Annual Salary Survey Report 2013

Results and key findings of the 6th annual wage survey of the German Chamber of Commerce in China

Results of this year’s German Chamber of Commerce wage and salary survey indicate that wage growth will slightly slow in 2014. Nearly all of the 36 job position surveyed across China will see a moderate slowdown in wage growth. Amid slower economic growth rising wage levels remain a key concern for companies, especially as wage growth has increasingly been outpacing productivity gains.

In 2013 the German Chamber of Commerce carried out its 6th annual survey on wage developments, wage levels and key HR issues. For the second time, all regional chambers in China participated in the survey, with major clusters of German companies in the Yangtze Delta, Beijing and the Pearl River Delta. This year’s survey was conducted from August 19th to September 17th 2013, with a total of 287 (30.5% more than in 2012) companies participating.

The major findings of this year’s survey in brief:

- Compared to 2012, wage growth is moderately slowing. Overall actual wage increases for 2013 averaged 8.9%, while on average companies expect wages to increase by 8.2% in 2014. Wage growth for nearly all surveyed job positions declined in 2014.
- Wages of blue collar workers and operators are expected to increase by 9.1%, while those of junior and mid-level positions will increase apace with the overall average. Senior positions are expected to increase by 7.9%.
- Nearly 1/3 of responding companies state that wage increases have outpaced productivity increases.
• While growth rates in first and second tier cities are, on average, similar, wage levels in first tier cities tend to be around 40% higher.
• Individual and company performance are by far the most important factors in determining new wage levels.
• Positions in sales and project management continue to report the highest salary levels, while positions in logistics and administration report the lowest levels.
• The majority of German companies consider themselves to be paying average wage levels compared to competitors (63.7%), while 26.4% believe themselves to be paying higher than average wages.
• Turnover rates for blue collar workers (14.2) and white collar workers (10.4) have both declined while average duration has increased to 26.3 and 35 months respectively.
• Unionization levels and the introduction of collective bargaining remain unchanged.
• In terms of the past year’s rising labor costs, recruiting and retaining qualified staff remain the top HR concerns for German companies.

We thank all participants for their support, and are looking forward to more participation next year, allowing for even more detailed information for budget planning and wage negotiations.

The German Chamber of Commerce has taken great effort in analyzing the data, but this survey is not a scientific survey. We would like to point out that all data needs to be evaluated against this background.

For any questions or recommendations for the improvement of our survey, please feel free to contact us:

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Yours sincerely,

The German Chamber Team

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For individual analysis please contact us for details.
## Contents

I. General Labor Market Environment
   1. Economic conditions 4
   2. Labor market structure 5
   3. Labor market conditions 7
   4. Trade unions and collective bargaining 9
   5. Inflation 10
   6. Productivity 11

II. Wage Development
    1. National and regional developments 14
    2. Minimum wage 17
    3. Government issued wage guidelines 18

III. Survey Results
    Overview and Analysis 19
    Part I: Company structure 22
    Part II: Wages 24
    A. National overview of wage levels and developments 24
    B. Regional comparison 26
    C. Wage levels by number of employees 34
    D. Wage by industry 36
    Part III: HR Environment 38
    Salary levels, productivity, supplementary employee information 38
    Allowances and bonuses 39
    Wage negotiations and workers’ representation 40
    Foreigners 41
    HR challenges 43

Methodology 44
Appendix 41
I. General Labor Market Environment

1. Economic Conditions

China’s economy has continued to grow at a comparably slow 7.6% for the first half of 2013. Despite some negative trends and heightened caution overgrowth, the economy is still in a robust state and it is widely expected that the forecasted growth rate of 7.5% for the year will be achieved. Overall, the macroeconomic fundamentals for China remain solid. It is only natural that, after having achieved double digit growth rates for most of the past 3 decades, growth rates will slow. Establishing a more sustainable growth model has become a core aim of the new government under Xi Jinping. Smaller stimulus programs have been implemented, but for the most the new leadership has so far been holding back on major interventions. While major export markets remain relatively weak, domestic demand, driven by investment and retail, have been able to continue to expand. Accordingly, the National Bureau of Statistics (NBS) reported that of the 40 industries it monitors 30 reported higher profits in the first 6 months, while 10 reported similar profits and only 1 reported losses. Table 1 does, however, show that many companies are facing shrinking margins, as for the most part revenue growth is outpacing profit growth.

