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 labor reform assessment this quarter. All indicators continued to deteriorate in 4Q2019 and will likely worsen as a result of COVID-19.

• Urban wage growth slowed to a record low pace, even before the outbreak. Government support has been insufficient so far to offset job losses.

• Policies prioritized economic stability over labor welfare. Vouchers rolled out to spur consumption in a handful of cities may be expanded nationwide but are not a salve for those most in need—migrant workers and the unemployed in poorer areas.

This Quarter’s Numbers
Labor conditions weakened across the board in 4Q2019. Urban wage growth dipped to its lowest level on record, nearly 50% below reported GDP growth (see Wage Growth Relative to GDP), while rural wages rose at the same pace as GDP but slowed from 3Q2019. (Authorities did not release new migrant wage data this quarter.) China created fewer jobs in 2019 than in 2018, and the unemployment rate increased, suggesting that the reported 6% economic growth failed to support new employment (see New Job Creation).
The COVID-19 outbreak has made labor conditions worse in 2020. The official surveyed unemployment rate rose to 6.2% in February from 5.2% in December 2019, meaning a loss of around 5 million jobs. As of April, most have returned to work, but tourism and business travel around the country remain 70% below normal levels and some factories are at full capacity, reducing job opportunities and incomes for many. As economic activity in China gradually resumes, the rest of the world has locked down in sequence to grapple with COVID-19, which will cause a second-wave impact on China's economy and slow its recovery.

Fiscal policies have provided little material help to households hit by the crisis. Before the outbreak, fiscal spending on social welfare as a percentage of GDP had been stalled or slowing since 2017 (see Social Spending). After the outbreak, most policy support for households has taken the form of vouchers to incentivize consumption in a handful of cities. China’s fiscal policy space is limited, however, as revenue is falling as a result of COVID-19 and expenditures on healthcare will rise.
Policies in the review period prioritized economic stability over labor welfare. In late 2019 when the virus first emerged, local officials were still developing plans to implement policies discussed at the December Central Economic Work Conference, such as stabilizing the economy and alleviating poverty. Focused on meeting growth-oriented policy goals set by the central government, local governments in Hubei and Wuhan missed their best chance to prevent the outbreak from spreading.

In mid-February when the virus appeared somewhat contained, policymakers turned to economic recovery. Authorities waived pension payments for small and medium enterprises (SMEs) for five months and reduced payments by half for larger enterprises for three months. Waivers will save firms more than 500 billion yuan ($70 billion), which is necessary to help them stay afloat and keep people employed in the short term but will reduce long-term retirement benefits for workers.

Since early March, local governments have started rolling out vouchers to promote consumption, which is a measure to help businesses more than households. These vouchers are not direct cash compensation for workers who face income loss because of the lockdown but are discount coupons that can be used on purchases above a certain amount. For example, in Hangzhou, an experimental program allows a local resident to use a government-issued electronic voucher to save 10 yuan ($1.50) on a 50-yuan ($7.00) local purchase. Hangzhou authorities plan to issue vouchers worth 1.68 billion yuan ($237 million), with around 100 million yuan ($14 million) distributed each round for the first 1.5 million people to claim them, averaging 100 yuan ($14.00) per person. The central and local governments each provided one-third of the total voucher amount in Hangzhou, with companies contributing the rest.

More than a dozen cities have announced voucher programs, but the total value so far is only 10 billion yuan ($1.4 billion). The voucher program may be rolled out in some form nationwide if it proves effective in kick-starting consumption, but many localities are fiscally constrained. Even with a green light from Beijing, there will likely be regional variation in issuance and mismatches between where the money is needed most and where the government actually has resources.

Improving labor conditions under COVID-19 was not prioritized until late March, when the State Council issued an opinion to stabilize employment. In addition to resuming work, the opinion advanced some measures to support vulnerable groups, including arranging transportation for migrant workers to return to work and providing vocational training for the unemployed. The opinion also instructed local governments and state-owned enterprises to recruit more new college graduates.

As of April 2020, a campaign to retool pro-growth market reforms was underway, including some initiatives on labor policy. On April 9, a joint Communist Party–State Council opinion was issued urging more effective “market allocation” of resources. On labor, the opinion promised to deepen hukou reform by improving the system that decides who can migrate to big cities based on scores for employment, home ownership, education, and business. The opinion also called for coordination among cities in the Yangtze River Delta and the Pearl River Delta, which should harmonize regional approaches to migration. The announcement also talks about labor mobility, skills upgrading, and attracting foreign talent, but no new solutions to clearing obstacles to these long-standing nostrums have been offered.