

# Self-Employment in Eastern China and Taiwan\*

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May 27, 2007

\* Paper to be presented at the 2007 Spring Meeting of the Research Committee on Social Stratification and Mobility (RC28) of the International Sociological Association (ISA), Brno, Czech Republic, May 24-27, 2007. Please direct all correspondence to Chih-jou Jay Chen at [jaychen@sinica.edu.tw](mailto:jaychen@sinica.edu.tw)

## **Introduction**

This study examines the mobility processes of self-employment in response to institutional arrangements and the structural changes, and their consequent mechanisms of income distribution. It compares mobility patterns and income distribution in eastern China (Shanghai, Zhejiang, and Fujian) and Taiwan. Through this comparison approach, this study highlights to what extent the imposed urban-rural segmentation has affected stratification mechanism and particularly self-employment occupational path in China. It thus illustrates common and different resources required for self-employed individuals in segmented and non-segmented Chinese societies. It also highlights the role of Chinese families as an institutional driving force for breaking through the institutional constraints of rural-urban cleavages in response to structural changes brought about by rapid industrialization, market expansion and global competition. In both societies across the Taiwan Straits, particularly in rural eastern China, self-employment through family infrastructural support serves as an adaptive alternative or “escape route” to counter institutional constraints and to take advantage of structural changes that open opportunities in the labor market. This strategy of moving ahead on one’s own initiative and bridging the urban-rural divide has chartered a path to success for some enterprising people.

Civil society both in China and Taiwan has been subject to extremely diverse political regimes in both areas. Since the 1950s, the Chinese household registration (*hukou*) system and institutionalized subsidies for urbanites have created segmented and unequal societies between urban citizens and rural villagers. The household registration system has imposed strict limits on ordinary Chinese citizens changing their permanent place of residence. Since the early 1980s as Chinese reforms have

proceeded, economic marketization and institutional reforms have weakened the *hukou* limits on internal migration. Up to 150 million rural residents have since migrated to Chinese cities for work. Despite reforms to the hukou system, restrictions continue to affect the lives of the Chinese peasants. Employment, housing, education and social benefits are commonly linked to hukou identification. As a result of the hukou segmentation, urbanites and peasants in China have had very different life opportunities and career trajectories.

Taiwan's urban-rural divide did not owe its existence to such a rigid *hukou* system like in China. The household registration in Taiwan is used for keeping population records and links with universal social services (e.g., schools, health insurance, pensions, etc.) and social participations (e.g., election rights, etc). There is no policy restriction on migration; the migration from rural to urban and suburban areas has been common and widespread, as with other industrialized societies.. As such, Taiwan in contrast to China, represents a typical industrial society with no institutional segmentation.

In the late 1950s, high-speed growth rates accompanied by rapid industrialization and an export-oriented economy began in Taiwan. Lagging behind were China's eastern coastal provinces which only started to undergo similar development trajectories two decades later. Taiwan became known for its cheap manufactured exports produced by small family enterprises bound together by flexible sub-contracting networks similar to vibrant rural enterprises in eastern China that took the lead in China's reforms in its industrialization. Sharing a common ground with the same socio-cultural roots, Taiwan and eastern China have experienced parallel structural changes in industrialization whilst undergoing different kinds of social control and institutional constraints.

To what extent does market expansion and structural change affect social mobility patterns in the fast developing areas of eastern China and Taiwan? To what extent and how does rural-urban gap bring about different mobility patterns for urbanites and peasants in China? How does Chinese familism play a role in both China and Taiwan contributing to the stratification of private entrepreneur? How has the employment sector affected economic returns in China and Taiwan? Is self-employment a sign of upward mobility for entrepreneurial workers and does it bring in higher returns, or is it a sign of distress acting as a stopover for disadvantaged workers? The above questions reveal different mobility patterns in different societies whether a person is an employer (i.e. self-employed with hired workers) or whether a “purely” self-employed person (i.e. self-employed without hired workers).

### **Self-employment in Eastern China and Taiwan**

For the past two decades self-employment has been the backbone of the fast developing private sector in China.<sup>1</sup> The evolution of the private sector followed an east to west path from the rural to the urban. Coming in the wake of two decades of the Chinese communist regime’s restrictions on private economy, private rural businesses first reemerged in the mid-1970s, particularly in the southeast coastal provinces such as Zhejiang, Fujian, and Guangdong. The scope of such enterprises gradually expanded, as their legal and organizational framework, geographic distribution, and presence in various sectors expanded and increased. In the early 1980s, the private sector, limited to individual business (*geti hu*), was allowed for the employment of no more than six employees. During the same time, enterprises (*siying qiye*), defined as privately owned employing more than six employees, began to

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<sup>1</sup> In this paper the terms *self-employed* or *self-employment* refer to “nonagricultural self-employed,” excluding farmers.

emerge but were not subject to regulation until 1988. These larger private enterprises developed in two major ways: they either evolved from individual/household businesses or they emerged from the leasing of state-owned or collective enterprises to individuals. The turning point in the transition of China's market economy and a great boost for the private sector began in the early 1990s following Deng's famous southern tour in September 1992 when he called for a continuation of the reform effort.

A significantly rapid development of the private sector occurred from 1992 to 1995, when employment in the private sector (including private enterprises and individual business) in both urban and rural areas showed an annual rise of 23% to 34%.<sup>2</sup> The growing momentum of the private sector was much stronger in the eastern coastal provinces. During the same period the private sectors of Shanghai, Zhejiang, and Fujian witnessed average annual employment growth rates of 38%, 23% and 36% respectively.<sup>3</sup> While workers progressively flew into the private sector, in 2004, a large number of self-employed entrepreneurs, accounting for 21% and 7% of total employment in urban and rural areas respectively, had entered the economy (China Labor Statistical Yearbook 2005.).

Compared with China, self-employment in Taiwan had an earlier development since the 1960s and was one of the country's major postwar economic development programs. Despite increases in the country's wage and salaried employment that accompanied industrialization, 20 percent of total employment still remained self-employed in 2005. This figure represented a slight decline from 25 percent in 1978-85 to 22 percent in 1995-99. Over the past four decades there has been a steady

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<sup>2</sup> Calculated from *China Statistical Yearbook, 1993-96*.

<sup>3</sup> Calculated from *Comprehensive Statistical Data and Materials on 50 Years of New China*.

labor flow into self-employment although the proportion of employment has slightly declined.

Statistics from both China and Taiwan indicate that as their economies advance, self-employment would not inevitably decline even when wage employment absorbed a large number of the labor supply. This pattern is unlike the experiences of advanced Western economies and points to the importance of studying self-employment in these two societies (Portes and Benton 1984; Muller and Arum 2004).

### **Structural Changes and State Policy**

In the labor market of modern industrial societies, the mechanism of supply and demand is crucial to the rise and fall of employment types. Likewise, the necessity of self-employment results from contest between the characteristics of the supply side and structural opportunities enabled by the demand side. One of the most important structural conditions conducive to self-employment emerged from the economic changes in which the labor demand for agriculture declined due to technological developments and increased productivity. Rapid market expansion and industrialization led to substantial structural changes, reflected not only in the changing relationship among different social positions, but also in the shifting distribution of people among those very positions. Industrial development, particularly in the labor-intensive manufacturing sector involving large numbers of small businesses and subcontracting jobs, led to a migratory influx of the labor force from agriculture to industry. Equally important, the service sector continuously expanded with the development of industry. The entry barriers into self-employment were relatively lower in labor-intensive subcontracting manufacturing and in the service sector than in capitalist-intensive manufacturing. These sectoral changes have

led to increased individual opportunities for self-employment in eastern China and Taiwan as well.

