

# EMPLOYMENT, INFORMALITY, AND POVERTY IN INDIA & CHINA

Alakh N Sharma

Institute for Human Development, New Delhi

Jeemol Unni

Institute of Rural Management, Anand (IRMA)

Albert Park

Hong Kong University of Science and Technology (HKUST)

# Outline

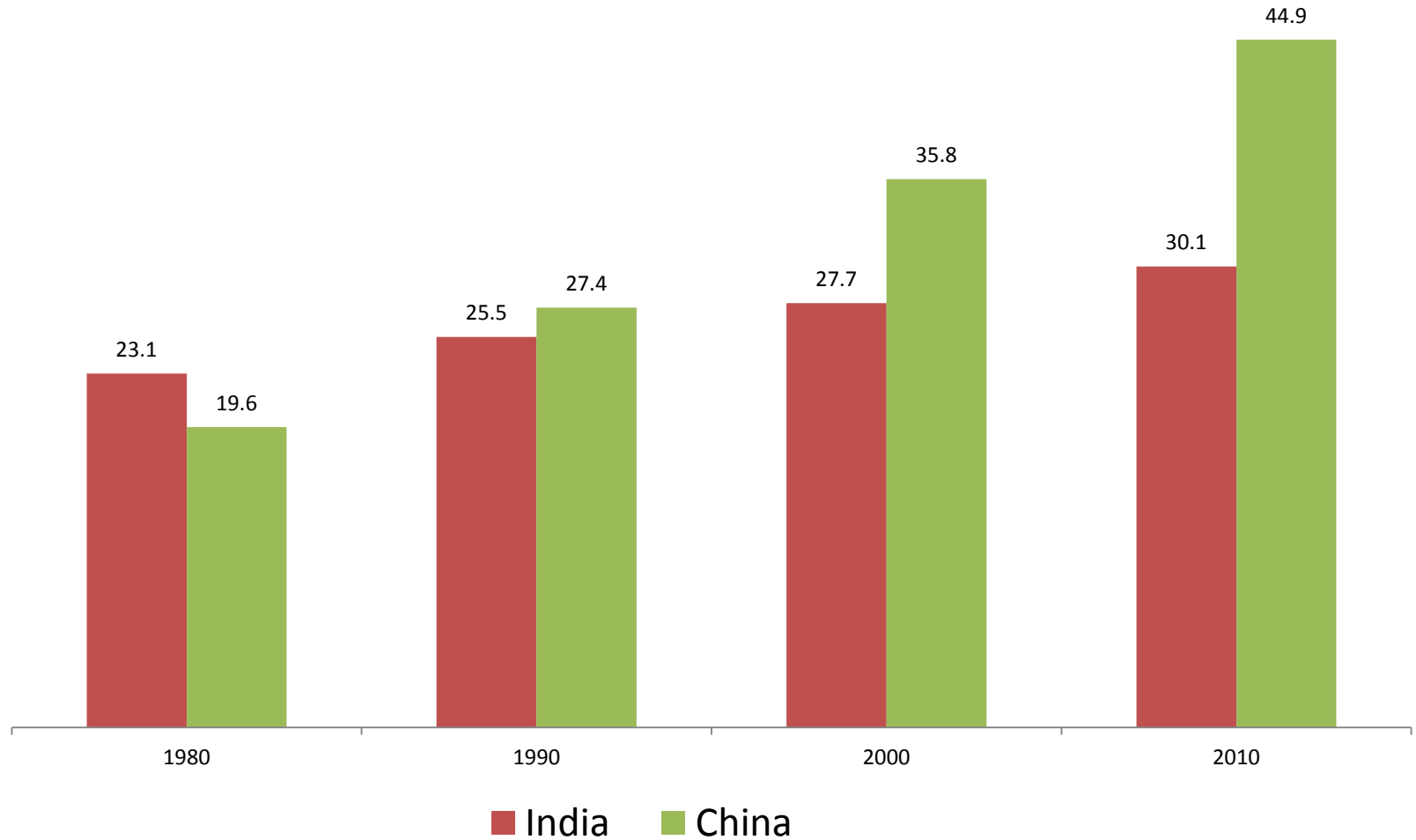
- Overview: Economic Performance in China and India
- Poverty Reduction
- Measuring Informality
- Measuring Vulnerability
- Returns to Education
- Employment Mobility
- Conclusions

