

# Labour Markets in China and India

## Looking through a Common Prism

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# Motivation (1)

- To look at LMs through the same analytical prism
  - to understand their performance and their trajectories. Competing views:
    - They are on the same “road”; India needs to step on the “gas” of market-friendly reforms to catch up with China.
    - They are on different escalators; India’s escalator’s gradient is far less steep (Meghna Desai: China- great economy; India – great democracy).
    - China has transformed completely, India going nowhere (broadly, left-wing critics).

## Motivation (2)

- Compare and contrast LM structures, and performance over the last 3 decades.
- For doing it, we critically examine the data sources, and their quality; laying a basis for comparative research.
- Bring out the institutional differences and structural similarities that are likely to affect the outcomes.

# China and India, circa 1950

- Both countries were overwhelmingly rural: China 89.4%; India 87.2%
- India's population growth rate faster.
- Life expectancy: China –36; India – 32.
- Land productivity higher in China.
- Modern industry more advanced in India.
- Safest conclusion: “initial conditions” not very different (Dharma Kumar).

# Growth rates 1950-1980

- GNP Growth rates, 1950-80: China 6.7%; India 3.6%.
- Per capita GNP: China 4.5%; India 1.5%.

Source: Mandelbaum (1982)

- HDI improvement also diverged over the decades.

# China and India c. 1980

	GDP (%)		Employment (%)	
	China	India	China	India
Agriculture	36	35	69.6	70.6
Industry	35	20	18	12.9
Services	29	42	12.4	16.5
Source: Bhalla (1990) World Development				

# Progress After the Reforms

- Unprecedented growth acceleration in China; modest acceleration in India.
- In China, fall in ag.'s share in employment from 70% to 50% between 1980 and 2000; declined half as much in India.
- In both countries, employment shifted towards services, not into industry – some questions about China's trends (more later).

# Population and Workforce (1)

- Workforce(appx): China, 750 mn; India's 450mn.
- Pop. growth rate after 2000: China 0.7%; India 1.7%. China's rate below replacement level; India's rate decelerating.
- China's larger workforce is mainly because of higher female participation rate.
- China has apparently reaped the demographic dividend, for India potential waiting to be tapped.



# Population and Workforce (2)

- China is likely to grow “older”, before getting richer – result of the one-child policy.
- But India is expected to overtake China in population, on account of faster pop growth.
- But, there is said to be un-accounted population – details unknown (?).
- Both countries face adverse sex ratio – China’s problem is perhaps more severe (officially);

# Labour Markets (1)

- China did not have LM until the reforms; it had a **labour system**, which assigned residence to its citizens by place of birth; it is an internal passport system. Many restrictions continue even today.
- Yet, after the reforms, it has seen greatest rural out migration in human history. But most it is “circulatory”.

## Labour Markets (2)

- India always had LMs; Landless labour (20-25% of rural workforce formed the biggest labour market).
- Constitutionally mandated freedom on mobility;
- Yet internal migration is low; and declining.
- There could be measurement problems, in both the countries. India does not capture “circulatory” migration.
- , But the trends are not in dispute..

# LM Structures (1)

- China's LM has 3 segments – rural, urban formal in state sector and collectives units (“staff and workers”), urban ‘informal’ (others including self employed). “Others” also consists of private, joint, and foreign enterprises (??).
- Roughly comparable segmentation in India is: rural, urban organised, and urban informal sectors (self employed, wage employed in non-corporate, that is, individual and partnership enterprises).

## LM Structures (2)

- In both the countries urban informal employment has grown at the expense of the other two segments. The processes are similar, but the speed and extent differ.
- I am equating “others” in China as informal.
- In public sector in India, jobs are based on competitive exams, are for life; it forms the “steel frame” of India administration.

## LM Structures (3)

- In China, public sector jobs (staff and workers) are drawn from the top universities.
- Party cadres get on to the fast lane in the administration, and have greater lateral mobility.
- China's labour system clearly has an urban bias, probably much more than in India.

# Surplus Labour

- China, India and Indonesia are said to be the largest reservoirs of surplus labour.
- In China this is keenly debated: Cai Fang, Du yang *et al* believe the surplus labour has practically disappeared, based on evidence of rising urban wages.
- There are 3 groups of contestants of this view:
  - John Knight *et al*
  - Nazurul Islam *et al*, based on aggregate production function of ag. sector.
  - Sarah Cook, production function fitted to micro data.

# Workforce Distribution (1)

- In China, size of ag. Workforce is disputed: Rawski believes it is overestimated (“fantom farmers”), as many of them work in rural industries (TVEs). Others (Holz?, Banister?) believe that ag, ministry over states employment in TVEs.



