Income Inequality in China’s Emerging Economy and Its Interaction with China’s Growth Pattern

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Abstract

This paper tries to reveal the increasing income inequality in China and finds out that the rising income inequality and the profit-led economic growth pattern are interacted with each other. One possible strategy argued by this article is that introducing wage-led growth model into the current growth regime in China with great emphasis on labor market policies with minimum wage policies and collective wage bargaining.

Keywords: Income inequality, Wage-led growth regime, China, Labor market policies

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1. Introduction

The income inequality issue has been gradually linked to the issue of growth and development especially since the financial crisis. The question of “whether and how income and wealth inequality interact with production and growth” (Bertola, Foellmi and Zweimüller, 2006, pxi) has attracted increasing attention in developed economies. However this issue in developing countries also requires to the academic concern, especially for the developing countries with emerging economic growth, such as China, Brazil, South Africa and India. The research on the interaction between income inequality and economic growth regime in these emerging economies could be a very interesting perspective in studying the responses to growing inequality for both developing and developed countries.

Since the opening-up reform started in the late 1970s, China has experienced dramatically rapid economic growth, with real annual gross domestic product (GDP) growth averaging nearly 10% through 2012 (Morrison, 2013). However over the period of three and half decades of reform, China experienced a significant increase in income inequality which has been documented in a number of research and study. Most of studies discuss the income distribution in China by concentrating on the rural-urban inequality, the coastal-inland gap, the unfair governmental policy on inequality as well as inequality and poverty (E.g. Luo and Zhu, 2008; Benjamin, Brandt, Giles and Wang, 2005). Relatively, there is little research on income inequality in China with the link to economic growth pattern.

Therefore, this paper focuses on the interaction between the rising income inequality in China and its growth pattern at macroeconomic level, with an aim to explore a more sustainable economic growth model in which the income inequality could be reduced with continuing economic development. Firstly, the rising income inequality in China is presented through factors of income distribution in China, including functional income distribution, wage dispersion, household and personal market income distribution as well as household disposable income distribution. Then the growth model of China and its interaction with income inequality is identified. The current growth of China is greatly driven by the investment and export with low power of domestic consumption, which could be seen as the key characteristics of the profit-led regime. Under this profit-led growth regime, little attention is paid on the income distribution. Meanwhile, this growth model is not sustainable for the country. So in the following session, a new wage-led growth regime with great emphasis of labor market policy should be introduced to the current growth model of China, which has been seen as a more sustainable growth regime and could reduce the income inequality at the same time. Labor market policies like minimum wages and wage bargaining with the function in wage increasing and wage inequality reducing are required to be further developed and improved.
2. Income Inequalities in China

Comparing to other countries, there is great absence of the data on factors of income distribution in China. For instance, the global wage database of ILO, almost including all the countries in the world, lacks the wage dispersion information of China. Another example the in the research of OECD database, a variety of data on China’s income distribution like household disposable income distribution is difficult to find. This probably because the lack of information or different measurement standard of the China’s Bureau of Statistics (NBS). However, a rapid increase in disparities of income distribution was observed during these decades. China has changed from a country with a fairly even income distribution into a country with wide income disparities. (Han, 2004)

2.1 Functional Income Distribution

Many studies on income inequality indicate that both developed and developing countries have experienced a decreasing of labor share in the total economy, especially with the implementation of the neoclassical policy (i.e. Schneider, 2011; Checchi and Peñalosa, 2005). For the declining labor share in industrialized countries, some researches give the explanation from the view of the globalization, that the relocation of labor-intensive industry in developing countries depresses the labor demand in developed countries and results in decline of labor share in these countries (Heshmati, 2003; Segal, 2006; Adams, 2002). Apart from industrialized countries, China as one of the emerging developing countries also experiences sharply increasing of income inequality.