Overall, industrial profits in 2013 expanded by 5.1% compared to the same period last year, while revenue increased by 11%. The data does however indicate that profit growth at foreign enterprises has been outpacing revenue growth, significantly outperforming other types of ownership. The biggest profit gains were seen by manufactures of chemical fibers (+30.8%), ferrous metals (+26.0%) and communication and electronic equipment (+25.8%). The machinery sector performed below average,
with manufacturers of general purpose machinery expanding 4.3%, while special purpose machinery contracted 4.3%. Automobile manufacturers reported an increase of 10.2% in profits. For detailed overview of profit and revenue developments covered by the NBS, please click here. For most industries, growth rates in general are slowing, but continue to be positive. This development is also reflected in the GCC’s recent Business Confidence Survey. As the Chinese economy cools, companies will need to become accustomed to slower growth rates.

2. Labor Market Structure

2012 was the first year on record that the working age population (aged 15-59) decreased. In total, the working age population stood at 937 million, down 3.45 million from 2011. Many see this as the point where China’s excess labor supply has been fully absorbed (this is referred to the Lewisian Turning Point). China’s employed work force, although growing at a slower pace, continued to increase by 2.8 million, totaling 767 million. As of 2012 48.4% of employed members of the workforce were working in urban areas (+3.3%), and it is expected that this figure will reach 50% in 2013. Despite for only accounting for 10.1% of GDP, the primary sector still employed 33.6% of the employed population, compared to 30.3% and 36.1% for the secondary and tertiary sector respectively. Within the last decade employment in farming has continuously been declining, while employment in the industrial sector - and in recent years the service sector - have experienced growth. The high share of employment in the primary sector in respect to its GDP contribution indicates that, given the necessary increases in productivity, China’s excess labor supply has not yet been exhausted. Additionally, issues such as raising the retirement age have been brought up. However, under current conditions the labor market supply remains tight.
Employment at foreign owned companies has continued to increase, though in total the share of employees working at foreign owned enterprises remains less than 5% of the urban work force. Local private enterprises, SOEs, self-employment, and Limited Liability Corporations employ the biggest share of the urban work force. Foreign companies, including German companies, have been expanding their workforce considerably over the past few years, though growth rates have been fluctuating.
3. Labor Market Conditions

During the first half of 2013 7.25 million jobs were created, an increase of 4.5% compared to the same period in 2012. The urban unemployment rate remained stable at 4.1%. Labor supply has been slowing and surplus supply from rural areas is expected to be zero for 2013. China’s labor market has not been left unaffected by the cooling economy. However, the demand surplus persists, and recruiting and retaining qualified staff remain the top concern German companies in China. Competition for engineers in particular, but also other professionals and senior staff, is intense, while for lower qualified staff the situation has slightly eased in 2013. It is widely expected that the overall labor market situation will remain unchanged in 2014, as long as economic growth does not slow below 7%.

Despite the economic slowdown, demand for labor has remained strong. Several surveys indicate that the majority of companies intend to hire additional staff, although growth rates have been slowing down slightly due to the economic conditions. Over 60% of German companies plan to expand their workforce in 2013. Demand in production is highest, but in general demand is similar across business scope, industry and region for German companies. Similarly, government data confirms that across China demand is greater than supply, with the biggest gap in western China.

### Employment intentions of German companies, overall and by business purpose

![Graph showing employment intentions by business purpose.](source)

### Job vacancies per job seeker by region

![Graph showing job vacancies by region.](source)
There are strong indications that the tight labor market will persist for the remainder of 2013 and into 2014, and will affect wage levels and companies’ ability to fill vacant positions. Demand for workers in the service sector has been especially strong, outpacing growth in the industrial sector by 8 million over the past 5 years. This trend is expected to continue in 2014, as service related industries are experiencing faster growth rates. It is widely expected that China’s service industry will benefit from the government’s plans to increase urbanization over the next years. Competition between the service and manufacturing sectors for staff is therefore likely to intensify.