# Introduction

- China and India, with a population of 1.34 and 1.2 bn respectively, are the two of the most populous and fastest growing economies globally. During 1990-2005, both the countries had high GDP growth, with China (~9%) having much faster growth rate than India (~6%). Since 2005, China's GDP growth averages to 11.2% as against 8.6% for India.
- India's population growing at a faster rate than China – 1.5% and 0.6% annual rate respectively – Indian levels during 1980s was higher than China by a small margin.
- High population growth in India also contributing to lower labor force participation rate - ~58% - compared to China's at >75%.

- Significant differentials in labour force engagement patterns in India and China. While more than half of the Chinese labour force is in the manufacturing/secondary sector, less than a quarter in India is thus employed. This is reflected clearly in contribution of manufacturing to GDP (48% in China compared to 28% for India).
- Much faster urban growth in China than India – During early 1980s China's level of urbanization (19.6%) was lower than India's (23%). In 2001, China with 45% urban population surpassed that of India's at 30%.
- China's economic growth being largely manufacturing-led, it witnessed phenomenal rural-urban migration. Rural-urban migration has been much lower in India.

# Urbanization in India and China



# Some commonly cited reasons for China's better economic performance than India

- Pragmatic and better implementation of open-market economic reform policies in China as compared to India – massive FDI, SEZs and coastal area development strategies. India has been late-comer and hesitant in implementing reforms.
- Stark difference in infrastructure – India has lagged behind
- Policies related to tariffs, labour market policies are more liberal in China
- Quick decision-making and better implementation of policies and programmes in China than India.

# Poverty reduction in India & China

- At 42% in 2010, headcount poverty in India (at below \$1.25 PPP) is considerably higher than that of China at 16%
- Phenomenal pace of poverty reduction in China during 1981-2005 at 6.6% p.a. In India, poverty fell at a much lower rate of 1.5% p.a. Notably, using international poverty lines (\$1.25), poverty headcount rate in China was higher than that of India until mid-1990s. (Ravallion 2009)

# Poverty reduction in India & China

- Significant difference in poverty reduction strategies in India and China
- In China, the first phase of reforms witnessed a shift from the commune system to Household Responsibility System (HRS), which boosted agricultural productivity and along with increases in crop prices boosted rural incomes substantially
- The next-phase of reforms (since mid-80s) featured rapid labour-intensive industrial growth with an export orientation, through SEZs and TVEs. This led to huge rural migration to the coastal and urban centres, especially in the 2000s, leading to significant poverty reduction.
- Since mid-2000s, the Hu-Wen government has eliminated rural taxes and fees, provided free compulsory education, and expanded rural health insurance programs, and increased rural infrastructure investment
- Chinese official poverty-reduction programs have focused on regionally targeted public investment programs
- In the past 10 years, a minimum living standards subsidy program (dibao) has been expanded in urban and rural areas.



# Poverty reduction in India & China

- India, on the other hand, historically had a number of poverty alleviation programmes without proper targeting with large-scale leakages.
- Infrastructure largely neglected although in recent reform years there has been emphasis on infrastructural development.
- Agricultural growth and productivity increases have been low causing sluggish rural income growth. Lack of productivity increase in agriculture and slow employment growth in manufacturing sector have caused slower reduction in poverty rates in India.

# PDS in India

- PDS is an important instrument of poverty reduction strategy in India. PDS modified to TPDS in 1997 – targeted categories of *Antodaya Anna Yojana*, BPL and APL. Differential price subsidies.
- Average household consumption for all commodities well-below the permissible quantity ceiling, except for rice. Quality perceptions?
- Progressive utilization in terms of offtake quantities, higher for wheat than rice.
- Income transfer due to PDS found to be progressive; Poor households receive Rs 48 per capita/month as compared to Rs 29 for non-poor.

