
5. Determinants of wage arrears and implications for the socio-economic wellbeing of China's migrant workers: evidence from Guangdong province

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5.1 INTRODUCTION

In recent years wage arrears have been widespread in transition economies that have experienced labour market reforms in the course of regime change (e.g. Russia, Ukraine and the Kyrgyz Republic) – resulting in poverty and other welfare problems (see Boyarchuk et al 2005; Namazie 2002). Different from these post-Soviet transition economies, China remains under the rule of a socialist regime and maintains its social structure in the urban labour market, which discriminates against rural–urban migrant workers. The aim of this chapter is to examine wage arrears and their socio-economic impact on migrant workers' wellbeing and identity in the Chinese context. This chapter shows that Chinese workers have also experienced wage arrears during the economic transition from a socialist to a market economy.

Deng Xiaoping's economic reforms unleashed massive change in China's labour force. There are now an estimated 250 million migrant workers in China's cities (NBSC 2012). These people have been the engine room that has fuelled China's high growth rate. According to a conservative estimate from the Chinese Academy of Social Sciences and UNESCO, over the period 1985 to 2005 migrant workers contributed 16 per cent of China's GDP.

In 1998 then Premier Zhu Rongji first used the term 'disadvantaged group' (*ruoshi qunti*) to refer to the fact that economic reforms had not benefited all groups equally. Migrant workers dominated the labour force in 'three-D' (dirty, dangerous and demeaning) industries: 70 per cent of construction workers, 68 per cent of manufacturing workers and 80 per cent of coal miners are migrant workers (Lan 2009).

Migrant workers suffered labour market discrimination vis-à-vis those with a non-agricultural household registration (*hukou*). This was reflected

in lower wages (Wang 2009) and access to social insurance (Nielsen et al 2005). Labour rights abuses against migrant workers, such as being forced to work extremely long hours, put up with poor occupational health and safety conditions and endure psychological and physical harassment, were well documented (Blecher 2002; Chan 2001, 2003; Chan and Peng 2011; Chan and Senser 1997; Friedman and Lee 2010).

One of the most pronounced labour rights abuses endured by migrant workers was perceived to be wage arrears. Reports of migrant workers not being paid started to surface in the mid-1990s but at the time such instances were regarded as isolated incidents (Chan 2005). Over time they have become more prevalent. The issue of wage arrears received national prominence in October 2003 when then Premier Wen Jiabao was petitioned by a peasant woman on an inspection tour of rural Chongqing. The woman asked Wen if he could help get her husband's wage arrears. Her husband received the wages owing to him within six hours of the woman speaking to Wen (Sun 2012).

However, despite the positive outcome in this case, the situation has not improved. The problem of delayed payment or, in some cases, failure to pay migrant workers at all has been described as 'endemic' (Chan 2005, p.2), a 'custom' (Jian 2001) and 'absolutely routine'.¹ Local governments and trade unions routinely engage in 'chasing after wage-arrears campaigns' (*zhuihui qianxin yundong*), following which they announce that X million yuan had been 'chased back' for migrant workers (Chan 2005). For example, in August 2011, a Chinese labour union announced that in the first seven months of 2011 it had helped 934,000 migrant workers claim \$US 353 million in unpaid wages.² The reality, though, is that such campaigns barely scratch the surface of the problem. The total amount of unpaid wages now amounts to hundreds of billions of yuan (tens of billions of \$US) per annum.³ It is particularly pronounced in January each year, in the lead up to Spring Festival (Price 2011).⁴

The presence of wage arrears has fuelled social unrest (Blecher 2002; Lee 2007). In Henan, in the late 1990s, more than half of workers' protests were due to pension and wage arrears (Chen 2000). More recently, a China Labour Bulletin (2012) research report notes that during the period 2000–05 almost all protests and strikes were with respect to wage arrears. The form of migrant protest against wage arrears has varied widely. Some forms of protest have been intended to be comical attempts at headline grabbing, such as dressing up as cartoon characters, dancing Gangnam style, dressing up as ancient officials and streaking.⁵ However, other forms of protest have involved extreme violence, such as setting fire to a factory, which killed 14 people,⁶ a suicide bombing⁷ and murdering domineering management before committing suicide (Friedman 2012). In another case,

a group of migrant workers buried themselves alive to protest unpaid wages.⁸ Employers are also increasingly hiring gangs of thugs to break up migrant protests. There is some evidence that employers are colluding with local governments in using violence and that local governments implicitly sanction this sort of employer behaviour.⁹

Wage arrears, lack of enforcement of labour contracts and the ineffectiveness of unions in protecting workers' rights are among the most significant labour issues that affect the wellbeing of migrant workers and their families in China's urban labour market. In contrast, urban locals tend to be less affected by these problems as they are more likely to work in (formal) sectors that are better protected by the labour system.

