

Living Wage Update Report: Shenzhen, China, 2022

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Cost of decent standard
of living for a family

RMB 5,125
(USD 765)



Living wage
per month

RMB 3,235
(USD 483)



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By:

*Lykke E. Andersen**

*Alejandra Gonzales***

*Agnes Medinaceli****

*Richard Anker*****

*Martha Anker*****

Abstract:

This report provides updated estimates of family living expenses and living wages for Shenzhen, China. The update for 2022 takes into account inflation and changes in payroll deductions since the original Anker living wage study carried out in August 2015 (Wang et al., 2015).

Keywords: Living costs, living wages, Anker Methodology, China

JEL classifications: J30, J50, J80.

* SDSN Bolivia, email: Lykke.E.Andersen@gmail.com

** SDSN Bolivia, email: Alejandra.Gonzales@sdsnbolivia.org

*** SDSN Bolivia, email: agnes.medinaceli@gmail.com

**** Anker Research Institute, email: marthaandrichard@gmail.com

1. BACKGROUND

This report updates the Anker living wage and family living expenses to 2022 for Shenzhen, China (Wang et al., 2015). The update takes into account the amount of inflation since the original study in August 2015. This is done by updating the August 2015 net living wage and living expenses to mid-year 2022 by inflation including expected inflation for 2022 according to the Asian Development Bank (ADB). This provides average living wage and family living expense estimates for 2022. Without accounting for inflation, the net living wage estimated in 2015 would not be sufficient for workers to have a basic but decent standard of living in 2022 because the purchasing power of the living wage would have decreased. The gross living wage (aka living wage) is updated to 2022 by also taking into consideration income taxes and mandatory deductions from pay that workers would need to pay on the updated 2022 living wage. This is done using the laws in effect at the beginning of 2022.

2. LIVING WAGE ESTIMATE IN ORIGINAL COUNTRY REPORT FROM AUGUST 2015

The original living wage country report estimated the net living wage as RMB 2,508 in August 2015. This was the required take-home pay for workers for decency in August 2015. The gross living wage, which also takes into account income taxes and mandatory deductions from pay for social security and union dues, was estimated as RMB 2,818 in August 2015. The living expenses for a basic but decent standard of living for a reference family in the original country report was estimated as RMB 4,464 in August 2015.

3. INFLATION RATE USED FOR UPDATE

The National Bureau Statistics of China (NBSC) is the government body responsible for computing and reporting price indices in China. It reports several different consumer price indices, such as the average for the country, urban and rural price indices at the national provinces levels, and specific price indices for 70 main cities. In this update, the Household Consumer Price Index for the city of Shenzhen is used.