## Workforce Distribution (2)

- But apparently urban industrial enterprises tend to underestimate employment, as they have to pay many benefits to workers.
- Indian data system probably do not face this problem: pop. census and NSS data are collected independently by separate agencies show similar levels and trends.

# Industrial Workforce

- Industry's share in total workforce in China is almost double of India's; probably opposite in services.
- Partly historical when services were seen as unproductive.
- Partly organisational: production tends to have vertically integrated including a lot of services. It is much lower in Indian, greater specialisation and exchange.

# Wages (1)

- Data on rural wages are not collected (?); Most widely used official wage data is of urban state sector and collective enterprise, who represent better paid workers.
- No official employment and wage data exists wrt to the “others.”
- Data on wages of low end workers, mostly migrants, not collected.

## Wages (2)

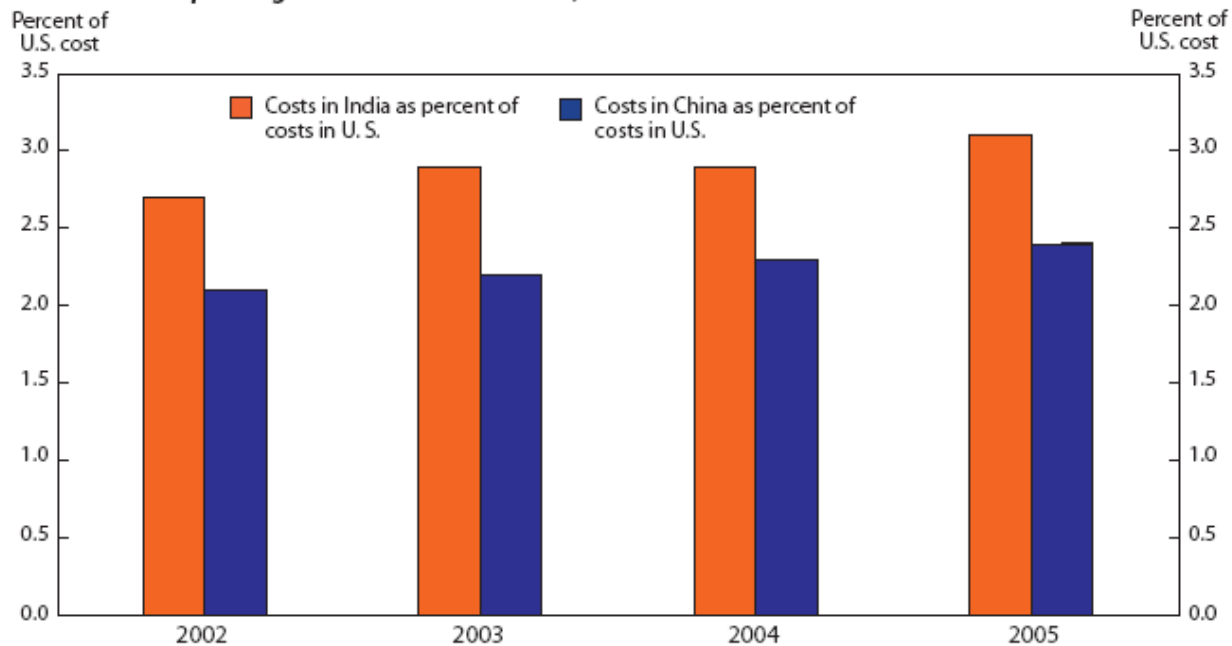
- So, wages that migrants workers get does not get adequately recorded.
- I am inclined to believe that data and description found in popular and journalistic accounts are reasonably accurate for migrant workers.

# Industrial Wages

- Wages are believed to be higher and growing faster in India – a reason for India's inability to be competitive.
- In China, there is a view that labour shortages is rising wage and undercutting competitiveness.
- How correct are these views? Next two slides provide some comparative evidence.

