban China. The '2004 system' fulfils several tasks. It enforces discipline over labour, employers and unions simultaneously and paces the speed of the race to the bottom that guarantees "China price". The impact of the above-discussed conditions, on migrant female and youth labour markets are far more severe. The shifting of the burden onto female population in rural China is a major aspect of the economy that sustains the "China price". Migrant labour is politically isolated via hukou which, thus far, appears unlikely to be abolished. Migrant labour malleability will likely be subservient if the domestic consumption comes to replace the manufacturing-exports-model as the chief dynamic of the Chinese economy. Without the creation of new labour institutions (independent labour unions, universal welfare, uninhibited labour mobility and earning potential), the prospects for labour market equitability appear to be poor.

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