

How have Labour Market Developments Affected Labour Costs in China?

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Summary

Labour markets in China have experienced remarkable changes in the past decade. In this paper we use above-scale industrial firm-level data of 2001-2008 to study how labour market developments have affected labour costs of firms across regions, and different levels of technology and ownership in China. Our estimates suggest that, labour market tightness has had some impact on the labour costs of Hong Kong-Macau-Taiwan (HMT) firms and private enterprises, particularly in coastal areas, but overall the impact is limited. Our research also shows that labour migration has had some impact on the labour costs and employment of HMT and private firms in East China.

Our analysis suggests that China has not yet seen an absolute shortage of labour, but there have been structural problems in the labour market. Demand for young low-end workers and skilled workers has outpaced supply, while the opposite is true for better educated workers such as young college graduates. As the majority of the employees of HMT and private enterprises are at the low-education end, wage pressures for these firms have increased accordingly. As such, it is necessary to remove the barriers that hinder rural labour forces from working in urban areas and to develop vocational and technical education. It is also useful to upgrade production chains to reduce the relative demand for low-end workers and increase that for better-educated workers to reduce skill mismatch in labour markets.