# PDS in India

- Modest effects on poverty found attributed to income transfers from PDS. HCR to fall by about 3% in Delhi and 2% in Ranchi.
- PDS participation indicates significant self-selection based on household economic status and employment informality
- Significant targeting inefficiencies found in PDS; More than one-third of the poor and 80% of migrant households not covered under PDS
- Considerable inclusion and exclusion errors raises questions on the functioning of the TPDS and targeting of subsidies on intended beneficiaries.

# Minimum Living Standard Program in China

- Earlier food support programs phased out in early 1990s
- Cities/provinces set income poverty lines and provide cash subsidies sufficient to bring families up to the poverty lines
- Community/village officials determine eligibility, with public review
- Evaluations have found the programs to be well-targeted, but with greater generosity in richer cities

# Measuring Informality

- **Workforce:**

The most striking difference in the labour market in the two countries is the high proportion of economically active population in China (65%) compared to India (45 %)
- While male participation is similar in the two countries, female participation in the workforce is exceptionally low in urban India.
  - Declining and lower participation of women in the work force in **India** has been attributed to
    - **Income effect** (Sundaram and Tendulkar, 2006)
    - **Business cycle** (Unni and Raveendran, 2006).

# Continued:

- **Informal Sector:**

- More than three fourth of the workforce in China is in the formal sector, while in India about one third is so employed.
- Hardly any gender difference.

## Informal Employment:

The share of informal employment in the workforce was higher than the informal sector in both countries.

Share of informally employed is much higher than those in the informal sector in India compared to China.

### Gender dimension:

Informal employment is higher among men in India, it is higher among women in China.

➤ *Men are more formally employed in China than in India.*



# Intersection of Informal Sector and Informal Employment

- In India 'Informal Sector-Informal Employment' is higher.
- In China 'Formal Sector-Formal Employment' is higher .
- Informalisation of workforce is higher in India.

## Gender Dimensions:

- In India higher percentage of women have **Formal jobs** in the Formal Sector.
- In China, Higher percentage of men have **Formal jobs** in the Formal Sector .

# Informal Employment and Activity Status

- ❖ Share of the self employed workers as 29 % of the workforce and that of wage employees as 71 % in urban India.
- ❖ The Urban workforce in China predominantly comprises of **wage employees** (90 %), with the majority of them having formal employment.
- ❖ Majority of the self employed persons are **own account workers**.
- ❖ Share of contributing family member is very close (*3.1 % in India & 2.4 % in China*)

# Earnings and Hours of work

Hours/Wage	India			China		
	Wage Employees	Self-Employed	All Workers	Wage Employees	Self-Employed	All Workers
Avg. Hrs per Week	53.7	58.4	55.1	45.6	63.1	47.3
Avg. Wage per hour*	35.7	39.3	36.7	100.9	72.1	98.2
Total (%)	71.61	28.39	100.0	90.5	9.5	100.0

- Earnings are very low in India compared to China.
- Workers in Urban India work more & get less compared to workers in Urban China.
- Self Employed in India earn slightly better than wage employees. In China Wage employees are better off

# Labour Market & migrants

- Participation in economic activity is lower among non- migrants in both India and China.
  - Difference is much more striking in China.
  - The huge gap in work participation by gender noted for India and a smaller one in China is maintained among the migrants and non-migrants with migrants being more active in both countries.

# Labour Market & migrants

- **Formal -Informal Sector**

- **India**: No major difference between Migrant & Local Workers
- **China**: Migrants almost equally distributed but Local Workers are mostly (85%) working in Formal Sector.

- **Formal -Informal Employment**

- **India**: difference among migrant and non-migrants very small.
  - In case of both type of Employment.
- **China**: the contrast is striking in China.
  - Formal Employment is higher among Local workers
  - Informal Employment is higher among Migrants

# Labour Market & migrants

## Intersection of Informal Sector and Informal Employment

### **In India:**

No difference between Migrants and local workers in 'Formal-Formal'

Intersection

Share of Local workers is higher in 'Informal-Informal' Intersection

### **In China:**

Stark difference between Migrants and local workers in 'Formal-Formal' intersection, Local workers having high Share (76%)

Share of Migrant workers is higher in 'Informal-Informal' Intersection.