Figure 1 presents the development of nonagricultural employment in China and Taiwan. In Taiwan, the percentage of nonagricultural employment increased from 54% in 1963, to 81% in 1980, and finally to 90% in 1995. Since the mid-1980s, Shanghai displayed a parallel trend with Taiwan, with more than 80% nonagricultural employment. Zhejiang and Fujian also have higher percentages of nonagricultural employment than the national average, even though a large number of migrating peasant workers residing in these two provinces were not accounted for. The nonagricultural employment in eastern China has been continually increasing, particularly after the 1990s (Figure 1).

[Figure 1 about here]

In addition, both in southeastern China and Taiwan, the scale of the economy has a critical impact on easing the entry into self-employment, particularly as a result of state policy in the early stages of economic development -- in the 1960s in Taiwan and in the 1980s in China. Previous research has noted an unusually large number of small, mostly family-owned businesses in Taiwan and highlighted their significant role in economic development (Deyo 1989, Galenson 1979). Since the Kuomintang regime fled to Taiwan in 1949, in order to defend its legitimacy and secure its political dominance, the government aggressively discouraged political activities and, instead, intentionally encouraged entrepreneurial activities in small business. As a result, small- and medium-sized family businesses and subcontracting networks mushroomed. The regime's fiscal policy of high interest rates, preference for short-term loans, and unsupportive attitude in equity capital, along with unbiased

economic plans encouraging competition, constrained the amount of capital available for individual businesses, and therefore impeded the growth of large enterprises (Hamilton and Biggart 1988).

The analogy with Taiwan's development experience, with small family-run firms a dominant feature, appears to be an appropriate template to understand the dynamism of rural industrialization along the coastal fringe of southeastern China. In rural China, from the 1980s to the early 2000s there were two starkly different patterns of rural industrial growth. The first was local-government-centered where village and township officials played an active entrepreneurial role and government-owned industrial enterprises were operated by government-appointed managers under various incentive institutions. The second, common in southeastern China, was dominated by family or private enterprises with rural officials, not involved in manufacturing, playing a supporting role in facilitating investment and infrastructure. (e.g., see Oi and Walder 1999; Chen 2004; Oi 1999; Whiting 2001; Liu 1992). In the reform period, in order to defend its legitimacy and secure its political dominance, CCP regime loosened its restrictions on non-state economic activities, only to see local government and household factories take the initiative in industrialization and market activities. The central government offered neither state subsidies nor financial capital to non-state enterprises, which relied completely on family endowment, kinship connections, and social networks to acquire the capital necessary for the factors of production.

The industrial structure in rural eastern China and in Taiwan has been characterized by a small scale economy and relatively low capital requirements for business establishments, compared particularly with Japan and South Korea. This particular economic structure had great implications for workers and their working

lives. It eased the entry of the workers in the manufacturing sector into self-employment and became a popular and possible path for their upward social mobility. Thus their rise into the category of bosses.

### **Institutional Constraints and Institutional Supports**

In spite of structural changes at the macro level, not everyone is able to become self-employed. Among several institutional constraints in China for self-employment, property rights relations and *hukou* system are most crucial, which have been impeding the establishment a secure, free, and resourceful institutional environment for the expansion and upgrading of private businesses.

On the other hand, the “family embeddedness” has been a crucial institutional support for self-employment. Family embeddedness refers to economic activities embedded in family relations and the relations extended from family. It can be illustrated by traditional family factories in which the bosses work as laborers and the labor was recruited from the family members and then family relatives before extending to friendship and local networks. The family embeddedness of self-employment is not only in operation in Chinese societies but is also a distinct character in post-socialist economies and modern advanced economies (Muller and Arum 2004; Sikora 2005; Aldrich and Cliff 2003; Szelenyi 1988). Szelenyi (1988) found that a number of entrepreneurs in Eastern Europe (e.g., Poland or Hungary) during the transition period originated from former entrepreneurial families that had either been self-employed in the second economy, or had occupied leading positions in state enterprises during the socialist period. Laferrere (2001) emphasizes that the positive effect of parental self-employment on one’s likelihood of becoming self-employed is important even when no intergenerational money transfers are

involved. What matters is “a taste for self-employment,” a knowledge of running a business and use of a family network.

Whyte (1995, 1996) explores the positive role of China’s family and kinship institutions which significantly contributed to China’s economic surge. Back to the 1980s, to explain the economic success of Asian NICs, particularly Taiwan, Hong Kong, and Singapore, scholars started to examine the institutional supports provided by Chinese family patterns (Berger 1988; Wong 1985, 1988; Greenhalgh 1988). Whyte compares both “engine” and “obstacle” arguments regarding the role of family on China’s economic development and proposes that both arguments are oversimplified. He highlights some features of Chinese familism persisted through CCP revolution and a series of political campaigns, such as family loyalty and obligations to the larger kinship network, sacrifice by members for the sake of the family, and the power of the kin relationships upon individual behavior. It is these persistent behavioral patterns that provided favorable conditions for economic development during the reform era. However, these positive forces Chinese family carries to produce economic dynamism are not due to the fact that the Chinese family is an “engine of development.” A variety of institutional supports are necessary for its potential to be unleashed (Whyte 1995). To what extent the institutional supports the family provides can counter the institutional constraints the *hukou* system imposes in today’s global competitive economic structure is what we aim to tackle in this paper.

### **Data, Variables and Methods**

Data in this study were drawn from the Panel Study of Family Dynamics (PSFD) survey, conducted by a research team based at Academia Sinica, Taiwan. This project constructed a panel data set for families in Taiwan and eastern China (namely

Shanghai, Zhejiang, and Fujian), containing economic, social, psychological and ethnological information.<sup>4</sup> The Chinese and Taiwanese sites were selected to capture the impact of different political regimes and shared Chinese cultural institutions. Covering both urban and rural areas in Taiwan and eastern China, it sought to compile national and regional representative samples with families as the units for follow-up interviews. The survey instrument was administered to a total of 4684 and 3024 sampled respondents in eastern China (conducted in 2004) and Taiwan (conducted in 1999, 2000, and 2003), respectively. Combined with other criteria for excluding respondents with missing or incomplete data, this procedure yielded a study sample of 2949 respondents from eastern China and 1720 respondents from Taiwan.

This paper investigates the paths to self-employment for urban and rural residents in eastern China and Taiwan. Unlike China where there has been a clear urban-rural gap and a rigid *hukuo* system restricting people's residence and internal migration, Taiwan has seen its people continuously flow from rural to urban areas and even its rural towns today have become modernized and are in close proximity to cities. Economically and institutionally the urban-rural gap in Taiwan, which is less than one third the area of Fujian province, is not as significant as that of China's. As such, in our data analysis, we examine urban and rural China separately, but consider Taiwan as an integrated urban-rural totality.

'Self-employment' is herein literally defined as working for oneself in non-agricultural sectors as opposed to wage earners/farmers. This definition follows the conceptualization of Steinmetz and Wright (1989) in which self-employed is restricted to own account workers and small employers, excluding "labor-hiring

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<sup>4</sup> For detailed information about PSFD data, see its web site at <http://psfd.sinica.edu.tw>.

entrepreneurial capitalists,” located in the capitalist mode of production.<sup>5</sup> The survey asked respondents to identify the employment status of his/her current job.<sup>6</sup> The self-employed are those who stated that they currently work for oneself or for one’s own business, exclusive of paid or unpaid family workers. A self-employed person may or may not hire employees. In this study, self-employment is divided into two categories: *employers* referring to those who hire workers and *pure self-employed* referring to those who employ no one. Owners of incorporated enterprises in Taiwan are considered self-employed as well. From our survey data, in urban eastern China in 2004, small employers and the pure self-employed who employ no wage labor accounted for 7 percent and 9 percent of employment respectively; in rural areas the former and the later accounted for 4 percent and 10 percent of employment respectively. In Taiwan, the share of small employers and pure self-employed are much higher: small employers and the pure self-employed accounted for 8 percent and 13 percent of employment respectively (Appendix A; Appendix B).