The first purpose of this chapter is to examine the determinants of wage arrears among rural-urban migrants. Whether firms discriminate against certain workers in their application of wage arrears and whether patronage is an important consideration in the extent to which firms use efficiency wage type considerations to retain the most productive workers are important issues (Lehmann and Wadsworth 1999). There are relatively few studies of the determinants of wage arrears in transition countries and only one such study in China (Wang 2009). Compared with Wang, we use more recent data and employ an econometrics method (i.e. rare events logistic regression, or *relogit*) that corrects for the bias that occurs in standard logistic regression when the observed events are relatively rare.

The second aim is to examine the effect of experiencing wage arrears on economic wellbeing, measured by average monthly wages. To this point, there are few studies that have examined the implications of wage arrears for economic wellbeing and those studies that exist have focused on Russia (Gerber 2006; Lehmann and Wadsworth 2007).

Third, the chapter examines the effect of wage areas on several subjective indicators of wellbeing, such as feelings of belongingness and discrimination in the city. There is a large body of literature that suggests urban locals in China harbour negative attitudes to migrants and this frequently spills over to outright hostility (Li 2006; Nielsen et al 2006). These hostile intergroup relations impact negatively on migrants' perceptions of belongingness and increase the extent to which migrants feel there is widespread discrimination against them (Zhang et al 2009). Such discriminatory experience has the capacity to induce psychological distress and impact negatively on quality of life (Wang et al 2010). Despite studies that have looked at determinants of subjective indicators of wellbeing among migrants, no studies have looked at whether the increasing incidence of wage arrears affects these subjective indicators. This chapter is able to provide a more comprehensive picture of the impact of wage arrears on socio-economic outcomes for China's migrant workers.

To examine the determinants of wage arrears and its implications for socio-economic wellbeing, pooled data from a unique representative dataset collected in Guangdong province, one of the major destinations for migrants in China, for the years 2006, 2008 and 2009 were used.

5.2 OVERVIEW AND EXISTING STUDIES OF WAGE ARREARS

Reports of the exact amount that migrant workers are owed differ. In 2004, at a conference attended by then Vice-Premier Zeng Peiyan, it was stated that migrant workers were owed \$US38 billion and it was officially recognized that some workers had not been paid for a decade.¹⁰ At the end of the 1990s, a survey by the All China Federation of Trade Unions (ACFTU) found that 46 per cent of respondents were owed three months pay or more (Blecher 2002). According to a survey conducted by Xinhua News Agency in 2002, almost three-quarters of migrant workers experienced wage arrears (Wang 2009). Based on another survey, administered across eight provinces in 2003, 48 per cent of migrant workers had wage arrears (Lu 2004). Similarly, a further survey found that in 2006 only one-half of migrant workers were drawing their salaries on time (Lan 2009).

Migrant workers in specific industries, such as construction, are particularly disadvantaged. The reason is that in the construction industry, many migrant workers only get paid a lump sum amount at year-end (prior to Spring Festival). In some cases, the employers do not have the funds to pay wages because they are waiting on payments. After a year of labouring away from home, many migrant workers cannot afford to return home empty-handed so they just accept whatever is on offer as full payment.¹¹ In other cases migrants wait in hope of getting paid. It is usually in the latter case that protests and, in some instances, violent acts occur out of a sense of frustration.

In 2013, the Supreme People's Court of China stated that 'malicious wage withholders' could be sentenced to up to seven years in prison.¹² The problem, though, is that there is a gap between the *de jure* law and what *de facto* occurs in practice in China. This applies *a fortiori* to migrant workers who generally lack knowledge of their legal rights and do not have the resources to seek formal legal redress. The Ministry for Human Resources and Social Security proudly announces an impressive sounding number of disputes that have been solved. For example, in the first nine months of 2012, it was announced that labour arbitration centres had investigated 479,000 labour disputes over unpaid wages, involving 660,000 workers, of which 457,000 had been solved.¹³

However, this is just the tip of the iceberg. The fact is that in most cases, the labour arbitration centres and labour inspection departments fail to get factories to pay. Chan (2005) notes that the formal procedures undertaken by labour inspection departments to get factories to pay unpaid wages in the 2000–05 period were so lax that management could easily close down one factory and open another to avoid paying migrant workers altogether.

Most econometric studies of wage arrears in transition economies are from the former Soviet Union and, in particular, Russia (e.g. Lehmann and Wadsworth 1999, 2007; Mosley and Mussurov 2013). The relatively high incidence of wage arrears in these former socialist labour markets is due to the substantial reallocation of labour to the unregulated sector while formal employment is in gradual decline.

China has also experienced a transition from a planned economy to a market economy, during which the formal and state sector has shrunk while the less monitored private and informal sectors have expanded rapidly. Most studies of wage arrears in China are largely descriptive (Chan 2005; Gallagher 2005; Nan 2009; Price 2011; Sun 2012). However, Wang's study (2009) using data from the China Urban Labour Survey (CULS1 (2001)) and CULS2 (2005) is an exception. Wang's (2009) main findings are as follows.