**India & China are opposite to each other**

# Earnings, Hours of Work & Migrants

## Duration of Work

- Migrants in both the countries work more compared to the local workers in respective labour markets but this fact does not hold when it comes to earnings.
- Self Employed work more than Wage employees in both categories.
- Difference between Migrants and local workers in terms of hours of work is less in India but significant in China.

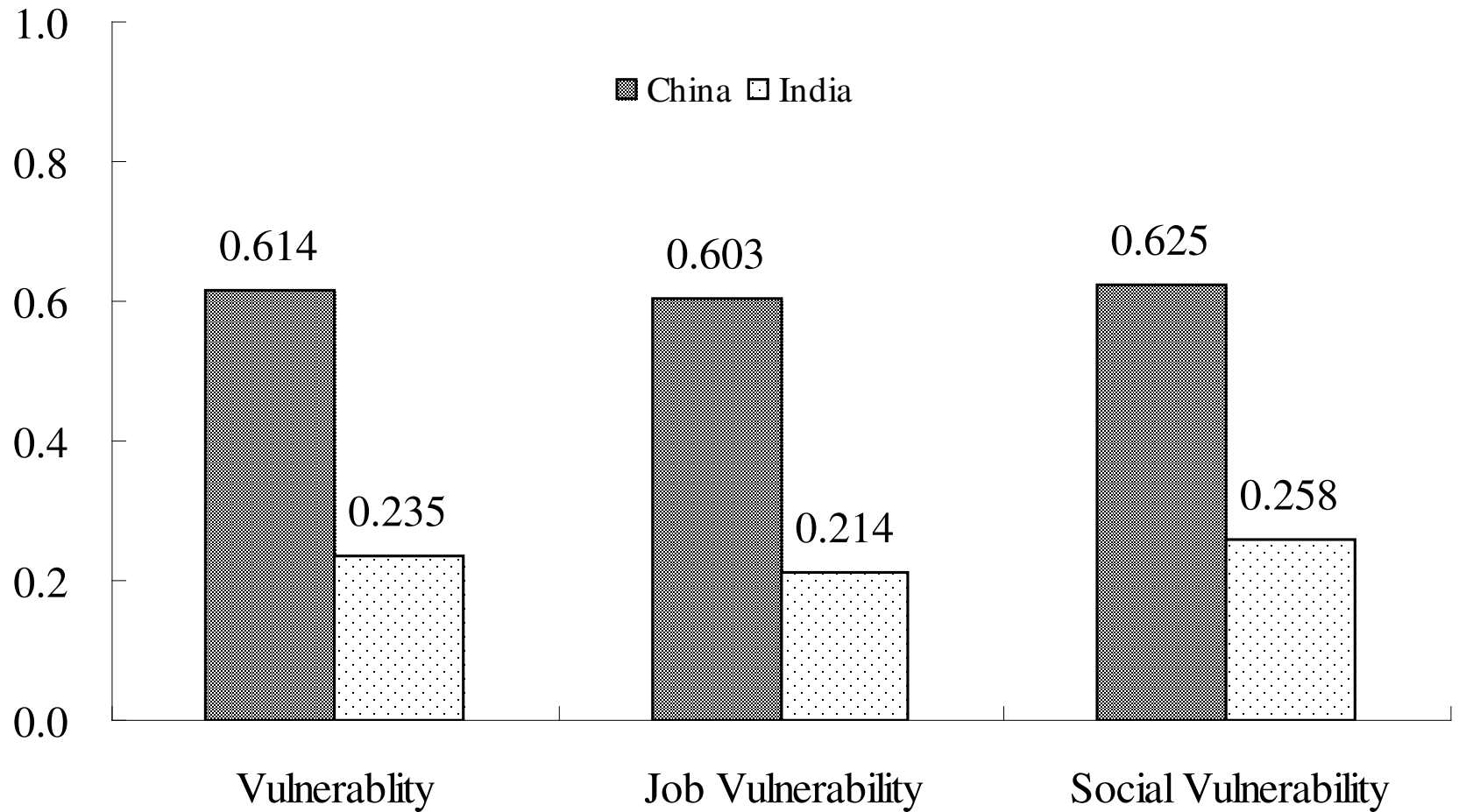
## Earnings:

- Migrants in India earn lesser than the local workers but in China It is other way round.
- In china wage employees do better in terms of wages in spite of their migration status.
- In India wage employees are slightly better among migrants but among local residents, self employed earn higher returns for their labour.