Two principal explanatory variables are “human capital variables” and “family support variables.” Education and experience are two important aspects of human capital. *Education* is a core resource and a critical determinant of labor market outcomes in modern societies. It strongly influences entry into advantageous class

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<sup>5</sup> In this study we do not differentiate employers between small employers and capitalists, but treat all of them equally as small employers. The principal consideration is grounded in the fact that these employers also work, whereas the bourgeoisie conceptualized as capitalists located in the capitalist mode of production do not sell their labor power (Wright 1985). Furthermore, employers in this study are overwhelmingly small employers: less than five percent of them in China and Taiwan hire more than 30 workers.

<sup>6</sup> The original question was: In your current job, whom do you work for? 1) on your own farm; 2) for yourself in your own enterprise (e.g., private entrepreneur, individual businesspeople); 3) for your own family’s enterprise, including paid or non-paid family workers but not including being the boss; 4) for the government, state institute, or educational institute; 5) for state or collective enterprises; 6) for a boss in the private sector; 7) for foreign joint ventures; 8) for others?

positions. In this study, we recoded education into three levels: primary school or lower, junior high school, senior high school and any tertiary-level institution (college or higher).<sup>7</sup>

Family support, provided in terms of either direct material assets or indirect social capital, includes the following four measurements: (1) parents self-employment status, (2) family financial support to one's business, and (3) family political connections. *Parents self-employment*, a proxy of the impact of family background, was a dummy variable based on whether the longest-held occupation of one's parents (any one), or his/her spouse's parents (any one) was a self-employed position. Self-employed parents presumably can provide their children with techniques and social capital necessary in this business, which may not be accessible for those whose parents are not self-employed. *Family financial support*, a dichotomous variable, was based on whether, over the past ten years, one ever received financial support for his/her own business from family members (i.e., parents, spouses' parents, siblings, and spouse's siblings). *Family political connections*, also a dummy variable, was measured to see whether the longest-held occupation of any of one's parents (including his/her spouse's parents) was a government official or cadre.<sup>8</sup>

Other independent variables include generational cohorts, gender, and first job. The *generational cohort* was coded as a dichotomy, referring to whether the respondent was born after 1960. The choice of the 1960 cutting-off point was based on the notion of a group of people bound together by the sharing of the experience of common historical events. In China, an approximation is that the generation after

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<sup>7</sup> The number of college-educated cases in rural China is very low. Taking into convergence into account in the multinomial regression analysis, we combine senior high school and any tertiary-level institution into the advancing schooling group.

<sup>8</sup> In China, an important indicator of political capital is Party membership. Regretfully, the lack of Party membership data limits our tasks in this respect.

1960 joined the labor market in the late 1970s, when China first launched its reforms. In Taiwan, this cohort from its youngest years reaped the benefits from the economic growth when their parents participated in the market expansion of Taiwan's early industrialization. *First job* was measured by one's first occupation in the labor market (coded as worker, administrator/professional, nonmanual clerical, and farmer). In the analysis of income distribution, we added a dichotomous variable of *cadre*, measured as whether the respondent's current job was a government official or local cadre. *Income* was measured as the respondent's monthly income earned from one's current job.

In the following section, we first presented descriptive statistics to investigate the features of the urban-rural divide in eastern China and Taiwan, and then compared the characteristics of the self-employed to the dependent employed workers in these two societies. Then multinomial regression models separately estimated the determinants of being an employer or a pure self-employed in eastern China and Taiwan. To obtain a more detailed picture of the determinants of self-employment, separate logistic regression models were also run for each of the three comparative groups (urban and rural residents in eastern China and Taiwan separately). Lack of work-history data prevented our study from adopting a dynamic event-history approach that could be used to estimate the effects of time-varying variables on the likelihood of transition into self-employment. Thus, we have had to limit ourselves to cross-sectional models.<sup>9</sup>

## **Descriptive Findings**

We first examine the rural-urban gap in eastern China and Taiwan. First of all,

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<sup>9</sup> For similar cross-sectional models adopted in research on self-employment, see, for example, Carr 1996, Shavit and Yuchtman-Yaar 2001, and Entwisle et. al. 1995.

we investigate the regional gap between the three provinces of eastern China (Shanghai, Zhejiang, and Fujian) and the whole country. Both urban disposable income per capita and rural net income per capita display a similar pattern of regional disparity. Before 1990, the regional income disparities were still not noticeable, particularly for urban residents. Since 1992, along with fast income growth nationwide, the regional disparities have also accelerated. Shanghai leads the growth, followed by Zhejiang and Fujian, with the national average lagging behind (Figure 2, 3). Comparing the intra-provincial urban-rural income gap, we find the absolute difference and relative difference may give different “feelings” about how big these differences are. For absolute intra-provincial urban-rural income differences, they are increasing quickly since 1992 and much faster after 1998; the intra-provincial differences in eastern China were continually wider than that of the whole country, with Shanghai topping out, followed by Zhejiang and then Fujian. For relative intra-provincial urban-rural income difference, the national difference has been higher than those of the eastern provinces, with all showing urban incomes being double to triple that of rural income (Figure 4, 5).

[Figure 2, 3 about here]

[Figure 4, 5 about here]

From our study sample, we further examine the disparity in incomes of different social groups. In eastern China, the average monthly income of an urban resident was about twice as much as that of a villager (i.e. 1,722 yuan versus 854 yuan). In the rural areas, cadres and employers, with monthly incomes of 3,262 yuan and 3,426 yuan respectively, significantly earned more and surpassed other social groups. Nevertheless, in urban areas, the earnings of employers (2,609 yuan) significantly led other occupational groups, whereas cadre

earnings than other social groups. Self-employment includes workers in different kinds of work and in different conditions of economic well-being and social standing. This study distinguishes self-employed individuals who employ the labor power of others from those who work alone. In terms of economic well-being, self-employed individual who work alone are by no means better off, compared with workers in the private and public sectors, whereas self-employed persons who hire workers earn significantly more than others. In urban eastern China, the average monthly income of purely self-employed workers is 1,341 yuan which is lower than the income of workers in the private and public sector (1,577 yuan and 1,766 yuan respectively). Similarly, in rural eastern China, purely self-employed workers (with earnings of 1,055 yuan) earned on the average less than paid employees in private and in public sector did (1,064 yuan and 1,223 yuan) (Appendix A).

With minor variations, the income distribution in Taiwan reveals a similar pattern to that of eastern China. Like in rural eastern China, employers and government officials in Taiwan significantly earned more than other social groups did. There are variations in the relative economic well-being of purely self-employed persons across the Straits. Whereas purely self-employed workers in Taiwan earn much more than workers in private sector but less than those employed in public sector, the same category of workers in the urban and rural sectors of eastern China are worse-off with incomes only slightly higher than those of farmers, but lower than those of wage workers in the private and public sectors (Appendix A).

### **Multivariate Analysis**

We now turn to the analysis of the individual determinants of the status of self-employment. The gender effect shows that men have far greater odds of attaining

such a status than women, except in urban eastern China where the effect is positive but not significant. Previous studies also found that men are more likely to become self-employed than women both in China and Taiwan (Davis 1999; Entwisle et. al. 1995; Yu and Su 2004). The generational cohort effects on self-employment show vast differences across the Straits. The elder generation in Taiwan is more likely to become self-employed than the younger generation. eastern China displays no such significant cohort differences.

Insofar as the effects of human capital are concerned, interesting differences exist across the Straits as well as between urban and rural residents in China. In urban eastern China, advancing schooling (senior high school and any tertiary-level institution) is inversely related to self-employment (inclusive of being either an employer or a purely self-employed person). That is, those who had completed their senior high school or college in urban China tended to enter non-self-employed careers. However, higher education in rural eastern China does not have a significant effect with regard to becoming a purely self-employed person whereas there was a positive effect for those who just finished junior middle school to go on to become employers.