First, the proportion of migrant workers suffering from wage arrears decreased considerably between 2001 and 2005. Based on the CULS data, the proportion of migrant workers suffering from wage arrears fell from 12 per cent in 2001 to 2–3 per cent in 2005. Second, the proportion of migrant workers experiencing wage arrears in construction, wholesale and retail trade and catering services remained high, at in excess of 50 per cent in both 2001 and 2005. Third, results from the probit model suggested that the sector in which the migrant was employed and the type of enterprise were the most important determinants of wage arrears.

Wang's study (2009) is the most comprehensive of the existing studies for China but it focused on the first half of the 2000s. Given that wage arrears among migrant workers persist, more recent evidence is needed. Moreover, from a methodological perspective, Wang's study (2009) employed a probit model to examine determinants of the incidence of wage arrears. This approach will produce potentially biased estimates where the proportion of those experiencing wage arrears is small.

Another relevant study is Li and Freeman (2015), who used the same dataset as that used in this study and examined the effect of the Labour Contract Law that came into operation in January 2008, on a range of labour market outcomes for migrant workers. Li and Freeman (2015) examined the effect of labour contracts on wage arrears but did not focus on other potentially important variables, as that was not the objective

of their study.¹⁴ Among their findings was the fact that the new law increased the percentage of migrant workers with contracts and this, in turn, reduced the incidence of wage arrears.

To summarize, the literature on wage arrears for China is limited to a couple of studies. There are no studies at all that consider the implications of wage arrears for socio-economic wellbeing among migrant workers. In this study, we address a gap in the literature by using recent data to examine the determinants of wage arrears (using logistic, rare events logistic and Tobit regressions) and also consider the implications of wage arrears for socio-economic wellbeing among China's migrant workforce.¹⁵

5.3 METHODOLOGY

The data used in this study come from the surveys of rural-to-urban migrant workers in the Pearl River Delta, which was administered in nine prefecture-level cities (*dijishi*) by Sun Yat-Sen University in July 2006, 2008 and 2009. According to official statistics, the Pearl River Delta accommodated 33 million migrant workers in 2009, representing 23 per cent of the national total (NBSC 2010). To ensure that the data were representative of the rural-urban migrant population, the sampling framework adhered to four principles.

First, the allocation of the sample across the nine cities followed the actual proportional distribution of the migrant population in these cities according to the official population census. Second, the allocation of the sample across secondary and tertiary industries followed the actual proportional distribution of migrants in these industries according to the official statistical yearbook in 2005. Third, no more than three interviewees were recruited from each employer. Fourth, only migrants with education experience at or below college level (undergraduate diploma or *dazhuan*) were selected.

The survey collected information on the experience of wage arrears. The other information collected in the survey pertained to earnings, employment status, employee benefits, and personal and family characteristics. Respondents also answered a series of questions about subjective indicators, such as sense of belonging, discrimination and status in the city. In total, there were 7249 respondents who answered questions related to experience of wage arrears across the three years. Approximately 8 per cent of them had experienced wage arrears.

Table 5.1 presents data on the incidence of wage arrears across the three years: 9 per cent experienced wage arrears in 2006, 6 per cent in 2008 and 7 per cent in 2009. The average amount owed was 2167 yuan with a

Table 5.1 Experience of wage arrears, 2006–09

Year	No		Yes		Total	
	Freq.	Per cent	Freq.	Per cent	Freq.	Per cent
2006	2750	91%	269	9%	3019	100%
2008	2351	94%	147	6%	2498	100%
2009	1607	93%	125	7%	1732	100%
Total	6708	92%	541	8%	7249	100%

Table 5.2 If paid retrospectively, how was late payment attained?

	Freq.	Per cent
Enterprise paid	325	74.03%
Enterprise paid after complained to the labour authority	19	4.33%
Government paid	1	0.23%
Legal action	2	0.46%
Collective action	38	8.66%
Individual action	48	10.93%
Others	6	1.37%
Total	439	100%

minimum of 30 yuan and maximum of 8000 yuan. Almost all those owed wages (94 per cent) were owed less than 5000 yuan. In 84 per cent of cases wages were paid either in full, or part, retrospectively, but, on average, it took almost one year to receive the payment and in 25 per cent of cases it took longer than a year. Table 5.2 presents data on how late payments were attained. In three-quarters of cases, the enterprise eventually paid. In the remaining quarter of cases individual or collective action of some sort was needed to obtain the outstanding payments.

To examine the relationship between wage arrears incidence and amount, and personal and employment characteristics, we estimate the following functions:

$$\text{Incidence of wage arrears}_i = f(X_i, E_i, C_i, \epsilon_i) \quad (5.1)$$

$$\text{Amount of wage arrears}_i = f(X_i, E_i, C_i, \epsilon_i) \quad (5.2)$$

where i stands for the i th respondents. In equation (5.1) the dependent variable is incidence of wage arrears (experienced wage arrears = 1). In

equation (5.2), the dependent variable is the total amount of wage arrears (in yuan). Both functions include the same set of variables representing socio-demographic characteristics X , employment-related characteristics E , and city characteristics C that would potentially influence the incidence and amount of wage arrears. ε is a random error term.

