Labor Market & Salary Report

11th Edition

2018 | 2019

In partnership with DirectHR Group
KEY DEVELOPMENTS

Economic Environment

- China’s GDP grew at 6.8% during the first half of 2018, 0.1 percentage points (p.p.) below the same period last year, but well within the official annual target of 6.5%.
- A stricter financial stance, aiming to enhance financial stability, has resulted in increased borrowing costs and weighed on the country’s GDP growth.
- With the potential escalation of the ongoing trade conflict with the US adding pressure on the economy, Chinese policymakers are softening their stance on deleveraging (reduction of debt burden).
- Consumption continued to add weight to its contribution to the economy, accounting for 78.5% of economic expansion in the first six months of 2018.

Labor Market Developments

- The urbanization rate in China was 58.5% at the end of 2017, +1.7 p.p. compared to the previous year.
- The urbanization rate is interlinked with the granting of household registrations (hukou), which in turn impacts migration flows and labor supply. Reforms to the hukou system remain limited, and larger cities have developed ways to limit the migrant population.
- No advancements on regulations to increase the retirement age. China’s working age population peaked in 2011 with 925 million and is expected to decrease to 830 million by 2030.
- Low migration combined with China’s ageing population compound to create a shortage of labor available in urban areas.

National Wage Developments

- Wages were back to double digit growth rates in 2017, with an increase of 10.0% over the previous year.
- China’s per capita disposable income grew by 7.3% in real terms (discounting inflation), reaching an average of RMB 25,974. Urban disposable income grew 6.5%; rural disposable income grew 7.3%.
- Minimum wages in 2018 have increased 11.4%, versus 10.7% last year. However, there are provinces where the minimum wage increase comes after one or two years without any variation (e.g. Beijing will update its minimum wages in September 2018. The last time minimum wages were updated was in August 2016).
- Wage Developments at German Companies

Wage Growth Development at German Companies in China (% Nominal growth)

- German Chamber companies expect average wage increases of 5.99% in 2019.
- For the first time since the survey is conducted on a China level, the expected salary growth has not slowed down, but slightly picked up.
- Regional comparison shows that the major contributors to the uptick in expected wage increases are locations in the Yangtze River Delta and Guangzhou.
- Production workers, junior, mid-level, and senior professionals are to expect higher wage increases than last year.
- Senior management roles – Deputy GM and CEO/GM – added to the survey for the first time last year, are the only ones to expect decreasing wage growth rates at a China level.

Productivity and HR Environment at German Companies

- When asked whether productivity increases will be able to match wage increases in the future, the sentiment remains positive, although a little more conservative than in the previous edition: 14.4% of companies consider it an unlikely scenario (13.5% last year), while 50.7% consider it as likely (58.2% last year).
- Rising labor costs, recruiting and retaining qualified staff remain the top three HR related issues.
- Supplementary medical insurance (89.8%), annual medical check-ups (88.6%), and variable bonuses / sales commissions (85.8%) are the most commonly used components of variable compensation.
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Labor Market Environment

1. Moderate Growth

China’s 2018 second quarter GDP grew at 6.7% year-on-year (yoy), 0.1 percentage points (p.p.) below the previous quarter. While the economy experienced a modest slowdown, the second quarter figure was mostly in line with market expectations and still above the 6.5% annual growth target.

Since late 2017, a series of financial regulations have been put in place to rein in financial risk and reduce shadow banking activities. The stricter financial stance has resulted in increased borrowing costs and has weighed on the country’s GDP growth. Faced with some pressure on the economy triggered by China’s deleveraging (reduction of debt burden) campaign and a potential escalation of the ongoing trade conflict with the US, Chinese policymakers are softening their stance on deleveraging. The People’s Bank of China (PBOC) has cut banks’ reserve requirements three times this year – and another cut has been announced already - to allow for more liquidity for lenders in the market.

Fixed asset investment – which includes spending on new homes, factories, roads and ports - grew by 6.0 percent during the first half of 2018 compared to the same period last year, a record low. Industrial output growth slumped to 6.0% in June 2018, its lowest pace in the past 24 months.¹

China’s retail sales of consumer goods experienced a year-on-year (yoy) increase of 9.4%, down from 10.4% in the first half of last year. Final consumption continued to add weight to its contribution to growth, accounting for 78.5% of economic expansion for the first half of 2018, versus 58.8% in the same period last year.

The tertiary industry (mostly services) accounts for more than half of China’s economy (54.3%) and grew 7.6% yoy, reaching RMB 22,757.6 billion. The secondary industry (mostly manufacturing and construction) amounts to RMB 16,929.9 billion, up by 6.1%, while the value added of the primary industry (mostly agriculture) was RMB 2,208.7 billion, up by 3.2% yoy.

¹ Source: National Bureau of Statistics China (NBS)
2. Business Sentiment & Price Developments

China’s Caixin/Markit Purchasing Managers Index (PMI), which focuses on small and medium-sized enterprises, stood at 51.0 in June 2018, slightly below the 51.1 in May (a PMI above 50 points indicates expansion, below 50 signals contraction). China’s official manufacturing PMI – which focuses mostly on state-owned companies – also fell from 51.9 in May to 51.5 in June. However, both figures still yield a PMI that is above 50, signaling overall expansion in manufacturing activity.²

The slight decreases might be attributed to a growing concern on trade tensions between the US and China and its impact on domestic and external demand. According to Reuters, a reading on new export orders showed a contraction standing at 48.4 PMI points, representing the fourth consecutive month of declining orders.

Confidence in the services sector expanded slightly in June with a Caixin services PMI at 53.9 and an official NBS services PMI at 55 points, with companies accelerating hiring. With the services sector accounting for more than half of the country’s economy and the government’s emphasis in reducing industrial overcapacity and upgrading its industrial base with factory automation, solid business prospects in the services sector are key to generate new jobs.³

The producer price index (PPI) rose 4.7% in June from a year earlier, accelerating from the previous month’s increase of 4.1%, the highest in six months, according to data from the National Bureau of Statistics (NBS). Producer prices are likely to go down in the second half of the year if factory output loses momentum as the evolution of the manufacturing PMI seems to suggest.⁴

China’s annual consumer price index (CPI) inflation rate rose 1.9% yoy in June. The major components within the CPI that are putting more pressure on price increases are healthcare, housing and education. The target on consumer inflation is set at around 3% for 2018, the same as for 2017, although most likely the year will close in the range of 1.8%-2.2%. However, amidst potential price pressure from American imported goods that are hit by higher Chinese tariffs, price developments are being closely watched.
3. Labor Market Structure

By the end of 2017, the urban resident population in China totaled 813.5 million, 58.5% of the country’s total. Since 2011 more than half of China’s population lives in urban dwellings. To put those numbers in context: in 2000 only 36.2% of China’s population was living in urban areas. Growing at the current pace, the urban population could reach 61% by 2020 which is above the 60% target established by the 13th Five Year Plan (FYP).

China’s current urbanization rate is 2.5% higher than the world’s average, however, it is still far from rates in developed countries (about 80%). In China, only three provinces / municipalities are above that percentage: Shanghai (87.9%), Beijing (86.5%), and Tianjin (82.9%).

Closely intertwined with the urbanization rate is the granting of household registration (hukou) in urban areas. Ultimately, urbanization is a way to drive more economic growth. As means of rebalancing the economy and steer consumption, the Chinese government has pledged to give urban residency to 100 million migrant workers by 2020. However, reforms to the hukou system remain limited: the places where people want to go are prosperous urban centers, big cities that one way or the other have engineered ways to remain off-limits for prospective migrant population (i.e., Beijing, Shanghai or Shenzhen have introduced a points system that acts as a barrier of entry due to the criteria established to qualify for it: work experience, education level, tax payments). A look at Shanghai’s and Beijing’s urban planning already points indirectly to these non-inclusive migrant policies, with goals such as limiting land available for construction as well as the reduction of population density.