With regard to the overwhelming numbers of less educated rural population (54 percent of rural residents completed primary school or less), a junior high school degree indeed refers to a certain higher degree of human capital. Under the *hukou* system that constrained rural-urban migration, the relatively talented villagers in eastern China were more likely to opt for careers as employers. In Taiwan, advanced schooling is only inversely related to being purely self-employed; education is not a significant factor in accounting for one's being an employer.

Turning to the effects of family support, there seem to be common but also different characteristics on both sides of the Straits. Family background, more specifically the family's financial, and human and social capital inherited from one's parents, significantly affects one's likelihood of becoming an employer or a pure self-employed in Taiwan. In urban China, family background plays the same role like in Taiwan for advancing one's likelihood of becoming an employer, but parent self-employed is not significantly related to one's becoming a pure self-employed. In rural areas, family financial supports has no effect on one's self-employment career, but parent's self-employed experience significantly helps, either for being an employer or a pure self-employed. It is most likely that previous exposure to self-employment activities reduces one's fear of the risk and uncertainty involved in self-employment, not to mention the advantage that one gains from such exposures in increasing one's knowledge and information base for maintaining the status of being self-employed.

All in all, the positive effects of family financial support apply equally to people in Taiwan and urban residents in eastern China, but not to rural villagers in eastern China. The positive effects of self-employed parents is apparent in Taiwan and eastern China, except for those purely self-employed persons in urban eastern China.

The transition from first job positions to self-employed or non-self-employed positions reveals significant differences for urban and rural residents in eastern China and Taiwan. In Taiwan, those whose entered job market as workers are more likely to become pure self-employed persons compared with those whose first job are farmers. This is applicable to urban and rural eastern China as well. What is noteworthy is that in urban China one's first job in a clerical position can be a significant deterrent against one's becoming purely self-employed. Alternatively, in rural China this very

same situation (of being a clerk first) becomes a significantly positive factor for one to either become an employer or to be purely self-employed. A non-manual clerical position, namely a cadre position, more significantly enhances the likelihood of moving up into self-employment thus signaling the positional advantage of bureaucratic prestige and power in rural China.

[Table 1 about here]

With regard to determinants of income, the linear regression analysis indicates that certain factors like gender (with males being at an advantage), education, and the employment sector together have significant effects on one's income in urban and rural China, as well as in Taiwan. The employment sector comprises five sections: viz. employer, purely self-employed persons, employment in the private sector, employment in the public sector and employment in the agricultural sector. The results indicate that, in China and Taiwan, employers' incomes were far greater than other occupation groups, with the income of farmers lagging significantly behind other groups. Equally important, in urban and rural eastern China, no significant income difference was found among the three occupational groups of purely self-employed persons, wage workers in the private and in public sectors. Insofar as cadres were concerned, their incomes significantly outnumbered the income of others in rural eastern China, but this was not the case in urban Eastern China and Taiwan.

[Table 2 about here]

## **Remarks**

As self-employment has developed into a heterogeneous employment type including workers in different kinds of work and in different conditions of economic

and social standings, the issue of whether self-employment is an avenue for upward socioeconomic mobility in eastern China and Taiwan depends on whether such the self-employed sectors of the economy does or does not employ wage workers. That is, small-scale proprietors are apparently better off, but workers slogging on their own account are not.

Who is able to move ahead to attain the status of a boss, and by what means can he/she rise to that status? The three societies -- urban and rural eastern China and Taiwan – although they bear certain common characteristics display three different patterns.

First of all, being embedded in a Chinese family plays a seminal role. Despite the inhibitory *hukou* system, Chinese family embeddedness is a core institutional arrangement for facilitating self-employment and upward mobility. Both in China and Taiwan those whose parents have had hands-on experience in self-employment are more likely to rise to the status of bosses. This could be attributed to the established social capital of such parents who control resources and information flows thus necessitating lower costs for self-employment activity. Equally important, in urban eastern China and Taiwan, family's financial supports enhance one's likelihood to maintain the employer status.

The studies of urban Chinese elites by Walder and his colleagues have demonstrated that urban China has two distinct career paths that lead to a divided elite. The political path requires both educational and political credentials; the professional path requires educational but not political credentials. Only recently has college education improved a high school graduate's odds of becoming an elite administrator, while it has always been a virtual prerequisite for a professional position (Walder

1995; Walder, Li and Treiman 2000). In addition to the dual career paths into the urban Chinese elite, this study shows a third mobility regime in which the family embeddedness principles are segregated from the loyalty principles of a political machine and the meritocratic standards of modern professions. It reflects a return to generic Chinese familism practices, combined with and segregated from state socialist practices rejected in the Mao years rather than the influence of an emerging market economy.

While education is a deterrent to people becoming employers in urban eastern China, they have either insignificant effects or significantly positive effects on becoming employers in rural areas. Education is a core resource in modern societies and strongly influences entry into advantageous class positions. However, recent research has found that in several respects self-employment has been understood as being at odds with such a positive conception of the role of education in the process of class and status attainment (Abrum and Muller 2004). More specifically, the effects of education on the dynamics of self-employment are greater in countries with lower levels of family based social capital and with higher levels of labor market regulations. Education appears to play a less prominent role on self-employment in countries with higher quotas of family-based social capital such as Taiwan and China.

This study finds that political capital plays a significant role in rural eastern China by improving a bureaucratic clerk's odds of becoming an employer or a purely self-employed worker. Some scholars claim that market competition changes the stratification order by rewarding skill and ability rather than rank and authority thus creating a new class of entrepreneurs whose incomes rise relative to that of administrators and former Party cadres (Nee 1989, 1991). Meanwhile, the literature also reveals that power and influence persists and generates disproportionate benefits

in China's emerging market economy (Bian and Logan 1996; Zhou 2000). This study finds human capital (indicated by junior middle school education), political capital (indicated by bureaucratic clerical original status), and family embeddedness (indicated by parent self-employment experience) together enhance one's odds of becoming an employer.

China's high economic growth and extensive development created new opportunities, and those who were able to take advantage of the expanded new opportunities could benefit from the markets. Chinese market reform involves both particular institutional changes (e.g., *hukou* system) and ordinary structural changes commonly observed in developing economies. To understand China's rural-urban inequality in market reforms, it is necessary to specify precisely the institutional and structural conditions under which markets increase or decrease inequality. The social outcomes of markets and redistribution depend on the broader institutional settings in which they are embedded (Szelenyi and Kostello 1996).

The above analysis reveals the mobility processes of self-employment in response to institutional arrangements and the structural changes, and their consequent mechanisms of income distribution. It highlights the role of Chinese families as an institutional driving force for breaking through the institutional constraints of rural-urban cleavages in response to structural changes brought about by rapid industrialization. In both societies across the Straits, self-employment through family infrastructural support serves as an adaptive alternative to counter institutional constraints. In rural eastern China, a combination of family support, bureaucratic experience, and fair human capital contributes to one's moving ahead on one's own initiative and bridging the urban-rural divide to charter a path of success for the enterprising.