Table 5.3 presents descriptive statistics on X , E and C according to whether the individual reported experiencing wage arrears. The incidence of wage arrears was lower among those who were Communist Party (CP) members, members of the trade union, had a trade union in the workplace or had a labour contract, but was higher among males and those who were married. In terms of education, the incidence of wage arrears is slightly higher among those with primary school education or below. The type and size of employer seems to matter. The incidence of wage arrears is higher in private enterprises but lower in foreign owned/joint ventures. The incidence of wage arrears is lower in large firms (with 1000 or more employees).

Logistic regression is used to estimate equation (5.1), with marginal effects reported. Considering that the incidence of wage arrears was relatively low in the data, compared to the number of total observations, a normal logistic regression can sharply underestimate the probability of rare events. Therefore, we also applied the rare events logistic (relogit) regression, which was developed by King and Zeng (2001), to correct for potential rare events bias and report marginal effects.¹⁶ In equation (5.2), ordinary least squares (OLS) will give biased estimates because of the high proportion of respondents who had no wage arrears. To address censoring, a Tobit regression is applied to estimate equation (5.2), with the coefficients reported.

To examine the effect of the incidence of wage arrears on economic well-being, we estimate a standard Mincer wage function, in which we employ OLS to regress monthly wages of the respondent on the incidence of wage arrears (A) and other variables that are potentially correlated with wages, denoted by X , E , C .

$$\text{Monthly Wage}_i = f(A_i, X_i, E_i, C_i, \varepsilon_i) \quad (5.3)$$

To examine the effect of the incidence of wage arrears on subjective well-being and perceptions of self relative to others, we employ an ordered logit model to regress eight subjective indicators of wellbeing on the incidence of wage arrears (A) and other variables that are potentially correlated with subjective wellbeing, denoted by X , E , C .

$$\text{Subjective Indicators of Wellbeing}_i = f(A_i, X_i, E_i, C_i, \varepsilon_i) \quad (5.4)$$

Table 5.3 Descriptive statistics

	Experienced Wage Arrears	Not Experienced Wage Arrears
	Mean (s.d.)/ per cent	Mean (s.d.)/ per cent
Male	62%	54%
Age	28.32 (8.79)	27.80 (8.78)
Education		
Primary school and below	18.85%	15.00%
High school	77.08%	78.42%
College	4.07%	6.58%
Communist Youth League/Party member	17.44%	23.26%
Married	47.32%	44.06%
Type of employer		
Government agencies	0.56%	1.52%
SOE/COE	6.49%	8.00%
Private-owned	61.41%	49.62%
Foreign-owned/joint-venture	15.58%	27.57%
Micro-entrepreneur (<i>getihu</i>) and others	15.96%	13.30%
Size of employer		
Less than 300	68.66%	56.62%
300–999	14.18%	12.39%
More than 999	17.16%	30.99%
Has labour contract	37.92%	54.66%
Has trade union in workplace	9.61%	18.41%
Being a trade union member	3.88%	7.44%
Year of survey		
Year 2006	49.72%	41.00%
Year 2008	27.17%	35.05%
Year 2009	23.11%	23.95%
Has a labour contract in 2006	15.61%	17.99%
Has a labour contract in 2008	10.59%	21.56%
Has a labour contract in 2009	11.71%	15.10%
Tier of city*		
Third tier	16.64%	16.63%
Second tier	42.33%	43.92%
First tier	41.04%	39.45%

Note: * Tier of city is defined by the Bureau of Human Resources and Social Security of Guangdong Province according to the minimum wage level and socio-economic development. The first tier cities are Guangzhou and Shenzhen, the second tier cities are Zhuhai, Foshan, Dongguan and Zhongshan, and the third tier cities are Zhaoqing, Huizhou and Jiangmen.

5.4 FINDINGS

Columns 1 and 2 of Table 5.4 present the logit and relogit estimates for equation (5.1). The results are identical in terms of sign and significance of the variables. For those variables for which the magnitude of the marginal effects differs, we focus on the relogit estimates. The results suggest that males have a 3.6 per cent higher incidence of wage arrears. In terms of employer type, relative to those employed in government agencies, those employed in private firms have a 5.8 per cent higher incidence of wage arrears and those working for micro-entrepreneurs have a 5.2 per cent higher incidence of wage arrears. In terms of employer size, those working for firms with 1000 or more employees have a 4.1 per cent lower incidence of wage arrears than those working for firms with less than 300 employees. Having a trade union in the workplace reduced the incidence of wage arrears by 6.9 per cent, although trade union membership had no effect. Finally, having a labour contract in 2006 and 2008 reduced the incidence of wage arrears by 3 per cent and 6.4 per cent respectively, although having a labour contract in 2009 had no effect on the incidence of wage arrears. These results lend support to the view that in recent years trade unions and labour contracts have been playing an increasingly important role in protecting migrant workers' rights and benefits (Cheng et al 2015).