Before we come to the decreasing labor share in the whole economy of China, it is important to mention the remarkably rapid wage growth in China especially since 2000s. From 2001 to 2012, the wage increase rate in China is all the time higher than 10% and fluctuates around 15% (see Figure 2.1). According to the Global Labor Report 2014/15 by ILO, China weighs increasingly heavily in the global calculation of real average growth because of its size and strong economic performance. (see Figure 2.1) Excluding China cuts global real wage growth almost in half, from 2.0 per cent to 1.1 per cent in 2013, and from 2.2 per cent to 1.3 per cent in 2012. (ILO, xiv)
However, along with the high wage growth, China has experienced the remarkable decline of labor income share in the whole economy. The unadjusted labor income share in China from 1992 to 2011 shows a declined tendency in general, especially since the early 2000s (Figure 2.3). After frequent fluctuation roughly around 50% in 1990s, the unadjusted labor income share in China decreased sharply since early 2000s. There are various analyses on the declining of labor income share in China. One explanation is by the changes in accounting methods since 2004 that the income of self-employed individuals in non-agricultural sector has been counted as capital income, which was counted entirely as labor income before 2004. At the same time the surplus of state or collective farms began to be counted as labor income. Luo and Zhang (2010) give the explanation that foreign direct investment inflow has a negative effect on the labor share. They contend that the competition for foreign capital between local governments favors capital owners but harms workers. Qi (2014) argues that the decline labor income share also resulted form the loss in the power of working class during the transition to capitalism despite resulting form sectoral
changes.

Figure 2.3 Unadjusted labor income share in China, 1992-2011

![Graph showing unadjusted labor income share in China, 1992-2011.](image)

Source: ILO, Global Wage Report 2014/15: Wages and Income Inequality, p27

### 2.2 Wage Dispersion

There is no sufficient data on the wage dispersion in China. From the national statistic database of China to the world wage database and the ILO global wage database, there is lack of information about the wage dispersion in China. One reason would be the difficulty of measurement because of the huge existence of unregistered employment. Another reason could be only wages of urban workers are calculated in the official data collection, so it is hard to give a clear identification on the overview of wage dispersion in China. Fortunately there is still some estimation from the former research.

Figure 2.4 shows the general picture of a dramatic rise in inequality in urban wages from 1988 to 2008 in China. It can be seen that the wage dispersion in urban China in every percentile ratios increased in the ten years. The top-bottom wage dispersion grew the most rapidly from 2.82 in 1988 to 6.43 in 2008. And the wage differential between the medium and the bottom percentile raised the least, from 1.80 to 2.45.

**Figure 2.4 Urban Wage Inequality in China**

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### 2.3 Household and Personal Market Income Distribution

“Households can have wage income and at the same time income coming from profits. Functional income distribution and wage dispersion is reflected in market-determined personal income distribution.” (Herr and Kazandziska, 2011, p111) It is a common approach that using the household market income distribution and personal market income distribution across the country to observe the personal income distribution. One thing needs to be emphasized that there is a great inequality inside the household
income distribution between the rich and the poor. For example, in 2007, the per capita household income of the top 10 percent rich is over 30 times of that for the poorest 10 percent in China. This is also underlined by Simarro (2012) based on the research of Piketty and Qian (2009) that it is important to notice that the share of the top 1% incomes would have grown at a rate of over 120%. That rate would be even higher if we bear in mind the results of the latest research which find a large amount of hidden household income which would multiple the ratio of the income of the richest 10% of household relative to the poorest 10% until reaching a value of 65 times (Wang and Woo, 2010).

