The Economic Impact of Labour Market Liberalisation in China on Production and Trade

Xiaohe Zhang

School of Policy
Faculty of Business and Law
The University of Newcastle.
Callaghan, NSW 2308, Australia
Telephone: 612-49215034
Fax: 612-49216919
Email: James.Zhang@newcastle.edu.au

Abstract

This paper attempts to examine the impact of liberalisation of labour market in China on the aggregate economic welfare of the country and the rest of the world. The liberalisation in labour market is characterised by the abolishment of a household registration system that prohibits permanent migration from rural area to urban area in China. This migration restriction has been maintained for more than 45 years and is going to be abolished in the near future. The hypothesis tested is that the a free mobility of the rural surplus labour into China’s urban industrial sector will have a significant impact on production, employment and trade patterns both in China and in the rest of the world, particularly in the labour-intensive industries. This will result in a large-scale restructuring of the world economy in line with regional specialisation and comparative advantage.

Several counter-factual policy scenarios are simulated by an applied general equilibrium model (the GTAP Model). These scenarios include an overall increase in China’s unskilled labour force, a transfer of the labour force from the agricultural sector to manufacturing sectors, and several combinations of labour market policy, fiscal policy and trade policy. To capture the regional and sectoral impact of the change, the world economy is divided into 10 regions and 10 sectors. The net welfare effects of these liberalisations are expected to be positive for the world as a whole in general, and for the Chinese economy in particular. Policy implications are discussed and suggestions are offered in the basis of the simulation results.