Column 3 of Table 5.4 presents the Tobit estimates for equation (5.2). Those not in arrears are censored at zero. The Tobit estimates paint a similar picture to the logit/relogit estimates for equation (5.1). The amount of arrears is significantly higher among males than females. The amount of arrears is reduced significantly by the presence of foreign ownership or if there is a trade union presence in the workplace. Similarly, the amount of wage arrears is significantly lower in large firms. Finally, the amount of wage arrears is significantly lower if the individual had a labour contract in 2006 or 2008, although having a labour contract in 2009 was statistically insignificant.

Table 5.5 presents the OLS estimates of equation (5.3). The key finding is that the average monthly wage is 3.8 per cent higher for those who have experienced wage arrears. A potential explanation is that workers who experienced wage arrears looked for jobs with higher pay as a precaution and for self-protection. The results for the other variables are consistent with prior expectations. Males receive 18.2 per cent higher wages, CP members receive 4.8 per cent higher wages, married individuals receive 3.2 per cent higher wages, those with a trade union in the workplace receive 4 per cent higher wages, trade union members receive 6.7 per cent higher wages and those with a labour contract in 2006 and 2008 received 11.8 per cent and 5 per cent higher wages respectively. The economic returns to high school and college are higher than primary school and the

Table 5.4 Determinants of wage arrears

	(1) Wage arrears Logit (marginal effect)	(2) Wage arrears Relogit (marginal effect)	(3) Amount of wage arrears Tobit (coefficient)
Male	0.0249*** (3.79)	0.0362*** (3.79)	1394.7*** (4.13)
Age	-0.000392 (-0.79)	-0.000565 (-0.76)	6.558 (0.25)
Education (ref: primary school and below)			
High school	-0.00801 (-0.90)	-0.0115 (-0.93)	-434.2 (-0.97)
College	-0.0211 (-1.26)	-0.0306 (-1.20)	-886.0 (-1.04)
Communist Youth League/Party member	-0.00189 (-0.21)	-0.00242 (-0.18)	-94.01 (-0.20)
Married	0.00899 (1.06)	0.0132 (0.96)	151.2 (0.33)
Type of employer (ref: government agencies)			
SOE/COE	0.0267 (0.86)	0.0383 (0.63)	-2077.8 (-1.38)
Private-owned	0.0411* (1.24)	0.0580* (1.38)	-1477.1 (-1.06)
Foreign-owned/joint-venture	0.0162 (0.58)	0.0195 (0.33)	-2484.5* (-1.75)
Micro-entrepreneur (<i>getihu</i>) and others	0.0363* (1.31)	0.0519* (1.37)	-1561.4 (-1.08)
Size of employer (ref: less than 300)			
300-999	0.00481 (0.46)	0.00693 (0.49)	429.2 (0.86)
More than 999	-0.0190** (-2.19)	-0.0412** (-2.18)	-1035.0** (-2.23)
Has trade union in workplace	-0.0210** (-2.14)	-0.0687** (-2.05)	-1453.5** (-2.22)
Being a trade union member	-0.00529 (-0.26)	-0.0172 (-0.23)	-349.4 (-0.36)

Table 5.4 (continued)

	(1) Wage arrears Logit (marginal effect)	(2) Wage arrears Relogit (marginal effect)	(3) Amount of wage arrears Tobit (coefficient)
Year of survey (ref: year 2006)			
Year 2008	-0.00893 (-0.91)	-0.0128 (-0.90)	-345.7 (-0.67)
Year 2009	-0.00907 (-0.82)	-0.0128 (-0.79)	-208.1 (-0.36)
Has a labour contract in 2006	-0.0210** (-2.13)	-0.0303*** (-2.12)	-948.7* (-1.86)
Has a labour contract in 2008	-0.0437*** (-3.43)	-0.0635*** (-3.33)	-2207.0*** (-3.48)
Has a labour contract in 2009	-0.0202 (-1.51)	-0.0294 (-1.51)	-882.9 (-1.31)
Tier of city (ref: third tier)			
Second tier	0.0116 (1.26)	0.0166 (1.23)	645.4 (1.37)
First tier	0.00333 (0.37)	0.00456 (0.34)	246.4 (0.53)
Constant			-8549.1*** (-4.98)
N	7055	7055	7014
		Left censored	6525
		Uncensored	489

Notes: z statistics in parentheses in Models 1 and 2; t statistics in parentheses in Model 3 * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$. STATA does not produce marginal effects for Relogit. The marginal effects for Relogit were calculated manually using the approach suggested for calculating marginal effects in binary choice models in Denny (2009).