Figure 2.5 clearly illustrates that the growing income inequality in both rural and urban areas overtime (Li and DaCosgta 2013). The general Gini Coefficient rapidly increased from about 0.30 to nearly 0.50 This can also be seen from Figure 2.6, along with the economic growth since the opening reform, the Gini index experiences a general trend of increasing, which means the rising of personal income distribution in the macro economy. When combining with the declining of labor share in the functional income distribution, the rising of personal income distribution also indicates the increasing level of income inequality in the emerging economy of China. (Figure 2.7)

Figure 2.5 Gini Coefficients in China (overall, rural and urban)

Sources: Li and DaCosgta, 2013, Transportation and Income Inequality in China: 1978-2007
Figure 2.6 China’s economy growth and inequality, 1978-2007
As for the household disposable income distribution, the OECD defines it as the sum of household final consumption expenditure and savings (minus the change in net equity of households in pension funds). The final distribution of household income (disposable incomes) is the result of a complex set of relationships, including family formation and dissolution, longevity and fertility, as well as the more obvious trends in earnings, transfers, taxes and the returns on capita (Förster, 2004). Despite the household saving rate (by definition equal to 1 – the household consumption rate) showed by Knight and Wang (2010), the declining household disposable income in GDP from 1990 to 2008 also can be seen from Figure 2.8, from around 50.5% to around 40.0%.

Figure 2.8 Household Saving Rate and Household Income as A Percentages of GDP, 1990-2008, Annual
3. Income Inequality and the Growth Model in China

3.1 The Growth Model in China

In order to figure out why the emerging economy of China accompanies with rinsing income inequality, the answer could be found from the country’s growth pattern. There are a great many literatures identifying the growth method of China especially since 1990s. For example, Naughton (2007) gives stress on the function of structural change in China’s transition and growth. China is at a stage of economic development where very rapid structural change provides an impetus for high-speed growth (Naughton, 2007, p140). By analyzing China’s structural change of labor, GDP and its connection with globalization, Naughton illustrates China is following the common pattern of development – the structural change, and the process of structural change is well under way, but continued restructuring is on the horizon (see Naughton, 2007, pp137-158).

There is also theoretical debate on the growth model of China. Based on the rising savings, low population growth (ranking number 153 from a total 232), high increasing of GDP and output, the growth pattern of China could be explained by the neoclassical paradigm to some extant. (Herr, 2011) Besides, Herr (2010) identifies China’s economic emergence by a “sustainable Schumpeterian-Keynesian credit-investment process” which means the central bank has to accommodate a credit investment-income-savings process by refinancing commercial banks, because part of the central bank money will trickle away in additional cash holdings of the public and additional reserve holdings of banks. It is obvious that credit expansion has to be used for investment, to stimulate development. If credit expansion is used to finance real estate bubbles or it leads to an over-indebtedness of private households, there will be no positive long-term effect” (Herr 2011). Thus, large central bank interventions and sterilization policies as well as the strategy to defend current account surpluses and to follow export-led growth are part of the Chinese economic regime (Arestis and Paula, 2008, p6).
Apart from that, the rapid economic growth in China is also characterized by the driving of investment and export. To begin with, the rapid growth in China is closely related to enormous investment effort. Attracting the investment inflow including the foreign direct investment (FDI) and foreign indirect investment is the most important source power for China’s economic growth. From Figure 3.1, it can be noted that the proportion of gross capital formation in GDP increases remarkably since the beginning of the economic reform and started rising sharply from the year of 2001. During the 1990s China became by far the largest recipient of FDI among developing countries. In 1995-2001 China absorbed about 290 billion USD FDI, more than the most OECD countries. By taking the large population of China into account, however, China’s FDI per capita was still smaller than that received by any OECD country. (Chang, 2010, p66) “A Key element of the Chinese experience is one of consistently high investment that appears to be sustained by a gradual increase in the production performance of the economy. High investment rates “cause” economic growth, in a mechanical sense, but are also themselves a symptom of productivity improvements that are the ultimate source of economic growth.” (Naughton, 2007, p148)