Factors for tight labor market supply in coastal areas:

<table>
<thead>
<tr>
<th>Long-term</th>
<th>Short/mid-term</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low fertility rate</td>
<td>Increasing tertiary education of young people</td>
</tr>
<tr>
<td>Ageing work force</td>
<td>Reduced willingness to take on blue collar jobs</td>
</tr>
<tr>
<td>Slowing supply of migrant workers</td>
<td>Skill mismatch/limited supply of skilled workers</td>
</tr>
</tbody>
</table>

Although in 2013 a record number of 7 million university graduates entered the labor market, labor supply shortages are amplified by university graduates becoming selective about the jobs they take, making it especially hard to fill entry level positions as well as blue collar positions. Additionally, this HR challenge is enlarged by a skill mismatch between companies’ requirements and candidates’ actual qualifications. University graduates as well as vocational school graduates often lack the basic required skills for the vacant positions. For German companies, which on average require a higher skill set, this is more likely to be an even bigger HR challenge.

According to official data there were 262 million migrant workers in China in 2012, an increase of 3.9% compared to the previous year. The majority of them are located in the manufacturing hubs in the Yangtze Delta (59.4 million, +1.9%) and the Pearl River Delta (51.9%, +2.5%). In 2012, 163 million migrants were working outside of their province (+3.0%), with the remaining 99 million being migrants within their home province (+5.4%). With stronger growth rates and better job opportunities in traditional labor exporting provinces in western and central China, the flow of labor to the industrial hubs along the coast will continue to slow. Further complicating things is that migrant workers from rural areas with low education levels, which in the past kept wage increases in check, have added to the skill mismatch as China’s industries become more sophisticated.

Within the current situation it is unrealistic to expect the tight labor market to ease in 2014. Despite the slowdown, companies are still growing and hiring new staff.
Additionally, the government’s large infrastructure projects compete for workers. Although demand for workers is likely to expand at lower growth rates, the labor market environment will continue to make it difficult for companies to fill vacant positions with staff that meet their expectations, resulting in continued high levels of competition for skilled workers. In sum, German companies will face another challenging year in 2014.

4. Trade Unions and Collective Bargaining

The government has continued its promotion of unionization of enterprises. Foreign companies in particular have been the focus of these efforts. The All China Federation of Trade Unions (ACFTU) - the sole union in China, which is closely associated with the Communist Party - has targeted foreign-owned enterprises in particular, and set targets which include unionizing 95% of Fortune 500 owned companies by the end of the year. In recent months it has come to our attention that German and other foreign companies have increasingly been receiving letters from the ACFTU, demanding trade unions be set up. However, currently unions appear to have little effect even if they have been established, and it appears that the ACFTU is mainly concerned with reaching its own unionization targets.

Key facts about trade unions
- Every employee has the right to participate in a trade union
- If there are more than 25 ACFTU members in a company, an enterprise level trade union may be established.
- Alternatively the ACFTU may set up a trade union at an enterprise.
- Management may not stop unionization efforts
- Once a trade union is established, 2% of total wages must be paid. This is often directly collected by the tax bureau. Technically, 1% should be transferred to be used directly in the company.
- Trade unions may request collective bargaining

Key facts about collective bargaining
- Agreements between the employer and union representatives
- Typically bargained and implemented at company level
- Agreements can cover: wages, allowances, insurance and benefits, working hours, holidays and rest time, health and safety issues, as well as other items agreed upon.

Further, the government has been advancing the implementation of collective bargaining agreements between the enterprise management and the enterprise level trade union. The ACFTU claims that over 80% of unionized companies have implemented collective agreements. As with the unionization rate, this figure needs to be viewed with caution. The role of trade unions and collective bargaining...
continues to evolve, although exact details have yet to emerge as the government continues experimenting with different concepts. Much of the implementation also depends on the commitment by regional authorities to promote unionization and collective bargaining. Currently, the Chinese concepts of trade unions and collective bargaining have little resemblance to the German or Western concepts. Over the next few years, the government is likely to continue to push both items, though it is not yet clear how this will effect companies. In the current situation it is advisable to maintain good working relations with trade unions and not to resist unionization.