As long as the reform of the hukou system remains limited, migration flows will stay flat. Low migration combined with China’s ageing population compound to create a shortage of labor available in urban areas. China’s working age population peaked in 2011 with 925 million; it was 911 million in 2015 and it is expected to decrease to 830 million by 2030.

Despite all the talks about increasing the retirement age, no progress has been made yet. China’s average retirement age is 54 years, whereas its average life expectancy is 78 years. The Chinese Academy of Social Sciences – the government’s top think tank - issued in December 2015 a paper recommending that in three years time (December 2018) the female retirement age should be delayed one year every three years and male retirement to be delayed one year every six years, resulting in men and women both retiring at the age of 65 by 2045. Also in the 13th Five Year Plan, it was mentioned that policies to raise the retirement age are needed. However, no specific targets were set.

China’s aging population not only puts pressure on China’s labor supply but also on its pension system. The current system can only operate with large fiscal subsidies, since the pension contributions do not cover retiree benefits. In 2016, pension expenses reached RMB 2.58 trillion, whereas contributions were RMB 2.15 trillion.

In 2017, the pension fund expenditure had increased by 106% compared to 2013. Incoming funds had only increased by 91% during the same period, thanks to the contribution of fiscal subsidies which had increased by 165%. The reasons behind this deficit are, among others, the increase in the
number of pensioners, 14 years of continuous growth in the basic pension provided by the government (5% increase in 2018), and a conservative management of the retirement funds. The National Social Security Fund (NSSF), although not a part of the pension system, is important to it since its role is to build up capital that covers pension deficits. The NSSF’s investment policy is determined by the government, which sets limits on the relative proportions each type of asset (government bonds, corporate bonds, shares and mutual funds, overseas investments, etc.) is allowed to take in the fund’s portfolio. Although the fund will continue to remain cautious, it is likely to pursue an increase of its overseas portfolio looking for higher returns.\textsuperscript{14}

Additionally, another resource to ease pressure on the pension system is the opening of regulations to allow for commercial insurance plans. In May of this year, a pilot was launched in Shanghai, Fujian province, and Suzhou Industrial Park to test a tax-deferred pension insurance project – where individuals defer tax on their income if that is used to buy commercial pension insurances.\textsuperscript{15}

### Migrant Workers

According to data provided by the National Bureau of Statistics the number of migrant workers increased by 1.7% in 2017, totaling 286.5 million.\textsuperscript{16} 2017 was the second year in a row since 2010 where the growth rate of migrant workers accelerated. 0.2 percentage points above the growth rate of 2016. However, 2017’s increase has been triggered by an increase of outside province migrant workers, growing at 1.5% in 2017, versus just 0.3% in 2016. This increase of 1.2 percentage points comes almost entirely at the expense of inside province migrant population, which decreased 1.4 percentage points, from 3.4% in 2016 to 2.0% in 2017.

Eastern and central regions\textsuperscript{17} concentrate nearly 70% of the migrant working population in China, but there is barely any growth in eastern China (0.3%) and moderate growth in the central region (1.8%). Western and northeast China regions both grew at around 3%.\textsuperscript{18}

The proportion of migrant workers employed in manufacturing and construction continues to decline. Slowly but steadily, migrant workers are shifting from the secondary to the tertiary sector. In 2013, the proportion of migrant workers employed in the tertiary (service) sector was 42.6%; in 2017 it had grown to 48.0%. Within the tertiary sector, migrant workers are mostly employed in retail, other services and real estate. When it comes to occupation, the fastest growing is "other services" – a place-holder that includes a wide range of services, from high-end services such education or healthcare to services to households - followed by retail and real estate. However, in the tertiary sector

### Migrant Workers Distribution 2017

#### In millions

<table>
<thead>
<tr>
<th>Migrant workers</th>
<th>286.52</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local migrant workers</td>
<td>114.67</td>
</tr>
<tr>
<td>Migrant workers going outside</td>
<td>171.85</td>
</tr>
<tr>
<td>Inner-province</td>
<td>95.10</td>
</tr>
<tr>
<td>Inter-province</td>
<td>76.75</td>
</tr>
</tbody>
</table>

Source: NBS

### Growth Rate of Migrant Workers (%)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total</th>
<th>Outside province</th>
<th>Inside province</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>3.0</td>
<td>2.4</td>
<td>0.6</td>
</tr>
<tr>
<td>2013</td>
<td>3.6</td>
<td>2.8</td>
<td>0.8</td>
</tr>
<tr>
<td>2014</td>
<td>3.9</td>
<td>2.7</td>
<td>1.2</td>
</tr>
<tr>
<td>2015</td>
<td>4.3</td>
<td>2.6</td>
<td>1.7</td>
</tr>
<tr>
<td>2016</td>
<td>4.8</td>
<td>1.7</td>
<td>3.1</td>
</tr>
<tr>
<td>2017</td>
<td>5.4</td>
<td>2.0</td>
<td>3.4</td>
</tr>
</tbody>
</table>

Source: NBS. Outside province: Working in a province other than their household registration; Inside province: Working in the same province of their household registration.

### Migrant Worker Distribution and Evolution (%)

#### By Region in 2017 and Evolution Versus 2016

<table>
<thead>
<tr>
<th>Region</th>
<th>2017</th>
<th>Growth over 2016 (in %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>West</td>
<td>36.4</td>
<td></td>
</tr>
<tr>
<td>East</td>
<td>33.0</td>
<td></td>
</tr>
<tr>
<td>Central</td>
<td>18.6</td>
<td></td>
</tr>
<tr>
<td>Northeast</td>
<td>11.9</td>
<td></td>
</tr>
<tr>
<td>Southeast</td>
<td>11.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: NBS. Starting from 2016 the Northeast region was added into the official reporting.

### Migrant Workers Distribution of Employment by Sector of Economy 2013 - 2017 (%)

<table>
<thead>
<tr>
<th>Year</th>
<th>Tertiary</th>
<th>Secondary</th>
<th>Primary</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>56.8</td>
<td>42.6</td>
<td>0.6</td>
</tr>
<tr>
<td>2014</td>
<td>56.6</td>
<td>42.9</td>
<td>0.5</td>
</tr>
<tr>
<td>2015</td>
<td>55.1</td>
<td>44.5</td>
<td>0.4</td>
</tr>
<tr>
<td>2016</td>
<td>52.9</td>
<td>46.7</td>
<td>0.4</td>
</tr>
<tr>
<td>2017</td>
<td>51.5</td>
<td>48.0</td>
<td>0.5</td>
</tr>
</tbody>
</table>

Source: NBS
transportation – which only accounts for 6.6% of migrant workers’ occupation, offers the highest income.

Following the same trend as the overall labor market, the migrant worker population is aging. Currently, 21.3% is 50 years old or more, whereas in 2013 that proportion was 15.2%.

