

# Causes and Consequences of Minimum Wage Variation in China

Jiacheng Yan

Nexus International School Singapore, 201 Ulu Pandan Road, 596468, Singapore  
jiacheng.yan.25@neuxs.edu.sg

## Abstract:

This paper examines the effects of minimum wage policies on employment and income inequality in China. It is focusing on the interplay with foreign direct investment (FDI) and regional economic disparities. Since 1978, China's economic reforms have led to significant growth and rising wages. Yet exacerbated income inequality. The study finds that FDI raises wages. It is particularly for skilled labor, while regional variations in minimum wage standards reflect economic activity differences between coastal and inland provinces. Higher minimum wages have mixed employment effects. It is negatively impacting prosperous Eastern regions while benefiting Central and Western regions. Additionally, higher wages spur productivity improvements and innovation among firms. Policy recommendations include developing region-specific wage policies. It enhances protections for migrant workers, encouraging investment in productivity-enhancing technologies. It promotes balanced economic development and strengthens labor regulation enforcement. These measures aim to balance wage growth with employment stability. Hence, this analysis promotes equitable economic development across China.

**Keywords:** Minimum wage, Employment, Labour Productivity, FDI, China

## 1. Introduction

There is now significant variation in minimum salaries around China due to new minimum wage laws implemented. It results from regional judgment. Regional governments now determine minimum wages considering the local economy, cost of living, and other particulars of each location [1]. There is a discernible variation in minimum wage levels as a result. Economically developed coastal districts frequently pay more, while less developed inland provinces do the opposite. Wage guidelines can be tailored to the particular need. This decentralized approach makes diverse economic circumstances across many locations possible. This research explores the intricate relationship between China's minimum wage laws and labor market outcomes. It is particularly following the 2004 [2]. The primary questions addressed include the impact of minimum wage increases on employment across various regions and industries. The broader economic implications of these wage adjustments, and the effects on low-wage workers and rural-to-urban migrants [3]. Additionally, the study examines changes in wage inequality and the technological and managerial adaptations driven by rising labor costs. Focusing on these questions is crucial to understanding the tangible effects of minimum wage policies in China's diverse economic landscape. Hence, informing policy decisions aimed at promoting economic growth and stability in a major global economy [4].

The following key questions will guide the research:

- (1) How have minimum wage increases affected employment rates across different regions and sectors in China?
- (2) What are the implications of minimum wage adjustments for income inequality and economic stability in the regions affected?
- (3) How do increased labor costs influence managerial decisions and productivity enhancements in firms?

The paper systematically addresses the research purpose and questions. Section 2 provides an overview of China's minimum wage policy environment. It reviews existing research on the effects of minimum wage regulations globally and in China. Hence, highlighting discussions on intended and unforeseen impacts. It presents secondary data analysis findings, focusing on the effects of raising the minimum wage on employment. Section 3 includes the causes of wage variation within China. Apart from that section 4 includes the consequence of this situation. The conclusion in section 5 summarizes key findings, and their implications for policymakers, and offers recommendations for future adjustments to China's minimum wage laws

## 2. Overview of Minimum Wage Policy in China

### 2.1 Historical Context

The authentic setting and advancement of least wage laws

in China have seen critical advancements over the long time. Earlier to 1994, China did not have any least wage enactment input. The nation it was recognized as the “Least Wage Arrangement” of the Worldwide Work Organization (ILO) [5]. There was drowsy wage development and high swelling within the late 1980s. Thus, neighborhood ranges like Zhuhai in the Guangdong Area started executing their claim for least wage directions. The rise of private endeavors in 1992 incited the Chinese Central Government to consider national minimum wage legislation[5]. China issued its beginning with national minimum wage controls. It is consolidated into the unused form of the Labor Law. This enactment ordered that all bosses pay compensation at slightest break even with to the neighborhood’s least wage. Consequently, permitting areas adaptability in setting least wage measures based on living costs and normal compensation. Separated from that labor efficiency, neighborhood work, and financial advancement levels are moreover considered in this respect. a few areas had set up their least compensation. This number expanded essentially. The concerns for revealed specialists driven to the sanctioning of modern least wage controls. These controls presented two sorts of least compensation. It consolidates a month to monthslightest wage for full-time pros and an hourly slightest wage for non-full-time laborers [5]. The setting and change of slightest emolument have to be a collaborative effort. It incorporates neighborhood governments, trade unions, and endeavor confederations. The controls as well required standard updates of least wage measures and extended disciplines for encroachment..

