



The rise of migration and the fall of self employment in rural China's labor market

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ABSTRACT

When examining questions regarding the Lewis model, one of the most salient set of facts involves the shift of labor between agricultural and the off farm sectors. The goal of this paper is to answer several questions about the nature of this movement: How has the expansion of the economy after 2000 affected off farm labor market participation? Has off farm labor continued to rise? What is this rise being driven by—migrant wage earners or self employment opportunities? What is, in part, driving these trends? Using a national representative set of data that consists of two waves of surveys done in 2000 and 2008 in six provinces, the paper finds that off farm labor market participation has continued to rise steadily in the early 2000s. However, there has been a structural break in the trends of occupational choice before and after 2000. Unlike before 2000, after 2000 migration's growth accelerated; during this same period the self employed subsector stagnated. The number of wage earning migrants in 2008 was greater than the number of those in the self employed subsector. The data also show that the rise in wage-earning migration is mainly being driven by the younger cohorts. Our analysis also shows that the rise of migration is happening in conjunction with a rising unskilled wage.

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1. Introduction

According to the Lewis model (Gillis, Perkins, Roemer, & Snodgrass, 1996; Lewis, 1954), development can be characterized by the shift of labor from agriculture into industry. As an economy grows rising demand by factory owners induces workers in the agricultural sector to relocate themselves into the industrial sector. Mostly these workers are thought to be taking jobs in the wage-earning sector. Typically it is also thought that the workers also are moving from rural areas into the expanding urban areas. Hence, if one is going to try to understand if China is developing in a way that is consistent with the predictions of the Lewis model, it would be expected that there was increasing shifts of labor from farming into the wage earning sector and into the migrant wage earning sector in particular.

During the 1980s and 1990s, in one real sense, China's rural economy has been showing signs that there are a lot of individuals moving off the farm and finding employment in the off farm sector. Such trends can be seen when examining either the government's own statistics or studies in the literature (de Brauw, Huang, Rozelle, Zhang, & Zhang, 2002; Lin, Wang, & Zhao, 2004; NBS, 2009; Zhang, Zhang, Rozelle, & Boucher, 2006). Although the exact numbers vary (in part, due to the definition of off farm labor), between 170 million and 200 million members of the rural labor force found a job off the farm. Estimates of the increase in the share of the rural labor force with employment off farm range from 35 to 40 percentage points.

While initially the progress during the 1980s and 1990s might seem to indicate that China was on a development trajectory that was predicted by the Lewis model, a closer examination showed that the composition of China's off farm labor force required more nuance. Specifically, rural individuals were finding employment off the farm in two distinct ways. There was the emergence

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of a wage earning sector—especially in the migrant wage earning subsector (the type of employment that is implicit in the Lewis model). Many individuals, however, also found off-farm jobs in the non-farming self employment sector (Rozelle, Li, Shen, Hughart, & Giles, 1999; Zhang et al., 2006). According to de Brauw et al. (2002), between the early 1980s and 2000 the number of rural laborers that left home and found a wage earning job in the city (or another rural area) rose from 9.3 million to 56 million. Setting aside the 60 million of rural laborers that were living at home and working in local township and village enterprises for a wage (a number that was more or less stagnant during the late 1980s and 1990s—NBS, 1990, 2000), it is arguable that the migrant wage-earning segment of the off-farm employment sector was not the dominant part of the sector. During the same time period (between the early 1980s and 2000), the number of rural individuals that began small, non-farm self-employed enterprises (henceforth, self employed) also rose—from 26.1 million to 79.5 million. Hence, it is interesting to note that the trends of self-employment and migrant wage earners of the non-farm rural employment more or less grew in parallel during the 1980s and 1990s. And, there were far more self employed in 2000 than migrant wage earners.

Not all development economists, however, believe that a large self employment sector is a positive sign of health economic growth (Fairlie & Woodruff, 2010; Lucas, 1978; Tokman, 1992; Woodruff, 2006). Lewis is largely silent on the matter. In other developing countries the self employed are often thought of as individuals that are in a segment of the labor force that is acting as a refuge for those that have been excluded from the formal, wage-earning segment of the labor market. Economists have demonstrated in the context of other developing economies that self employment is not a step up the employment ladder, but, rather is a dead end livelihood strategy (Woodruff, 2006). Because of this non-farm self employment is often looked upon with ambivalence by the development community. Self employment is not thought to be the driver of development in the Lewis model.