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**Table 1. Parameter Estimates of Multinomial Regression in Eastern China and Taiwan, 2004**

	Eastern China			Taiwan
	Total	Urban	Rural	Total
	b	b	b	b
<b>Employer</b>				
Male	.757***	.475	.878**	1.209***
Young generation (born after 1960)	.278	.649*	-.025	-.721***
Education (under / primary school as reference group)				
<i>Junior middle school</i>	.326	-1.131**	.866***	.733+
<i>Advanced schooling</i>	-1.119***	-2.737***	-.240	.589+
First job (workers as reference group)				
<i>Administrators/professionals</i>	.004	.090	-.125	-.287
<i>Nonmanual clerical</i>	.652*	.100	1.237***	-.124
<i>Farmers</i>	-.720**	-.198	-.726*	-.725
Family political connections	.067	-.134	.496	-.200
Family financial supports in business	.666**	1.221*	.500	1.515***
Parent self-employed	.770**	.796*	1.028*	.465*
Rural	-.262			-.508*
<b>Intercept</b>	-3.124***	-1.870***	-3.722***	-3.306***
<b>Pure self-employed</b>				
Male	.140	.180	.088	.782***
Young generation (born after 1960)	.171	.267	.171	-.880***
Education (under / primary school as reference group)				
<i>Junior middle school</i>	.174	-.565	.224	.014
<i>Advanced schooling</i>	-.813***	-2.407***	-.222	-.701***
First job (workers as reference group)				
<i>Administrators/professionals</i>	-.058	-.653	.473	-.121
<i>Nonmanual clerical</i>	.156	-.717*	.757**	.058
<i>Farmers</i>	-1.136***	-1.169**	-.874***	-1.151***
Family political connections	-.599	-.860	-.319	-.767**
Family financial supports in business	.412*	1.052*	.287	.532*
Parent self-employed	.581*	.488	.840*	.355*
Rural	.420*			-.384*
<b>Intercept</b>	-2.026***	-.920*	-1.907***	-1.3589***
<b>Chi-Square</b>	183.165***	125.851***	138.281***	209.463***
<b>D.F.</b>	22	20	20	22
<b>N</b>	2993	786	2207	1722

**Note:** The outcome variable is: (a) employer; (b) pure self-employed; and (c) paid employee (the reference group).

+ significant < 0.1; \* significant < 0.05; \*\* significant < 0.01; \*\*\* significant < 0.001

**Table 2: OLS Regression for Income in Eastern China and Taiwan, 2004**

	Eastern China			Taiwan
	Total	Urban	Rural	Total
	b	b	b	b
Male	.491***	.347***	.557***	.379***
Young generation (born after 1960)	.220***	.005	.293***	-.152***
Education (under/primary school as reference group)				
<i>Junior middle school</i>	.122***	.261**	.092*	.273***
<i>Advanced schooling</i>	.347***	.612***	.216***	.497***
First job (workers as reference group)				
<i>Administrators/professionals</i>	.175**	.304***	-.012	.282***
<i>Nonmanual clerical</i>	.130*	.202**	.072	.106**
<i>Farmers</i>	.050	.076	-.011	-.351***
Employment (pure self-employed as reference group)				
<i>Employer</i>	.656***	.592***	.687***	.530***
<i>Employee in private sectors</i>	.059	.028	.026	.077+
<i>Employee in public sectors</i>	.043	.000	-.032	.262***
<i>Agriculture</i>	-.821***	-.821***	-.841***	-.647***
Cadre	.125	-.159	.460***	.139 <sup>+</sup>
Family political connections	.000	.065	-.078	.122**
Rural	-.221***			-.172***
<b>Intercept</b>	6.361***	6.352***	6.162***	9.790***
<b>D.F.</b>	14	13	13	14
<b>Adjust R Square</b>	.464	.210	.417	.380
<b>N</b>	2849	761	2088	1486

**Note:** The outcome variable is: (a) employer; (b) pure self-employed; and (c) paid employee (the reference group).

<sup>+</sup> significant < 0.1; \* significant < 0.05; \*\* significant < 0.01; \*\*\* significant < 0.001

## Appendix A. Income for Selected Characteristics in Eastern China and Taiwan, 2004

Variable	Eastern China (N=2849)		Taiwan (N=1486)
	Urban (N=761)	Rural (N=2088)	Total
	Chinese Yuan		Taiwan Dollars
<b>Average Income</b>	1,722	854	46,427
	t=11.06***		
<b>Self-employed</b>			
<i>Employer</i>	2,609	3,426	98,192
<i>Self-employed</i>	1,341	1,055	42,648
<i>Non-self-employed</i>	1,705	710	41,451
	H <sup>a</sup> =16.01***	H <sup>a</sup> =236.38***	H <sup>a</sup> =49.80***
<b>Cadre</b>			
<i>Cadre</i>	2,087	3,262	62,789
<i>Non-cadre</i>	1,699	814	45,581
	t=-1.2	t=-2.52*	t=-2.70**
<b>Employment Sector</b>			
<i>Employer</i>	2,609	3,426	98,192
<i>Pure self-employed</i>	1,341	1,055	42,648
<i>Employment in private sector</i>	1,577	1,064	38,392
<i>Employment in public sector</i>	1,766	1,223	54,938
<i>Agriculture</i>	1,214	507	11,756
	H <sup>a</sup> =27.32***	H <sup>a</sup> =726.7***	H <sup>a</sup> =219.18***
<b>Generational cohort</b>			
<i>Young (born after 1960)</i>	1,748	1,044	42,022
<i>Old (born in and before 1960)</i>	1,694	655	51,087
	t=-0.39	t=5.41***	t=3.23***
<b>Education</b>			
<i>Primary school or below</i>	1,213	665	27,365
<i>Junior middle school</i>	1,343	1,030	39,022
<i>Advanced schooling</i>	2,030	1,231	52,578
	H <sup>a</sup> =68.78***	H <sup>a</sup> =243.4***	H <sup>a</sup> =279.66***

+ significant < 0.1; \* significant < 0.05; \*\* significant < 0.01; \*\*\* significant < 0.001

a) H represents the test statistics of Kruskal Wallis Test.

## Appendix B. Parameter Estimates of Multinomial Regression in Taiwan, 1992 and 2004

	Taiwan		
	2004	1992	Both
	b	b	b
<b>Employer</b>			
Male	1.209***	.796***	1.020***
Young generation (born after 1960)	-.721***	-1.141***	-.838***
Education (under / primary school as reference group)			
<i>Junior middle school</i>	.733+	.160	.391+
<i>Advanced schooling</i>	.589+	-.071	.254
First job (workers as reference group)			
<i>Administrators/professionals</i>	-.287	-.290	-.323+
<i>Nonmanual clerical</i>	-.124	-.143	-.160
<i>Farmers</i>	-.725	-1.989***	-1.451***
Family political connections	-.200	.065	-.036
Family financial supports in business	1.515***	---	---
Parent self-employed	.465*	.649**	.542***
Rural	-.508*	-.346+	-.457***
1992 (2004 as reference group)			.172
<b>Intercept</b>	-3.306***	-2.134***	-2.645***
<b>Pure self-employed</b>			
Male	.782***	.575***	.666***
Young generation (born after 1960)	-.880***	-.473*	-.717***
Education (under / primary school as reference group)			
<i>Junior middle school</i>	.014	-.175	-.079
<i>Advanced schooling</i>	-.701***	-1.346***	-.958***
First job (workers as reference group)			
<i>Administrators/professionals</i>	-.121	.393	.118
<i>Nonmanual clerical</i>	.058	.403+	.197
<i>Farmers</i>	-1.151***	-1.564***	-1.384***
Family political connections	-.767**	-.124	-.343*
Family financial supports in business	.532*	---	---
Parent self-employed	.355*	.718***	.490***
Rural	-.384*	.100	-.177
1992 (2004 as reference group)			.031
<b>Intercept</b>	-1.3589***	-1.579***	1.407***
<b>Chi-Square</b>	209.463***	168.913***	312.154***
<b>D.F.</b>	22	20	22
<b>N</b>	1722	1539	3261

**Note:** The outcome variable is: (a) employer; (b) pure self-employed; and (c) paid employee (the reference group).

+ significant < 0.1; \* significant < 0.05; \*\* significant < 0.01; \*\*\* significant < 0.001

**Appendix C. Summary Statistics for Selected Characteristics for Self-employed and Non-self-employed Workers in Eastern China and Taiwan, 2004**