Figure 3.1: Share of Gross Capital Formation in GDP in China, %, 1970-2011

Another feature of China’s economic growth model which is widely argued in literature is export-oriented. Under the strong investment with week domestic consumption, “the Chinese economy had to rely on exports to absorb the excess capacities. To promote the growth of exports, the Chinese government has been maintaining a significantly undervalued RMB exchange rate.”(Zhang, 2011) Bergsten, et al. (2008) also argue that net exports of goods and services have soared both absolutely and as a share of GDP in China, and thus their contribution to economic growth is currently unusually large, leading Premier Wen to opine at the National People’s Congress in the spring of 2006 that “we must strive to reduce our excessively large trade surplus (p109). (See Figure 3.2) Nataraj and Tandon (2011) illustrate the changes of China’s export composition in 2002 and 2006, which can indicate the changing tendency of the export structure. The high technology intensive product and
low and medium technology-intensive products turn to be the main part of China’s export structure. Meanwhile, the share of unskilled labor intensive products reduced largely with the rapid rise of high technology intensive good export like mobile phone and computer.

Figure 3.2: Net exports of goods and services, 1992-2007

Comparing to high investment and export, low consumption is also the keen characteristic of the economic growth in China which has been discussed in many literatures, for example Lee Syed and Liu (2013), Aziz and Cui (2007). Knight and Wang (2010) show that the consumption fell monotonically after 2000, from 62% of GDP in that year to 49% in 2008, a fall of 13 percentage points, while there was a sharp rise in investment and export surplus (Figure 3.3). In sum the growth model in China is characterized as highly external oriented mainly with high investment and export and with low consumption.

Figure 3.3 The Components of GDP in China, 1999-2008, percentage of GDP

3.2 Interaction between Income Inequality and Growth Model in China
Many scholars give critiques on the current growth model in China. Most arguments focus on its unsustainability and the highly dependence on external demand is not sustained (Kotz and Zhu, 2008). The export-led model heavily relies on the external environment and the external demand could be shrinking by the bust of global financial crisis (Zhang, 2011). The high capital inflows through capital could engender overheats for of economic development along with many economic bubbles which would undoubtedly hidden trouble behind the superficial economic prosperity. As argued by Galbraith (2007) the phenomenon of an exports boom leading to a profits boom leading to a speculative bubble has some disturbing implications in a country as concerned as modern China is with stability and sustainability.

However, another significant problem caused by the current growth model in China is the rising of income inequality. Sturn (2014) indicates that the internal structural imbalances in the Chinese economy, resulting in an extremely low consumption-to-GDP share by historical and international standards, play hereby a central role. “The internal imbalance – reflected in the decreasing share of consumption in GDP relative to investment and export-driven growth – is basically linked to China’s widening income inequality.” (Lu and Gao, 2011, p.103) In particular, China’s large and rising current account surplus and weak consumption demand is linked to the rise in both functional and personal inequality. (Treeck and Sturm, 2012) Firstly, both the investment and the export drive the economy through the profit-led demand regimes with increasing profit share extruding the labor share. This reduces the functional income distribution from the fountainhead of primary distribution. (see Figure 3.4) The share of primary distribution primary distribution that goes to business and the government in China has raised form 16 per cent in the mid-1990s to above 20 per cent at present. Households’ share has been declining steadily. (Fulin, 2012) The investment itself has been financed by firms’ profits. At the same time, the profits have been realized through a distributive mechanism that has enlarged the urban rural gap. This has made possible the enrichment of the richest Chinese urban families. Finally, growth has been achieved on the basis of income inequality. (Simarro. 2012)