The advancement of least-wage laws in China reflects a movement towards a more comprehensive scope. It is additionally characterized by requirement components to guarantee reasonable compensation and secure workers’ rights over diverse segments of the economy. Not at all like Western capitalist frameworks, China’s least wage laws have been impacted by its communist foundation[1]. This approach gives areas with adaptability in setting the least wage guidelines moreover pointing to pull in remote ventures. As the economy develops and living uses rise, the lowest wage rises relentlessly. Since 2004, China’s wage framework has seen fast and standard increments. The middle yearly increment of China’s lowest wage was 11.3%, whereas the normal wage climbed by 13.2% [2]. The national minimum wage within the joined-together States has expanded from \$0.25 per hour in 1938 to \$7.25 per hour presently, in spite of drowsy and minor alterations [6] . Hence, historically improvement in minimum wage will affect the macro economic environment of the economy.

## 2.2 Current Minimum Wage Regulations

In recent times, provincial governments have adopted minimum wage rules. According to China’s Provisions on Minimum Wage, employers must pay employees at least the legal minimum wage. It is subject to normal labor being provided within the prescribed working hours. Provincial governments determine minimum wage standards based on factors such as local living costs and urban consumption price index. It also considers social insurance premiums and housing funds. These wages exclude overtime pay and night shift allowances. It also excludes high-temperature allowances and subsidies for meals. However, social insurance premiums and housing fund contributions are generally included in the minimum wage. It potentially reduces take-home pay below the stated minimum in many regions[1]. Some regions, like Shanghai, exclude these contributions from the minimum wage calculations. Most provinces have different wage classes based on regional development and cost of living. For instance, Shanghai has the highest monthly minimum wage (RMB 2,690/US\$370). Beijing has the highest hourly wage (RMB 26.4/US\$3.7). Both cities have robust GDP growth rates of 6.0% and 5.5%, respectively[6]. Regions like Anhui, Chongqing, Fujian, and Guangdong are with minimum wages above RMB 2,000. They exhibit GDP growth rates between 6.2% and 7.2%. In contrast, Jilin and Xinjiang have lower minimum wages (RMB 1,540) with moderate GDP growth rates around 5.9% and 6.0%. [7]. The numerous provinces have updated or will update their minimum wages, reflecting ongoing efforts to adjust to economic conditions and living standards.

## 3. Causes of Minimum Wage Variation

### 3.1 Minimum Wage and FDI

China’s foreign direct investment (FDI) and minimum wage rules have evolved significantly over the last few decades. It is reshaping the labor market and economic landscape. Before 1978, China’s FDI regulations were restrictive, but they later became more flexible. It was encouraging throughout the 1980s and 1990s, finally converging with domestic development aspirations by the mid-1990s[2]. This liberalization coincided with China’s admission to the World Trade Organisation in 2001. It resulted in considerable FDI inflows. This surge has continued strong, with yearly FDI inflows over \$40 billion. In China, both real FDI capital utilization and real average wages have risen over the last decade. However, these patterns are the outcome of numerous simultaneous developments in the economy. According to the study’s findings, FDI increases wages, particularly for skilled labor.

Foreign corporations typically pay greater rates to skilled workers, particularly managers. Superior technology and managerial approaches contribute to increased productivity [7]. This competition drives private companies to raise wages to retain skilled staff. State-owned enterprises (SOEs) confront salary restraints. This causes them to hire lower-quality skilled people. FDI appears to boost overall productivity and average salaries for skilled labor in private enterprises. It is especially beneficial to people with overseas experience.