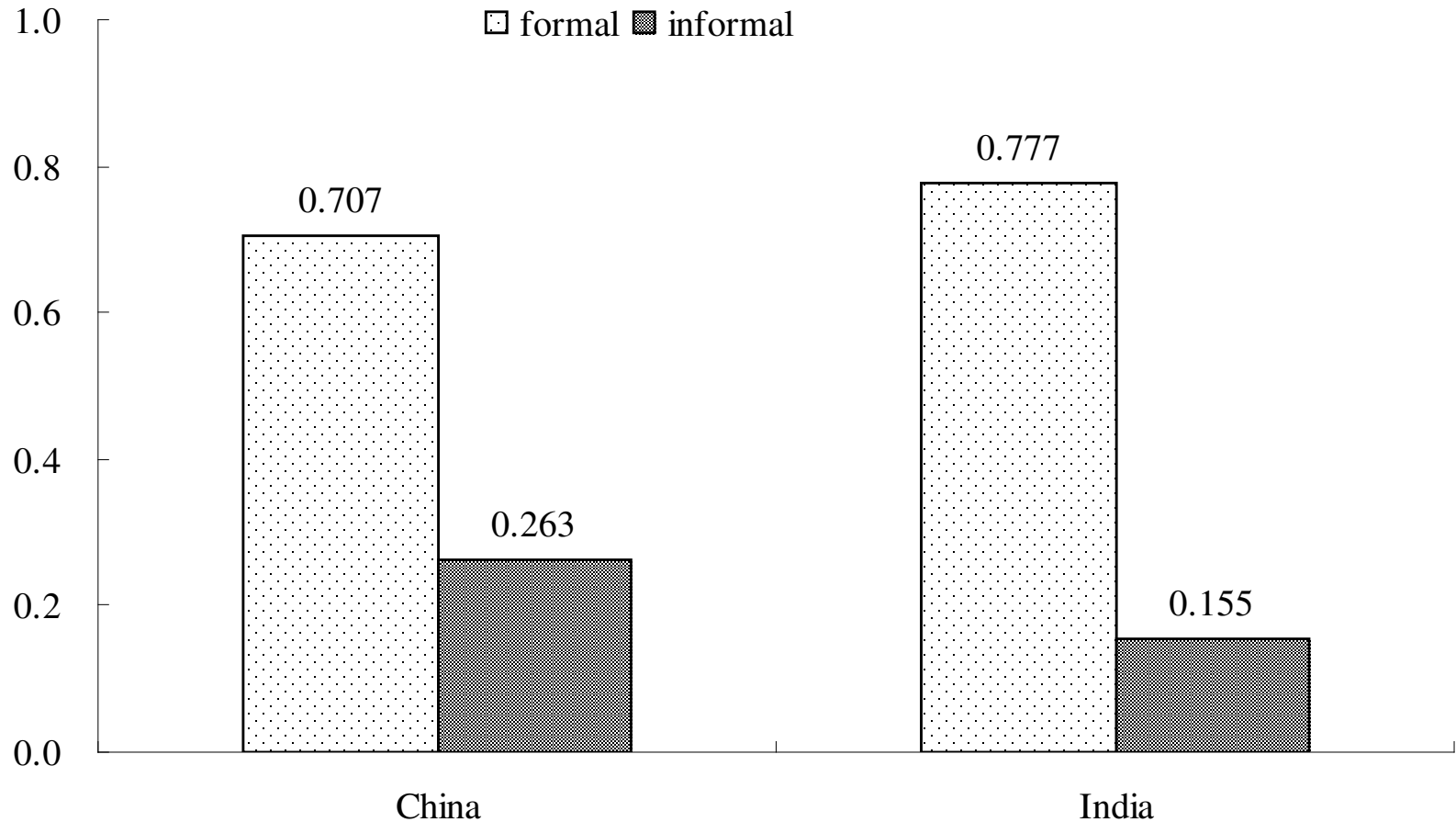
# Measuring Vulnerability



# The level of vulnerability in the two labor markets

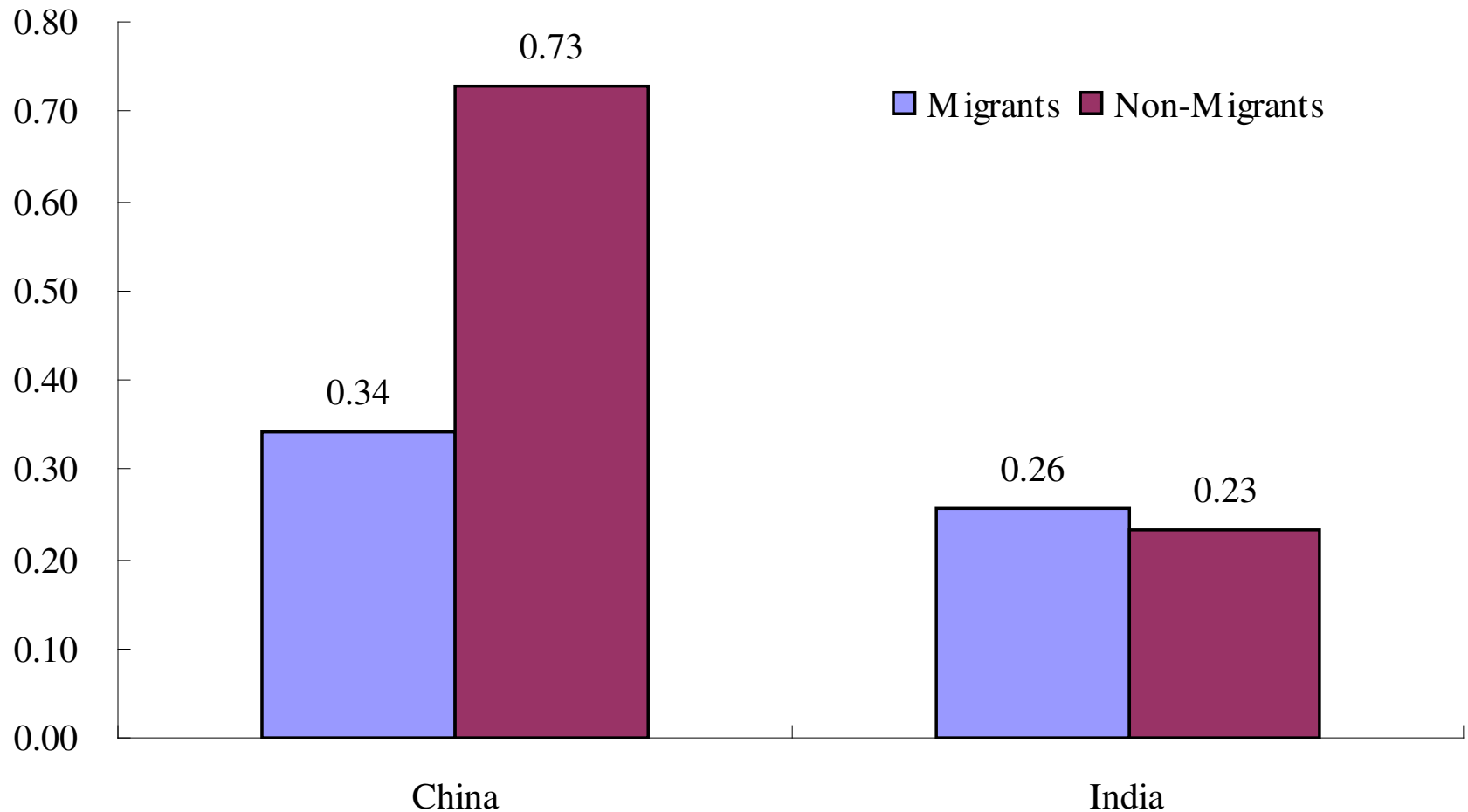


# Observing vulnerability by informality



A larger gap of vulnerability between formal and informal employment is found in India