Beside, under this growth regime, the government policy gives little attention to the issue of income equality with an aim to attract persistent investment and keep the competitive advantage of exportation. “It can readily be seen that among the various contributing factors, the most important are the systems and policies that were inherited from the traditional planned economy or that have recently emerged under the impetus of sectoral and local interests, in defiance of market rules; the government’s failure to act on market gaps and distortions; and inadequate capital regulation and labor protection”. (Shi and SATO, 2012)
On the other hand, the highly rising income inequality in China also has great impacts on the current economic growth. The most essential one is that it results in weak domestic consumption demand. Although the weak domestic consumption also relates to the investment and export driven growth model, it is can be seen as one main consequence of the high income inequality. Actually, the income distribution issue, growth pattern and domestic demand are interrelated and interacted with each other. “In China, lagging household income and large corporate profits have resulted in high national savings and a strong export orientation to compensate for relatively weak domestic demand.” (Cited by Treeck and Sturm, 2012) We can see from Figure 3.5 that the percentage of the consumption expenditure experiences a downward trend in the aggregate demand in China. However, within the consumption components of GDP (Figure 3.6 and 3.7), the household consumption as a share fell sharply from 1978 to 2007 and by 2007 accounted for only 35 percent of GDP, the lowest share of any major economy in the world, while the government consumption as a share of GDP has been relatively stable, averaging around 14 percentage throughout the reform period (Bergsten, Freeman, Lardy and Mitchell, 2008, p107-108).
Figure 3.5 China’s Aggregate Demand Components of GDP, 1978-2007


Figure 3.6 Household Consumption as percent of GDP, 1978-2009

Source: Bergsten, Freeman, Lardy and Mitchell (2008), China’s Rise: Challenges and Opportunities, p107

Figure 3.7 Government Consumption as Percent of GDP, 1978-2007
The high income inequality with lower wage share, lower disposable income could induce the lower internal demand in the country comparing to the rising export demand of goods and services. In this way, the economic growth would increasingly depend on the power of investment and export, which highly increase the risk of crisis, because the uncertainty of these two factors is very high in the global market environment. Once there is a shock on investment or export demand for instant because of the global financial crisis, it will throw a destructive blow on China’s economy.

Therefore, a new regime, which is more driven by the internal demand, is supposed to add into the current growth model for the sake of sustaining or stabilizing the economic development and balancing contradiction between current growth model and income distribution. As Palley (2006) argues, “the solution to the contradictions posed by China’s emergence as a global export powerhouse is to build a robust internal Chinese market that supports domestic demand led growth”. This requires developing structures, institutions, and economic relations that generate sustained stable internal demand growth. (Palley, 2006; Knight and Wang, 2010; Sturn, 2014)

4. Introducing Wage-led Growth Model to China

China’s 12th Five-Year Plan (2011-15) places unprecedented emphasis on achieving a new balance - in terms of economic growth and income distribution - in order to narrow down the gap between the rich and poor. This indicates that the government removes their policy priority to the issue of economic growth and income distribution. Simply improving the wage level would not be a reliable strategy to modify the current condition of the income inequality inside the country. Actually the wage average in China has improved with a high rate. According to the National Bureau of Statistics, the net income of rural residents increased by 10.7 percent in real terms in 2012, and wages for urban residents increased by 13.5 in the same year. However the income inequality still remains increasing. Policy aimed at improving the income
distribution is still required.

4.1 Wage-led Growth Model
A wage-led growth strategy aims at establishing a full-employment growth model in which sustained wage growth drives demand growth via consumption growth and via accelerator effects of investment growth as well as productivity growth via labor saving induced technological change. A wage-led growth strategy will result in stable or rising wage shares. (Stockhammer and Onaran, 2012) Eckhard and Mundt (2012) explains the wage-led regime as a medium- to long-run recovery strategy embedded in a “Global Keynesian New Deal”, which means that “wages will have to rise broadly in line with (potential) output; labour income shares have to be at least roughly stable in the medium to long run, and may even rise if distribution claims of firms, rentiers, the state or the foreign sector are falling and permit the increase of the labour income share without triggering cumulative inflationary processes”. In this case, the economy may also benefit from wage-push effects on productivity growth, i.e. rising real wages and labour income shares pushing firms to speed up the introduction of labour saving innovation into the production process and thus increasing potential growth. (Eckhard and Mundt 2012)