### 3.2 Regional Economic Disparities

China's economy has risen at the slightest 9.5% each year since the change and opening-up approach was executed in 1978. This fast financial advance has coincided with expansive rises in Chinese workers' compensation. According to the National Bureau of Measurements of China (NBS), urban expendable compensation per capita has expanded more than 70-fold. It went from 343 RMB in 1978 to 24,565 RMB in 2012[7]. Rustic net profit per capita climbed sixtyfold. Despite this noteworthy improvement, pay disparity has been exacerbated. Moreover, the Gini coefficient expanded from 0.376 in 1988 to 0.490 in 2007[1]. It demonstrates an extending wage disparity. In differentiation, nations such as Brazil and Mexico experienced dropping Gini coefficients all through the same time period. Territorial financial imbalance in China has been a major source of variety in the least wage necessities among territories. A few observational ponders have inspected the impact of least wage enactment on wage dissemination and financial advancement [7] and found that the least wage moved forward the work and pay conveyance of rustic vagrant specialists. Essentially, [1] stated that raising the least wage might offer assistance to shut China's wage difference. It found that raising the least wage made a difference in diminishing the salary imbalance between urban and country zones in Chongqing City.. The study showed through simulations that increasing the minimum wage reduces earnings disparity. With stricter enforcement, this effect is exacerbated. [8] analyzed microdata from three surveys conducted between 1995 and 2008. It finds that higher effective minimum salaries diminish pay disparities in the lower wage distribution. In contrast, [9] discovered that the minimum wage had a minimal distributional effect. It is tackling the income disparity between urban and rural areas in Shanghai. These data demonstrate how regional economic variables influence the establishment of minimum wage regulations. Provinces with greater living costs and economic development levels tend to have higher minimum wages. It aims to resolve local inequities and provide equitable compensation. This regional diversity reflects the government's

efforts to balance economic growth and social equality. It is changing policies to better suit various local economic circumstances and reduce regional income disparities.

## 4. Impact of Minimum Wage on Labor Market Outcomes

### 4.1 Employment and Productivity

Least compensation has earned expanded intrigue in China due to rising pay imbalance and the to improve the profit of low-wage workers. The developing impact of showcase strengths requires guaranteeing that financial benefits are broadly conveyed. It incorporates those at the foot of the wage dispersion. The overflow labor from provincial regions applies descending weight on compensation. It makes the least compensation vital for evenhanded development and lessening resistance to advertise alterations [10]. Labor guidelines ensure helpless laborers, making strides in China's worldwide picture. Higher lease compensation may moreover empower ventures in productivity-improving innovations. It cultivates a move from low-wage divisions to higher value-added businesses [11]. Be that as it may, there are concerns that the least compensation seems to antagonistically influence employment. It is especially for the laborers they point to assist. These negative impacts seem to lead to political precariousness, particularly amid financial slowdowns. It is rebuilding absent from state-owned endeavors. Rising low compensation may decrease China's comparative advantage as a low-wage economy. It is possibly hurting its competitiveness [12]. Ponders on the work impacts of least compensation in China have yielded mixed results. Territorial varieties regularly appear with inverse results. [13] found negative work impacts within the affluent Eastern locale. It has positive impacts within the creating Central and less created Western locales. Alternately, [14] data on provincial transients detailed no antagonistic impacts. It watched a positive work impact on state-owned endeavors within the East. It has positive impacts within the creating Central and less created Western districts. Then again, [14] information on rustic transients detailed no unfavorable impacts. It watched a positive business impact in state-owned ventures within the East. It has negative impacts on the Central and Western districts. This variety underscores the complexity of least-wage approaches in China. It highlights how regional economic conditions and target populations influence employment outcomes. Understanding these nuanced effects is crucial for developing policies that balance wage growth with employment stability.

### 4.2 FDI, Regional Variability, and Labour

## Market Outcome

In China, the increase in minimum wages is following the enforcement of the Labour Contract Law. It has had complex impacts on employment, particularly in the manufacturing sector. According to [6] these wage hikes may have hindered manufacturing employment growth. They did not lead to an overall increase in aggregate unemployment. However, the economic welfare of informal workers has been compromised by incomplete enforcement of labor regulations. It involvement of employment and social security agencies, and employer coercion. Employers have been known to prompt employees to relinquish seniority claims through resignation and shift production to lower-wage regions in China. It is also true for South-east Asia [3]. Additionally, the Work Contract Law gives more prominent social benefits and compensation to urban specialists compared to transient laborers [15]. This difference underscores the require for government mediation to make strides work prospects among casual transient laborers. They regularly have powerless bartering control and are underrepresented by exchange unions [16]. The variety in least wage levels over adjoining territories too highlights the complexity of territorial financial flow in China. For occasion, Anhui and Jiangxi, in spite of being topographically near to higher-paying areas like Shanghai, Zhejiang, and Jiangsu. They have a few of the least normal least compensation in China. This challenges the idea of spatial interdependency in setting least wage measures. It is proposed by [17], It is recommending that other components may play a more critical part. Topographical contrasts essentially impact common least wage varieties. Coastal territories in East China are Tianjin and Beijing. They have recorded the most elevated outside coordinate venture (FDI) and per capita GDP [15]. These provinces' tall rates of FDI and financial development contribute to their higher least wage levels. Alternately, territories like Anhui and Jiangxi are somewhat inland and absent from the coast. It has lower FDI, financial development, and subsequently, lower compensation. This geological difference underscores that common least wage contrasts are more closely connected to the financial action levels between the coastal districts and the hinterland instead of spatial spillover impacts[18]. Indeed when adjoining, territories can show critical wage disparities based on their financial imperativeness.