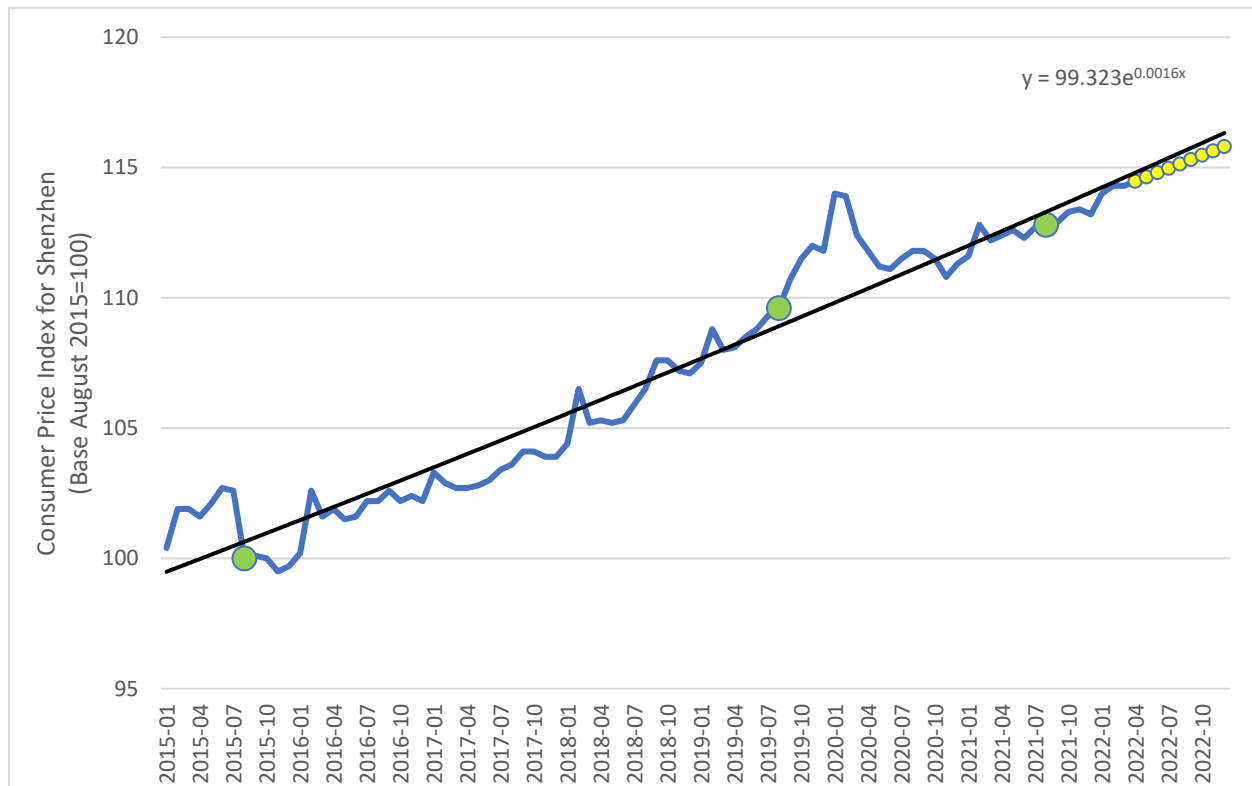
4. RECENT LEVEL OF INFLATION

Between August 2015 and December 2021, the inflation for Shenzhen was 13.2%. The yearly inflation rate between August 2020 and August 2021 for Shenzhen was 0.89%. The IMF projects that the inflation rate in China for 2022 will be 2.1%¹, but this value is probably slightly too low given the new COVID-19 outbreaks in China and the Ukraine conflict, which could create new food price pressures.² The Asian Development Bank (ADB) currently expects the inflation in China for 2022 to be 2.3%.³ This projection was added to the Consumer Price Index numbers shown in Figure 1, while taking into account observed inflation for the first few months of 2022.

¹ See <https://www.imf.org/external/datamapper/PCPIPCH@WEO/NIC>. Information accessed 7 July 2022.

² See <https://www.reuters.com/world/china/chinas-ppi-cpi-rise-faster-than-expected-march-2022-04-11/>

³See <https://www.adb.org/outlook#:~:text=The%20regional%20inflation%20rate%20is,dipping%20to%203.1%25%20in%202023.> Information accessed 7 July 2022.

Figure 1: Consumer Price Index for Shenzhen, China from January 2015 to December 2022

Notes: Green circles indicate the months of the original study and the earlier updates. Yellow circles show the forecasts for 2022. The black line is the fitted exponential trendline.

Source: Authors' calculations based on CPI data from NBSC.

5. MANDATORY DEDUCTIONS

On 30 August 2018, the National People's Congress passed an amendment to the Individual Income Tax Law of the People's Republic of China.⁴ The current Individual Income Tax in China (IIT) follows a progressive tax system, with rates ranging from 3% to 45%. In 2022, workers earning a living wage in Shenzhen fall into the range from RMB 3,000 to RMB 12,000 per month, which is subject to a 10% tax minus a so called 'quick deduction' of RMB 210.⁵ However, because of various tax deductions, workers earning a living wage would not pay income tax.

⁴ See http://www.xinhuanet.com/politics/2018-09/01/c_1123362911.htm?baike.

⁵ See <https://taxsummaries.pwc.com/peoples-republic-of-china/individual/taxes-on-personal-income>.

Social security contributions to pension, medical and unemployment funds are mandatory in China. According to several different online individual income tax calculation tools for China,⁶ mandatory payroll deductions in Shenzhen amount to 11.0%,⁷ as in the original study.

6. UPDATED LIVING WAGES AND FAMILY EXPENSES FOR 2022

The updated family living expenses for 2022 are RMB 5,125 per month. The gross living wage, which takes into account mandatory payroll deductions, is RMB 3,235 per month for 2022. These are average estimates for the year 2022. Table 1 provides details of the original and the updated living wages and family living expenses. Notice that the living wage in USD fell slightly in the past year, because depreciation of the RMB in this period was slightly greater than inflation.

Table 1: Living wages and living expenses for manufacturing industry in urban Shenzhen, China (in RMB and US Dollars)

Item	August 2015 Original Study Date		August 2021 Update Report		2022 Update Report	
	RMB	USD	RMB	USD	RMB	USD
Living Expenses for Reference Family Per Month	4,464	698	5,035	778	5,125	765
Net Living Wage Per Month	2,508	392	2,829	437	2,879	430
Income Taxes and Payroll Deductions Per Month on Living Wage	310	48	350	54	356	53
Gross Living Wage Per Month	2,818	440	3,179	491	3,235	483
Exchange Rate to USD	6.40		6.47		6.69*	
Source of Exchange Rate	Original Report		IMF Archive		IMF Archive	

Note: * Mid-year exchange rate (30 June 2022) according to IMF archives

(<https://www.imf.org/external/np/fin/ert/GUI/Pages/CountryDataBase.aspx>).

Source: Authors' calculations.

7. REFERENCES

Wang, S., Wang, Y., Gu, F & Lu, D. (2015) *Living Wage Report: Urban Shenzhen, China with focus on manufacturing industry park*. Global Living Wage Coalition. Available online: <https://bit.ly/2TOX16U>

⁶ See <https://taxsummaries.pwc.com/peoples-republic-of-china/individual/other-taxes>

<https://www.hrone.com/blog/how-to-calculate-an-employees-payroll-in-china/>

https://www.dezshira.com/library/investor_tools/individual_income_tax_china.

⁷ We did not include employee contributions to the Housing Provident Fund when we calculated the amount of mandatory payroll deductions, despite this deduction being substantial when it is paid (e.g., 12, 7, 12, and 6 percent of wages in Beijing, Shanghai, Shenzhen, and Chengdu respectively according to <https://www.1421.consulting/2018/06/chinese-taxes-and-social-insurances/>). There are two reasons for this decision. First, it is common that workers outside government and white-collar firms, such as in manufacturing enterprises, do not contribute to the Housing Provident Fund according to FLA (Fair Labor Association) verification assessments. Second, it appears to be fairly easy for workers to access contributions to their housing fund every year for ongoing expenses, and thus reduce the amount of money required for ongoing living expenses. Withdrawals are allowed for home loan, home down payment, mortgage payment, home improvement, and medical emergencies, and in 2021 it might be possible to withdraw funds for rent payment (<https://www.tellerreport.com/business/2021-08-12-more-than-20-places-in-the-year-introduced-a-new-provident-fund-policy--these-rented-houses-can-be-mentioned-more.Ske-2SAGet.html>).