For China the wage-led growth model targets to balance the economic growth and make the development more sustainable. It is more like an “income-balanced” growth regime, which is able to reduce the income inequality and at the same time stimulate domestic demand for a sustainable development. Jointing the wage-led growth regime with current development model could be an option for China to handle the issue of unsustainable economic growth and rising income inequality. The basic logic is that the improvement of income distribution through wage policy and redistribution policy could lead to the rising of domestic consumption demand which is a sustainable driving power comparing to investment and export. Conversely a sustainable economic development owing to the wage-led regime would promote the reasonable income distribution as a resolution to the issue of highly income inequality. Palley (2006) suggested that the demand-led growth in China requires reforming the investment allocation process, free trade union and minimum wages in the aspect of income distribution. In order to pursuing the object of implementation of the wage-led model, the policy of labor market is of key importance, especially minimum wage policy and collective bargaining. The minimum wage policy in China is mainly discussed in this paper.

4.2 Minimum Wage Policy
According to the ILO definition, the so-called minimum wage is the minimum sum payable to a worker for work performed or services rendered, within a given period, whether calculated on the basis of time or output, which may not be reduced either by individual or collective agreement, which is guaranteed by law and which may be fixed in such a way as to cover the minimum needs of the worker and his or her family, in the light of national economic and social conditions. (International Labor Office, 2014, p19) Minimum wage policy plays a significant role in narrowing the
wage dispersion and reducing poverty and income inequality. It also has a modest effect on household consumption. Minimum wages, by ensuring a minimum level of earnings for those at the bottom of the pay scale, are an effective tool for compressing wage distribution, and they serve to lessen the incidence of low pay in both developed and developing countries (Berg Ed., 2015, p3). Boeri and Ours (2009) summarize two main function of minimum wages assigned to labor market institutions: they can increase efficiency by remedying market failures, such as those deriving from excessive monopolistic power, and informational asymmetries that give rise to moral hazard and adverse selection problems; they can reduce earnings inequality by supporting incomes of low-earning, workers, for example, low-skilled workers (p46).

In 1984, the Chinese government recognized the “Minimum Wage Treaty” implemented by the ILO in 1928. The first regulation on minimum wage was the Enterprises Minimum Wage Regulations issued by the Ministry of Labor in 1993, and in 1994 a minimum wage was written into China’s 1995 Labor Law. The 1993 Regulations arose from the international minimum wage-fixing obligations that China assumed upon ratifying International Labor Organization (“ILO”) Convention No. 26. Convention No. 26 obligated China to create a minimum wage-fixing mechanism for its workforce. (Lin, Downey and Sonerberg, 2004) Minimum wage legislation at that time was intended to prevent the exploitation of labour especially in the export industrial sector that was flourishing when China was in transition to a capitalist economy. (Wang and Gunderson, 2012) According to Article 48 of the Labor Law, firms were specifically required to comply with local minimum wage regulations with different minimum wage standards authorized by individual provincial governments. However before 2003, the adjustment of minimum wages had been less frequent than the following years, for example in 1998 during the Asia financial crisis, only one fifth of all counties adjusted their minimum wages (Huang, Loungani and Wang, 2014).

The full implementation of the minimum wage policy in overall China started since March 1st 2004, when the Labour Inspection Bureau of Ministry of Human Resources and Social Security(ILB/MOHRSS) issued the Provisions of Minimum Wages. And in 2007, the MOHRSS issued the Notice on Further Improvement of Minimum Wages Policy with the aim to further implement the Provisions of Minimum Wages (Wang, 2013). The main features of the new minimum wage policies involved extending coverage to state-owned and private enterprises, employees in self-employed businesses, and private non-enterprise units. In particular, the new law established two types of minimum wages: a monthly minimum wage applied to fulltime workers and an hourly minimum wage applied to non-fulltime employees. Importantly, the minimum wage standards were set and adjusted jointly by the local government, trade union, and enterprise confederation of each province/autonomous region/municipality (Fang and Lin, 2013). The new regulations also involves penalties for violations and restrictions what employers could include as part of the wage, not allowing such factors as overtime pay or canteen and travelling supplements (Wang
and Gunderson, 2012). Besides, the new regulation requires local governments to renew the minimum wage standards at least once every two years (Fang and Lin 2013). “In the first part of the process, a provincial government drafts a proposal and submits it to the Ministry of Labor; then the proposal is then discussed by local labor unions, as well as by trade and business communities. At the second stage, the Ministry of Labor reviews these proposals and provides suggestive revisions and other comments. If there are no more revision requests within 28 days, the provincial government is authorized to adjust minimum wages and publish it in local newspapers in 7 days.” (Huang, Loungani and Wang 2014)

