Labor

The Story So Far

From the birth of the People’s Republic of China in 1949 to 2015, 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

- Our assessment is negative this quarter, a further downgrade from last quarter. Almost all labor indicators deteriorated, meaning workers did not share equally in economic growth.

- Urban and migrant workers saw wage growth lag economic growth, and businesses are creating fewer jobs amid the broader slowdown. Fiscal spending to directly support workers was minimal.

- On the policy side, Beijing adopted measures to stabilize employment, increase wage incomes, and alleviate poverty to improve labor conditions and social welfare in the future.
This Quarter’s Numbers

China’s slowdown extended into 3Q2019 on the back of weaker lending and investment growth, revealing the constraints firms are facing in hiring new workers and raising wages. Wage growth did not keep pace with economic growth for most of China’s workforce in 3Q2019. Our primary indicator, Wage Growth Relative to GDP, shows migrant wages growing by the slowest pace since the series began reporting in 2013, while urban wage growth also lagged economic growth. When workers do not get to share in GDP growth, they are left with shrinking wealth and are discouraged from making long-term investments in education and skill development, weighing down future potential growth.

The only bright spot this quarter was the modest upturn in rural income growth relative to economic growth, but this improvement may be temporary for several reasons. First, agriculture prices were elevated due to U.S.-China tariffs as well as the impact of African swine flu on pork supply, likely boosting farm incomes. Second, while rural nonagricultural land reform remains stalled, agricultural land has benefited from policies that allow farmers to scale up agricultural operations (see Land). Despite this progress, however, urban households still earn 2.7 times more disposable income than rural households do – an improvement from 3.1 in 2010 – though the wealth gap has not narrowed meaningfully since 2016 (see Rural-Urban Household Income).

Employment data remain weak. There were 100,000 fewer jobs created in the four quarters ending in 3Q2019 than the year prior (see New Job Creation). Meanwhile, authorities inexplicably failed to report the ratio of job openings to applications this quarter (see Labor Demand-Supply Ratio). In 2Q2019, demand for labor relative to supply dropped in all regions, especially in Eastern and Western China; were the data available, they would likely show job openings per applicant dropping further in the third quarter. Even so, fiscal support to offset these pressures was minimal, with social security and employment-related spending rising half of a percentage point since 2Q2019 relative to GDP (see Social Spending).
Policy Analysis

In light of weakening labor conditions, policymakers stepped up efforts to address labor’s share of income and social welfare in the economy in late 2019. Policies centered on a combination of short-term measures to stabilize employment and the reiteration of longer-term reform goals, including reducing inequality and improving conditions for lower-income workers.

Shoring up weak labor conditions was the priority. A joint statement from the State Council and the Communist Party’s Central Committee called for more job creation and the prevention of widespread unemployment. A December National Development Reform Commission meeting set goals for 2020, emphasizing the need to “stabilize employment by any means necessary.” Policymakers supplemented these statements with a series of measures directly supporting income growth. In December, the State Council issued draft rules to ensure that migrant workers receive timely wage payments and back pay they are owed. The State Council also extended unemployment allowances and incentivized small and medium enterprises to hire more employees, which should boost social spending related to employment in our indicators.

The joint Central Committee statement stressed that better worker mobility was key to improving labor conditions, and that the household registration system, or hukou, remains a major impediment. The hukou reform plan announced in April 2019 sought to cancel all registration restrictions in cities with fewer than 3 million residents and to significantly relax restrictions in cities with 3–5 million people in 2019. The State Council has pledged to eliminate all hukou restrictions by 2022 (see Summer 2019 Edition). The Central Committee is now pushing local governments to provide more public services to migrants and to develop concrete plans for absorbing migrant workers. However, the statement made no provision for the central government to share the greater local social spending burden that would ensue, casting doubt over hukou reform prospects.

Authorities also focused on reducing inequality and poverty. The Fourth Plenum of the Party’s Central Committee, an important occasion for setting political priorities, emphasized the need to increase incomes for middle-class and poor workers. At the Central Economic Work Conference (CEWC) in December, leadership elevated poverty alleviation above pollution reduction and financial system deleveraging in 2020. While these plans are light on implementation details, the prioritization of labor policy across party and government offices shows clear upgrading.