Table 5.5 OLS determinants of monthly wages

	Ln monthly wage	
Male	0.182***	(17.97)
Age	0.0583***	(14.70)
Age ²	-0.000836***	(-14.98)
Education (ref: primary school and below)		
High school	0.162***	(11.10)
College	0.499***	(20.38)
Communist Youth League/Party member	0.0479***	(3.64)
Married	0.0315**	(2.10)
Type of employer (ref: government agencies)		
SOE/COE	0.0804*	(1.81)
Private-owned	0.107**	(2.57)
Foreign-owned/joint-venture	0.134***	(3.20)
Micro-entrepreneur (<i>getihu</i>) and others	0.0981**	(2.26)
Size of employer (ref: less than 300)		
300-999	0.0203	(1.25)
More than 999	0.0468***	(3.61)
Has trade union in workplace	0.0398**	(2.39)
Being a trade union member	0.0672***	(2.87)
Experienced wage arrears	0.0376**	(2.00)
Year of survey (ref: year 2006)		
Year 2008	0.337***	(19.46)
Year 2009	0.379***	(19.41)
Has a labour contract in 2006	0.118***	(7.30)
Has a labour contract in 2008	0.0498***	(2.75)
Has a labour contract in 2009	0.100	(0.48)
Tier of city (ref: third tier)		
Second tier	0.0560***	(3.92)
First tier	0.116***	(8.00)
Constant	5.488***	(72.57)
<i>N</i>	6784	
adj. <i>R</i> ²	0.320	

Notes:

t statistics in parentheses.* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

wage profile exhibits the familiar hump-shaped relationship. Wages are also higher in all enterprise types, relative to government agencies, in first and second tier cities, relative to third tier cities and in firms with 1000 or more employees, relative to those with 300 or less.

Table 5.6 reports the marginal effects of experiencing wage arrears on a

Table 5.6 *Marginal effects of experiencing wage arrears on subjective indicators, 2008*

	My income is much lower than locals	Life is very difficult in the city	I don't belong in the city	Locals discriminate migrant workers
Wage arrears	0.0164 (0.52)	0.114** (2.86)	0.0000133 (0.00)	0.0405 (0.97)
Other control variables	Included	Included	Included	Included
<i>N</i>	2252	2291	2247	2213
Pseudo <i>R</i> ²	0.0365	0.0210	0.0138	0.0122
	My status is lower than others in the city	Life would be better if I had a local <i>hukou</i>	I like communicating with locals	I want to stay in the city if possible
Wage arrears	0.0683** (2.00)	0.0555* (1.75)	-0.0276 (-0.98)	-0.00874* (-1.59)
Other control variables	Included	Included	Included	Included
<i>N</i>	2268	1114	1116	1115
Pseudo <i>R</i> ²	0.0397	0.0282	0.0081	0.0090

Notes:

z statistics in parentheses; * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$. Respondents were asked how they perceived the statements with possible answers on a four-point scale ranging from 1 = do not agree to 4 = agree. Other control variables include gender, age, education, Community Youth League/Party membership, types and size of employer, labour contract status, trade union presence and membership and tier of city.

range of subjective indicators of wellbeing and perception of self, using the data for 2008 and estimated using an ordered logit model. These indicators include 'my income is much lower than locals'; 'life is very difficult in the city'; 'I do not belong in the city'; 'locals discriminate migrant workers'; 'my status is lower than others in the city'; 'life would be better if I had a local *hukou*'; 'I like communicating with locals'; and 'I want to stay in the city if possible'.

Each of the subjective indicators is measured on a four point scale ranging from 1 = do not agree to 4 = agree. We include a full set of controls, although for brevity we only report the marginal effects for incidence of wage arrears. Incidence of wage arrears is statistically significant for half of the subjective indicators. To be specific, we find that those experiencing wage arrears were 11.4 per cent more likely to perceive that life was difficult in the city; were 6.8 per cent more likely to perceive that their status was lower than others in the city; were 5.6 per cent more likely to believe that life would be easier with a non-agricultural *hukou* and were 0.8 per cent less likely to want to remain in the city. These findings suggest that wage arrears have wider impacts beyond monetary returns. Wage arrears are likely to be a major factor impeding the Chinese government's urbanization strategy to transform migrants into urban residents in the coming decades.

5.5 DISCUSSION

The findings are generally consistent with the conclusion in previous studies, albeit mostly in Russia, that enterprise ownership and workplace characteristics, rather than individual characteristics, have the biggest effect on wage arrears. In particular, the finding that CP membership has no effect on wage arrears is consistent with the results reported for Russia. An explanation for this result is that by their nature, wage arrears result from liquidity problems and decisions at the organizational level. If employers were to disburse arrears unequally based on personal characteristics of workers, such as CP membership, this would undermine their claims to lack money for wages and invite negative feedback from employees.

In terms of enterprise characteristics, the finding that wage arrears are higher in private enterprises and among micro-entrepreneurs is consistent with the results reported in Wang (2009). This result reflects the fact that private enterprises are the most credit constrained in China (HeriCourt and Poncet 2009). The finding that wage arrears are lower in large firms is consistent with the results for previous studies for Russia. It is likely that size

ensures a stronger revenue stream. Other related factors also play a role: state-owned enterprises in monopolistic or state-dominated industries (which are usually larger in size) are more likely to guarantee a stronger revenue stream.