5. Inflation

The official Consumer Price Index (CPI) has been relatively stable, moving between 2-3% over the past 12 months. Food items and residential costs remain the biggest cost drivers. For the remainder of 2013 inflation is expected to increase moderately, but for the most should remain below 3%. Given the current economic situation, with slower GDP growth, the official inflation rate for 2014 is to remain stable at around 3%.

When considering official CPI data caution should be taken, as it tends to under represent actual inflation rates. Though it appears to be a reliable gauge for general price movements, it is widely believed that it is a poor measurement of actual increases in cost of living. Depending on sources and calculation method, actual price levels in urban areas may be 2-5 percentage points higher and hence significantly above the official rate, resulting in an actual CPI of between 4.5-7.5% for the first half 2013. Among other reasons, lower official price levels are due to the fact that the composition making up the basket of items has not been adjusted in order to reflect spending patterns of a more affluent middle class in urban areas.

CPI Development August 2012-August 2013


6. Productivity

Wage increases, which increase at a similar pace to productivity increases, are generally considered to be a sign of healthy economic development. Measuring productivity reliably in China is a difficult task; however, there are several measures which can be employed to get a general understanding of productivity. Regardless of the measure employed, Chinese productivity has increased rapidly over the past 30 years as the rural-based economy industrialized. However, the initial rapid labor
productivity gains in manufacturing have slowed. The graph on productivity below shows that for most of the past 10 years labor productivity has been increasing at a faster pace than wage increases. However, in the past few years productivity increases in the highly unproductive agricultural sector, where gains are easier to achieve, have pushed up the average. Similarly, the rapidly growing service sector has experienced high productivity gains, although these have been slowing in the past 5 years. Labor productivity increases in the industrial sector have been moving along with wage growth, and have been outpaced in the most recent years.

Reliable productivity data in China is hard to come by, and the following calculations can only be an indicator. Initial productivity gains are easier to achieve and become more sophisticated once first improvements have been made. Given China's economic development and income level, especially in the coastal areas, it has become far more difficult for companies to realize productivity gains to match the current high wage growth. Additionally, much of the wage growth are the result of both government policies and a tight labor market forcing companies to increase wages at a higher level. Increasing total factor productivity, i.e. labor and capital productivity, will become a major challenge for companies operating in China.

![Development of labor productivity and wage growth](image.jpg)

Source: NBS, own calculations. *2012 based on preliminary data.
Wage growth at foreign owned companies and productivity by sector

Data not available in public version

Source: NBS, own calculations. *2012 based on preliminary data.
II. Wage developments
1. National and regional wage growth

Over the past 10 years average wage growth has achieved 14.2% annual growth, more than quadrupling average wages in China. After a slight dip in the aftermath of the financial crisis 2008/9, wage growth again began to accelerate slightly. Boosting income levels and increasing domestic demand was a key economic policy in the past 5 years. The current leadership, which is expected to outline its economic policy in more detail in November 2013, has already introduced the income distribution reform. Accordingly, average wage levels are to double from 2010 levels by 2020, poorer regions and households should enjoy faster wage growth, and social distribution shall improve in order to alleviate the income gap, which has become a major policy concern.

Development of average annual wage in RMB and growth rate in %

Wages growth for 2013 is expected to slightly decelerate compared to 2012. Under the current economic conditions, wage growth for 2014 can expect to stabilize at around 11%. It is highly unlikely that the government will allow slower growth rates, as it has been declared a major policy goal. Wage growth for lower income workers as well as lower income regions in particular can expect to rise faster, as high income inequality (2012 GINI coefficient: 0.47) has become a sensitive issue.
Foreign owned companies have long been the best paying companies in China, easily attracting the most skilled workers. 2001 foreign owned companies, excluding investments from Hong Kong (HK), Taiwan (TW), and Macau (MC), paid pages which were around 35% higher than those paid by domestic companies. Over the years this gap has eroded as other domestic ownership forms have rapidly increased their wage levels. On average, SOEs nearly reach, while listed Chinese companies already exceed, the average pay levels at foreign owned companies in China.

