

Living Wage Update Report: Chengdu, China, 2022

Living Wage Update Report No. 2022-04-20



Cost of decent standard
of living for a family

RMB 4,364
(USD 652)



Living wage
per month

RMB 2,736
(USD 409)



Photo courtesy of Social Accountability International.

Living Wage Update Report: Chengdu, China, 2022

By:

Lykke E. Andersen^{*}

Alejandra Gonzales^{**}

Agnes Medinaceli^{***}

Richard Anker^{****}

Martha Anker^{****}

Abstract:

This report provides updated estimates of family living expenses and living wage for workers in Chengdu, 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 of 2015 (Chuanbo & Xingyue, 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 Chengdu, China (Chuanbo & Xingyue, 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 income expenses to mid-year 2022 by inflation including expected inflation to mid-year according to the Asian Development Bank (ADB). This provides average living wage and living expenses 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 2,161 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 2,635 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 3,846 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 level and for the provinces and specific price indices for each of the 70 main cities. In this update, we use the Household Consumer Price Index for the city of Chengdu, since that closely tracks the prices of the basic consumption basket of manufacturing workers in Chengdu.

4. RECENT LEVEL OF INFLATION

Between August 2015 and December 2021, the inflation for Chengdu was 11.8%. The annual inflation rate between August 2020 and August 2021 for Chengdu was 1.28%. The IMF projects that the inflation rate in China for 2022 will be 2.1%,¹ but this value is probably 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) projects that inflation in China for 2022 will be 2.3%³ and this projection was added to the Consumer

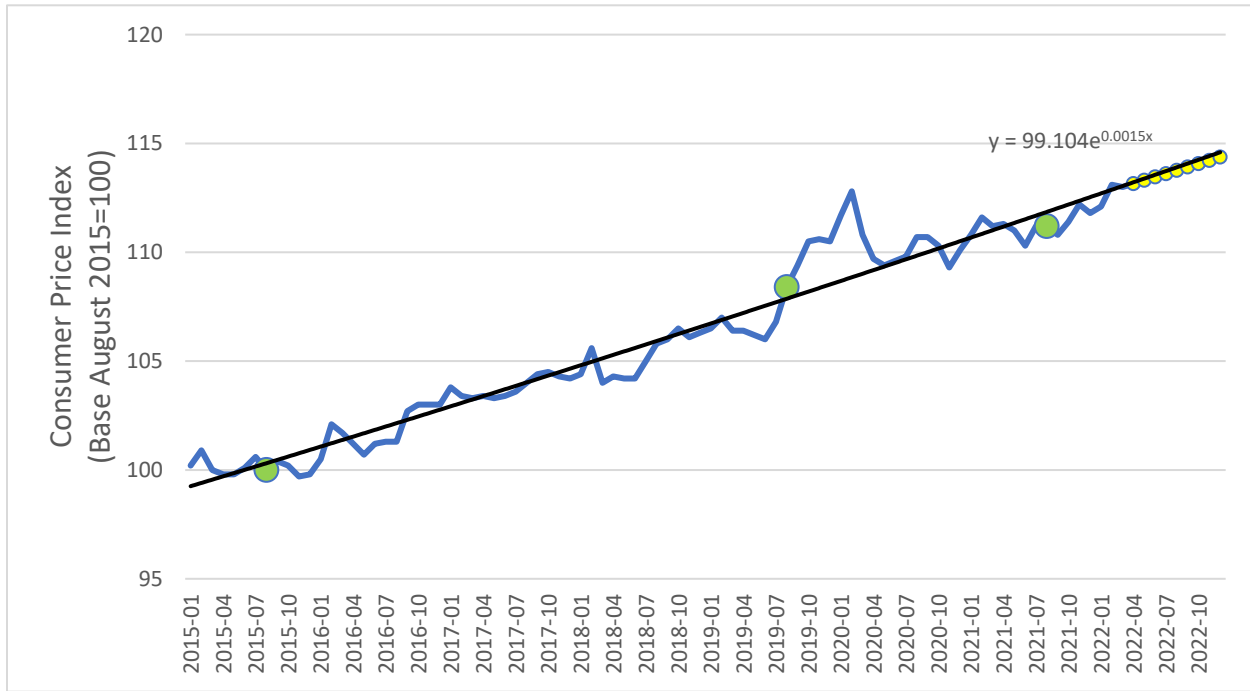
¹ See <https://www.imf.org/external/datamapper/PCPIPCH@WEO/CHN>. Information accessed 7 July 2022.

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.

Price Index numbers shown in Figure 1, while taking into account observed inflation for January, February, and March 2022 to arrive at an average inflation rate for 2022 of 2.3%.

Figure 1: Consumer Price Index for the city of Chengdu, 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 fall into the range from RMB 0 to 3,000 per month which is subject to a 3% tax rate, but since there are various tax deductions, workers earning a living wage would not pay income tax.⁵

Social security contributions to pension, medical and unemployment funds are mandatory in China. According to several online tax calculators,⁶ mandatory payroll deductions in Chengdu amount to 10.4% (8% for pension, 0.4% for unemployment, 2% for medical funds).⁷

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>

⁶ See <https://www.conpak.com/China-Tax-Calculator/>
https://www.fdicchina.com/china-salary-calculator/#result_border

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,

6. UPDATED LIVING WAGES AND FAMILY EXPENSES FOR 2022

The updated family living expenses for 2022 is RMB 4,364 per month. The gross living wage (aka living wage), which takes into account mandatory payroll deductions, is RMB 2,736 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.

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

Item	August 2015 Original Study Date		2022 Update Report	
	RMB	USD	RMB	USD
Living Expenses for Reference Family Per Month	3,846	601	4,364	652
Net Living Wage Per Month	2,161	338	2,452	366
Income Taxes and Payroll Deductions Per Month on Living Wage	474	74	285	43
Gross Living Wage Per Month	2,635	412	2,736	409
Exchange Rate to USD	6.40		6.69*	
Source of Exchange Rate	Original Report		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

Chuanbo, C., & Xingyue, C. (2015) *Living Wage Report: Urban Chengdu, China with focus on hi-tech manufacturing*. Global Living Wage Coalition. Available online: <https://bit.ly/30DQtYA>

Shenzhen, and Chengdu respectively according to <https://www.1421.consulting/2018/06/chinese-taxes-and-social-insurances/>). This is different than what was done in the original study. 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>).