

# **The Changing Effects of Social Networks on Status Attainment in China's Urban Labor Market**

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## **1. Introduction**

There are two main research traditions in research on labor market processes. One is the positional approach, and the other is the network approach. The positional approach consists of three research lines, namely, human capital theory (Becker, 1964), status attainment models (Blau and Duncan, 1967), and labor market segmentation theory (Fields, 2009), whereas the so-called network approach suggests that social networks are frequently mobilized by both potential employees and employers. In the searching processes, the job seekers utilize social networks to get access to information or to exert influence from authorities on the person in charge for a desirable job position. In the recruitment processes, the employer/organization use social networks to minimize advertisement costs or to reach a larger pool of potential workers through referrals. Previous studies consistently found that individuals receive better jobs through applying with referrals than individuals applying without referrals (Fernandez et al., 2000; Petersen et al., 2000; Yakubovich and Lup, 2006).

This article concentrates on the supply side of the labor market, that is, from the job seeker's perspective. In this article, we analyze the changing effect of social networks on job-search outcomes, i.e., work unit types and monthly salary, between 1956 and 2009, with a recently collected dataset from two Chinese cities in 2009. The results of this study contribute to our understanding of the role of social networks in labor market outcomes within a transforming society in at least two ways.

First, in the theoretical literature, there are contrasting views about the centrality and importance of social networks in contemporary Chinese society. According to “institutional holes” theory, social networks (e.g., *guanxi*) impose significant and substantial effects on income and status attained (Bian, 2002). Others cast doubt on this proposition and argue its importance declines over time (Guthrie, 1998; Hanser, 2002). Based on her field study on the job searching process of young urbanites, Hanser supports Guthrie’s position, arguing that social networks are not that important in job searches, especially for young job searchers in urban cities. However, her conclusion was drawn from inappropriate data. Out of 22 informants, 3 had graduated from technical high school, 19 from two-year technical colleges and above. Thus, since 86% of the sample consisted of highly educated young urbanities, her conclusion could not be generalized to the whole labor market, but rather should only be limited to those who are well-educated young urban job seekers. However, with only one exception (Bian et al., 2012), these studies fail to show how and why social networks’ influence on labor market processes and outcomes have changed over time, and fail to examine the comparative effect of social networks when entering different types of work units. The role of social networks should change in line with the great social and economic changes and vary when entering into different types of work units.

Second, apart from empirically examining social network users’ demographical characteristics, this study provides further analyses on the changing effects on income gain across different economic periods and on entering three work sectors, namely, state-, private-, and collective-owned work units. Due to China’s modernization and marketization, I would expect the prevalence of social networks and their beneficial effects to decline, but for certain groups of job seekers, especially for lower-class people, the positive effects of social networks still remain. For these people, social networks either function as safety-net or as a means of getting better jobs. My research questions are: a) How does the trend of social network usage change in line with the economic transformation in China? b) How do the beneficial effects of social networks on income co-evolve with the great social change in the past five decades? c) Who are more likely to mobilize social network in job-search processes? and d) In what social domains do

social networks still function?

The remainder of this paper is structured as follows. Section 2 briefly introduces four economic periods that China has recently experienced and formulates a set of testable hypotheses. Section 3 presents data and methods, followed by the presentation of results and conclusions in Section 4.

## **2. The Co-evolution of China's Economy and Social Networks**

From a historical perspective, China's urban economy has evolved through four periods (Bian et al. 2012), namely, a state redistributive era (1956 - 1979), a mixed economy era (1980 - 1992), a market transition era (1993 - 2001), and a full-scale marketization era (2002 - 2009).

