

# **Earnings Mobility and Labor Market Transition in Urban China**

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Understanding the nature of earnings mobility and its driving forces in East Asia, where upward mobility has proceeded at a pace unprecedented in human history, will bring valuable insights into our knowledge on persistent poverty and upward mobility among the poor. China, the largest developing country in East Asia as well as in the world, has experienced rapid economic growth, remarkable poverty reduction and increasing income inequality since early 1990s. Yet, due to lack of reliable panel datasets from early 1990s to the present, little is known about the pattern of earnings mobility, particularly for individuals initially in the bottom of the earnings distribution.

Institutional changes from a centrally-planned to a market-oriented economy in China, particularly the transition to a competitive labor market in the urban areas, provide the particular background under which individuals and households earn their livings. The state-owned enterprises (SOEs) reform and the private sector expansion since the early 1990s have provided individuals diversified employment opportunities, such as jobs in private firms and self-employment, which facilitated job mobility across sectors. On the other side, the enterprise reconstruction has led to a large-scale retrenchment of SOEs since 1996. The system of lifetime employment in the centrally-planned economy was broken. The employment shocks have had large and widespread impacts on urban workers, especially for less-skilled and older workers.

This study proposes to explore the pattern of individual earnings mobility in urban China and how changes in individual-specific labor market conditions shape earnings mobility by using a series of matched panel datasets for urban China for the period 1992-2008. Matched data have been used previously in a study that went up to 2001. My work will use the 2008 survey and match the households to earlier years. It will therefore be the first to analyze movements out of poverty in China in the decade of the 2000s.

The emphasis of my analysis will be on low-earners who are followed over time. Specifically, I plan to investigate two questions. First, is the pattern of individual earnings mobility convergent or divergent in urban China during the period of labor market transition? In other words, who experienced the largest earnings gains, the initially poor or the initially rich? Second, how have changes in employment opportunities and exposure to employment risks driven earnings gains throughout the initial earnings distribution, in particular, among low-earners?

The data set to be used is a series of matched panels from the Urban Household Income

and Expenditure Survey (UHIES) carried out by the National Bureau of Statistics (NBS). The UHIES is the most suitable data source to study earnings mobility among existing Chinese datasets. It was conducted in urban areas throughout China from 1986 to 2008. The sampling frame allows for matching households over successive years. For example, of the sample surveyed in 1994, two-thirds were re-surveyed in 1995, and one-third were re-surveyed again in 1996. In 1997, a new sample was drawn and the same process repeated. Thus, two-year mobility can be studied for a succession of panels.

This study is expected to provide novel evidence of the nature of upward mobility and how the transition into a competitive labor market shapes the changes of upward mobility. While most of the poor in developing countries move out of poverty and move upwards through working in the labor market, understanding how the changes in individual-specific employment opportunities and exposure to shocks affect earnings mobility will provide implication to public policies to promote the poor's capacity to earn through employment creation and social protection.

As stipulated by the Chinese government, the data I propose to use may be used only by NBS officials and co-authors. To acquire this dataset, I will have to work with Prof. Xin Meng, Prof. Bob Gregory and Cathy Gong (a NBS official) at the Australia National University this summer. I am applying for research grant to support my travel to Australia and living expenses for three months this summer.

Thanks for consideration on my application.