In one of the only papers that has produced systematic statistics on off farm employment “by type,” including the non-farm self employed, Zhang et al. (2006) used a national representative data set and sketched a picture of “self employment with Chinese characteristics.” Indeed, rural non-farm self-employed did have a number of characteristics that might make an observer of development question the subsector's ability to contribute to rapid growth and transformation. Most of the self employed were operating extremely small family firms that were labor intensive and used little capital. The risk faced by firm owners (as measured by the standard deviation of earnings) was much higher than those in the wage-earning sector. However, there were other characteristics of the self employed that might make observers believe that being self employed was not all bad. Most small firms were profitable. The hourly earnings of the self employed (total profits divided by total hours worked) were higher than the hourly wage of wage earners. It was clear that even though this was a sector that relied on simple technologies and low levels of capital utilization, at least some individuals were attracted by the ability to earn levels of earnings higher than the low unskilled wage that labor markets were offering. In short, rural off farm employment in the 1980s and 1990s was, in part, made up of a type of employment that was not thought to be one that would be the engine of development.

Given the curious nature of rural off farm employment during the 1980s and 1990s, those interested in China's development, including those engaged in the debate about the Lewis model, should be interested in continuing to track the nature of rural off farm employment as economic growth has continued after 2000. Is off farm employment stagnating or continuing to grow? What is happening to the mix of migrant wage earners and non-farm self employed? While much was written about rural off farm employment in the early 2000s (about the 1980s and 1990s), there has been less research in the literature about more recent trends between 2000 and the present.

In fact, these questions are especially relevant as the economy as a whole has evolved since 2000. Urbanization has steadily risen (Chan & Hu, 2003; UN, 2008). Migrant communities inside and outside of large cities have become more prominent (Park & Wang, 2010; Zhang & Song, 2003). There are reports that wages are rising fast and that there are labor shortages in many areas of the nation (Cai, Park, & Zhao, 2008; Du & Park, 2006; Fleisher & Wang, 2005; Fleisher, Hu, Li, & Kim, 2011; Luc, Pan, & Wang, 2010). The service sector across China is continuing to mature (Pant & Blades, 2007). Somewhat surprisingly, despite the importance of these trends for off farm employment—both its level and mix, there is little written on the details about how rural off farm employment has evolved during the early 2000s. There is also not much written about the drivers of these changes.

The goal of this paper is simple. We seek to use a national representative sample of rural households (including those that have moved to the city) to empirically answer several questions about the nature of rural off farm employment. How has the expansion of the economy after 2000 affected off farm labor market participation? Has off farm labor continued to rise? What is this rise being driven by—migrant wage earners or nonfarm, self employment? Who is participating in the self employment sector—men or women; which age cohorts? What role does the changing wage rate play between the 1990s and early 2000s? While we recognize that the information provided in this chapter cannot fully answer whether or not China is following the development path defined by the Lewis model, it does contribute detailed information about the nature of the movement of labor between the agricultural and off farm employment sectors.

To answer these questions, the rest of this paper is organized as follows. In the next section, we describe the data that we use in this study. Section 3 examines the trends in off farm labor before 2000 and after 2000. The section also disaggregates trends in rural labor by the type of off farm employment (wage-earning migrants and nonfarm self employment) and by cohort. Because the local wage-earning sector (that is, the workers hired by the so-called township and village enterprises, TVEs) is shown to be flat during 1990s and 2000s, we will largely ignore this sector and focus our attention on the wage-earning migrants and self-employment sectors. Understanding the relative importance of the two subsectors of rural off farm employment during the 2000s will provide important information that can be used by those who are debating the relevance of the Lewis model in describing China's current development path. Section 4 explores the driving forces of the off farm employment patterns—the changing wage rates and self employment earnings opportunities. In short, Sections 3 and 4 present employment trends that are more descriptive and then follow up with a more analytical/quantitative analysis of the shift away from self-employment to migrant wage-earning. The last section concludes and discusses the policy implications.

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