Variable	Eastern China (N=2993)			$\chi^2$	Taiwan (N=1722)			$\chi^2$
	Employer (N=145, 5%)	Pure self- employed (N=288, 10%)	Paid- employee (N=2560, 85%)		Employer (N=137, 8%)	Pure self- employed (N=226, 13%)	Paid- employee (N=1359, 79%)	
	Percentage				Percentage			
<b>Gender</b>				11.64**				48.36***
<i>Male</i>	77	64	63		81	71	55	
<i>Female</i>	23	36	37		19	29	45	
<b>Generational cohort</b>				13.94***				35.12***
<i>Young (born after 1960)</i>	60	60	51		42	29	50	
<i>Old (born in and before 1960)</i>	40	40	49		58	71	50	
<b>Education</b>				47.22***				34.31***
<i>Primary school or below</i>	33	39	44		12	33	23	
<i>Junior middle school</i>	52	44	31		15	19	12	
<i>Advanced schooling</i>	15	17	25		73	48	65	

**Appendix C. (continued)**

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Eastern China (N=2993)

Taiwan(N=1722)

Employer

**Appendix D. Summary Statistics for Selected Characteristics for Self-employed and Non-self-employed Workers in Eastern China, 2004**

Variable	Eastern China (N=2993)						$\chi^2$	$\chi^2$
	Urban (N=786)			Rural (N=2207)				
	Employer	Pure self-employed	Paid-employee	Employer	Pure self-employed	Paid-employee		
	(N=53, 7%)	(N=70, 9%)	(N=663, 84%)	(N=92, 4%)	(N=218, 10%)	(N=1897, 86%)		
	Percentage				Percentage			
<b>Gender</b>							3.89	10.08**
<i>Male</i>	70	64	58	80	64	64		
<i>Female</i>	30	36	42	20	36	36		
<b>Generational cohort</b>							1.70	13.86***
<i>Young (born after 1960)</i>	60	54	51	60	62	50		
<i>Old (born in and before 1960)</i>	40	46	49	40	38	50		
<b>Education</b>							88.29***	36.16***
<i>Primary school or below</i>	34	24	9	33	44	57		
<i>Junior middle school</i>	45	59	29	55	40	31		
<i>Advanced schooling</i>	21	17	62	12	16	12		

**Appendix D. (continued)**

Variable	Eastern China (N=2993)						$\chi^2$	$\chi^2$
	Urban (N=786)			Rural (N=2207)				
	Employer	Pure self-employed	Paid-employee	Employer	Pure self-employed	Paid-employee		
	(N=53, 7%)	(N=70, 9%)	(N=663, 84%)	(N=92, 4%)	(N=218, 10%)	(N=1897, 86%)		
	Percentage			Percentage				
<b>First job</b>							21.55***	108.99***
<i>Administrator/professional</i>	17	12	25	3	7	3		
<i>Nonmanual clerical</i>	28	20	27	17	13	4		
<i>Farmer</i>	23	14	19	57	54	79		
<i>Worker</i>	32	54	29	23	26	14		
<b>Family political connections</b>							4.88+	1.25
<i>Yes</i>	9	4	13	4	3	3		
<i>No</i>	91	96	87	96	97	97		
<b>Family financial support</b>							--	4.84+
<i>Yes</i>	15	11	4	15	12	9		
<i>No</i>	85	89	96	85	88	91		
<b>Parent self-employed</b>							4.06	22.4***
<i>Yes</i>	23	16	13	7	6	2		
<i>No</i>	77	84	87	93	94	98		

+ significant < 0.1; \* significant < 0.05; \*\* significant < 0.01; \*\*\* significant < 0.001

'--' : It is not suitable to use the  $\chi^2$  test ( more than 20% cells have expected count less than 5 or the minimum expected count is less than 1)