So who is earning the minimum wage in China? Workers in the labor-intensive industry with low skill requirement and low payment industries are the main target group of the minimum wages policy. Inside the manufacturing industry, the capital-intensive large firms are better able to resist minimum wage demand; in contrast, firms in China’s wholesale and retail trade industry and hotel and restaurant industry are usually small, and the workers in these industries are unskilled and low-paid. (Ni, Wang and Yao, 2011) Huang, Loungani and Wang (2014) also focus on the minimum wage in manufactory sector because the manufacturing sector is of great importance in China’s labor market with better data availability and the wage rate of China’s manufacturing sector were always below city average wages. Fang and Lin (2013) argues that minimum wages have a greater impact on young and low-skilled workers, especially teenagers and among those who earned the minimum wage exactly and less than the minimum wage, 63.84 percent and 61.52 percent are females, respectively. In addition, the rural migrant workers are the large part of protection by the new minimum wage regulation. Minimum wages are expected to have a stronger effect on rural migrant workers because they tend to work in low wage sectors and the higher wages will induce some enterprises to use more skilled workers or more capital to substitute for the now more expensive rural workers (Wang and Gunderson, 2011).

Many scholars also give arguments on the challenges and policy recommendation on the further development of minimum wage policy in China. Fang and Lin (2013) identify three challenges involved in measuring the effect of China minimum wage policy: first, because provinces and municipalities in China have considerable flexibility in setting their minimum wage according to local conditions, there are often at least 3 or 4 levels of minimum wage standards applicable to various counties in most provinces, meaning that county- or city- level minimum wage data containing the relevant information on the dates and the extent of minimum wage increase are not readily available; second, omitted variables and endogeneity issues (such as the decision regarding the adjustment of minimum wage standards) make it difficult to separate causal effects from effects due to other unobserved confounding factors: third, it is difficult to find micro data that can be plausibly representative of the population and may be influenced by the minimum wage increases, and some provinces, such as Beijing and Shanghai, do not include social security payments and
housing provident funds as part of wages when calculating the minimum wage, making their “official” minimum wage virtually higher. Palley (2006) argues that because of dramatically different development levels among regions China’s continental economy, there is the need for a refined system of minimum wages in which minimum wages are set on a regional basis and take account of regional differences in living costs, and overtime, as development spreads and backward regions catch up, these settings can be adjusted with the ultimate goal being a uniform national minimum wage.

In addition, the minimum wage legislation in China needs to be acquired, the Rules on Minimum wage promulgated by Ministry of Labor and Social Security in 2004 is just a provision and not equal to legislation. This could weaken the implementation of wage policy especially the level of minimum wage is set by the local government of different provinces. Moreover, the tripartite bodies’ consultations and recommendation in setting and adjusting minimum wage should be underlined. In China, the government consults with the unions and employers’ associations about the amount and other aspects relating to the minimum wage. But when it comes to the final decision, it is the government that makes it autonomously. (see Herr and Kazandziska, 2011) Both the government and trade union should higher involve in implementation, monitoring and improving the minimum wage. Trade unions in company level should use their advantages in monitoring the minimum wage implementation in the enterprises. And also the minimum wage could be connected to the wage bargaining by trade unions.