Throughout the years, the education level of migrant workers has improved: even though nearly 60% obtained only junior high school education, there has been an increase of those who have reached senior middle school and tertiary education levels.
4. Labor Market Developments

China’s Ministry of Human Resources (MOHRSS) publishes quarterly ratios of job vacancies to job seekers by sampling market supply and demand data from public employment service institutions in a pool of cities. The total number of cities varies slightly every quarter. At the time of writing, the latest data available was from the first quarter of 2018, covering a total of 95 cities.19

According to the MOHRSS, in Q1 2018 there were 4.67 million job seekers, and 5.75 million job vacancies, leading to a ratio of job vacancies to job seekers of 1.23, signaling labor shortages. Compared to the first quarter of 2017 job vacancies increased by 4.5%, while the number of job seekers decreased by 4.1%. At regional level the situation is fairly similar, with all regions across the range presenting labor shortages. The job vacancies to job seekers ratio for East, Central and Western China were 1.22, 1.23, and 1.27 respectively.

A glimpse into the aggregated data for the past three years shows a growing gap between the number of job vacancies and the number of job seekers. The gap tends to be temporarily reduced in the second quarter of any given year. One possible explanation could be an increase in job seekers after the Chinese New Year, when yearly bonuses have been collected and employees are more likely to quit their jobs. However, this hypothesis is only valid for 2015. In 2016 Q2 and 2017 Q2 there was actually a decrease in the number of vacancies that was more pronounced than the decrease in the number of job seekers.

China’s unemployment rate in March 2018 was 3.89%, practically at the same level as December 2017, 3.90% (unemployment rates are reported quarterly by the Ministry of Human Resources and Social Security). These percentages are below the ones released in 2018 by the National Bureau of Statistics, based on a survey-based urban unemployment rate, with unemployment rates at 5.0%, 5.0% and 5.1% for January, February, and March 2018 respectively.20 Data from the NBS is considered to be more reliable than the one from MOHRSS, as the former is elaborated according international standards by the International Labor Organization (ILO).21

In the first half of 2018, 7.52 million urban jobs were created, while the minimum target for this year is 11 million.22 In 2018, 8.2 million graduates are expected to enter the labor market, a 3.8% increase over last year.
5. Notes


8. See 7.


10. Beijing's urban general planning for 2016 - 2035 proposes restricting construction land to 3720 km² by 2020, and to 3670 km² by 2035; and to reduce population density from 14 thousand/km² to 12 thousand/km². Full report available at: http://zhengwu.beijing.gov.cn/gh/dt/t1494703.htm (in Chinese)


12. See 10


17. China has two types of hukou: agricultural and non-agricultural. Migrant workers (农民工) are workers whose hukou remains in the country side but have been working in a non-agriculture activity for more than 6 months.

The NBS distinguishes between "Local Migrant Workers" 本地农民工 and "Migrant Workers who go out" 外出农民工. Local migrant workers are working within the villages and towns where their hukou is; migrant workers who go out work outside of the villages and towns where their hukou is, either inside or outside the province of their hukou.

The direct translation of ‘农民工’ is ‘peasant workers’, referring to people who have agriculture hukou but working in secondary or tertiary related activities. However, since rural areas seldom provide non-agricultural jobs, Chinese media uses ‘农民工’ to specifically refer to ‘peasant workers’ who ‘migrate’ to city areas and do non-agricultural work.

A local migrant worker 本地农民工 indeed does not migrate. Consider a Shanghaianess holding a Shanghaianese hukou that happens to be an agricultural hukou (even Shanghai has rural areas). He/she will be considered as a local migrant worker if he/she is doing non-agricultural work in Shanghai (i.e., driving a cab).

18. According to the NBS, Eastern region includes Beijing, Tianjin, Hebei, Shanghai, Jiangsu, Zhejiang, Fujian, Shandong, Guangdong and Hainan; Central: Shanxi, Anhui, Jiangxi, Henan, Hubei; Wester: Inner Mongolia, Guangxi, Chongqing, Sichuan, Guizhou, Yunnan, Tibet, Shaanxi, Gansu, Qinghai, Ningxia and Xinjiang; Northeast: Liaoning, Jilin, and Heilongjiang.


II Wage Developments in China

1. National Wage Developments

According to data from the National Bureau of Statistics (NBS) 2017, wages returned to double digit-growth, with a nominal increase of 10.0% yoy. The average wage was RMB 74,318 in 2017, versus RMB 67,569 in the previous year.

Since 2011, when salaries rose 14.4%, the pace at which salaries grew declined steadily until dropping to a growth rate of 9.5% in 2014. From 2015 onward, salary growth rates have been swinging between double-digit growth rates (10.1% and 10.0%, in 2015 and 2017 respectively) and single-digit growth (2016, 8.9%).

When China joined the World Trade Organization (WTO) in 2002, it increased the global labor supply, but in recent years China’s oversupply has dried up. With the country’s transition to a more value-added production based model, talent for specific industries remain scarce. As a result, China’s wage levels are accelerating and in certain provinces are nearing those of some European regions. China’s labor force, after years of catching up, is finally "getting paid". This results in upward pressure on productivity, and opens the door to the relocation of certain activities to countries with lower labor costs.

Following on this year’s wage growth, per capita disposable income rose as well: 7.3% in real terms (i.e. discounting inflation) - 1 percentage point above 2016’s growth rate – to hit RMB 25,974. Urban disposable income rose to RMB 36,396 (up RMB 2,780 or 6.5% in real terms from 2016); rural disposable income reached RMB 13,432 (RMB 1,069 more than in 2016, a 7.3% increase in real terms).

What about income distribution? China’s Gini coefficient in 2016 was at 0.47, slightly above 2015’s 0.46. In January this year Ning Jizhe, head of the NBS, dubbed income inequality “relatively serious”. As a part of the efforts to address inequality, China is planning to reduce its income tax to boost consumption and reduce disparities. The new tax regulation intends to raise the threshold above which an individual is subject to income tax. Currently, workers with wages below RMB 3,500/month are exempt. The new regulation wants to extend this threshold to RMB 5,000/month. It also increases the lower and upper bounds of the three lowest tax brackets (3%, 10%, and 20%). The final version of the new income tax regulation is to become effective in October this year.
2. Provincial Wage Developments

At the time of writing, no official data was available for 2017 urban wage developments at provincial level. Only overall regional salaries (West, Central, East, and Northeast) were released in a NBS press communiqué in May.9

Central regions in China (Anhui, Henan, Hubel, Jiangxi, Shanxi, etc.) present the highest wage increase in 2017: 10.7% growth, for an average annual salary of RMB 61,193 – the second lowest at the regional level, after the Northeast region.

Following central regions, the second highest wage increase is in the most developed coastal provinces in the East with a 10.1% yoy increase in 2017. The average annual salary in East China is RMB 84,809, mostly influenced by the high compensation levels in Shanghai and Beijing.

Liaoning, Jilin and Heilongjiang provinces constitute what the NBS refers to as Northeast China. Combined, they present the most moderate wage increase in 2017: 8.5%. Still, that is 1 percentage point above 2016. Northeast China currently holds the lowest average salary among the four regions, with RMB 59,514.

Using the annual East average salary – the highest among the four regions - as the baseline for comparisons, since 2010 the only region that has managed to reduce its relative gap with the east has been western China, and only by a few points. If in 2010 compensation levels in the west were 0.79 times those of east China, 8 years later they are 0.81 times.

Since there is no official provincial salary data for 2017 available yet, we have used estimates for 2017 and 2018 wage increases, considering the average wage growth of previous years as well as projections of provincial GDP growth rates and inflation.