The socialist transformation of the ownership of the means of production took place during 1953-1956 in the People's Republic of China. It included the socialist transformation of agriculture, handicraft, and capitalist industry and commerce, all of which are collectively referred to as the "three great transformations". Its aim was to change the nature of relations of production. By the end of 1956, the "three great transformations" had been largely completed, and the Chinese government believed that the Chinese society had stepped into the initial phase of socialism, and the socialist institution, in economic terms, was established. In the state redistributive era, resources were highly controlled and allocated by the central and local governments. The state used a job-assignment system during this period. Upon graduation, jobs were allocated through a hierarchy of work units, from the central level to the local one, and job-hopping was strictly prohibited. People enjoyed little freedom to choose jobs or to change jobs. The national economic order stagnated due to the Great Leap Forward from 1958 to 1961 and Cultural Revolution between 1966 and 1976. The Chinese economy was weak in comparison with other East Asian countries at that time, such as Japan and South Korea. Within these strict bureaucratic rules, social networks were employed to gain scarce goods and services (Yang, 1994; Gold 1985) and to find and change jobs (Bian, 1997).

The Third Plenary Session of the 11th CPC Central Committee, which marked the

beginning of the "Reform and Opening Up" policy, was held in Beijing, China, from December 18 to December 22, 1978. Since then, Deng Xiaoping, the core of the second generation leaders, pointed out that, the "four modernizations" of industry, agriculture, national defense and science-technology were the Party's key tasks, rather than the focus on class struggle which dominated the Chairman Mao era. Capitalist market principles, de-collectivization, the household-responsibility system, foreign investment, and private business began to be introduced to increase the national wealth. However, the government retained control over major parts of the economy, while allowing private enterprises to coexist with state sectors. In other words, the private sector, at most, was considered as a complementary part of state socialist economy.

In the spring of 1992 Deng Xiaoping delivered several speeches and reasserted his economic philosophy during his famous southern tour to the three coastal areas. He once again stressed the importance of economic reform, and criticized those who were against further reforms. Since then, the role of market has increased dramatically. Most of the resources were allocated and distributed via market mechanisms rather than via state redistributive system. Consequently, in the mid-1990s the private sector surpassed the state sector in share of GDP for the first time, which forced the Chinese government to begin to consider the private economy as an "important component" of the total economy in 1999, rather than only as a "complement" to the state sector, as it was in 1988. More and more jobs were allocated through mutual choice employment among employers and employees. Workers began to enjoy the freedom of job mobility and try multiple methods of job searching.

Since 2002, when China entered the WTO (World Trade Organization), the market forces have taken the dominant role in the labor markets. In this period, many foreign companies, joint-venture companies, and multinational companies have entered into Chinese labor market, leading to a very competitive environment and the construction of human capital based resource allocation system.

Researchers should be aware of diverse social domains where social networks function. In some spheres, social networks may be of less importance, but in other spheres, they may still work rather well. In order to empirically examine previous

findings by Hauser (2002) and Guthrie (1998), I examine the frequency of social networks users in different economic periods in China's labor market. Given the new introduction of market mechanisms starting from 1980, Chinese people face more and more institutional uncertainties and risk. I would expect social networks could be employed to lower these kinds of potential risks. However, with joining the WTO, the improvement of market conditions and transparency of the policies and regulations, and the prevalence of the idea of an education-based meritocracy, it is expected that there should be a decline in the use of social networks. Following this rationale, it is logical to speculate that income is more determined by human capital as compared to social networks. In other words, the positive effect of social networks on monthly income should decline over time. Bian et al. (2012) examines two kinds of network resources – information and influence – in affecting income attainment. They report that before the pre-reform era, the positive effect of influence on starting wage was much stronger than that of information, but after China became a member of the WTO the former association was suppressed whereas the latter one was strengthened. In contrast to their research, I directly compare beneficial effects of social networks among network users and non-network users over time. These arguments lead to the following two hypotheses:

*Hypothesis 1a: The frequency of social networks increased after China's economic reform, while declined after China's entry into WTO.*

*Hypothesis 1b: The effects of social networks on income attainment decline over time.*

Based on 100 interviews in 6 Chinese cities, Bian (2002) offered an institutional explanation to the increasing importance of social networks in China's emergent labor markets. He stated that Chinese labor market is full of "institutional holes" created by the abandonment of the old state redistributive system, and the immaturity and imperfection of new market and legal mechanisms to flow information, bridge trust and bind obligation (Bian, 2002). Apparently, his theory is on a macro level, failing to capture the characteristics of social networks users on a micro-level. Of central importance to this

research line is to systematically examine what kind of individuals are more likely to mobilize social networks. Upper-class people and their offspring are usually highly educated, and thus less likely to being social network users. Lower-class people are not competitive in labor market and thus have to rely heavily or even solely on social networks. Thus, I develop the following hypothesis:

