



# China Sourcing Update

June 29, 2018

## Labour Cost

### 1. Minimum wage levels in a number of provinces/municipalities are adjusted upward

From April to June 2018, local governments in three provinces/municipalities raised the minimum wage levels in their jurisdictions. Besides, the Guangdong provincial government announced to increase the minimum wage levels in its jurisdictions, effective from 1 July 2018. See below for details:

#### *Shanghai*

On 1 April, the minimum monthly wage level in Shanghai was adjusted to 2,420 yuan, compared with the previous level of 2,300 yuan.<sup>1</sup>

#### *Yunnan province*

On 1 May, the minimum monthly wage levels in various districts within Jiangxi province were adjusted to 1,670 yuan, 1,500 yuan and 1,350 yuan, compared with the previous levels of 1,570 yuan, 1,400 yuan and 1,180 yuan respectively.<sup>2</sup>

#### *Shandong province*

On 1 June, the minimum monthly wage levels in various districts within Shandong province were adjusted to 1,910 yuan, 1,730 yuan and 1,550 yuan, compared with the previous levels of 1,810 yuan, 1,640 yuan and 1,470 yuan respectively.<sup>3</sup>

<sup>1</sup> See <http://www.shanghai.gov.cn/nw2/nw2314/nw2315/nw4411/u21aw1297476.html>

<sup>2</sup> See <http://www.ynhrss.gov.cn/NewsView.aspx?NewsID=27553&ClassID=660>

### *Guangdong province*

The minimum monthly wage levels in various districts within Guangdong province will be adjusted to 2,200 yuan (Shenzhen), 2,100 yuan (Guangzhou), 1,720 yuan, 1,550 yuan and 1,440 yuan starting from 1 July, compared with the previous levels of 2,030, 1,895 yuan, 1,510 yuan, 1,350 yuan and 1,210 yuan respectively.<sup>4</sup>

## **2. Local governments in some provinces/ autonomous regions issue new guidelines on salary rise**

From April to June 2018, local governments in three provinces/ autonomous regions issued new guidelines on salary rise (*see exhibit 1*).

For example, according to the announcement issued by the government of Inner Mongolia autonomous region, enterprises with rapidly improving performance in Inner Mongolia are recommended to raise the salaries of their workers by 7.0% (the pay rise benchmark for 2018) to 10% (the upper limit of the pay rise benchmark). Enterprises with flat performance can raise the salaries of their workers by 1.5% (the lower limit of the pay rise benchmark) to 7%. Meanwhile, after having consultations with labour unions or employee representatives, enterprises with operating difficulties and worsening performance can consider freezing or even reducing the salaries of their workers, which should not be set lower than the minimum wage levels.<sup>5</sup>

Although these guidelines are not mandatory for employers to follow, they will affect workers' expectations of salary rise and are thus regarded as an important reference of labour cost.

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<sup>3</sup> See [http://www.shandong.gov.cn/art/2018/4/29/art\\_2259\\_26444.html](http://www.shandong.gov.cn/art/2018/4/29/art_2259_26444.html); also see [http://www.shandong.gov.cn/art/2017/5/27/art\\_285\\_13261.html](http://www.shandong.gov.cn/art/2017/5/27/art_285_13261.html)

<sup>4</sup> See [http://zwgk.gd.gov.cn/006939748/201806/t20180621\\_770640.html](http://zwgk.gd.gov.cn/006939748/201806/t20180621_770640.html); also see [http://www.hrssgz.gov.cn/gzdt/rlzy/201502/t20150228\\_225960.html](http://www.hrssgz.gov.cn/gzdt/rlzy/201502/t20150228_225960.html) and [http://www.szhrss.gov.cn/tzgg/201704/t20170405\\_6115409.htm](http://www.szhrss.gov.cn/tzgg/201704/t20170405_6115409.htm)

<sup>5</sup> [http://www.nmg.gov.cn/fabu/xwdt/nmg/201804/t20180408\\_666939.html](http://www.nmg.gov.cn/fabu/xwdt/nmg/201804/t20180408_666939.html)

**Exhibit 1: Guidelines on 2018 salary rise issued by local governments,  
April to June 2018**

| Province/ autonomous region | Upper limit | Benchmark | Lower limit | Month of issue |
|-----------------------------|-------------|-----------|-------------|----------------|
| Inner Mongolia              | 10%         | 7%        | 1.5%        | April-18       |
| Shandong                    | 11%         | 7%        | 3%          | April-18       |
| Shanxi                      | 12.5%       | 8.5%      | 4%          | June-18        |

Source: Shanghai municipal government

### 3. Income of migrant workers gains 7.3% yoy in 1Q18

According to China's National Bureau of Statistics (NBS), the number of rural migrant workers in China totalled 286.52 million in 2017. Of which, the numbers of local migrant workers (who work in their own localities) and outside migrant workers (who work outside their localities) were 114.67 million and 171.85 million respectively.<sup>6</sup> Also, according to the NBS, the average monthly income of migrant workers increased by 7.3% yoy to 3,736 yuan in the first quarter of 2018.<sup>7</sup>

We have noticed two major trends in the migrant worker market. First, the migrant workforce is ageing. According to the NBS, the average age of migrant workers rose from 35.5 in 2010 to 39.7 in 2017. Second, more migrant workers work closer to home. According to the NBS, the proportion of local migrant workers in the migrant workforce went up from 36.7% in 2010 to 40.0% in 2017.

