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

- We further downgrade our assessment in 1Q2020. All labor indicators deteriorated and are now in unchartered territory as policies failed to support workers during the pandemic.

- Migrant workers were hit harder than other groups. Price-adjusted migrant wages fell 12.3% in 1Q2020, while urban and rural workers’ wages fell at a slower pace.

- Beijing rolled out policies to help small- and medium-sized enterprises support workers and households. This policy support sends an important signal, but its effectiveness will depend on a recovery in the global economy.

This Quarter’s Numbers
Labor indicators plunged as the pandemic hit China in 1Q2020. Migrant workers proved to be more vulnerable than other workers, despite past policies that promised to reduce job discrimination and expand the social safety net. As China’s GDP fell by 6.8% year-on-year (yoy) in 1Q2020, price-adjusted migrant worker wages contracted by 12.3%, more than the fall in urban wages (~3.2%) and rural wages (~6.2%). While price-adjusted migrant wage growth was the weakest, the wage-to-GDP growth metric in our primary indicator shows a misleading improvement as migrant wages contracted even more than GDP growth, producing a number greater than 1.
Official unemployment data failed to reflect the shock to China’s workforce. The National Bureau of Statistics (NBS) reported a 5.9% unemployment rate in March, compared with 5.3% in December 2019. The official rate is at odds with transportation data that suggest that 40% of China’s 290 million migrant workers—15% of the country’s total workforce—had not returned to the workplace by the end of 1Q2020.

In addition, China created only 2.3 million jobs in 1Q2020, 25% fewer than in 1Q2019 (see New Job Creation). Many of the jobs created are beyond the reach of those in need given travel restrictions and quarantine measures. In 1Q2020, the ratio of job openings per applicant spiked in all regions, reaching the highest levels on record (see Labor Demand-Supply Ratio). The ratio of job openings per applicant has consistently increased since 2016, pointing to structural rather than cyclical problems in China’s labor market and the failure of past policies to address skills training, unfair compensation, and other problems.

Despite the pandemic and worsening labor market conditions, the government’s social spending as a share of GDP barely changed (see Social Spending). Compared with 1Q2019, the government spent only 1% more on social security and employment, 2% more on healthcare, and 7% less on education in 1Q2020. The increased spending on social security and healthcare is wholly insufficient to meet the needs of China’s households.
Supplemental 4: Government Social Expenditures

The “vitality of China’s economy.” In effect, any seller can open for business without paying rent or taxes. According to reports, authorities that had previously been tasked with chasing vendors off the streets were asked to focus instead on finding new street vendors.

So far, rising unemployment due to COVID-19 has not threatened China’s political stability. If anything, the rise of infections outside China has reinforced the legitimacy of the government’s crisis response. Workers appear unwilling or unable to take collective action. According to the China Labor Bulletin, workers only conducted 118 strikes in 1Q2020, less than a third of the number (369) in 1Q2019. However, the risk of popular pushback remains: a significant portion of China’s 180 million workers in export-related sectors face unemployment risks as global demand declines, and there is no way for China’s domestic consumption to fill the gap left by the world.

Policy Analysis

Beijing is now prioritizing employment policies to address weak labor conditions. On April 17, the Politburo Standing Committee made employment the highest priority in the “six ensures” and the “six stabilities,” two new policy slogans that encapsulate Beijing’s focus for the year. The government work report released on May 22 mentioned the word “employment” 39 times, 30% more than the report in 2019, even though the report itself is much shorter. The report dropped the growth target but kept the goal to eliminate poverty this year, one of the three objectives President Xi pledged to accomplish in 2020 at the 19th Party Congress in 2017.

China’s labor policies in response to COVID-19 have focused on helping small businesses support employment. The State Council Executive Meeting announced measures on March 31, April 21, June 17, and July 1 to support lending to small- and medium-sized enterprises (SMEs) and to lower their borrowing costs. The annual government work report extended the reduction of social security payments and electricity charges that firms pay, originally set to expire in June, to the end of the year, and suspended debt service payments for SMEs until March 2021. On June 1, China’s central bank announced it would purchase some SME loans to encourage local banks to increase lending to them. Together, these measures are expected to reduce firms’ costs by around RMB 1-1.5 trillion (USD 143-214 billion) for 28 million SMEs, supporting roughly 84 million workers if one assumes that each SME employs three people.

The government also signaled support for “street businesses,” suspending decades-long efforts to clean up China’s informal economy. On June 1, Premier Li visited a city in Shandong province and praised street vendors as...