# Wages in China and India

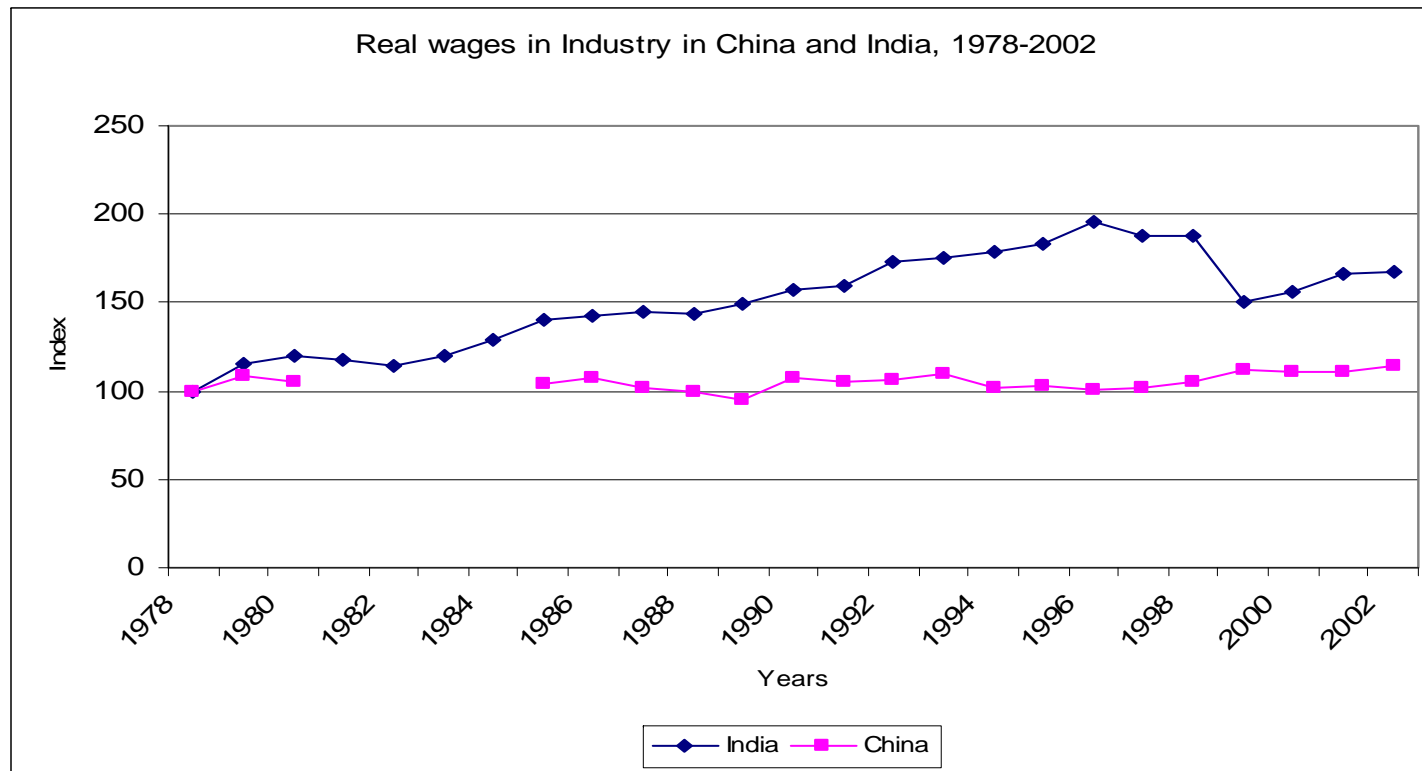
**Chart 9.** Mean hourly compensation costs in the manufacturing sectors of India and China as a percent of corresponding costs in the United States, 2002–05



NOTE: Mean hourly compensation costs for all manufacturing employees in China were the following: \$0.57 in 2002, \$0.62 in 2003, \$0.67 in 2004, and \$0.73 in 2005. The corresponding costs in India are reported in table 2.

SOURCES: BLS estimates made by use of Annual Survey of India data from the Central Statistical Organisation of India; *International comparisons of hourly compensation costs in manufacturing, 2007* (Bureau of Labor Statistics), March 26, 2009.

# Wages Trends, 1978-2002



# Conclusions (1)

- Both countries have witnessed structural transformation of work force, as per Kuznets' stylised fact – the pace is certainly faster in China.
- Both are witnessing informalisation of workforce; India probably much more with greater share of self-employment.
- Pace of internal migration are completely divergent – accelerating in China and decelerating in India; perhaps, partly by statistics.



## Conclusions (2)

- Surplus labour in agriculture is still abundant in India (though wages are rising), but its existence in China is now disputed.
- But huge surplus labour in the state and collective enterprises in China has disappeared with privatisation. Perhaps it is transferred to the informal sector, especially services.
- Public sector employment in India has declined, the extent of the decline is marginal compared to China.

## Conclusions (3)

- Industrial wage growth seems faster in India after the reforms compared to China; But hourly compensation seems roughly similar in 2000s.
- Tentative answer the question posed at the beginning: India is following China, on a less steep escalator (in a more consensual manner), which is likely to take much longer time to reach the goal of high standard of living with tolerable equity.

# Conclusion (4)

- Migration out of ag. can accelerate (without distress) when land productivity rises that can sustain food grain demand from industrial sector.
- If India wants to get on to the steeper escalator like China's, reforms have to focus on land productivity, education and skills.