The Impact of Digital Financial Inclusion on Labor Market
—evidence from China

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Financial inclusion in China has witnessed diversified development, especially with the vigorous promotion of digital financial inclusion by the government, leveraging Chinese digital technology. This study examines the impact of digital financial inclusion on the labor market based on China Labor-force Dynamics Survey (CLDS).

It is well-acknowledge that the problem of low-income households not being able to access basic financial services has been existed for a long time. In order to deal with this kind of problem, the Chinese government has been actively promoting financial inclusion since 2005 as a means of supporting the poor. According to the United Nations, financial inclusion is a process of providing access to appropriate banking and financial products & Services to the vulnerable groups in particular such as developing regions and low-income households. Recently in China, there is a strong correlation between the practice of financial inclusion and innovative digital finance, and thus digital finance has become an important source of power and growth point for financial inclusion.

This paper studies the role of digital financial inclusion in the real economic, especially the impact in labor market. Research shows that digital financial inclusion has a positive effect on individuals labor supply, increasing the probability of both entrepreneurship and employment. The effect on entrepreneurship or self-employment is significantly larger for low-income individuals. Mechanism analysis shows that digital financial inclusion can increase credit accessibility and thereby stimulating individual entrepreneurship. More importantly, it can also reduce the credit cost faced by the low-income individuals. Moreover, further analysis shows that there is a higher probability of transition between unemployment and employment influenced by digital financial inclusion. Finally, individuals with lower Internet ability or financial literacy would be less encourage to start a formal business.

This paper contributes to the current literature by the following points. Firstly, this paper provides new evidence of the influence of digital financial inclusion on labor market by China Labor-force Dynamics Survey (CLDS) instead of previously used survey data or any macro data. This survey provides significantly precise outcomes of workers (especially in working status) in labor markets. Secondly, compared to the previous literature, this paper is the first to examining the mechanisms of how digital financial inclusion impacts households through labor markets. Lastly, this paper not only studies the impact of digital financial inclusion on the employment status of workers, but also shows the impact on the transfer of the employment status of workers, providing evidence from both static and dynamic aspects.