*Hypothesis 2: Those who are disadvantaged in the labor market are more likely to mobilize social networks to obtain their first jobs.*

The relationship between marketization and earnings inequality is mediated by the types of work units, which is called *danwei* in Chinese society. Previous studies showed the significant role of work units in generating social inequality in China, economically, socially, and politically (Walder, 1986; Whyte and Parish, 1984; Wu, 2002; Xie and Wu, 2008; Xie et al., 2009). The work unit “continues to be an agent of social stratification in contemporary urban China” (Xie et al., 2009). Generally speaking, employees in the state sector enjoy higher privileges and get better access to more social welfare benefits than the other market sector counterparts. Thus, getting into advantageous work units is crucial for every job seeker. Previous studies have evidenced the positive effect of social networks on entering into state sectors (e.g., Huang, 2008), overlooking another type of work-units: the collective sector. The present paper is expected to bridge this gap.

Further, as suggested by Li (2013), market firms whose principal aims are making profits are more inclined to employ applicants who are professionally qualified for a certain position. On the contrary, state- and collective enterprises continuously receive financial support from central and local governments regardless of their profits and losses. Their marketization level of these are less developed, thus I expect social network could be still useful in the job searching process.

*Hypothesis 3: Social networks, compared to the market channel, have a positive effect on entering jobs within the state- and collective sectors rather than private sectors.*

### **3. Data and Methods**

#### **3.1. Data**

In this analysis, I use data from the 2009 Job-Net Survey<sup>1</sup>, a multi-stage stratified probability sample of 7,102 adults aged 18 to 69 from eight Chinese major cities. The survey gathered extensive information about respondents' job mobility histories. Unfortunately, due to the problem of data availability, this article only analyzes data of 1,735 cases from two cities (Guangzhou and Jinan). In this paper, I restrict the sample to those who had full-time non-agricultural first jobs. After excluding cases with missing data on key variables, the resulting sample consists of 1,510 respondents.

#### **3.2. Measurements of key variables**

There are 11 channels securing jobs in the original questionnaire: (1) continue parents' job; (2) continue relatives' job; (3) internal labor market recruitment; (4) state allocation; (5) introduced by job agencies; (6) introduced by others; (7) individual application; (8) internet; (9) job fair; (10) self-employed /employer. Since we are interested in external labor market and job search methods used by employees not employers, options 3 and 10 were excluded from our analysis. Respondents who selected options 6 were assigned 1 on the network usage variable, while the remaining ones were assigned 0. Respondents who selected options such as 1, 2, and 4 were assigned 1 on the hierarchy usage variable, while the remaining ones were assigned 0. Respondents who selected options such as 5, 7, and 9 were assigned 1 on the market usage variable, while the remaining ones were assigned 0.

#### **3.3 Controls**

Controlled variables considered in this study are demographic variables, including gender, age, educational level, Communist Party membership, household registration type (urban or rural) and city dummies. Gender is also coded as a dummy, with male

scored 1 and female scored 0. Since previous studies show a positive effect of being a Chinese Communist Party (CCP) members on socioeconomic attainment, a dummy variable for Party membership prior to his/her first non-farm job is included. Working aged individuals are defined as those aged 18 to 60. Education is measured in years of completed schooling (6=primary school or less; 9=junior middle school; 12=senior middle school; 15=three-year college; 16=four-year college or more).

### 3.4 Models

In order to assess the net effect of different job search methods on occupational attainment (*hypothesis 1b*), I employ an OLS regression model. The monthly salary of respondents' first jobs is the dependent variable, measured in RMB yuan (1 yuan=0.1605 USD). I use the logarithm of monthly salary as our dependent variable in the analyses. The key covariates are three different job search methods: hierarchy, networks, and market. To investigate the periodical variations, the sample is coded into 4 labor cohorts based on the year of job entry: 1956-1979, 1980-1992, 1993-2002, and 2002-2009. Given striking institutional differences between each period, I propose that regression models should examine the possible influence of social network on income attainment separately in terms of four economic eras.