4.3 Wage Bargaining

Of great importance in wage setting policy, wage bargaining and its main actor – the trade union plays an essential role in the wage-led growth model. Wage bargaining is of great importance in balancing the primary distribution between capital and labor and increasing wage level. Collective wage bargaining is defined in the Chinese labor regulations as “the communication and consultation behavior on labor standards, working conditions, as well as other issues related to labor relations between employing units (including enterprises, individual economic organizations, private non-enterprise units, etc.) and the corresponding trade union organizations (or representatives democratically elected by employees in the enterprise that has not set up unions) on the basis of full legal equality according to state laws and regulations” (MLSS, 2000: 1). However there is great debate about the function of the trade union in China and its wage bargaining. The main union body, the All China Federation of Trade Unions (ACFTU), has long had a monopoly on formal union organizing in China. According to the Law on Trade Unions, the CPC (the Communist Party of China) shall have supremacy over the unions and the latter shall accept the leadership of the Party and the trade unions shall shadow the Party and the state administration at all levels. China’s trade unions are not autonomous labor organizations representing workers’ interests, but one of the state apparatuses that serve governmental goals through mediating labor relations in China (Traub-Merz, 2011a). Together with the
China Communist Youth League and the All-China Women’s Federation, the ACFTU is referred to by the Chinese Communist Party (CCP) as an important social pillar for its regime stability (Qi, 2010). Heavily involving in Chinese government system and the political system forces the official trade unions at all level into a dilemma when the interests of workers coming in conflict with the goals of economic growth and social stabilization on the side of government and ruling party. “ACFTU hopes to acquire a legal monopoly with regard to wage negotiations that workers will respect. This is unlikely. Operating under the supervision of the Party it cannot become an actor in the conflict; and if the enterprise trade unions do not obtain operational autonomy they cannot commit themselves to workers’ interests and negotiate in their name”. (Traub-Merz, 2011b)

It has to be admitted that the trade union in China indeed owns special obstacle because of the political system, which hinders it from working as supposed to. The increasing number of strikes and labor unrest wave without participation of the official trade union could be one of the best evidence. However, when the priority of development strategy of the state is being transferred to wage-led growth regime and increasing domestic demand, it provides an opportunity for trade union to play real part by collective bargaining. Since stimulating the demand in domestic market becomes one important part of the political and economic objective of the government and the ruling party, now the trade union and the government possess the same interest in improving wages and wage bargaining. (see also Salidjanova, 2013) With the rapid economic development after 2000, factory managements are commonly concerned by labor shortages and labor grievances and more job opportunities arose so that with workers more confident to defend their rights and interests against management. Under such circumstances, a tripartite system of collective wage bargaining became a desirable strategy for the government, management and workers to achieve their intentions and interests (Huang, 2012)

5. Conclusion

In this paper, the increasing income inequality of China is analyzed through the literature research on income contribution factors including functional income distribution, wage dispersion, household and personal income distribution. With the decreasing labor share, widening wage dispersion, reducing household market share and descending household disposable income distribution, China has changed from a country with a fairly even income distribution into a country with wide income disparities. (Han, 2004) Moreover, when linking the rising income inequality to the growth model of China, the interaction between each other drives the thinking of changing the current growth model to wage-led model through reducing the income inequality. An abrupt model transformation is impracticable, thus it is suggested that gradually adding the wage-led regime to the current growth model of China would be more feasible. The improvement on minimum wages and wage bargaining in the labor market is required.
However introducing the wage-led growth regime cannot be conducted only through the labor market policy, other policies like social security, tax policy and national development priority also need to be put into the agenda with an aim to transfer the growth model and reduce the income inequality. In addition, as for the labor market policy like minimum policies and collective wage bargaining, more empirical researches on the their affects and function on reducing wage inequality would be helpful to the further policy development, which is one of the most important components of the wage-led growth model.

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