



Living Wage Update Report: Zhengzhou, China 2022

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Cost of decent standard
of living for a family

RMB 5,072
(USD 758)



Living wage
per month

RMB 3,177
(USD 475)



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Abstract:

This report provides updated estimates of family living expenses and living wages for Zhengzhou, 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 (Xu, Li, Xiong & Zhan, 2015).

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

JEL classifications: J30, J50, J80.

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1. BACKGROUND

This report updates the Anker living wage and family living expenses to 2022 for Zhengzhou, China (Xu, Li, Xiong & Zhan, 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 by inflation to mid-2022 using observed inflation to April 2022 and then adding expected inflation to mid-2022 according to the Asian Development Bank (ADB). This provides estimates of average living wage and living income expenses 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 2,497 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 2,806 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 4,444 in August 2015 (Xu, Li, Xiong & Zhan, 2015).

3. INFLATION RATE USED FOR UPDATE

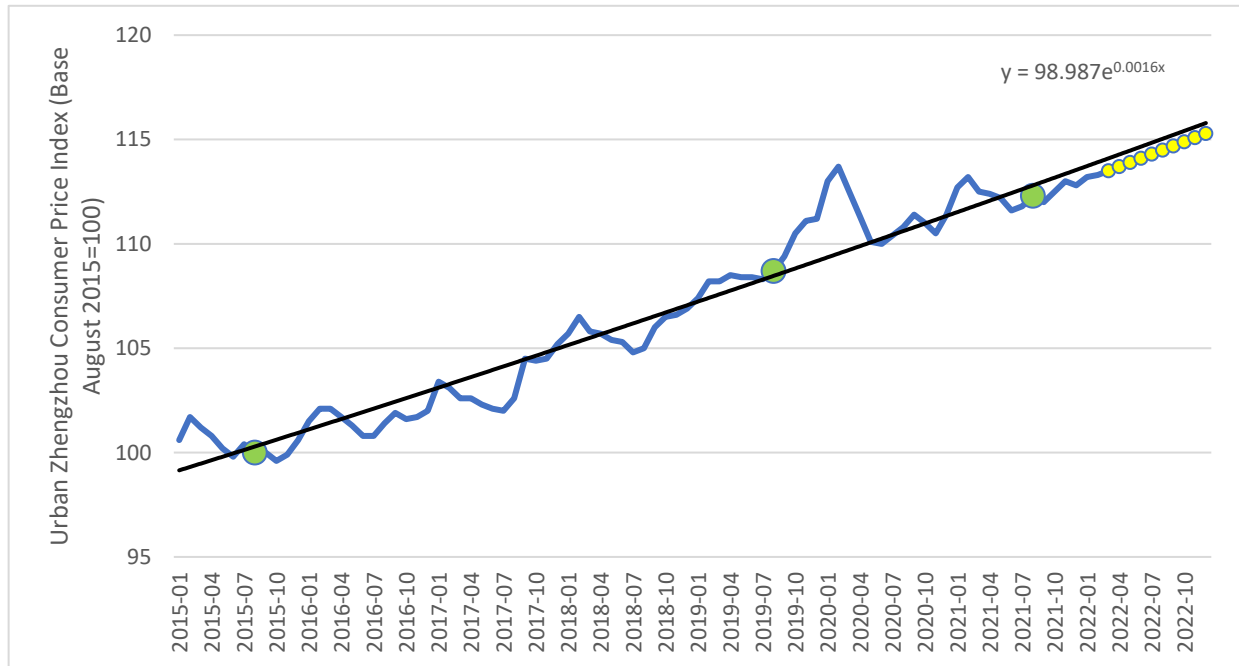
The National Bureau Statistics of China (NBSC) is responsible for computing and reporting price indices in China. It reports several different consumer price indices, such as the average for the country, urban and rural price indices for the national level and provinces and urban price indexes for each of the main 70 cities. This update uses the Household Consumer Price Index for the city of Zhengzhou, which is the most relevant for the manufacturing workers in Zhengzhou.

4. RECENT LEVEL OF INFLATION

Between August 2015 (study) and December 2021, the inflation for Zhengzhou was 12.8%. The annual inflation rate between August 2020 and August 2021 for Zhengzhou was low at 1.35%. The IMF projects that the inflation rate in China for 2022 will be 2.1%,¹ and the Asian Development Bank (ADB) agrees with an estimate of 2.3%.² We have added the latter 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/CHN>. Information accessed 7 July 2022.

²See <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: Urban Consumer Price Index for Zhengzhou, 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 of the Individual Income Tax Law of the People's Republic of China.³ The current Individual Income Tax in China (IIT) follows a progressive tax system, with rates ranging from 3% to 45% with a deduction of RMB 5,000 per month. This means that workers earning a living wage earn below the deductible amount and so do not pay income tax. But they have other mandatory payroll deductions. According to Price Waterhouse Cooper and several different online tax calculation tools for China,⁴ mandatory payroll deductions, social security contributions to pension, medical and unemployment funds in Zhengzhou amount to 10.3%.⁵

³ See http://www.xinhuanet.com/politics/2018-09/01/c_1123362911.htm?baike

⁴ We used the following online tax calculation tools to calculate and confirm the mandatory deductions. <https://salary.directhr.cn/>, <https://www.conpak.com/China-Tax-Calculator/>, <https://www.fdicchina.com/china-salary-calculator/#result> border.

⁵ 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, 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

6. UPDATED LIVING WAGES AND FAMILY EXPENSES FOR 2022

The updated family living expenses for 2022 are RMB 5,072 per month. The gross living wage, which takes into account mandatory payroll deductions, is RMB 3,177 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 was slightly greater than inflation.

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

| Item | August 2015 Original Study Date | | August 2021 Last Update Report | | 2022 Update Report | |
|--|---------------------------------|-----|--------------------------------|-----|--------------------|-----|
| | RMB | USD | RMB | USD | RMB | USD |
| Living Expenses for Reference Family Per Month | 4,444 | 694 | 4,991 | 771 | 5,072 | 758 |
| Net Living Wage Per Month | 2,497 | 390 | 2,804 | 433 | 2,850 | 426 |
| Income Taxes and Payroll Deductions Per Month on Living Wage | 309 | 48 | 322 | 50 | 327 | 49 |
| Gross Living Wage Per Month | 2,806 | 438 | 3,126 | 483 | 3,177 | 475 |
| 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

Xu, H., Li, S., Xiong, L & Zhan, P. (2015) *Living Wage Report: Urban Zhengzhou, China*. Global Living Wage Coalition. Available online: <https://bit.ly/2QuUgQm>

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>).