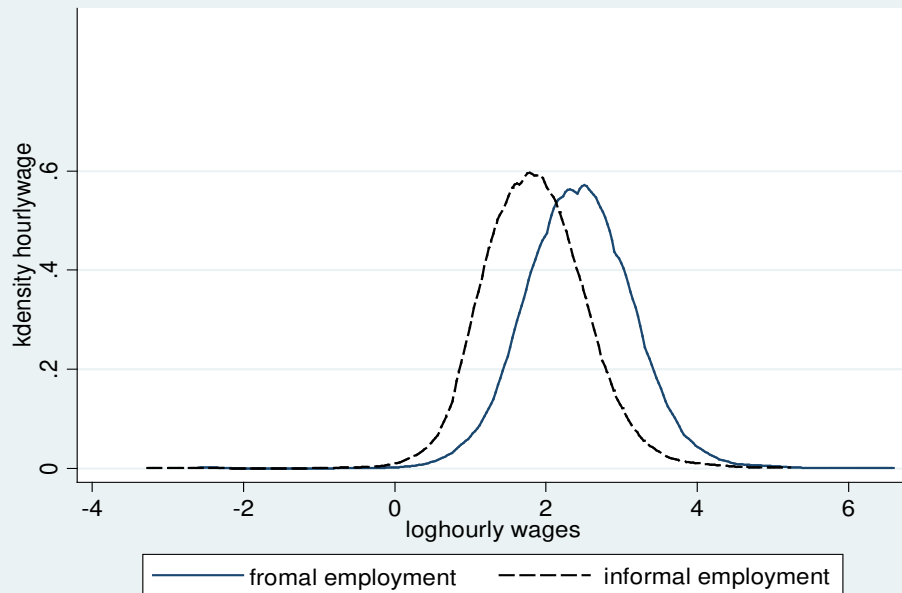
# A significant gap between migrants and non-migrants is found in China....



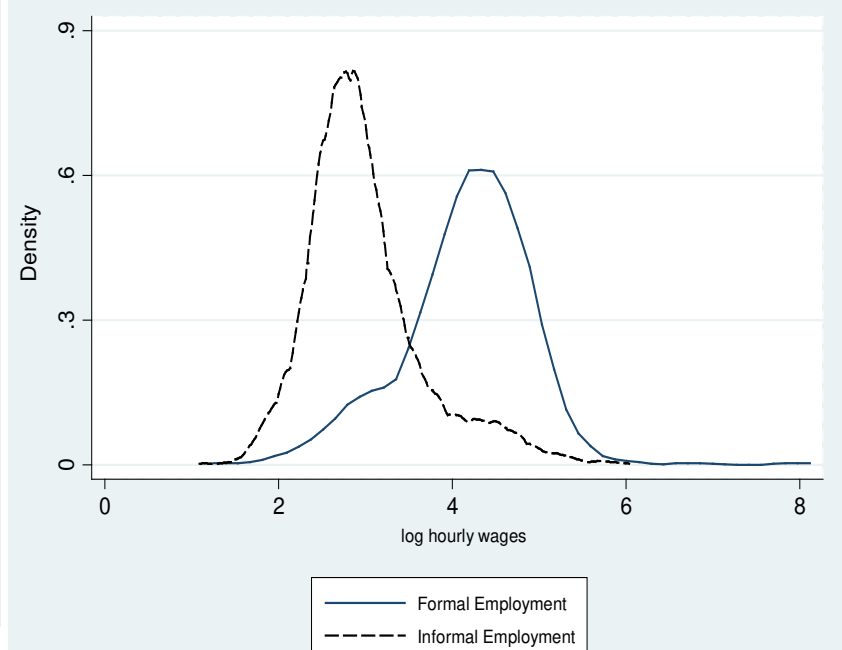
# Returns to Education

# The formal-informal wage gap is much greater in India than China

CHINA



INDIA



Formal hourly wages are 84% greater than informal wages in China, and 217% greater in India