In terms of workplace characteristics, trade union presence and having a labour contract (in 2006 and 2008) are important factors that minimize wage arrears. The finding with respect to trade union presence is interesting in light of the received wisdom that the All China Federation of Trade Unions (ACFTU) in China is subordinate to the state, which constrains their activities in the political sphere and often causes them to side with management at the enterprise level (Clarke and Pringle 2009). At the very least, it has been argued that when strikes break out, the unions do not represent the workers but act as mediators between employers and employees (Chen 2010). Friedman (2012) argues this is exactly what happened in the Global Financial Crisis in 2008–09. However, that the unions play the role of mediators might explain our results. In workplaces that had a union presence, the threat of facing mediation likely acted as an incentive for employers to pay. In workplaces with no union presence in the workplace, this incentive did not exist. Our results are also consistent with a recent study that suggests trade unions in China are associated with higher wages and pension coverage and lower working hours. Yao and Zhong (2013) argue that privatization and growing informalization of the workforce in China is changing the nature of the ACFTU and that unionization is now increasingly associated with better working conditions and improved welfare.

The results for having a labour contract for 2006 and 2008 differ from Wang (2009) who found that having a labour contract was insignificant. But they are similar to Li and Freeman (2015) who employed the same dataset as us. Wang (2009) notes that having a labour contract is no guarantee that one's rights will be respected. However, the existence of a labour contract means that a formal labour relationship exists between employer and employee, meaning that the probability that the employee's rights will be violated, including experiencing wage arrears, should decrease (Li and Freeman 2015; Gallagher et al 2015). This is consistent with the findings in this study.

One clear exception to the notion that personal characteristics are not important in determining wage arrears is the result for gender. The finding that males experience more wage arrears than females differs from Wang (2009) but is consistent with the results of previous studies for Russia. In the Chinese case, this is likely to reflect the heavy concentration of male migrant workers in the construction sector where, as pointed out, firms are notorious for not paying wages till just prior to Chinese New Year.

The finding that the incidence of wage arrears increases with higher average earnings differs from previous studies for Russia. The reason for this difference might be that Chinese migrant workers are more mobile. Migrant workers in China experienced significant wage growth in the wake of the migrant labour shortage that occurred in 2004–06. Based on data from the China Household Income Project of 2006 and 2007, in 2006 and 2007 respectively migrant wages increased by 11.5 per cent and 11.2 per cent in nominal terms, and 10 per cent and 6.4 per cent in real terms. Wage growth slowed in 2008, but resumed in 2009 when migrant wages increased by 16.6 per cent in nominal terms and 17.3 per cent in real terms.¹⁷ This labour shortage might have afforded migrant workers the opportunity to move to better paid jobs as a precautionary measure when confronted with wage arrears.

The findings that the incidence of wage arrears is statistically significant for four specific indicators of subjective wellbeing – ‘life is very difficult in the city’; ‘my status is lower than others in the city’; ‘life would be better if I had a local *hukou*’; and ‘I want to stay in the city if possible’ – underscores that the withholding of wages has more than economic impacts for migrant workers.

5.6 CONCLUSION

In 2006, 9 per cent of the sample reported wage arrears and this fell to 6 per cent in 2008 and 7 per cent in 2009. Males were more likely to experience wage arrears as were migrants working for private firms and micro-entrepreneurs, relative to those working for government agencies. On the other hand, migrants with a labour contract, membership of a trade union and a trade union in the workplace were less likely to experience wage arrears.

In terms of socio-economic wellbeing, those experiencing wage arrears received 3.8 per cent higher monthly wages, were 11.4 per cent more likely to perceive that life was difficult in the city, were 6.8 per cent more likely to perceive that their status was lower than others in the city and were 5.6 per cent more likely to believe life would be easier with a non-agricultural *hukou*.

The results reported here complement the findings reported in the previous chapter by Margaret Maurer-Fazio, Rachel Connelly and Ngoc-Han Thi Tran. That is, there is no systemic pattern of blanket discrimination in terms of migrants’ wage levels or their exposure to suffering wage arrears. However, the two studies suggest that some migrants do suffer discrimination in terms of how much they are paid and whether they are actually

paid in the first place in urban labour markets. While arrears are mainly due to structural and cash flow factors, male migrants tend to experience more wage arrears.

These findings are concerning, particularly when taken in conjunction with the body of literature that already attests to the social difficulties experienced by migrants in urban areas. The types of difficulties that are commonly experienced by migrants are wide reaching: including restricted access to adequate housing (Wu 2002); language (dialectal) barriers (Woon 1993); environmental issues, such as water shortage (Gu 1995); health concerns (Zhang et al 1999); mental health concerns (Li et al 2006) and social polarization (Gu and Shen 2003). Some of these difficulties are likely to stem from intergroup differences and the negative stereotyping of migrants (see Nielsen et al 2006) but the experience of wage arrears may exacerbate the negative impact on wellbeing of migrants already caused by these myriad social difficulties.