The province that caught our attention the most was Tibet that in 2015 presented a wage increase of 59.8% versus 2014: rising from RMB 61,235 to RMB 97,849. That year, in commemoration of the 50th anniversary establishment of the Tibet Autonomous Region, the central government transferred RMB 132.09 billion to the region (higher than the actual GDP of Tibet that year). Many of the transferred payments were added directly to average wages, in the form of subsidies or aid to ethnic minorities. With Tibet’s fairly small population base (3.3 million) the subsidies translated into a significant boost in the average wage.10

Setting aside the particular case Tibet represents, when looking at the aggregate average wage development at province level for the period 2013-2018 it is worth to note that Shanghai or Zhejiang provinces present higher growth rates than China’s overall average, despite both being in the

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Source: NBS & German Chamber of Commerce in China analysis. * 2018 Regional wage developments estimates

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Average Regional Wage Developments (%) 2013-2018

<table>
<thead>
<tr>
<th>Region</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
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<tr>
<td>Tibet</td>
<td>9.4</td>
<td>9.6</td>
<td>9.7</td>
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<tr>
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<tr>
<td>Yunnan</td>
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<td>7.4</td>
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<td></td>
</tr>
</tbody>
</table>

Source: NBS & German Chamber of Commerce in China analysis. According to data from the NBS, salary growth in Tibet in 2015 was 59.8%, due to an extraordinary one-time effect (see text), resulting in the region topping the ranking of regional wage developments.
top-5 highest paying locations.

Minimum Wages and Guidelines

In 2018 only four provinces have issued wage guidelines by the end of June: Shanghai, Shandong, Inner Mongolia, and Shanxi; the other eight provinces issuing wage guidelines in 2018 had done it at the beginning of the second half of the year. In 2017 a similar situation occurred, where four provinces issued their recommendations in the first semester, and another 19 provinces produced their guidelines in the second half of 2017.11

Issuing wage guidelines traditionally took place within the first semester, something that seems is changing in light of the last two years development. Additionally, the pace in the increase of wage guidelines has been slowing down over the years. The fact that local governments are also postponing their issuance - the number of provinces issuing wage guidelines in the first semester has been declining since 2015 - signals their reluctance to lose competitiveness in their labor costs.

Moreover, minimum wages have been existing in China since 1994, but it was not until ten years later that they were enforced by the local labor authorities.

Regional governments set their minimum wages, based on local living costs, local wages and the overall supply and demand for labor of their respective local economies. Minimum wages in 2018 have increased 11.4%, versus 10.7% last year. However, this average increase conceals the fact that for certain provinces the minimum wage increase this year comes after one or two years with no variation. Guangxi presents a rise of 19.8% over its previous minimum salary, which was set in 2015; Sichuan’s minimum wage rose 19.6% and Tibet’s 17.9%, both updating minimum wages set back in 2016. Other provinces that have increased their minimum wage in 2018 are Shandong, Yunnan, and Xinjiang. In 2018 Shanghai increased its minimum wage from RMB 2,300 to RMB 2,420, representing the highest minimum wage in China.

Beijing announced that effective 1st September 2018, it will increase its monthly minimum wage from RMB 2,000 to RMB 2,120. With such an increase, it will have the third highest minimum wage in China, behind Shanghai and Shenzhen.12 Minimum wage rates in tier-1 cities have doubled since 2010, but increases in other provinces have not kept such a pace. For example, minimum wage rates in Dongguan (a prefecture-level city in Guangdong province, belonging to the Category B wage district) were practically identical to those of Beijing in 2010, whereas in 2018 Beijing’s minimum wage was almost RMB 500 higher than Dongguan’s. The slower wage growth is partially due to the efforts of the Guangdong government trying to prevent

Provincial Wage Levels

2016-2018, Average Monthly Wages, in RMB

<table>
<thead>
<tr>
<th>Province</th>
<th>2016</th>
<th>2017*</th>
<th>2018*</th>
<th>Factor**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shanghai</td>
<td>9,995</td>
<td>10,967</td>
<td>12,035</td>
<td>1.77</td>
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<tr>
<td>Beijing</td>
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<td>10,965</td>
<td>12,020</td>
<td>1.76</td>
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<tr>
<td>Tibet</td>
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<td>10,109</td>
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<td>Tianjin</td>
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<td>7,852</td>
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<td>7,537</td>
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<td>Shaanxi</td>
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</tr>
<tr>
<td>Henan</td>
<td>4,798</td>
<td>5,399</td>
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</tr>
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<td>Shandong</td>
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<td>4,798</td>
<td>5,399</td>
<td>6,150</td>
<td>1.28</td>
</tr>
</tbody>
</table>

Source: German Chamber of Commerce in China analysis based on 2016 NBS data. *2017 and 2018 are estimates considering GDP growth, inflation and wage increases in the past. ** Factor represents the ratio of regional wage to national average for 2018. Monthly wages, based on 12-month year basis; all wages are pre-tax.

Regional Wage Increase Guidelines 2018 (%)

<table>
<thead>
<tr>
<th>Province</th>
<th>Minimum</th>
<th>Average</th>
<th>Maximum</th>
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</thead>
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<td>-</td>
</tr>
<tr>
<td>Tianjin</td>
<td>3.0</td>
<td>7.0</td>
<td>12.0</td>
</tr>
<tr>
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<td>12.0</td>
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<tr>
<td>Jilin</td>
<td>3.0</td>
<td>6.0</td>
<td>10.0</td>
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<tr>
<td>Fujian</td>
<td>3.0</td>
<td>8.0</td>
<td>12.0</td>
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<tr>
<td>Shaanxi</td>
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<td>8.0</td>
<td>-</td>
</tr>
<tr>
<td>Shandong</td>
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<td>7.0</td>
<td>11.0</td>
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<td>Henan</td>
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<tr>
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<tr>
<td></td>
<td>3.0</td>
<td>7.0</td>
<td>11.0</td>
</tr>
</tbody>
</table>

Source: German Chamber of Commerce in China research and analysis. Annual averages for each tranche are calculated on the basis of regional adjustments identified during the year. Data as of August 3rd, 2018. The maximum increase guidelines issued for Shanghai and Jiangsu. The average includes 22 provinces that issued new guidelines that year; most of them [19] in the second semester and therefore differ from the averages presented in last year’s report, where only 4 provinces were considered.
Minimum Wage Rates in China 2018

<table>
<thead>
<tr>
<th>Region</th>
<th>Category</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
<th>F</th>
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<th>Valid since</th>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<td>1,480</td>
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<td>1,150</td>
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<td>0.1</td>
<td>0.1</td>
<td>Oct 2018</td>
</tr>
</tbody>
</table>

Source: Provincial Human Resources and Social Security Bureaus and German Chamber of Commerce in China analysis. Categories refer to different wage districts or jurisdictions within a province. Local governments are responsible for setting minimum wages. *Increases are calculated as the average increases of adjustments for all categories in the region. With the exception of Shenzhen, only provinces and province-level municipalities set minimum wage levels. 1. Beijing minimum wage rates were published in 7th July 2018, but will be implemented starting from 1st September 2018.

manufacturing businesses from moving to other provinces in China’s west with lower labor costs.

China’s minimum wage regulations stipulate that each region should set its minimum wage somewhere between 40 and 60 percent of the average local salary. However, that is hardly the case and only very few cities have reached that target. In many cities, the minimum wage is now just 25 percent of the average wage, while in Beijing and Chongqing it is as low as 20 percent.