# China's urban labor force is much better educated than India's

	CHINA			INDIA		
	Formal jobs	Informal jobs	All	Formal jobs	Informal jobs	All
Years of Schooling	12.7	10.1	11.5	12.2	7.3	8.0
Illiterate (%)	0	1	0	3	18	16
Primary (%)	2	11	6	4	17	15
Middle (%)	21	47	33	6	20	18
High school (%)	57	38	49	36	34	34
College and above (%)	20	4	12	51	11	16

- Virtually no illiterates in China compared to 16% in India
- Mean years of schooling similar for formal jobs but much lower in India for informal jobs
- Formal jobs dominated by college graduates in India but not China

# Returns to education for formal and informal workers in China and India

	CHINA			INDIA		
	All	Formal	Informal	All	Formal	Informal
Years of education	0.107***	0.100***	0.039***	0.080***	0.103***	0.0499***
Illiterate	-0.713***	-0.269	-0.245***	-0.155***	-0.178	-0.105***
Primary school	-0.210***	-0.224***	-0.047	-0.0548	-0.0436	-0.0364
High school	0.329***	0.295***	0.044	0.298***	0.434***	0.209***
College and above	0.855***	0.734***	0.317***	1.188***	1.039***	0.950***
Observations	10843	5870	4973	4126	554	3572

Notes: From Mincer regressions, formal and informal jobs are from switching regression model, where job type is identified by dummy variable for whether household has another member with job in formal sector.

- Returns in both countries are higher in formal sector than informal sector
- Returns are higher overall in China but within formal sector and informal sector, returns to education are higher in India

# Returns to schooling years is strongly positively correlated with wage quantile in India but slightly negative in China

	q10	q25	q50	q75	q90
CHINA	0.103***	0.104***	0.108***	0.099***	0.089***
INDIA	0.035***	0.049***	0.073***	0.095***	0.099***

Notes: returns to a year of schooling from quantile regressions using Mincer specification

- Common finding for developed countries is slightly positive relationship between wage quintile and returns to education; thus India and China are positive and negative outliers
- Results for India driven entirely by strong positive relationship between wage quantiles and returns to education in informal sector (formal sector slightly negative like China)
- Possible explanations for positive relationship between wage quintile and returns to schooling:
  1. over-qualification of workers in low-paying jobs
  2. complementarity between ability and education
  3. unobserved variation in the quality of education at higher schooling levels



# Employment Mobility

# Percentage of Young Adults (Age 20 to 30) who Have Experienced a Job Change

	India		China	
	Men	Women	Men	Women
Full sample (%)	3.9	0.4	24	26
Illiterate (%)	8.6	0.2		
Middle School (%)	3.3	0.0	36	39
High School (%)	3.4	0.6	21	19
Post-Secondary (%)	9.3	0.0	22	23
Locals (%)	3.1	0.1	18	19
Migrants (%)	7.2	0.5	33	36

# Are Young Adults Changing Jobs Involuntarily? Evidence from Self-Reports

	India		China	
	Men	Women	Men	Women
All				
Involuntary (%)	56	88	13	5
Voluntary (%)	36	3	87	92
Illness (%)	8	9	0	3

# Job Search through Formal Mechanisms are More Common in China

	India		China	
	Men	Women	Men	Women
All				
Placement & Media (%)	19	38	62	67
Social Relations (%)	39	6	22	22
Self-Employed (%)	42	56	2	1

# Final Thoughts

- Rapid industrialization and robust labor demand has facilitated more positive labor market outcomes in China than India
  - More formalization, more voluntary labor mobility, less segmentation
  - China avoided growth-inhibiting regulations
- High educational attainment in China has supported industrialization and led to more inclusive growth and less segmentation
- Migrants in China are much more vulnerable relative to local residents than in India