Looking forward, we expect that the wages of migrant workers will continue to rise due to the limited supply of migrant workers. The continuous increase in labour costs will keep posing challenges to manufacturers in China in the near future.

<sup>6</sup> [http://www.stats.gov.cn/tjsj/zxfb/201804/t20180427\\_1596389.html](http://www.stats.gov.cn/tjsj/zxfb/201804/t20180427_1596389.html)

<sup>7</sup> <http://www.chinanews.com/cj/2018/04-23/8497919.shtml>

#### 4. Wages in urban private units rise 6.8% last year

The average annual wage of employees in urban private units grew by 6.8% yoy to 45,761 yuan in 2017.<sup>8</sup>

Amongst regions in the country, the average annual wage of employees in urban private units in the eastern region reached 50,592 yuan in 2017, significantly higher than that in the central region (37,723 yuan), the western region (41,242 yuan) and the northeastern region (34,694 yuan). The central region saw the strongest wage growth of 7.8% yoy, while the wage growth in the northeastern region was the slowest (4.5% yoy) (see exhibit 2).

**Exhibit 2: Average annual wage of employees in urban private units, 2016 to 2017**

|                                   | 2016                      | 2017                      |                |
|-----------------------------------|---------------------------|---------------------------|----------------|
|                                   | Average annual wage (RMB) | Average annual wage (RMB) | yoy growth (%) |
| <b>China (overall)</b>            | 42,833                    | 45,761                    | 6.8            |
| Of which:<br>Manufacturing sector | 42,115                    | 44,991                    | 6.8            |
| Eastern region                    | 47,347                    | 50,592                    | 6.9            |
| Central region                    | 35,000                    | 37,723                    | 7.8            |
| Western region                    | 39,047                    | 41,242                    | 5.6            |
| Northeastern region               | 33,184                    | 34,694                    | 4.5            |

Source: National Bureau of Statistics, PRC

#### 5. Wages in urban non-private units jump 10.0% last year

The average annual wage of employees in urban non-private units rose by 10.0% yoy to reach 74,318 yuan in 2017.<sup>9</sup> Amongst various regions, the central region saw the strongest wage growth of 10.7% yoy, while the wage growth in the northeastern region was the slowest (8.5% yoy) (see exhibit 3).

<sup>8</sup> [http://www.stats.gov.cn/tjsj/zxfb/201805/t20180515\\_1599417.html](http://www.stats.gov.cn/tjsj/zxfb/201805/t20180515_1599417.html)

<sup>9</sup> [http://www.stats.gov.cn/tjsj/zxfb/201805/t20180515\\_1599424.html](http://www.stats.gov.cn/tjsj/zxfb/201805/t20180515_1599424.html)

**Exhibit 3: Average annual wage of employees in urban non-private units, 2016 to 2017**

|  | 2016                      | 2017                      |                |
|--|---------------------------|---------------------------|----------------|
|  | Average annual wage (RMB) | Average annual wage (RMB) | yoy growth (%) |
| <b>China (overall)</b>                   | 67,569                    | 74,318                    | 10.0           |
| <i>Of which:</i><br>Manufacturing sector | 59,470                    | 64,452                    | 8.4            |
| Eastern region                           | 77,013                    | 84,809                    | 10.1           |
| Central region                           | 55,299                    | 61,193                    | 10.7           |
| Western region                           | 62,453                    | 68,323                    | 9.4            |
| Northeastern region                      | 54,872                    | 59,514                    | 8.5            |

Source: National Bureau of Statistics, PRC

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## CONTACT

Helen Chin  
Vice President  
[helenchin@fung1937.com](mailto:helenchin@fung1937.com)  
(852) 2300 2471

William Kong  
Research Manager  
[williamkong@fung1937.com](mailto:williamkong@fung1937.com)  
(852) 2300 2404

Global Sourcing  
Fung Business Intelligence  
10/F LiFung Tower  
888 Cheung Sha Wan Road  
Kowloon, Hong Kong

T: (852) 2300 2470  
F: (852) 2635 1598  
E: [fbicgroup@fung1937.com](mailto:fbicgroup@fung1937.com)  
W: <http://www.fbicgroup.com>



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