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BUDGET CONSTRAINTS, EXCHANGE RATE SHOCKS AND EMPLOYMENT ADJUSTMENTS IN CHINA

Abstract:

We investigate the employment change differences between state-owned and private firms driven by the nature of the budget constraint that firms face under exchange rate shocks. Data on Chinese manufacturing firms allow comparison of firm behaviour under soft and hard budget constraints as distinguished by firm ownerships. We find that private firms are more responsive to exchange rate shocks than state-owned firms, and industries with higher export orientation are more likely to have within-industry labour relocation between state-owned firms and private firms: when private firms shrink, state-owned firms expand employment and vice versa. Our results demonstrate the role of the soft budget constraint in labour adjustment of Chinese enterprises.

Keywords:

Soft budget constraint, employment, exchange rate shock, Chinese firms

JEL Classification: F31, J21, G30