

# Economic development, human capital, and gender earnings differentials in China

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## Abstract

Gender earnings differentials in China during the course of development in the post-reform period were examined. The analysis showed that the female–male earnings ratio increased over time in all regions. The region with relatively rapid economic reforms had the highest female–male earnings ratio. Decomposition of the gender earnings differential revealed that in the more developed region a lower percentage of the differential could be explained by gender differences in productive characteristics. Changes in the discriminatory component of the differential by region over time suggested that both the “competition” effect proposed by Becker [*The Economics of Discrimination*, 1971] and the effects of wage decentralization during economic reforms played a different role in the eastern and central regions versus their role in the western region. Further examination of the sub-components of the explained component of the differential highlighted the minor role of education in explaining the gender earnings differentials.

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## 1. Introduction

The rapid economic growth of China in the past two decades has stimulated a vast number of research studies of the Chinese economy at the macro level. One of the focuses has been income distribution or earnings inequality across regions of China. The coastal-led economic reform since the mid-1980s has resulted in uneven economic growth and development when comparing the coastal provinces and the provinces of the central and western regions. A study by [Blau and Kahn \(1994\)](#) found a positive relationship between earnings inequality and gender wage differentials in the western economies. Other studies of the same authors have pointed out two main ways in which gender wage differentials are influenced ([Blau & Kahn, 1992, 1995, 1997](#)). One is the extent to which the market rewards

observed and unobserved skills (changes in the overall wage structure). The other is through changes in gender-specific factors such as discrimination and relative levels of labor market skills. It is the latter aspect which is the focus of the present paper.

As with other transitional economies, economic reform (and thus economic development) in China has brought about two conflicting forces affecting gender wage differentials and gender discrimination. Before the reform, an egalitarian ideology induced equal pay between males and females with similar productive characteristics. Rather equal distribution of income across gender groups was found ([Meng & Miller, 1995](#)). After the onset of the reforms, local authorities or enterprises have had greater autonomy in wage setting. The decentralization of wage setting provides room for discrimination. Numerous studies have shown that this discrimination, in practice, becomes discrimination against females or penalizing females relative to males ([Brainerd, 2000; Hughes & Maurer-Fazio, 2002;](#)

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Maurer-Fazio & Hughes, 2002; Oglloblin, 1999; Rozelle, Dong, Zhang, & Mason, 2002). Gender discrimination would be particularly the case if human capital characteristics were differently rewarded as a result of the marketization of the economy.

The transformation from a planned economy to a market economy implies the liberalization of the economy. The breakdown of central control stimulates market competition through internal mechanisms (the relaxation of state control and the development of the private sector) and external influences (foreign competition through trade liberalization). As argued by Becker (1971), market forces may result in less gender discrimination if discrimination becomes too costly for employers to compete with those who do not discriminate against females. This argument has particularly strong implications in the Chinese economy. In fact, it is an empirical issue whether the effect of “decentralization” or that of “competition” dominates in wage setting. The primary objective of the present study is to examine the issue in transitional economies using China as an example.

Extensive studies of gender wage differentials and gender discrimination can be found discussing transitional economies such as Russia and eastern European countries<sup>1</sup> using representative national data sets. However, because of data availability, similar studies of China have used much more diverse data. Although the majority of the studies of gender earnings differentials in China use urban population samples, these studies have been limited to data from specific provinces, cities or counties, depending on the coverage of the survey conducted by the authorities. The present study attempts to improve the work reported in the literature related to the Chinese economy by examining gender earnings differentials in China using a national data set, the Urban Household Survey, 1988–1992.

Another key feature of the present study is the way it addresses the effect of economic reform on earnings differentials. Previous studies of the issue in the context of the Chinese economy tested the “competition” hypothesis proposed by Becker (1971) by comparing gender earnings differentials across sectors or enterprise ownership types. Studies by Liu, Meng and Zhang (2000), Maurer-Fazio and Hughes (2002), Meng (1998), and Zhao (2002) are among the examples. The present study, however, examines the issue by taking the advantage of the extensive geographic coverage of the data set, which allows a focus on gender earnings dif-

ferentials across regions which have experienced unequal pace of development. It is well documented that regional disparities in China are attributable to the economic reform, with rapid growth and development in the coastal (the eastern) region and a lagging pace of development in the non-coastal (the central and western) regions. An analysis of gender earnings differentials across regions provides a more comprehensive exploration of gender earnings differentials and gender discrimination in China in the post-reform period.

Instead of a study using a single cross-sectional data set or cross-sectional data sets from two different time periods, the present study uses 5 years of cross-sectional data to examine earnings differentials between gender groups. The decomposition of earnings differentials into components attributable to differences in productive characteristics (the explained component) and differences in rewarding productive characteristics (the unexplained or the discriminatory component) will allow tracking of the changes in gender earnings differentials and gender discrimination during the process of economic development. With further decomposition of the explained component into various sub-components, the relative importance of human capital endowments and institutional changes in the labor market at a point of time and across time can be pictured. Policy implications for reducing gender earnings differentials can be formulated.

## 2. Background

Since the implementation of economic reforms, the Chinese economy has continuously grown at an annual rate of 9% (Bao, Chang, Sachs, & Woo, 2002). However, an uneven pace of reform implementation and economic growth has been found. The annual growth rate in GDP per capita for the eastern region, the central region and the western region has been estimated as 10%, 8.4%, and 7.4%, respectively<sup>2</sup> (Bao et al., 2002). It is well documented that during the early stage of its economic reforms, China experienced rapid economic growth as well as no obvious increase in regional inequality (Bao et al., 2002; Jian, Sachs, & Warner, 1996; Meng & Wu, 1998). Studies of income inequality and regional disparity in China have concluded that regional disparity narrowed in the early stage of reform between 1978 and 1984 (Bao et al., 2002; Jian et al., 1996). Later, because of government economic policies, geographical factors, differences in input factors such as capital and labor quality, and differential marketization, the coastal provinces developed at a faster pace, and regional disparities emerged. In particular,

<sup>1</sup> See Brainerd (1998), Glinskaya and Mroz (2000), Katz (1997), Newell and Reilly (1996) and Oglloblin (1999) for USSR or Russia; Hunt (2002) for East Germany; Orazem and Vodopivec (2000) for Slovenia and Estonia; and Hinks (2002) for South Africa.

<sup>2</sup> Sub-period growth rates can be found in Table 5 of Démurger et al. (2002).

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