To some analysts, the fast-rising salaries in China have their roots in China’s minimum wage regulation, used by Beijing not only as a social policy tool to redistribute resources in its efforts to reduce inequality, but also as an industrial policy signaling manufacturers to either become more productive, move up the value chain inside China, or leave.¹³
3. Wages by Industry and Ownership

Wages in the IT industry remain at the helm of compensation rankings in China. In 2016, IT salaries surpassed Finance, according to metrics by the National Bureau of Statistics (NBS). China’s Internet Plus strategy and the country’s willingness to lead the race in the development of cutting edge technologies (artificial intelligence, big data, robotics, facial recognition, self-driven vehicles, etc.) facilitates capital flowing into IT start-ups and established businesses alike. This results in the increasing demand for IT professionals where both those start-ups and established technology players keep poaching talent from one another. IT wages almost double China’s average in 2017, with much larger increases around the country’s technology clusters – mostly Beijing and Shenzhen, but also Shanghai and Hangzhou. All in all, IT wages increased by 8.7% in 2017 – below China’s overall 10.0% increase.

Presenting above-than-national average wage increases in 2017, we find other high-end services industries: healthcare and education (both growing 12%), technical services & scientific research (11.6%). However, the most notable wage increase was recorded in the mining industry (14.8%), after some years of moderate and even negative growth. What led to such pronounced increase? Feasible hypotheses entail wages picking up on positive outcomes coming from recent developments. On the one hand, the supply-side structural reforms to address overcapacity that kicked off back in 2015, resulted in moderated increases of total output (coal up 3.3% from 2016, crude steel 3.0%, rolled steel 0.1%, nonferrous metals 2.9%, aluminum 2.0%, and refined copper 6.3%). On the other, a strong property and infrastructure market, stimulating the demand for building materials (steel, cement, copper). These two developments boosted prices and profits in the mining industry, the latter rising 261.6% from a year earlier in 2017, up from a 27.5% loss in 2016.

On the ownership side, foreign-owned companies remain the highest paying in China (RMB 95,378, annual salary). However, Chinese shareholding and state-owned enterprises (SOEs) remain close to this level. Shareholding wages have grown at an average of 8.0% during the period 2014 - 2017. In 2014, the wage differential against foreign-owned companies started to widen slightly, with salaries growing in the latter 8.9% on average during that three year period. As a result, if in 2014 wages at shareholding companies were 96.6% of foreign ones, in 2017 they represented 94.4%.

SOEs, with an average compensation 90.1% of the one of foreign-owned companies in 2017, were at 82.1% in 2014. During this three year period wages grew 12.3% on average – that is 3.4 percentage points above the growth of foreign-owned companies.
4. Productivity

With the current preliminary accounting results for 2017 – GDP of RMB 82.7 trillion - the output per employed person grew by 7.2% to reach RMB 88,849 (at 2010 prices).\(^{17}\) Compared to 2016, production per employed person has increased by 0.9 percentage points. Productivity gains came fundamentally from the secondary (manufacturing) sector.

China remains well ahead in productivity terms from some of its regional neighbors, most notably India - the other big developing economy in the region. Though, it still falls far behind developed economies such as Japan or the Republic of Korea.

In contrast to developed economies, China still has plenty of room for productivity gains through market-driven reforms and innovation. In its efforts to transition to a domestic-driven economy China has made significant progress to promote innovation.\(^{18}\) Five years ago the top 5 Chinese brands were predominantly SOE’s: China Mobile, ICBC, China Construction Bank, Bank of China and Agricultural Bank of China.\(^{19}\) Today these brands are all except one tech companies: Tencent, Alibaba, China Mobile Games & Entertainment, ICBC, and Baidu.\(^{20}\)

The country’s spending in R&D – around 2% of its GDP - is higher than in a number of OECD economies (i.e. Italy, Canada, UK);\(^{21}\) and filing patent numbers are soaring, with China remaining in 2017 as the primary driver of global growth in patent filing.\(^{22}\)

Following a decline in GDP growth at the end of 2015, China implemented demand-side policies to stimulate growth. The efforts focused on "old economy" tactics, such as loosening credit to fund SOE investment, housing, and infrastructure spending. Such policies did indeed spur growth, as seen in the steady GDP growth quarter after quarter since 2016. Such capital investment was useful as a policy tool to procure economic stability in the short term. On the downside, it contributed further to a sub-optimal use of financial resources. Before 2009 a 1.5 percentage point growth in credit yielded 1 percentage point of growth in China’s GDP. In the period 2009 – 2016 to get to the same outcome 3.5 percentage points of debt were needed.

Capital accumulation is the main contributor to growth (62% if we count both information technology (IT) and non-IT capital input). The less productive use of debt remains among the main reasons for concern when it comes to China’s financial stability.
5. Notes


4. The Gini Coefficient measures how income is distributed in a society. Values range from 0 (complete equality, a society where all its members have the same income) to 1 (complete inequality, a society where only one member has all the income and the rest nothing). Real values move between 0.250 for the more income-balanced societies (Iceland, Norway, Denmark) and 0.600 in countries such as South Africa, Namibia or Haiti. For statistics on China’s Gini Coefficient see: https://www.ceicdata.com/en/china/resident-income-distribution/gini-coefficient


8. See 6.


10. According to the NBS, the average wage is obtained as the "Total Salary of All People Employed" divided by the "Total Number of People Employed". In its definition of the former the NBS includes subsidies in any form, but there is no explicit mention of whether, or how, transfers from the national government are included in the calculation. For further details see: http://www.stats.gov.cn/tjsj/zbjs/201310/t20131029_449543.html (in Chinese)

11. In the Labor Market & Salary Report 2017/2018, with only 4 provinces having updated their minimum wage guidelines the results presented in this report were: 3% for the Minimum, 8% as Average, and 12.5% Maximum. After including all 23 provinces that ended up issuing recommendations the actual averages were: no change for the Minimum, 7.8% for the


15. China’s frontrunner position in electric vehicles, with electric cars containing as much as four times more copper than combustion engine cars would explain the relatively high increase in copper mining, when compared to other raw materials.


17. China’s GDP for 2017 was RMB 82.7 trillion. Total employed population in 2017: 776.40 million. As a measure of labor productivity we use the total output of the economy divided by the total number of workers. That is a productivity of RMB 106,533 at 2017 prices. To allow for comparisons across time we use the GDP deflator with 2010 as a base year to convert prices: 2010=100, 2017=119.10. Therefore, the output per worker in 2017 was RMB 88,849 at 2010 prices, a 7.2% increase compared with labor productivity in 2016: RMB 82,910 (also at 2010 prices).


III General Survey Results

1. Expected Wage Developments at German Chamber Companies

For the first time since the German Chamber of Commerce in China started measuring salary data among its member companies on a China level, the expected salary growth for the upcoming year has picked up.

The forecasted salary increase of 5.99% for 2019 is 0.09 percentage points (p.p.) above last year’s forecast. Although only a very mild increase, this year’s result represents an end to the downward trend of salary growth rates reported during the last seven years.

The upward trend of wage developments at German companies in China is reflecting the evolution from 2017 to 2018 of effective national wage increases, minimum wages and regional wage guidelines (issued by provincial governments). Growth of national wages picked up some momentum and is moving from 10.0% in 2017 to 10.1% in 2018, according to the Chamber’s estimates; growth for minimum wages has gone up (from 10.7% to 11.1%); while wage guidelines have remained stable, growing at 7.8% on average during both years.

It remains to be seen whether 2019 will represent a tipping point in the overall downward trend the survey has been recording so far or whether salary growth expectations will stabilize at around the 6.0% - in the vicinity of China’s annual GDP growth. The analysis on the evolution of both China’s GDP and wages at German Companies since 2012 until today seems to suggest the latter. Forecasted wage increase for German Companies in 2018 (5.90%) gravitates close to China’s GDP growth (6.8% during the first half of 2018). From 2012 until 2018, the average GDP growth in China has been 7.13%, and the German Chamber’s forecast wage increase for that period has yielded an average of 7.90%. Both data series have become more intertwined since 2015 (see in this page graphic GDP, Consumer Price Index and Wage Growth (%)).

