

Living Wage Update Report: Urban China, Shenzhen (August 2021)

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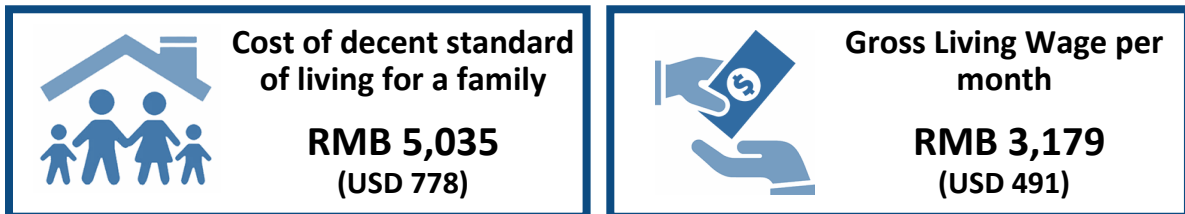


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Abstract:

This report provides updated estimates of family living expenses and living wages for Shenzhen, China for 2021. The update takes into account inflation and changes in payroll deductions since the original Anker living wage study carried out in August 2015 (Wang, Wang, Gu & Lu, 2015).

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

JEL classifications: J30, J50, J80.

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1. BACKGROUND

This report updates the living wage and family living expenses for Shenzhen, China, with a focus on manufacturing industry parks (Wang, Wang, Gu & Lu, 2015). The net living wage and family living expenses are updated to the study month of the most recent calendar year – August 2021 – to take into account the amount of inflation since the original August 2015 living wage study. 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 2021 because the purchasing power of the living wage would have decreased compared to what it was in 2015. Similarly, living expenses for a reference family are also updated to August 2021 to account for inflation.

The gross living wage is updated to August 2021 by taking into consideration income taxes and mandatory deductions from pay that workers would need to pay on the updated living wage using 2021 laws.

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

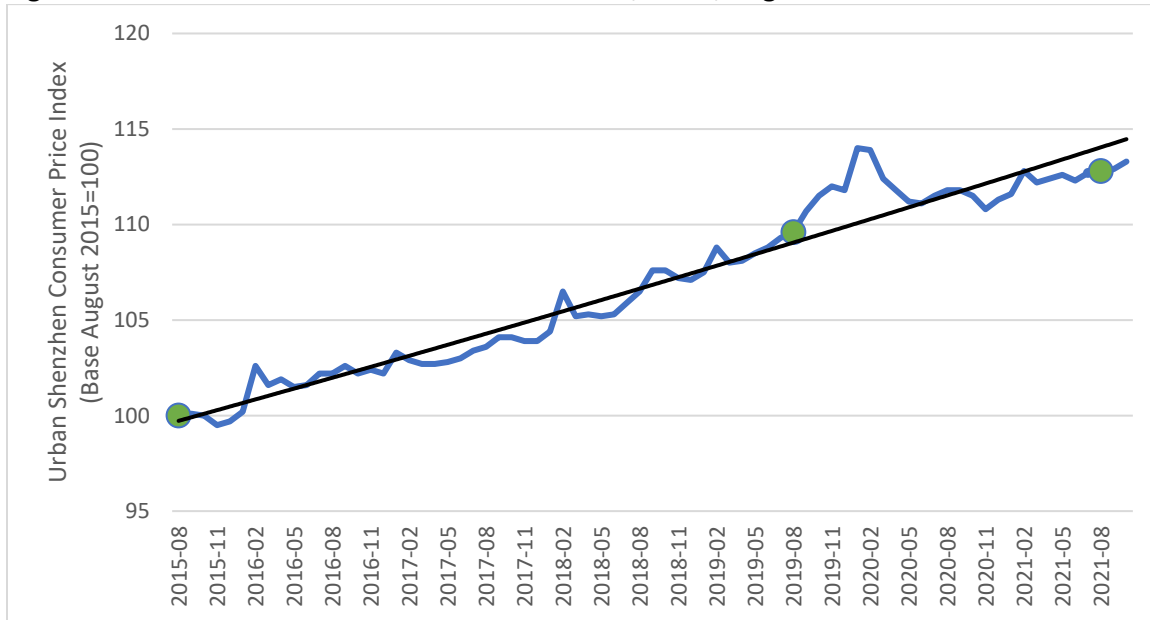
The National Bureau Statistics of China (NBSC) is the government body responsible for computing and reporting price indices in China. It reports several different consumer price indices, such as the average for the country, urban and rural price indices for the national level and provinces, and urban price indices for each of the main 70 cities. This update uses the Shenzhen Urban Household Consumer Price Index.

4. RECENT LEVEL OF INFLATION

China has low levels of inflation. Between August 2015 and August 2021, the inflation rate for the whole country was 11.6%, corresponding to an average annual rate of 1.8%. Shenzhen, as one of China's fastest

growing cities, located near to Hong Kong, has experienced only slightly higher inflation. Between August 2015 and August 2021, total inflation amounted to 12.8% (annual average of 2.03%).

Figure 1: Consumer Price Index for Urban Shenzhen, China, August 2015 to October 2021



Notes: Green dots highlight the months of the original study and the updates. Black line is the fitted exponential trendline.

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

5. MANDATORY DEDUCTIONS

According to the most recent information provided by Asiapedia's Individual Income Tax Calculator for China 2021, mandatory payroll deductions in Shenzhen are now 11.0%, the same as in the original living wage report (Dezan Shira & Associates, 2021).¹ As in the original living wage study, 8% is withheld for retirement, 2% for medical insurance and 1.0% for unemployment insurance. Workers earning a living wage would not pay income tax, because the living wage is below the standard income tax deduction.

¹ 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 quite 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, if it is easy for workers to access contributions to their housing fund every year for ongoing expenses, then we would not count it as a mandatory deduction because it would not reduce the amount of money required for ongoing living expenses. In the case of the housing fund, it is not clear how easy it is to withdraw contributions every year. 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>).

6. UPDATED LIVING WAGES AND FAMILY EXPENSES FOR AUGUST 2021

The updated net living wage, or take-home pay, for August 2021 is RMB 2,829 per month. The gross living wage, which also takes into account income taxes and mandatory payroll deductions, is RMB 3,179. Table 1 provides details of the original and the updated living wages and family living expenses.

Table 1: Living wages and living expenses with a focus on manufacturing industry parks for Shenzhen, China (in RMB and US Dollars)

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

Source: Authors' calculations.

7. REFERENCES

- Dezan Shira & Associates (2021). "Individual Income Tax (IIT) Calculator - China, 2021." Available online: https://www.dezshira.com/library/investor_tools/individual_income_tax_china
- Wang, S., Wang, Y., Gu, F & Lu, D. (2015) *Living Wage Report: Urban Shenzhen, China 2015*. Available online: <https://bit.ly/2T0X16U>