Labor

The Story So Far

From the birth of the People’s Republic of China in 1949 to 2019, China’s working-age population grew by 600 million people: it is little wonder economic output expanded. Today, the size of the workforce is shrinking, so improving both its quality and mobility is critical for longer-term competitiveness. The share of Chinese people living in cities is also slated to rise to 60% by 2020, adding huge growth potential but also increasing fiscal pressure on local governments to deliver social services. China’s 2013 Third Plenum called for labor policy reforms to boost job creation and entrepreneurship, discourage discrimination and labor abuse, improve income distribution, fund social security and pensions, and enhance healthcare and education.

- In July 2014, authorities issued an Opinion that called for relaxing the burdensome restraints on individuals who wished to change their residency (the household registration or hukou system). This new policy eased controls for those wishing to move to smaller cities while leaving in place more restrictive measures for those wishing to move to bigger cities. Policymakers also planned to set up a nationwide residency permit system that would ease and standardize the process of relocating.

- In December 2015, the central government established that anyone living in one locality for six months could apply for a residency permit and therefore gain access to basic social services. The measure softened the division between rural and urban hukou, and it laid a basic foundation for the abolishment of the hukou system over the longer term.

- A notice issued in August 2016 recommended fiscal support to incentivize and facilitate urbanization and provide social services based on the newly established residency permit system. The extent and effectiveness of this support are still unclear.

- In February 2018, China’s State Council indicated that it would share more social expenditures with localities. Local governments have long shouldered a disproportionate share of overall government spending while suffering from weak sources of revenue; more revenue from the center would help bridge this gap.

Methodology

To assess progress in China’s labor policy reforms, we chart wage growth for the segment of the labor force most likely to present a bottleneck to the country’s productivity: migrant workers. Working away from home in temporary and low-skilled jobs and with little access to urban social services, migrant workers have supported China’s growth miracle, but they are increasingly vulnerable to structural changes. Our primary indicator charts the growth rate of migrant worker wages relative to the GDP growth rate. If wage growth trails GDP growth, it suggests falling productivity or inadequate policy support for the workforce, or both. The wage/GDP growth trend for other segments of the workforce is also included. Divergence in income gains between segments can lead to social unrest, as can downward trends impacting all segments simultaneously. Our supplementary indicators look at job creation, labor market demand and supply conditions, urban-rural income gaps, and social spending relevant to labor outcomes.

Quarterly Assessment and Outlook

Primary Indicator: Wage Growth Relative to GDP

![Graph showing wage growth relative to GDP for different segments of the labor force.](image)


- We downgrade our labor reform assessment: labor conditions weakened across the board, and policy support is lacking.

- Migrant and rural wage growth deteriorated alongside a more serious drop in job creation. Despite this downturn, the central government has slowed safety net spending.

- Beijing is supporting employers through tax cuts, lending quotas, and reduced social security payments, but these measures are indirect and help workers in the medium term. Healthcare policy saw substantial improvement, extending access and reducing costs especially for poorer citizens.
This Quarter’s Numbers

The economic slowdown underway in China, driven by softer lending, investment, and trade growth, has led to deterioration in labor conditions across the board in 2Q2019. These factors are weighing on the willingness and ability of firms to hire new workers and raise wages. Anemic safety net spending in this period indicates that China’s fiscal institutions are limited in their capacity to support workers affected by weaker economic and financial conditions. The government is thus failing to improve worker welfare.

Our primary indicator, Wage Growth Relative to GDP, shows that wages for urban, rural, and migrant workers fell compared to total economic growth, with migrant wages growing 33% slower than GDP. Employment data are more concerning. New Job Creation registered the biggest decline since mid-2015, with 220,000 fewer net jobs created over the past four quarters than in the previous year. The ratio of job openings to applications dropped in all regions, and very sharply in eastern and western China, further suggesting that employers are paring back (see Labor Demand-Supply Ratio). Companies appear hesitant to add to payroll amid the current slowdown and future uncertainties.

Despite labor market weakness, central government support for workers and their families is slowing. The growth of central government transfer payments, a component of per capita disposable income which includes unemployment insurance and welfare, slowed to 6.8% year-on-year in 2Q2019, down from 7.3% in the previous quarter and more than 11% growth in 2017. One positive development is that a greater portion of transfers is going to rural residents compared to urbanites, which will help narrow the large income gap (see Rural-Urban Household Income).

Other forms of government support that would help offset wage and employment pressures either remained flat or deteriorated in 2Q2019 (see Social Spending). Beijing announced large income, value-added, and corporate tax cuts to stoke demand for more workers and consumer goods. While these cuts may indirectly support middle- and lower-income workers over time, they also deprive local and the center governments of funds needed for redistributive social spending. On balance, these indicators suggest the government is not providing enough direct fiscal support to help households maintain spending while they wait out wage cuts, find other jobs, change career fields, or pursue higher education.
Healthcare policy improved in 2Q2019, with officials announcing plans to expand access and reduce costs especially for lower-income households. On August 20, the National Healthcare Security Administration published the new catalog of drugs covered by the national healthcare insurance plan. The number of drugs fully covered by insurance will rise to 640, an increase of 46 since 2017. The National Health Commission announced twin goals of covering 90% of poor citizens' spending on serious illness treatments and ensuring that 90% of citizens who get sick see a doctor by expanding hospital access. Finally, the government expanded a pilot that centralizes procurement of basic drugs to all provinces, which will increase government bargaining power and reduce drug prices. On the whole, recent policy developments will help address long-term issues by encouraging lending to smaller firms, shoring up funding for social safety nets, and reducing healthcare costs. But these measures do not adequately provide immediate support for workers in the face of a weakening economy.

Policy Analysis

China’s households are facing not only fewer employment opportunities and lower income growth but also higher costs of living related to tariffs, food prices, and housing. Though recent high-level policy rhetoric prioritized improving labor conditions, the policies advanced this period will likely only help the country’s workforce in the medium term.

Building on the announcement of the “employment first” strategy in March, Premier Li Keqiang at a September State Council meeting emphasized the importance of shared welfare, whereby rural and migrant workers enjoy income growth on pace with economic growth. So far this year, Beijing has taken a supply-side approach to boost income growth by reducing costs and increasing lending to smaller, private companies so that they increase employment and wages. In March, the National People’s Congress targeted 2 trillion yuan in income, value-added, and corporate tax cuts for the rest of the year (see Spring 2019 edition). Over the first half of the year, China’s central bank continued to direct banks to reduce borrowing costs for and increase lending to private firms. These indirect measures have had little identifiable impact and have only chipped away at the national tax base.

Insufficient tax revenue remains a key constraint on government social security spending. To address this shortfall, Beijing is accelerating the transfer of state assets to social security funds. On September 20, the Ministry of Finance (MoF) announced that all large and medium-sized central and local state-owned enterprises must transfer 10% of state equity to the social security funds by the end of 2020, adding an explicit deadline to policy statements made in 2017. This is a positive but limited step. The MoF indicated that the funds will benefit mostly by earning dividend payments from SOEs, which are low, and they will mostly be unable to sell the related equity.