The slight acceleration in the overall forecast wage increase at China level has its nuances and conceals differences when breaking it down to specific industries, city tiers, company sizes or regions. Differences between regions, will be analyzed in more depth in the next section of this chapter – with a further breakdown by production roles and level of seniority.

When looking at expected wage increases by industry it should be noted that most of the contributions to the survey come from the machinery / industrial equipment and
Expected Wage Increases by Industry (%)

- Medical Supplies: 5.55% (2018), 5.89% (2019), 5.81% (2019 China average)
- Machinery/Industrial Equipment: 5.80% (2018), 5.80% (2019), 5.80% (2019 China average)
- Consumer Goods: 5.75% (2018), 5.79% (2019), 5.77% (2019 China average)
- Plastics/Metal Products: 5.81% (2018), 5.48% (2019), 5.56% (2019 China average)
- Chemicals: 5.81% (2018), 5.48% (2019), 5.34% (2019 China average)
- Electronics: 5.55% (2018), 5.55% (2019), 5.55% (2019 China average)
- Consulting/Legal Services: 5.60% (2018), 5.60% (2019), 5.59% (2019 China average)

Note: only industries with at least 10 different companies and more than 100 data points for the 2019 expected wage increase variable.

Expected Wage Increases by Company Size (%)

- <50 employees: 5.74% (2018), 5.87% (2019), 5.85% (2019 China average)
- 50-250 employees: 5.95% (2018), 5.99% (2019), 5.99% (2019 China average)
- >250 employees: 6.07% (2019 China average)

Expected Wage Increases by City Tier (%)

- Tier 1: 5.85% (2018), 6.01% (2019), 5.94% (2019 China average)
- Tier 3: 5.74% (2019 China average), 5.35% (2019 China average)

Note: 2018 China average is 5.99%, 2019 China average is 6.17%.

The automotive industry presents a forecast wage increase of 6.63% for 2019, very similar to its 2018’s mark. It also remains the industry with the highest expected wage increases. On the other hand, machinery / industrial equipment presents the highest leap forward, gaining +0.34 p.p. over last year’s expected increase, to average 5.89%. The industries medical supplies and plastic & metal products also present accelerations in their respective wage growth rates, more pronounced in the former (+0.12 p.p. on a yoy basis) and very mild for the latter (+0.04 p.p.).

In opposition to the above, three specific industries present a slowdown in their expected wage growth rates, when comparing with last year’s reported expectations for 2018. The most notable case is consulting / legal services, which saw a drop of 1.22 p.p. on its 2018 mark, reaching an expected increase of 4.84% for 2019. Less pronounced, but in the same direction, chemicals (-0.25 p.p.) and electronics (-0.22 p.p.).

A glimpse at the results by company size (distinguished by the number of employees) shows, in this edition of the report, that the higher the headcount, the higher also the expected wage growth. The most notable acceleration in wage growth is, however, at the smallest sized companies (less than 50 employees) expecting to increase salaries by 5.87% (+0.13 p.p.).

When shifting the analysis to city tier, the highest wage increase is to be expected in tier-2 cities (6.17%). Both tier-1 and tier-2 cities present a similar pace of acceleration in their wage growth (around +0.15 p.p.). Tier-3 cities expect to put forward a wage increase of 5.35%, representing the only slowdown in wage growth (-0.38 p.p.).
2. Regional Wage Developments

The mild uptick in the evolution of the overall results for China, with wages expected to grow 5.99% next year versus 5.90% in 2018, does not reflect a China-wide phenomenon.

When looking at the developments by region it shows that the major part of the acceleration in wage increases is expected in the Yangtze River Delta areas and Guangzhou.

Combined, Shanghai, Suzhou, Taicang, Kunshan and other locations in the Yangtze River Delta produce an expected wage increase of 6.16% in 2019 (+0.23 p.p. in comparison with last year’s mark). In North China, all the locations for which results have been segmented (Beijing, Tianjin, Other North) present a slowdown in expected wage growth for 2019: 5.54% (-0.17 p.p.). A very similar picture occurs in South China, where Shenzhen and Other Pearl River Delta areas will also put forward lower wage increases in 2019 (5.90%) than what they had reported for 2018 (6.03%); only Guangzhou heads in the opposite direction, with expected wage increases growing to hit 6.09% (+0.93 p.p.).

If breaking the results down by region as well as different levels of seniority (junior, mid-level, and senior professionals) wage increases follow the same dynamic as for the overall regional results. The pace increases only in the Yangtze River Delta areas and Guangzhou, except for one instance: in Suzhou, the expected wage increase for junior professionals in 2019 is 6.25% (-0.40 p.p. compared to last year).

For production-based roles (an aggregate of the individual positions blue collar, operator, shift leader, supervisor, and plant / production manager) wage acceleration is also to be expected in Beijing and Tianjin, as well as in Shenzhen – though neither in Guangzhou nor Suzhou.

Finally, for senior management roles (CEO/GM, and Deputy GM), the evolution of wage increases presents a much more scattered picture. Tier-1 locations such as Beijing and Shanghai expect lower wage increases than those experienced last year; whereas in Shenzhen and Guangzhou wage growth is expected to pick up.
Regional Wage Increases: Senior Positions (%)

Regional Wage Increases: Senior Management (%)

TAI / KUN: Taicang & Kunshan; Other YRD: Other Yangtze River Delta areas; Other PRD: Other Pearl River Delta areas.

Senior Management: combined results from positions CEO / GM and Deputy GM/ Branch Manager.
3. Wage Levels

The total cost per employee is provided as a measure of compensation. In the current edition of the report, the median compensation among German companies in China in 2018 is RMB 14,320, whereas the mean (average) is RMB 22,775. Only Shanghai, Beijing, Tianjin and Suzhou present median values above China’s overall.

As in the past edition, Beijing and Shanghai are the regions presenting the highest levels of compensation. Both register the same median total cost per employee (RMB 18,000), although Beijing has a slightly higher mean (RMB 27,828, +RMB 680 above Shanghai’s). On the other side of the scale, south China regions – Other Pearl River Delta areas, Shenzhen and Guangzhou – together with Other North present the lowest levels of compensation.

Based on median values, consulting / legal services and machinery / industrial equipment industries (5.3% and 33.7% of overall contributions, respectively) are the highest paying ones. All other specific industries register median levels of compensation below China’s overall level, with compensation at plastic / metal products reporting the lowest level, followed by Electronics and consumer goods, with median total cost per employee at RMB 11,989 and RMB 12,893 respectively. The rest of the industries introduced in the graphic Comparison of Wages at Industry Level present median values that fall only slightly short of China’s overall level, Chemicals (RMB 520 below China’s), medical supplies (RMB 320 less), and automotive (RMB 157 less).

Analyzing compensation levels by seniority shows a direct, and logical, relationship: the higher the level of seniority, the higher the compensation.

Looking at the disparity between the median and mean values, it shows that the one of production worker levels is quite pronounced, the mean (RMB 14,614) being 62% higher than the median (RMB 9,010). That is because this position is a construct that sums up to a single number the compensation of five different roles at the factory level: blue collar professionals, operators, shift leaders, supervisors, and production / plant managers. When looking at these roles individually, disparities between median and mean fall back to more reasonable ranges, with disparities of 6% to 8% between the two measures.