Joining common contrasts in investigations of FDI and financial development is significant when looking at the impacts of least compensation on work in China. The financially dynamic coastal locales are driven by higher FDI and exchange. This contrasts strongly with the less dynamic hinterland territories. This dissimilarity makes

a difference clarify the varieties in the least wage levels over the nation. Understanding these territorial financial elements is fundamental for policymakers pointing to address the complex impacts of least wage arrangements. It guarantees evenhanded financial advancement over China.

## 4.3 Managerial Decisions and Productivity Enhancements

The lowest wage in China has had a critical affect on firm efficiency and administrative choices. A few thinks about have inspected this relationship and found that higher least compensation have driven to efficiency changes and changes in firm behavior. One ponders by [19]found that the next least wage quickened input substitution. It is from labor to capital and adds up to figure efficiency development. This proposes that firms react to the higher labor costs by contributing in more capital-intensive generation strategies.. Hence, improving overall efficiency. Another study by [20] showed that increased minimum wages brought about significant increases in firms' R&D investment. Hence, it is increased total productivity. This supports the view that minimum wages can incentivize firms to innovate and adopt more efficient production processes. The "cleansing impact" of least compensation has too been watched in China. Least wage development permits more beneficial firms to supplant the slightest beneficial ones. It powers occupant firms to gotten to be more competitive. This reallocation of assets towards more effective firms leads to in general efficiency picks up [4]. At the firm level, higher least compensation diminished the survival likelihood of less beneficial firms. In any case, within the surviving firms, compensation rose without any effect on business. The most clarification for this finding is that efficiency rose essentially. It permits firms to retain the fetched stun without influencing business or productivity. The impacts of least wage on efficiency are financially expansive. Least wage development between 2003 and 2005 clarified on normal 20% of firm-level and city-level efficiency picks up in China. [20]. These findings suggest that minimum wages can be an effective policy tool. It is to foster productivity growth in developing countries like China. By increasing labor costs, minimum wages incentivize firms to adopt more efficient production methods. They can invest in innovation, and reallocate resources towards more productive firms. However, it is important to note that the effects of minimum wages on employment and productivity may vary. It was depending on the specific economic conditions and the level at which the minimum wage is set. Policymakers should carefully consider these factors when designing and implementing minimum wage policies.

## 5. Conclusion

Minimum salaries have gained popularity in China for a variety of reasons. China's rising economic inequality has prompted efforts to boost low-wage individuals' wages. Market dynamics prioritize distributing benefits to all workers, including those at the bottom of the wage distribution, through MWs. There is concern that the advantages of expansion will not reach people at the bottom of the wage distribution due to surplus labor from the countryside, which puts downward pressure on wages. This paper examines the causes and consequences of minimum wage in China.

The research objectives are threefold. It is to analyze the direct and indirect effects of FDI on wages and labor quality. It is to investigate regional variations in minimum wage standards and their impact on income distribution. Apart from that to assess the influence of minimum wage policies on employment outcomes across different regions. The findings reveal several key points. Firstly, FDI increases wages, particularly for skilled labor. Foreign firms typically offer higher rates due to superior technology and managerial practices. This drives private firms to raise wages to retain skilled staff. The state-owned enterprises (SOEs) face wage constraints, leading them to hire lower-quality skilled workers. Secondly, there is significant regional variation in minimum wage standards. Coastal regions with higher FDI and economic growth, such as Tianjin and Beijing. It has higher minimum wages compared to inland provinces like Anhui and Jiangxi. This regional disparity underscores that minimum wage differences are more closely linked to economic activity levels rather than spatial spillover effects. Thirdly, the employment effects of minimum wage increases vary by region. In the prosperous Eastern regions, minimum wage hikes have had negative effects on employment. In the Central and Western regions, the effects have been positive or neutral. Additionally, higher minimum wages have led to productivity improvements. This is because firms invest in capital-intensive production methods and R&D. Hence, boosting overall efficiency and innovation.