Average wage levels by ownership as percentage of pay at foreign owned companies
Foreign companies=1.00

![Data not available in public version](image)

Source: NBS, own calculations

Wage growth across all regions in China continued to expand in the double digits for most regions. As expected, western and central regions generally have outpaced growth in more affluent coastal areas. However, of the provinces which have made 2012 wage data publicly available, 2/3 have recorded slower growth rates compared to the previous year. Poorer western and central regions will continue to grow faster in 2014, while growth rates on average should remain similar to those of 2013.
Regional average wage developments 2012*

<table>
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<tr>
<th>Region</th>
<th>Monthly in RMB</th>
<th>Annual in RMB</th>
<th>Growth Rate to 2012 in % (nominal)</th>
<th>Change to 2011 in percentage points</th>
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<td>Henan</td>
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</table>

* Wages categorized as non-private sector, including SOEs, collectively owned businesses and foreign funded companies. Salary is pre-tax including bonuses, allowance and pay in kind.
Source: NBS, local statistic bureaus. Data was released for 20 provinces, autonomous regions and municipalities as of September 2013.
2. Minimum Wage

In 2012, 25 provinces, autonomous regions and municipalities increased their minimum wage levels by, on average, 20.2%. By September 2013 24 provinces had increased minimum wage levels by 16%, a decrease of 3.8 percentage points.

<table>
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<tr>
<th>Province</th>
<th>Class A</th>
<th>Class B</th>
<th>Class C</th>
<th>Class D</th>
<th>Class E</th>
<th>Class F</th>
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<th>Increase in % to 2012</th>
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<td>-</td>
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<td>1,310</td>
<td>1,130</td>
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</table>

Source: Provincial governments, news media
3. Government issued wage guidelines 2013

A brief survey of government issued wage guidelines for 2013 found that, on average, wage growth has slightly decreased compared to the previous year. Following national policies, wage growth in Western and Central region tends to be higher than in richer coastal cities. However, given the economic slowdown, it appears that fewer local governments have issued wage guidelines than in 2012.

<table>
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<tr>
<th></th>
<th>Average</th>
<th>Beijing</th>
<th>Tianjin</th>
<th>Qingdao</th>
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<th>Kunming</th>
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</table>

Source: Local Human Resource and Social Security Bureaus.

What are wage guidelines?
- issued annually by some local governments
- non-binding recommendations
- maximum increase: for companies with good economic growth (above average)
- average increase: for companies with normal economic growth (average)
- minimum increase: for companies with poor growth (below average)
- wage information for specific industries and job positions
- take into account regional economic growth, price levels, unemployment levels, enterprise profits
- influence wage developments at SOEs
- expected to act as a guide to future collective bargaining
III. Survey Results --NOT AVAILABLE IN PUBLIC VERSION--

Full wage report is available for GCC members free of charge
Non-members please contact us for details.

Full report includes:
- Detailed wage data for 36 job positions
- Wage levels:
  Industries: machinery, automotive, electronics, plastic/metal
  Regions: Shanghai, Beijing, Guangzhou/Shenzhen and second tier cities
  Business purpose: manufacturing, non-manufacturing
  Company size: >500, 251-500, 101-250, 51-100, 31-50, 1-30 employees
- HR environment: turnover, sick days, bonuses and allowances and more
- Labor market environment analysis

Individual wage analysis is available on request.
Please contact us for details.

Contact: Max J. Zenglein, Economic Analyst Greater China
Email: zenglein.max@gz.china.ahk.de
Phone: 0755-8635 0487
Methodology
The German Chamber of Commerce's Annual Salary Survey is a standard survey among member companies with a unique data set for each of the surveys. For all wage data the median was used. For growth rates averages where used. Further statistical methods such as standard deviation, maximum and minimum value, as well as range where calculated to check reliability of data set. A minimum of 12 responses was required for each position. Position with ‘not available’ (n.a.) did not have sufficient responses.