Furthermore, the prevalent negative attitudes towards migrants in urban areas may themselves be amplified by the types of protest behaviours that migrants are displaying in respect of wage arrears – setting up a vicious cycle whereby the poor treatment of migrants by employers ultimately serves to further alienate them from the communities in which they live and work.¹⁸

NOTES

1. 'Chinese Workers Dance Gangnam Style to Protest Over Unpaid Wages', *The Guardian*, 24 January 2013, available at <http://www.theguardian.com/world/2013/jan/23/chinese-workers-gangnam-style-protest> (accessed 6 August 2013).
2. 'China Labor Union Helps Recover Billions in Unpaid Wages for Migrant Workers', 17 August 2011, available at <http://english.people.com.cn/90882/7572705.html> (accessed 6 August 2013).
3. 'Chinese Workers Dance Gangnam Style to Protest Over Unpaid Wages', above note 1.
4. 'Migrant Workers Waiting for Unpaid Wages', available at <http://offbeatchina.com/workers-in-beijing-dressed-in-cartoon-costumes-to-protest-unpaid-wages> (accessed 6 August 2013).
5. 'Migrant Workers in Beijing Dressed in Cartoon Costumes to Protest Unpaid Wages', available at <http://offbeatchina.com/migrant-workers-in-beijing-dressed-in-cartoon-costumes-to-protest-unpaid-wages> (last accessed 6 August 2013); 'Chinese Workers Dance Gangnam Style to Protest Over Unpaid Wages', above note 1; 'Gangnam Style, Angry Bird Cosplay, Yuanfang Style or Just Streaking, Chinese Migrant Workers Struggle to Claim Unpaid Wages by Performing Arts', available at <http://www.hugchina.com/china/ictures/chinese-art/chinese-migrant-workers-struggle-to-claim-the-ir-unpaid-wages-by-performing-arts-2013-02-02.html> (accessed 6 August 2013).
6. 'Tragic Fire Raises Stakes for Factories', *China Daily*, 2 February 2013.
7. 'Chinese Worker Blows Himself Up Over Unpaid Wages', *Daily Telegraph*, 3 April 2009.
8. 'Unpaid Workers Bury Themselves Alive in Protest', available at <http://www.shanghaiist.com/tags/unpaidwages> (accessed 8 August 2013).

9. 'Migrants at Mercy of Bosses in China', *Sydney Morning Herald*, 7 June 2007.
10. 'China Workers Owed 25 billion pounds in unpaid wages', *Daily Telegraph*, 26 August 2004.
11. 'Migrant Workers Waiting for Unpaid Wages', above note 4.
12. 'Migrant Workers in Beijing Dressed in Cartoon Costumes to Protest Unpaid Wages', above note 5.
13. 'China to Prevent Wage Defaults for Migrant Workers: Ministry', available at <http://english.cntv.cn/special/18thcpc/20121025/108588.shtml> (accessed 5 August 2013).
14. Li and Freeman (2015) have a logit model in which, in addition to having a labour contract, the authors consider some of the variables we also consider. However, as examining the determinants of wage arrears among migrant workers *per se* was not the focus of their study, these variables were included only as controls and were not discussed in the text.
15. Since a relatively small proportion of workers experienced wage arrears, we apply these three methods in order to provide added robustness to the findings. A logistic model is appropriate where one wants to analyse a 1/0 outcome (has wage arrears or not). The logistic model assumes that the dependent variable is normally distributed (50 per cent '1s' and 50 per cent '0s'). Rare events logistic regression provides a correction to the results from the logistic regression, when one is analysing an outcome for which the percentage of '1s' is low. The Tobit model represents an alternative to OLS when the dependent variable is the amount of wage arrears and there are a high proportion of people with no wage arrears. These methods are discussed in more detail in the methodology section.
16. The marginal effects represent the impact of each variable on the probability of having wage arrears, holding other factors constant as percentage point deviations from the sample mean.
17. <http://www.thebeijingaxis.com/tca/editions/the-china-analyst-oct-2012/136#sthash.9GwrEhIW.dpuf> (accessed 15 August 2013).
18. While our results add to the literature on the incidence of wage arrears and its implications for China's migrant workers, the study does have several methodological limitations. In terms of the sample, our participants were restricted to migrant workers living and working in nine prefecture-level cities in the Pearl River Delta. While several aspects of the sampling frame improved the likelihood that the sample was representative of the migrant population in this region, we cannot claim that the sample is representative of all migrant populations in China, given that peculiarities of the population and local regulations potentially make the migrant experience different in different locations. A second limitation of our study is that the data that we have analysed are cross-sectional, meaning that attributions of causality from our results should only be made with caution. Future studies that utilize longitudinal data to assess the temporal impact of wage arrears are required.

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