Based on these findings, several policy recommendations are proposed. Developing region-specific minimum wage policies that consider local economic conditions is essential. It is to reduce regional income disparities. Enhancing protections and benefits for informal and migrant workers can improve their economic welfare and job prospects. Using minimum wage policies to encourage firms to invest in productivity-enhancing technologies and innovation. It is crucial for boosting economic efficiency. Promoting balanced economic development by encouraging FDI in inland regions and providing incentives for busi-

nesses. It is to invest in higher value-added sectors can reduce the economic gap. It prevails between coastal and inland areas. Finally, strengthening the enforcement of labor regulations ensures compliance and protects workers' rights. This is particularly true in regions with high levels of informal employment. These recommendations aim to balance wage growth with employment stability. Hence, ensuring that the benefits of economic development are widely shared across China.

## References

- [1] Laliberté P. Social justice and growth: The role of the minimum wage[J]. *International Journal of Labour Research*, 2012, 4(1): 5-127.
- [2] Zhan Q, Zeng X, Wang Z A, Mu X. The influence of minimum wage regulation on labor income share and overwork: evidence from China [J]. *Economic research-Ekonomska istraživanja*, 2020, 33(1): 1729-1749.
- [3] Wang W, Phillips PC, Su L. The heterogeneous effects of the minimum wage on employment across states[J]. *Economics Letters*, 2019, 174: 179-185.
- [4] Hau H, Huang Y, Wang G. (2020). Firm response to competitive shocks: Evidence from China's minimum wage policy [J]. *The Review of Economic Studies*, 2020, 87(6): 2639-2671.
- [5] Ni J, Wang G, Yao X.. Impact of minimum wages on employment: evidence from China[J]. *Chinese Economy*, 2011, 44(1): 18-38.
- [6] Fan H, Lin F, Tang L. Minimum wage and outward FDI from China [J]. *Journal of Development Economics*, 2018, 135: 1-19.
- [7] Wye C K, Bahri ENA. How does employment respond to minimum wage adjustment in China?[J]. *The Economic and Labour Relations Review*, 2021, 32(1): 90-114.
- [8] Kong D, Qin N, Xiang J. Minimum wage and entrepreneurship: Evidence from China[J]. *Journal of Economic Behavior & Organization*, 2021, 189: 320-336.
- [9] Jia P. Employment and working hour effects of minimum wage increase: Evidence from China [J]. *China & World Economy*, 2014, 22(2): 61-80.
- [10] Li Y, Kanbur R, & Lin C (2019). Minimum wage competition between local governments in China[J]. *The Journal of Development Studies*, 2019, 55(12): 2479-2494.
- [11] Cooke F. Labor market regulations and informal employment in China: To what extent are workers protected? [J]. *Journal of Chinese Human Resources Management*, 2011, 2(2):100-116.
- [12] Ma A C. Geographical location of foreign direct investment and wage inequality in China[J]. *World Economy*, 29(8), 2006, 1031-1055.
- [13] Wang J, Gunderson M. Minimum wage impacts in China: Estimates from a prespecified research design, 2000–2007[J]. *Contemporary Economic Policy*, 2011, 29(3): 392-406.

- [14] Yang J, Gunderson M. Minimum wage impacts on wages, employment and hours in China [J]. *International Journal of Manpower*, 2020, 41(2): 207-219.
- [15] Cheng H, Hu D, Li H. (2020). Wage differential between rural migrant and urban workers in the People's Republic of China [J]. *Asian Development Review*, 2011, 37(1): 43-60.
- [16] Wei Z, Ren Z, Zhu C, Zhou Y, Liu X. Minimum wage effects on firms' R&D investment: Evidence from China[J]. *International Review of Economics & Finance*, 2023, 87: 287-305.
- [17] Lin C, Yun M S. *Income Inequality Around the World* [M]. UK: Emerald Group Publishing Limited. 2016
- [18] Han Z, Wei Z, Mok VWK. Empirical study on minimum wage level in China: The ELES approach [J]. *Journal of Contemporary China*, 2011, 20(71): 639-657.
- [19] Howell A. Minimum wage impacts on Han-minority workers' wage distribution and inequality in urban China [J]. *Journal of Urban Economics*, 2020, 115: 103184.
- [20] Du P, Wang S. The effect of minimum wage on firm markup: Evidence from China [J]. *Economic Modelling*, 2020, 86: 241-250.