Binary logistic regression is employed for modeling to test hypothesis 2, where our dependent variable is the use of social networks in job search processes or not (a binary dichotomous variable indicating whether one used social network in job search or not), coded as 1 if so and 0 otherwise.

Multinomial logistic regression is employed when testing the third hypothesis, where the dependent variable is three types of work units: state-, collective- and private enterprises, regarding the private one as reference category.

### 3.5 Results

Table 1 presents a summary of statistics for variables included in the analysis. As the table shows, the average schooling for this sample is 12.5 years, which is equivalent to senior high school level. Across all the four economic periods, hierarchy allocates 41%

percent of all the jobs, while market and social networks take the proportion of 29% and 21%, respectively. The proportion for respondents who got their first job in the four economic periods is 28%, 25%, 20%, and 26%, respectively.

Table 1 Percentage, Mean, and Standard Deviation for Variables Used in the Analysis, JSNET Survey, 2009 (N=1589)

<i>Variables</i>	<i>Percent</i>	<i>Mean</i>	<i>SD</i>
Party member	6.04		
Gender (Male = 1)	46.07		
Urban <i>hukou</i> Origin	75.96		
Labor cohorts			
1956-1979	28.19		
1980-1992	25.42		
1993-2001	20.20		
2002-2009	26.18		
Job search methods			
Social Networks	21.40		
Hierarchy	40.47		
Market	28.76		
Work unit types			
State Sector	56.58		
Private Sector	32.60		
Collective Sector	10.82		
Logged monthly income		5.66	1.93
Age		40.71	13.37
Years of schooling		12.48	3.03

Table 2 Job Search Channels by Period: Network Users Increased and Then Decreased

	Total	<i>Four Economic Periods</i>			
		1956-1979	1980-1992	1993-2001	2002-2009
Total N	1589	448	404	321	416
Search Channel (%)					
Networks	21.40	7.59	21.04	32.40	28.12
Market	28.76	6.03	18.81	33.33	59.38
Hierarchy	40.47	81.25	49.75	20.25	3.12
Others	9.38	5.13	10.40	14.02	9.38

Table 2 shows the job search methods employed over four economic periods, I find that the proportion of social networks users has increased dramatically from 8% in state

redistributive period to 32% in market transition period, followed by a slightly decrease after China's entry into WTO. Thus, apparently, the importance of social networks decreased since 2002. Not surprising, the frequency of market channels users increased steadily whereas that of hierarchy channels decreased sharply. Guthrie (1988) proposes that the prevalence of social network usage is only a by-product of particular socio-economic arrangements rather than a part of Chinese culture. If so, the centrality of social networks should be in decline as the market develops. I deem the wide use of social networks is part of Chinese relational culture and is also influenced by socio-economic policies. Hypothesis 1a is confirmed.

Table 3 Comparative Effect of *Social Networks* on Income in Different Economic Periods in China's Urban Labor Market

<i>Variables</i>	<i>Monthly Income</i>							
	State Redistributive		Mixed Economy		Economic Transformation		After WTO	
	B	SE	B	SE	B	SE	B	SE
Social Networks	1.04***	0.17	0.41*	0.16	-0.12	0.09	0.01	0.05
State sectors	-0.32	0.17	0.05	0.19	-0.30**	0.11	0.10	0.07
Male	0.34**	0.13	0.01	0.16	0.24*	0.10	0.04	0.05
Education	0.06*	0.03	0.01	0.03	0.09***	0.02	0.11***	0.01
Party member	0.04	0.34	0.03	0.53	-0.06	0.25	0.36**	0.12
Age	-0.03*	0.01	-0.08***	0.01	-0.03**	0.01	0.01*	0.01
Married	0.34	0.22	-0.28	0.32	0.02	0.14	0.05	0.06
City (Jinan =ref.)	0.80***	0.13	1.02***	0.16	0.68***	0.10	0.43***	0.06
Constant	4.12***	0.75	8.72***	0.87	6.76***	0.44	5.16***	0.25
Cases	420		363		418		388	
R <sup>2</sup>	0.216		0.202		0.255		0.338	

