

Estimating the Incidences of the Recent Pension Reform in China: Evidence from 100,000 Manufacturers

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Abstract

An ongoing reform in China mandates employers to contribute significant amounts to employee pension funds. The current study estimates the impact of this reform on the wage, employment and performance of firms using data from over 140,000 medium and large manufacturers in China during 2004 and 2006. We find that the nominal wages of employees were rigid but their real wages may have declined due to the pension reform. In addition, we find an interesting dichotomy in the incidences of pension reform. In localities with high agglomeration levels, firms' profits declined because the pension burden could not be fully transferred to employees. In less agglomerated jurisdictions, firms responded positively to pension reform, possibly because local governments over-subsidized the pension costs as a way to attract investment.

Keywords: Incidence, Pension, China

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