When analyzing the different levels of compensation by company size, we see that the median total cost per employee hardly moves across the three different categories by which company size has been split.

Finally, when looking at compensation levels by city tier, median values throughout vary significantly, showing a decreasing trend as compensation moves from tier-1
Production Workers: Break Down Individual Positions

Total cost per employee / month. In thousand RMB

Comparison of Wages by Company Size (n° of Employees)

Total cost per employee / month. In thousand RMB

Comparison of Wages by City Tier

Total cost per employee / month. In thousand RMB

Comparison of Wages by City Tier & Company Size

Total cost per employee / month. Median values. In thousand RMB
4. Compensation Levels: Perception

Whether enquired about blue or white collar professionals, German companies perceive the salaries they offer to be mostly within market average.

Small sized companies are more prone to consider their compensation levels to be above the market’s average when it comes to white collar professionals (27.8% among firms with less than 50 employees; 24.2% overall). This does not, however, occur when it is about blue collar professionals. 77% of all small-sized companies gathered in this edition are located in tier-1 cities, which might be an explanation to why salaries for white collar professionals are perceived high in a more significant proportion among small firms.

At a regional level, salaries paid to blue and white collar professionals are more likely to be perceived above the market average among those companies that are in South China.

In China’s southern regions, blue collar’s compensation is labeled as above the market in higher proportion than that of white collar’s. In the Yangtze River Delta regions, however, this goes the other way around: white collar’s compensation levels are perceived as being above the market more frequently.
5. Productivity

In previous editions of the report, the results tended to emphasize how German companies perceived the gap between productivity and wages to be shrinking in a context of a slowdown of wage increase rates.

With next year’s expected wage developments increasing for the first time, the perception of productivity gains has remained quite resilient. The portion of companies considering productivity gains to be similar to wage increases has dropped by 3.8 percentage points (p.p.) in this edition, but most of that drop has shifted to contributors that consider productivity gains overtake wage increases: 15.9% in this edition, +2.4 p.p.

Companies located in Tianjin (3.9% of the sample) and Suzhou (5.3%) find productivity gains to be lower than salary increases in higher proportion than China’s average: 38.5% and 31.6%, respectively. In South China, German companies are also more likely than average to find productivity below wage increases – although in Shenzhen and Guangzhou the same is true for the proportion of companies that consider just the opposite.

Regarding the perception of the level of wages considering productivity and qualifications there are no substantial changes in comparison with last year’s results, just a slight improvement in the overall results. The proportion of companies that see salaries to be high has dropped by 6.9 p.p., to settle at 22.0%; on the other hand, 24.3% of companies consider them low – that is +2.6 p.p. above last year’s results.

When asked about the prospects for the future, on whether productivity increases will be able to match wage increases the sentiment remains positive, though a little more conservative than in the past edition: 14.4% of companies consider it an unlikely scenario (13.5% last year); also, the proportion of companies that see it as likely has dropped to 50.7% (58.2% last year).

From a regional perspective, looking at the three productivity-related questions in the survey - evolution of productivity gains versus wage increases, how do salaries look once productivity and qualifications are taken into account, and whether or not productivity will be able to catch up with wage increases in the future - Suzhou and Tianjin are less optimistic in general, whereas Guangzhou and Other North regions tend to see current and future productivity levels in a much more favorable light.

By company size, those with less than 50 and between 50 to 250 employees tend to be more pessimistic on their assessments about productivity increases when comparing
them with salary increases – although the proportion of those considering that salary increases and productivity gains are similar remains the majority.

Across the board, looking at all the three questions linking productivity and wages in one way or the other, smaller companies (those with less than 50 employees) are being more pessimistic about productivity trends. They are less likely to expect productivity gains will catch up with wage increases in the future, as well as more critical with salaries when considering qualifications and productivity. They are also the ones for which labor costs present a higher proportion over total costs. On the other hand, in those companies with more than 250 employees, the general sentiment towards productivity seems more positive.

In this section of the survey, contributors reply about the importance of a series of factors to achieve productivity increases. As in past editions, improving internal processes is topping this ranking, with 92.9% considering it as important or very important, followed by better internal training (86.4%), and the use of KPI’s (84.4%).

Due to differences in the assessment of productivity between smaller and larger firms in the present edition, the importance of the different factors has been analyzed for each of these two categories. The most relevant difference out of this analytical exercise is the contrast in the
assessments of increased automation as a facilitator of productivity.

For companies with less than 50 employees, increased automation is important or very important to “only” 51.1% of contributors. Furthermore, for small firms, increased automation is the lowest ranked factor concerning its relevance for productivity.

When the focus is on companies of more than 250 employees, they give increased automation a much more prominent role. Improved internal processes remain as the most important factor (95.5% mention it as very important or important), while increased automation comes second (89.8%).

Why is there such a difference in the perceived importance of automation to drive productivity when segmenting by company size? A possible explanation could relate to the high cost burden that the implementation of automation entails. Whereas bigger firms might be more capable of investing in the required technologies to upgrade their capabilities – thus further diluting the ratio of labor costs over total costs, at smaller firms increased automation might be perceived still as a risky investment so that other means are favored to increase productivity.

Finally, as a novelty in this 2018 edition, a new question was added in the survey enquiring about what strategies companies have in stock to deal with rising labor costs. At China level, most of the contributors mention they do not have any strategic plans in place (58.3%). However, a considerable amount (29.7%) plans to increase automation in order to better deal with higher labor costs.

When looking into companies that consider wages as high, still the majority of companies (51.3%) states to have no strategic changes planned. However, this segment is more inclined to relocate to lower labor cost areas (14.5% within China, 3.9% outside China).

When looking at the results by company size, larger companies show a preference for increasing automation over relocation options. This aligns with their higher acknowledgement of automation as an impactful force to driving up productivity.
6. Components of Variable Compensation:

For the second time, several elements of variable compensation (a total of thirteen different items) have been surveyed to assess how frequently they are used to complement fixed compensation.

Topping the ranking are two health-related benefits and a cash-related one. Supplementary medical insurance and annual medical check-ups are used by 89.8% and 88.6% of the surveyed organizations, respectively. Variable bonuses / sales commissions follow suit, with 85.8%.6

Following those, there are a series of components that are used regularly: meal and transportation allowances, supplementary housing fund, life and accident insurances, and training – with utilization ranging from 85% to 75%.

Critical illness allowances (55.4%) and other types of bonuses - skill, retention, management – (50.1%) are the latest of the benefits enjoying widespread use, common for at least half of the surveyed organizations. Beyond those, rarely used components are: providing a company car (38.6%); supplementary pension plans, schooling/ welfare for children (both at around 25%); and the least used of all, paying studies to employees (13.1%).

If splitting the results between companies that only do production (referred to just-production companies from here onward) and companies that do not do production in China (non-production), there are specific differences in the use of components of variable compensation.7

Variable bonuses / sales commissions are the most common component of variable compensation for non-production companies (88.8%); followed by medical check-ups (86.2%) and supplementary medical insurance (85.3%).

For just-production companies providing a supplementary housing fund is the third most common component (the fifth when looking at the results for the overall sample).

The main difference between non-production and just-production companies is the more extensive use of the latter concerning the following components: meal and transportation allowances, supplementary housing fund, and other bonuses.
7. Wage Determination

Among the dozens of factors gauged in the questionnaire to assess the importance when it comes to salary adjustments, two remain as the most critical: individual performance and company performance.

Inflation as well as benchmarking other competitors do also play a role – but with a considerable gap to the influence exerted by the previous two.