Table 3 reports the ordinary least squares (OLS) regression estimating the comparative effect of social networks on income in different economic phases in China's urban labor market, where if a respondent is a social network users as the main predictors and others such as education, CCP membership, gender, and labor cohorts as controlled covariates. The coefficient for social networks in Table 3 is positive and

significant in state redistributive and mixed economy eras, while its effects disappear in the third and fourth economic period, net of other factors. This reveals that social network users enjoy higher monthly salary compared to their non-network counterparts only in the first and second period, but not in the third and fourth, holding constant of the other factors. This finding reinforces the support of Hypothesis 1b.

**Table 4 Binary Logistic Regression of Social Network Users' Demographic Characteristics**

<i>Independent Variables</i>	<i>Used Social Networks</i>	
Work units (state sector = ref.)	odds ratio <sup>1</sup>	SE
Collective sector	1.97**	.43
Private Sector	1.13	.18
Years of schooling	0.85***	.02
Age	0.96***	0.01
Male	0.60***	0.07
Party membership	0.69	0.22
City (Guangzhou = 1)	1.82***	0.25
Labor cohorts (1956-1979 = ref.)		
1980-1992	2.36***	0.61
1993-2001	3.31***	1.19
2002-2009	2.38*	1.03
Urban hukou (rural= ref.)	0.81	0.13
Constant	5.65*	4.52
N		1589
Pseudo R <sup>2</sup>		0.134

Note: 1. Odds ratios are calculated based on the estimated coefficients  
 2. \*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$

Table 4 presents estimated odds ratios for binary logistic models of demographic characteristics of social network users. One additional year in education will decrease the odds of using social networks by 15%. Compared to their female counterparts, males are less likely to utilize networks. Odds of being social network users decrease by 4% with each year of age. CCP membership has no effect on the dependent variable, however. Put simply, we can easily find that those who are disadvantaged: females, the less educated, and younger people, show a greater tendency to mobilize social networks. Thus, hypothesis 2 is fully accepted. Notably, there are also significant cohort effects of being social network users. Compared to labor cohorts between 1956 and 1979, people entered

in the next three successive cohorts have 2.36, 3.31, and 2.38 times the odds of being social networks users, respectively. That could be explained by from 1980 to 2001, due to rapid social transition, people were facing up with more and more institutional uncertainties and risks, consequently social networks played an important role in finding a job. However, in 2002, China's entry into World Trade Organization (WTO) led its labor market into a very market-oriented position. Hypothesis 1a has been confirmed again.

Table 5 Predicted Odds Ratios of Entering Three Types of Work Units

<i>Independent Variables</i>	<i>State Vs. Private</i>		<i>Collective Vs. Private</i>	
	odd ratio <sup>1</sup>	SE	odd ratio	SE
Years of schooling	1.20***	0.04	0.98	0.05
Age	1.05**	0.16	1.06**	0.02
Job search methods (Social Networks = ref.)				
Market	0.69*	0.13	0.32***	0.11
Hierarchy	9.00***	2.66	2.83**	1.05
Male	0.97	0.15	0.63*	0.14
Party membership	2.21**	0.67	0.81	0.64
City (Guangzhou = 1)	0.60***	0.09	0.42***	0.10
Labor cohort (1956-1979 = ref.)				
1980-1992	0.25**	0.12	0.19***	0.10
1993-2001	0.09***	0.05	0.03***	0.02
2002-2009	0.11***	0.07	0.06***	0.05
Urban <i>hukou</i> /origin	2.09***	0.36	6.37***	2.77
Constant	0.09*	0.09	0.17	0.24
Pseudo R <sup>2</sup>			0.34	
N			1589	

Note: 1. Odds ratios are calculated based on the estimated coefficients  
2. \*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$

The multinomial logistic regression result is shown in Table 5, from which we can see that, holding other factors constant, the relative odds of getting jobs within state- and collective sectors rather than within private sectors is 31% and 68% lower for those who utilized market channel than for those who mobilized social networks, respectively.

