

“Common Prosperity” in an Era of Wage Polarization?

China's leader Xi Jinping recently launched a campaign for Common Prosperity, whereby the fruits of national development are shared more evenly across society. New research suggests that among the main obstacles in reaching this goal is China's growing income and wealth inequality. The capacity of China's leaders to address income inequality has implications not only for the success of the Common Prosperity platform, but also for whether China can escape the middle-income trap. What is causing China's rising income disparities? What might it take to address them?

INSIGHTS

■ Among the biggest obstacles to achieving Common Prosperity in China is wage polarization between high- and low-skilled workers.

■ Stagnating employment in construction and manufacturing has driven more low-skilled workers to the informal economy, depressing wage growth for millions.

■ Demand for high-skill services is outstripping supply, inducing faster wage growth for educated urbanites.

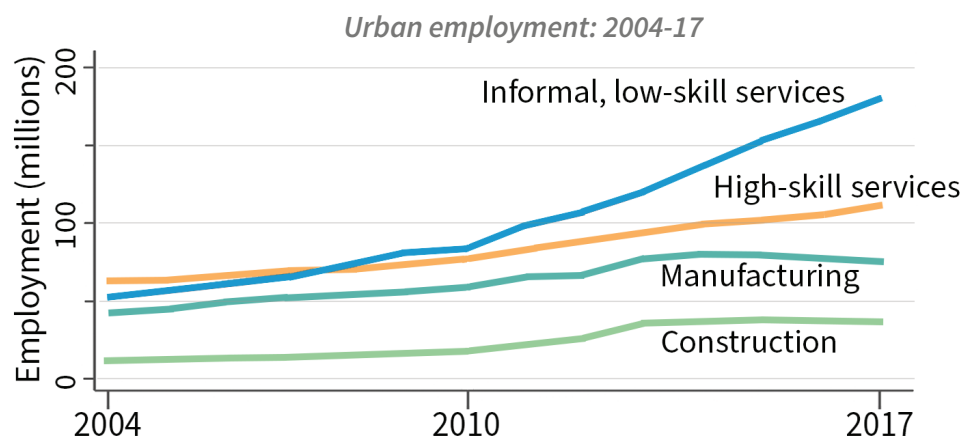
■ Failing to address growing wage polarization may complicate China's exit from middle-income status.

The data. Researchers gathered information on employment and wage trends using annual census data from 2004 to 2017, published by the National Bureau of Statistics of China, in combination with the employer survey data compiled by China's Bureau of Industry and Commerce. Researchers also gathered employment data for migrant workers from the Annual Report of Monitoring Survey on National Rural-Urban Migrant Workers from 2010 to 2018. Lastly, data on 2020 employment rates were drawn from a survey of rural workers in 700 villages from six provinces.

China's evolving economy. China's 1978 reform policies launched one of the fastest periods of economic growth in history, owing largely to its vast, underutilized rural labor supply. Demand for this low-skilled labor outstripped supply for 30 years, causing wages to rise.

As of the mid-2010s, however, research suggests that China may have entered a new phase of economic development. Urban construction has slowed and rising wages during the first decade of the 2000s have induced manufacturers to automate and offshore. Employment in construction and manufacturing has fallen, driving low-skilled workers increasingly into the informal “gig” economy — temporary or informal, noncontractual work that provides little to no worker protection. The supply of these informal workers has accelerated in recent years, but demand for their services has not kept pace. This mismatch has caused the wage growth for low-skilled workers in the informal economy to decline.

Meanwhile, as the size of China's middle class expanded in the 2010s, the demand for high-skill services like high technology, banking, and education has grown quickly. Professionals able to find employment in the high-skill service sector have enjoyed faster wage growth.



Wage polarization emerges. In 2004, around 67% of total employment was in the formal economy, but by 2017, this percentage had fallen to less than 44%. By contrast, China’s informal sector has grown rapidly, accounting for nearly 60% of all employment in 2017. The oversupply of unskilled workers is driving down wage-growth rates in the informal economy. Informal low-skill wage growth fell by 4.66 percentage points (or 44%) between the early 2010s (2010–14) period and more recently (2015–17). Formal, high-skill wage growth, on the other hand, rose by 1.32 percentage points (or +17%) during the same time period.

Comparing wage growth rates: 2010-14 and 2015-17

Change from 2010–14 to 2015–17	Formal, high-skill wages	Informal, low-skill wages
In percentage points	+1.32	- 4.66
In percent terms	+17%	- 44%

DATA & METHODS

■ Data on employment and wage trends sourced from National Bureau of Statistics of China and China’s Bureau of Industry and Commerce.

■ Data on migrant workers drawn from the Annual Report of Monitoring Survey on National Rural–Urban Migrant Workers from 2010 to 2018.

■ Data on 2020 employment rates drawn from a survey of rural workers in 700 villages from six provinces.

Are wages of unskilled workers continuing to fall? An August 2020 survey of 700 villages from six provinces indicated that a large share of rural workers who wished to work could not find work, even though China’s economy was beginning to recover from the pandemic (and its third-quarter GDP was growing by nearly 5%). More than half of the respondents reported either difficulty finding jobs or that their wage levels were too low.

Education key to reaching high-income status. China can draw important lessons from historical precedents of middle-income countries that successfully transitioned to high-income status. Countries like Singapore, Ireland, and South Korea, for example, were induced to automate and outsource to replace increasingly expensive low-skill labor, but because the level of education among their workforce was relatively high, workers in these countries were able to shift from construction sites and the factory floor into higher-skill jobs. Propelled by investment in training and education, countries that have graduated from middle- to high-income status broke through the skill-intensive barrier to provide higher and consistently rising wages across most segments of the workforce. Unfortunately, OECD data show that China has one of the lowest educated labor forces of any middle-income country.

Implications for Common Prosperity in China. Beijing’s Common Prosperity initiative may not be sufficient to reverse China’s income inequality, wage polarization, and increasing informality among its less-educated workers. For middle-income economies like China, strong economic performance initially driven by an abundant supply of low-skilled rural laborers going into urban industrial and construction sectors is often followed by wage polarization that, in turn, is associated with getting caught in the middle-income trap. In addition to reforms to the household registration system and increased social welfare, far-reaching investments in education, particularly in rural areas, may be needed for China to escape the middle-income trap.

SOURCE PUBLICATION

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