Rising Wages, Labor Regulation, and the Future of Employment in China

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Towards an Inclusive Labor Market?

• Rising Wages with Economic Growth: Changes in the Demand and Supply of Labor in China
• Labor Market Integration
• Broadening Access to Quality Jobs
  – China’s 2008 Labor Contract Law
• Future Prospects for Employment in China
Real Annual Wages of Chinese Urban Workers
(deflated to 2010 prices)

Source: China Statistical Yearbooks.
Note: PPI is producer price index.
Real Wages of Rural Migrants have Grown Fast

Real wages of rural migrants grew by 17%/year from 2007-12.
Relative Wages of Rural Migrants and Urban Formal Employees, 2001 to 2011
Labor Market Integration

• Labor markets have generally become well-integrated in China
  – Wage convergence across regions
  – Declining impact of hukou on wages (effects mainly via job segregation)
• Migrants still mainly go to coastal regions, but interior and within-province destinations increasing
• Rural family migration and permanent migration increasing (21% migrate with families, 74% of migrants with children have at least one child living with them)
Factors Influencing Rural Migration Decisions (Labor Mobility)

• Employment and wage opportunity
• Formal employment benefits: labor contract, social insurance (pension, medical, unemployment)
• Property and housing
  – Claim to rural land
  – Access to affordable urban housing
• Well-being of dependents
  – Education of children
  – Elderly care
China’s Labor Contract Law
Effective: January 1, 2008

• Labor Contracts
  – After 2 fixed-term contracts, or 10 years of employment, contract must be open-ended
  – Limits on probationary period (1-3 months depending on contract length)
  – Regulations on temporary work agencies (labor service companies)

• Severance conditions
  – 30-day written notice
  – Severance pay: one month’s pay for each year of service (half month’s pay if less than 6 months), double severance pay for unfair dismissal

• Enhanced penalties for failing to provide labor contracts
Internationally, China’s Labor Regulations are Highly Protective

- China well above the OECD EPL index average
Labor Contract Prevalence

- Decline in labor contracts from 2001 to 2005 reversed sharply by 2010
- Notable reduction in informality of migrant employment, but still large share of migrants without contracts
## Did New Labor Law Impact Labor Costs?

<table>
<thead>
<tr>
<th>Province</th>
<th>significant increase</th>
<th>some increase</th>
<th>no increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zhejiang</td>
<td>12.74</td>
<td>60.28</td>
<td>26.98</td>
</tr>
<tr>
<td>Jiangsu</td>
<td>15.97</td>
<td>67.46</td>
<td>16.57</td>
</tr>
<tr>
<td>Guangdong</td>
<td>15.65</td>
<td>75.97</td>
<td>8.38</td>
</tr>
<tr>
<td>Shandong</td>
<td>6.14</td>
<td>70.81</td>
<td>23.05</td>
</tr>
<tr>
<td>Jilin</td>
<td>8.29</td>
<td>67.67</td>
<td>24.04</td>
</tr>
<tr>
<td>Hubei</td>
<td>21.34</td>
<td>42.57</td>
<td>36.09</td>
</tr>
<tr>
<td>Shaanxi</td>
<td>10.98</td>
<td>64.09</td>
<td>24.93</td>
</tr>
<tr>
<td>Sichuan</td>
<td>5.04</td>
<td>86.68</td>
<td>8.28</td>
</tr>
<tr>
<td>Total</td>
<td>11.21</td>
<td>68.16</td>
<td>20.63</td>
</tr>
</tbody>
</table>

Source: 2009 Survey of 2000 Manufacturing Firms in 8 provinces (PBC and CASS)

<table>
<thead>
<tr>
<th>Type</th>
<th>Employer</th>
<th>Employee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pension insurance</td>
<td>20% of payroll</td>
<td>8% of monthly wage</td>
</tr>
<tr>
<td>Unemployment insurance</td>
<td>2% of payroll</td>
<td>1% of monthly wage</td>
</tr>
<tr>
<td>Medical insurance</td>
<td>6% of payroll</td>
<td>2% of monthly wage</td>
</tr>
<tr>
<td>Work-injury insurance</td>
<td>0.5–2% of payroll</td>
<td>No contribution</td>
</tr>
<tr>
<td>Maternity insurance</td>
<td>0.5–1% of payroll</td>
<td>No contribution</td>
</tr>
<tr>
<td>Total</td>
<td>29–31% of payroll</td>
<td>11% of monthly wage</td>
</tr>
</tbody>
</table>

*Source: Authors’ compilation according to relevant policy directives and documents.*

From Giles, Wang, and Park (2013)
Impacts of Stricter Labor Regulation

• Greater increases in enforcement strictness across cities has reduced employment growth, implying reduced labor market flexibility (Park, Du, and Giles, 2013)

• Higher prevalence of labor contracts and social insurance coverage has reduced vulnerability of workers

• BUT implementation does not appear to have prevented continued growth in aggregate employment and wages, making it unlikely that the law is highly distortionary (YET)
The Future of China’s Labor Market

• Strict labor regulations could be constraining in the future, must balance interests of employers and employees
• Reforms should focus on reducing barriers to labor mobility (eliminate hukou, promote rural land ownership, equalize service access)
• Challenge to maintain job creation by sustaining growth momentum through innovation and industrial and service upgrading
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