Figure 1. Non-agricultural Employment in Eastern China and Taiwan, 1978-2004

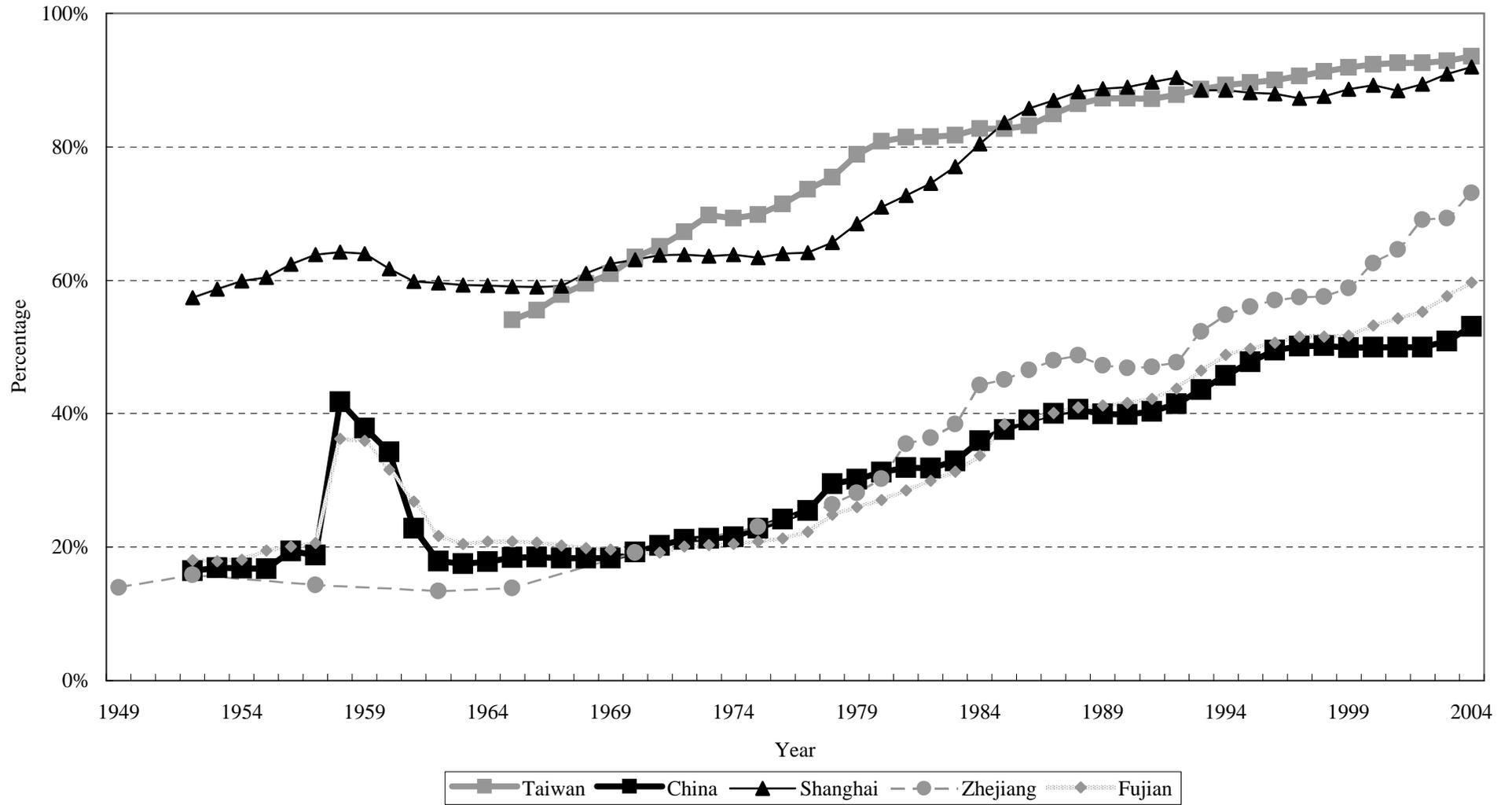


Figure 2. Disposable Income Per Capita in Urban China

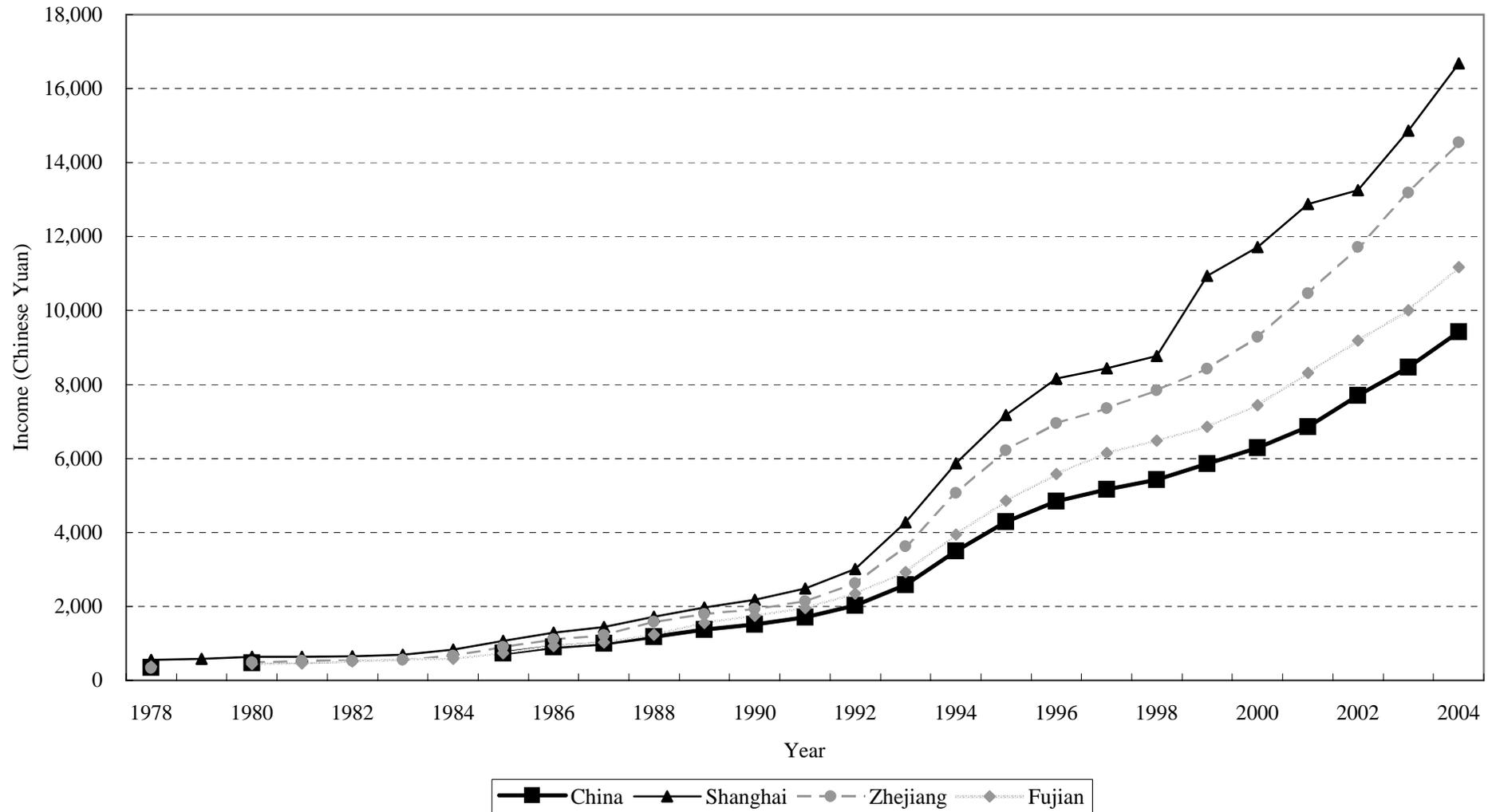


Figure 3. Net Income Per Capita in Rural China

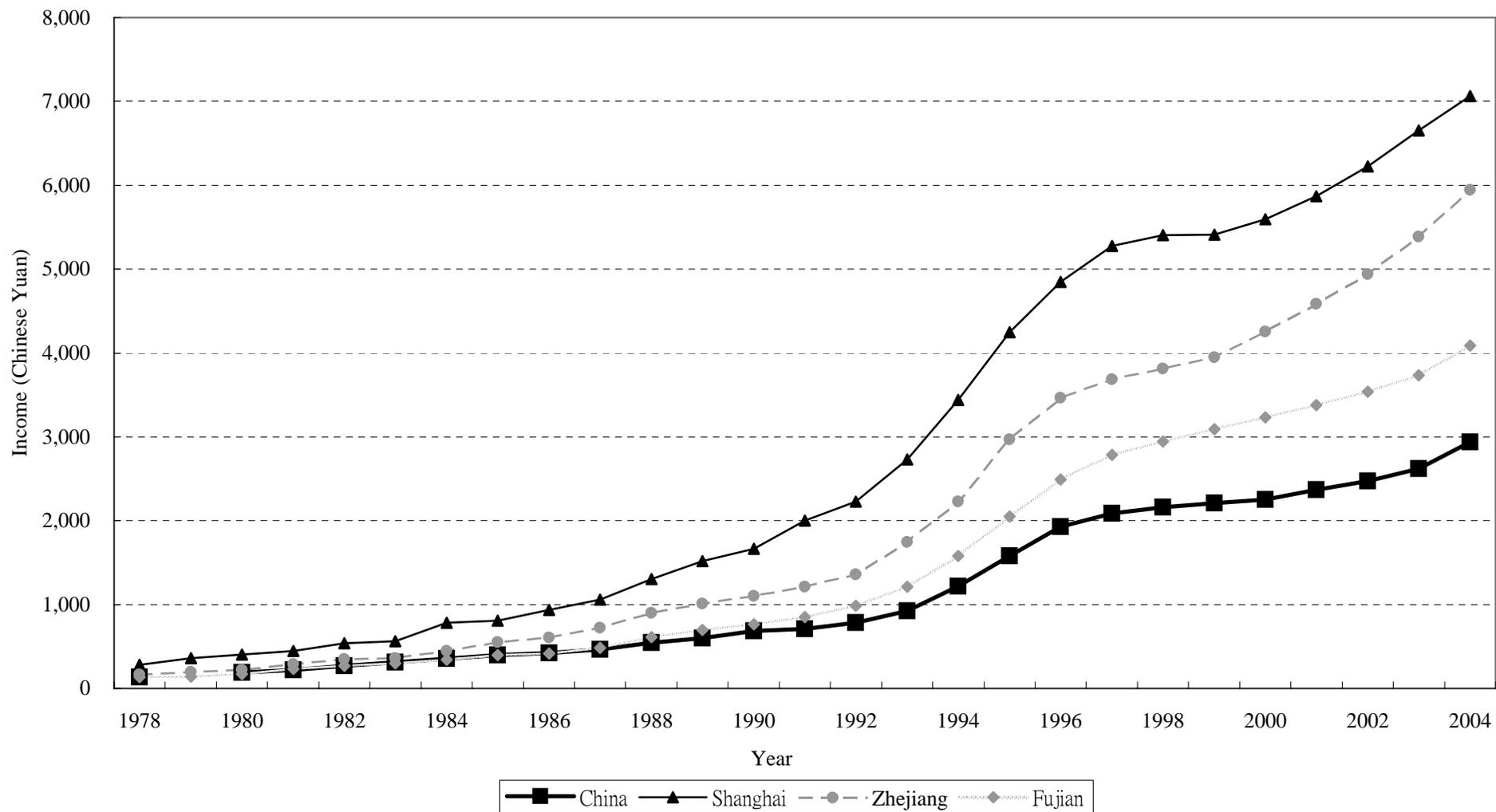
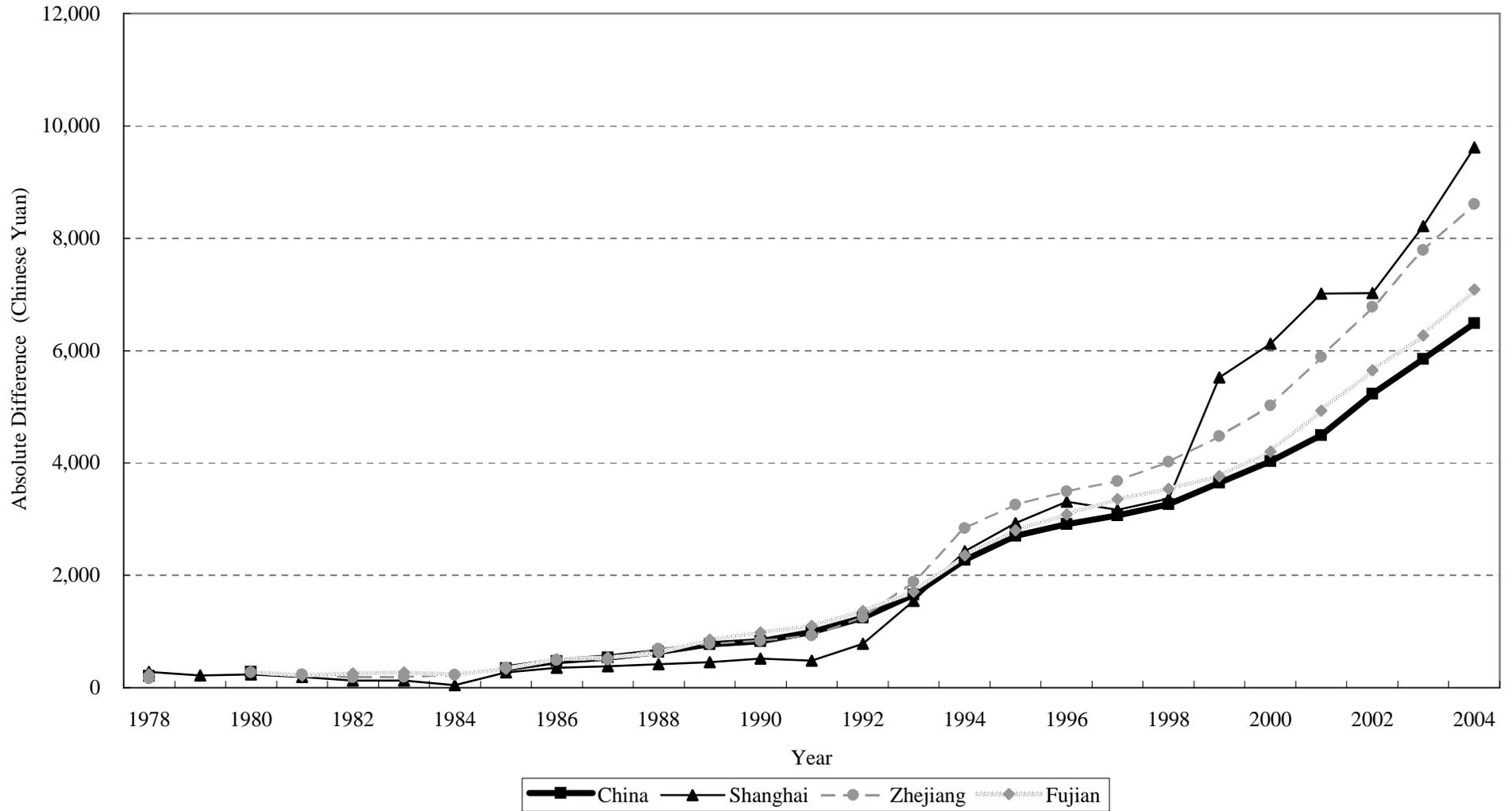