Appendix - Definitions

A. Definitions for wages and wage increases
I Current gross salary
  - Basic monthly salary based on 40h working week
  - Mandatory insurance and payments
  - Tax
II Variable compensation
  - Any items not covered by basic salary or mandated by law: Performance bonus, cash-allowances excluding overtime pay
III Average monthly over time paid
  - Overtime payment made for hours exceeding the 40h/week limit
  - Fill in only for position OT applies too
IV Total cost per employee
  - Total costs per employee for each employee type incurred by the company including tax, variable costs, social insurance etc.
V Change from 2011 to 2012 in %
  - Actual change in salary adjustments made in previous fiscal year compared to 2011
VI Expected change from 2012 to 2013 in %
  - Anticipated increase for 2013 budget

B. Definitions for job positions
PRODUCTION
Blue collar worker: line work, packaging, basic assembly, limited job experience
Operator: special but limited skills, operate machinery, some job experience
Shift leader: manage parts of assembly, scheduling, training new employees, limited quality control, overview safety regulation
Production supervisor: project planning, overall production supervision, resource allocation (e.g. overtime and material), quality control
Production manager / Plant manager: manage production, plan new production methods, investment and maintenance issues

ADMINISTRATION
Junior admin staff: basic administrative and secretarial tasks, limited job experience
Mid-level admin staff: administrative tasks, secretarial and support tasks, some job experience
Senior admin manager: secretary to GM or similar, assist senior management, advanced job experience

SALES & PURCHASING
Junior sales staff: general sales/marketing, limited technical knowledge, limited job experience
Mid-level sales staff: sales/marketing activity, basic technical knowledge, some job experience
Senior sales manager: advanced technical knowledge, manage customers and key accounts/marketing, advanced job experience
Junior purchasing staff: general purchasing, limited technical knowledge, limited job experience
Mid-level purchasing staff: purchasing, some quality control, some technical knowledge, some job experience
Senior purchasing manager: advanced technical knowledge, manage purchasing/quality control, advanced job experience

FINANCE
Junior accountant / controller: general accounting, support senior accountant, limited job experience
Mid-level accountant / controller: accounting, reports, taxation, projects, some job experience
Senior finance manager: responsible for accounting, dealing with tax bureau, control payments and receivables, preparing financial reports, advanced job experience

HR
Junior HR staff: basic administrative HR tasks, support of HR management, limited job experience
Mid-level HR staff: administrative HR tasks, training, pay-roll, overtime mgt, some job experience
Senior HR manager: responsible HR manager, hiring/firing, develop training/bonus system, advanced job experience

ENGINEERING / R&D / QUALITY
Junior engineer: basic technical tasks, support of senior engineers, basic CAD etc, simple IT, limited job experience
Mid-level engineer: design tasks, quality inspection, basic technical adjustments and product development, IT related tasks, some job experience
Senior engineer: responsible for engineering, R&D tasks, advanced technical adjustments/implementation, advanced job experience

LOGISTICS
Junior logistics officer: basic shipping preparation, basic communication with customers and service providers, support more senior staff
Mid-Level logistics officer: prepare customs forms, track shipping, account management, contact with customs officials
Senior logistics officer: manage all import and exports activity, negotiations with service providers, direct communication with upper management, direct contact with customs officials

PROJECT MANAGER / CONSULTING
Junior level: basic research, assist projects, limited job experience
Mid-level: business intelligence, custom research, some job experience
Senior level: key account, senior analyst, advanced job experience

SPECIALISTS
IT staff: system analyst, SAP, IT administration, limited job experience
IT manager: programming, SAP, senior IT administrator, advanced job experience
Legal staff: client counseling, business development, limited job experience
Legal manager: key account, legal cases, advanced job experience
Driver: transportation of goods and passengers

UNIVERSITY GRADUATES
Undergraduate level: basic tasks, no work experience
Graduate level: high potential, limited work experience