This finding lends support to Hypothesis 3. Not surprisingly, compared to social network users, those who relied on hierarchical methods enjoy 9 and 2.83 times the odds ratio of entering into state- and collective sectors rather than private sectors. In addition,

Party members enjoy more than twice the odds than non-party members of entering into state enterprises. People with urban *hukou* origin have higher odds of not being accepted into private sectors.

#### **4. Summary and Discussion**

This paper is part of a larger effort at understanding the great social changes that have taken place in China since the founding of the People's Republic of China in 1949 from social network perspectives, paying particular attention to the urban labor market.

The main question asked on social networks is whether the prevalence of social networks has changed markedly. My results show that the relative frequency of social network usage has increased between 1956 and 2001, then declined since China's World Trade Organization (WTO) entry. Additionally, the proportion of people who relied on market channels to find jobs increased steadily over time, whereas those who utilized hierarchy channels decline sharply. Since 2002, market channels became the primary mechanisms through which jobs were obtained. Thus, the market-oriented reform does have strong impact on individual's choices in terms of choosing potential job search methods. Apparently Guthrie (1998) is correct in his formulation of an increasing rationality in China's urban economy. Jobs are allocated more based on meritocratic criteria rather than on ascriptive factors, in other words, "what you know" becomes more matters than "whom you know", especially in urban industrial and private economies.

Additionally, it is remarkable that the effect of social networks in Table 3 becomes statistically insignificant for those who entered labor market ever since 1993, which is consistent with hypothesis 1b. Since people from lower classes show a greater tendency to utilize social networks, it is reasonable to speculate that relying on social networks is their last resort. Social networks can hardly guarantee highly paid jobs. Social networks, in this sense, work as a safety-net for them.

In sum, the originality and significance of the present article derive from two features. First, this study fills the gap by bridging the often deplored link between social networks and systematic institutional change. In the study of Chinese social stratification, Bian et al. (2012) stressed the importance of four economic periods in understanding

Chinese social stratification, while Wu (2002) stated the importance of different types of work units in generating social inequalities among urban residents. I made a combination of both of their points in my paper, offering a more systematic viewpoint. On the one hand, I examined the comparative and changing network effects on income attainment across four economic periods since 1956 in China. Second, inspired by Bian's (2002) macro discussion, my analysis focuses on a micro level, examining who are more likely to be network users. Results reveal that the disadvantaged, such as females, younger and less educated workers show a greater tendency to mobilize social networks. Third, in order to answer the question that why social networks are still used, I found one possible explanation - social networks still remain powerful in obtaining jobs within state-sector and collective sectors as compared to private firms.

The generalization of the research findings in this paper is limited by the coverage of the data source. Since it does not survey the rural residents, it is impossible to compare the role of social networks in rural settings within that in urban ones. I would expect that in rural areas social networks are more of expressive functions rather than instrumental ones. I consider market transition as a gradually process, three kind of job allocation mechanisms has coexisted and will coexist before market forces replace the other two methods.

## **Note**

1) The principle investigator of Job Search Net Survey is Prof. Yanjie BIAN. It surveyed eight large cities in China in 2009. I would like to thank He CAI, Professor of Sociology at Sun Yat-Sen University for generously allowing me to use the Guangzhou data set. Prof. Juren LIN at Shandong University kindly provided me the Jinan data set. However, the views expressed herein are my own.

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**Abstract:**

This article analyzes the changing effects of social networks on individual material status attainment in urban China across four different economic periods and among different institutional settings. Results based on urban survey data show that first, the disadvantaged, such as females, younger people, and less educated workers show a greater tendency to use social networks. Second, social networks, compared to the market channels, have a positive effect on obtaining jobs within the state- and collective sectors rather than within private sectors. Third, the effects of social networks on income attainment decline over time. In my analyses, I pay particular attention to explore the comparative changing impacts of social networks on status attainment within the changing market economy in China.

Keywords: Social networks; status attainment; Chinese urban labor market