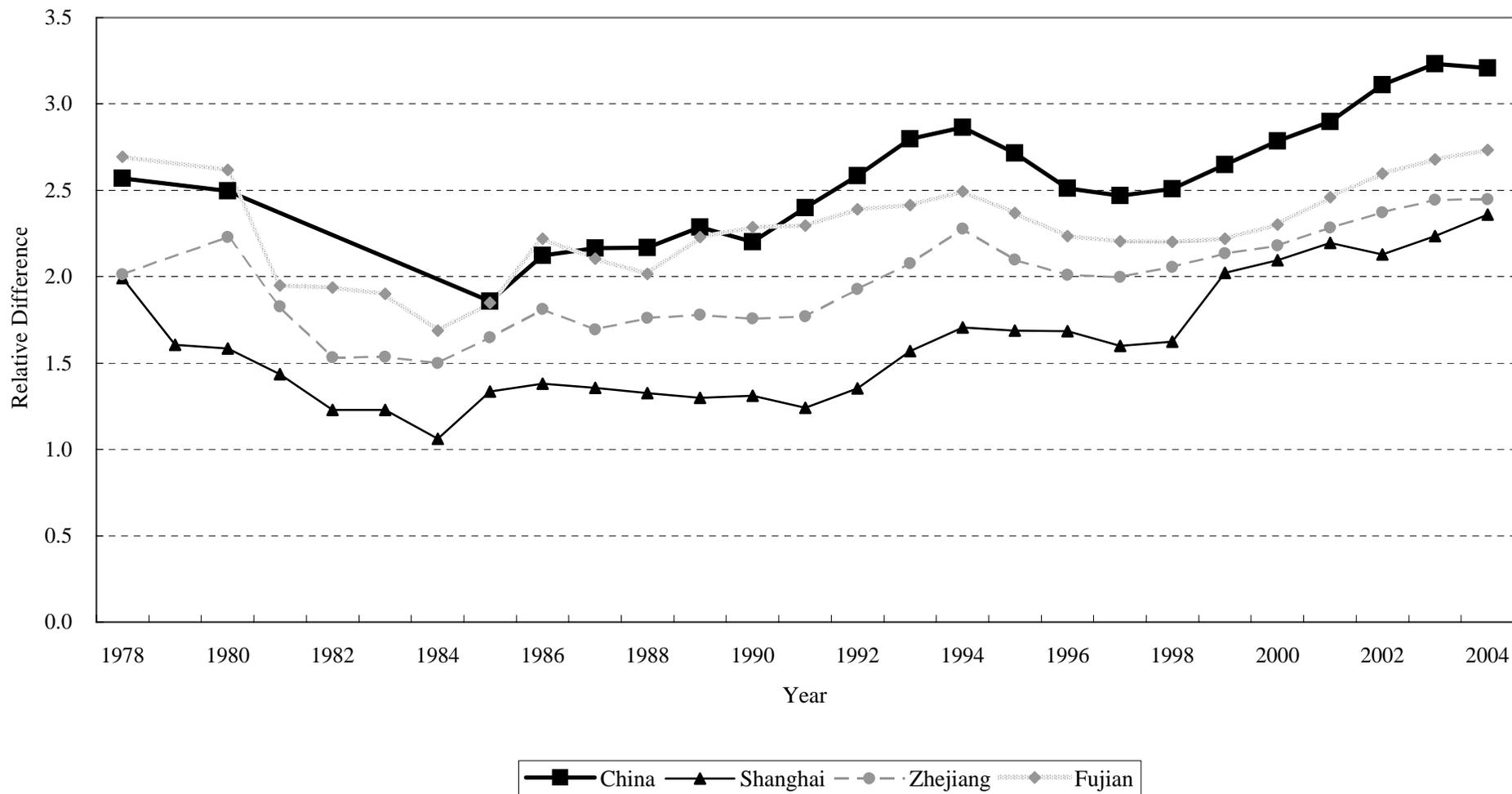
Figure 4. Absolute Difference of Urban-Rural Income in China



Note: Calculated by urban income subtracting rural income.

Source: *China Statistical Yearbook, Comprehensive Statistical Data and Materials on 50 Years of New China*

Figure 5. Relative Difference of Urban-Rural Income in China



Note: Calculated by urban income dividing rural income.

Source: *China Statistical Yearbook, Comprehensive Statistical Data and Materials on 50 years of New China*