Retaining staff is perceived as very important or important to 48.2% of the companies, ranking the seventh in importance when it comes to wage adjustments.

Individual, one-on-one wage negotiations remain as the most critical factor in wage negotiations, with 73.4% of companies assessing it as very important or important. There are however significant differences depending on the particular company size. A large proportion of smaller companies (less than 50 employees) see individual negotiations as the primary factor: 84.6%.

For larger organizations, individual negotiations, although still a majority, are not that dominant (i.e., in companies with more than 250 employees “just” 61.2% consider one-on-one negotiations as the most important factor). Department-wide negotiations gain relative importance at the expense of individual negotiations, as the company size increases.
8. HR Challenges, Retention & Recruitment

When it comes to specific HR challenges that have the highest impact on business operations, there are, as in previous editions, three usual suspects topping the podium: rising labor costs, recruiting, and retaining qualified staff.

Following those, although at a lower level of perceived impact, come social insurance / housing fund and high staff turnover.

Finally, unions, strikes, or collective bargaining do not reveal themselves as particularly challenging according to the answers of German companies.

When segmenting results between companies that only focus in production versus companies that do not do production in China, for the former the recruitment of qualified staff is as critical to business operations as rising labor costs: 84% high or medium impact in operations, in both factors. When companies do not do production at all, the recruitment of qualified staff comes second after rising labor costs, with a difference of almost five percentage points between the two: 82.1% for rising labor costs; 77.8% for recruitment of staff.

Other relevant differences in the perceptions of these two segments come when dealing with the labor bureau, the social insurance / housing fund, or union organization. They are regarded as more impactful when companies only do production. For example, the social insurance / housing fund is considered impactful by up to 70% of companies focusing only in production; 58.1% when no production is involved. The same happens with union organization, though the gap in perception is much more narrow.

For the high cost of training, there is a shift in perception, with non-production companies assessing it as more impactful than just-production ones.

Local staff is perceived in general as being reliable, with strong work ethics, and well equipped concerning technical and professional skills. Skills are, however, assessed more conservatively when it comes to creativity, decision making or critical thinking.

There are three strategies that are considered the most effective to retain qualified staff: salary adjustments, a bonus system, and career advancement plans.

Career advancement is the most effective amongst strategies focusing on professional-development (training, work-life balance, international placements).

Efforts needed to train staff to get it to the desired level of qualification seem to have plateaued with around 60% of

<table>
<thead>
<tr>
<th>Impact of HR Related Challenges in Business Operations (%)</th>
<th>Ranked by High + Medium impact</th>
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</thead>
<tbody>
<tr>
<td>Rising Labor Costs</td>
<td>High</td>
</tr>
<tr>
<td>Recruiting Qualified Staff</td>
<td>47.7</td>
</tr>
<tr>
<td>Retaining Qualified Staff</td>
<td>38.0</td>
</tr>
<tr>
<td>Social Insurance / Housing Fund</td>
<td>33.7</td>
</tr>
<tr>
<td>High Staff Turnover</td>
<td>28.0</td>
</tr>
<tr>
<td>High Cost for Training</td>
<td>16.8</td>
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<tr>
<td>Labor Arbitration Cases</td>
<td>22.0</td>
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<tr>
<td>Dealing with Labor Bureau</td>
<td>28.0</td>
</tr>
<tr>
<td>Collective Bargaining</td>
<td>24.0</td>
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<tr>
<td>Strikes / Unrest</td>
<td>20.0</td>
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<tr>
<td>Union Organization</td>
<td>14.0</td>
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<tr>
<th>Impact of HR Related Challenges in Business Operations (%)</th>
<th>Companies Doing Only Production vs. Non-Production in China</th>
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<tbody>
<tr>
<td>Rising Labor Costs</td>
<td>High</td>
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<td>Recruiting Qualified Staff</td>
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<tr>
<td>Union Organization</td>
<td>14.0</td>
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Note: Based on responses to the main focus of operations in China we have created these two segments: Companies that only focus in production in China (n=50) and companies that do not do production in China (n=117).

<table>
<thead>
<tr>
<th>Evaluation of Local Staff Skills (%)</th>
<th>Ranked by Good</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reliability</td>
<td>Good</td>
</tr>
<tr>
<td>Work Ethics</td>
<td>78.0</td>
</tr>
<tr>
<td>Technical/Professional Skills</td>
<td>73.0</td>
</tr>
<tr>
<td>Team Working Ability</td>
<td>71.2</td>
</tr>
<tr>
<td>Ability to Learn</td>
<td>64.2</td>
</tr>
<tr>
<td>English Skills</td>
<td>63.4</td>
</tr>
<tr>
<td>Communication Skills</td>
<td>58.3</td>
</tr>
<tr>
<td>Problem Solving</td>
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<tr>
<td>Critical Thinking</td>
<td>35.3</td>
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<tr>
<td>Decision Making</td>
<td>33.3</td>
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<tr>
<td>Creativity</td>
<td>31.4</td>
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In partnership with DirectHR Group
companies considering it takes high efforts. When companies only do production, this proportion increases to 68%; whereas when no production activity is involved it gets down to 56.4% (difference of about 11.6 percentage points between the two segments).

Roles that require a substantial component of hard knowledge are the most difficult to fill, with technical sales, engineering / R&D, and technical service topping the ranking. On the other hand, roles in administration, procurement, finance, HR, IT, or marketing functions are not perceived as being difficult to recruit.

Lack of sufficient professional skills together with salary expectations remain the most commonly mentioned issues about why positions are hard to be filled.
9. Additional HR Data

For the past three editions, a slow but steady downward trend in turnover has been recorded, both for blue collar workers as well as for white collar professionals.

Blue collar professionals, for whom the average turnover was 17.7% back in 2016, is now at 13.3%. White collar professionals have moved from 12.8% average turnover in 2016 to 10.3% in 2018.

The slight improvement in turnover ratios comes hand in hand with an increase in the average duration in the company: 46.6 months for blue collar professionals (+5.5 months on average versus last year, or a 13.4% increase); 50.3 months for white collar professionals (+1.8 months or a 3.7% increase in comparison with 2017).

The last two HR metrics monitored, present almost an identical picture in comparison with previous year results. Average annual sick days and annual leave have barely moved in 2018. Moreover, blue collar and white collar professionals present almost identical average of annual sick leave (3.5 and 3.6 days, respectively); concerning annual leave, white collar professionals are at 11.7 days – slightly above the 9.8 of the blue collar professionals.

10. Foreigners

77.2% of the companies contributing to the survey employ foreigners (-3.6 percentage points below last year’s share). This proportion varies notably across company size.

The highest proportion hiring foreigners is at the largest companies (more than 250 employees). However, the percentage of foreign hires over total headcount is the lowest (2.4%).

On the other hand, 63.2% of companies with less than 50 employees hire foreign employers and foreign hires represent 12.1% of total hires.

Share of Companies Employing Foreigners (%)  
Overall Results and by Company Size

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<thead>
<tr>
<th></th>
<th>All</th>
<th>Less 50</th>
<th>50-250</th>
<th>More 250</th>
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<tbody>
<tr>
<td>Share of Companies</td>
<td>77.2</td>
<td>22.8</td>
<td>36.8</td>
<td>94.4</td>
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<tr>
<td>Employing Foreigners</td>
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Average Percentage of Foreign Employees (%)  
Overall Results and by Company Size

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<th></th>
<th>All</th>
<th>Less 50</th>
<th>50-250</th>
<th>More 250</th>
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<tbody>
<tr>
<td>Average Percentage</td>
<td>6.7</td>
<td>5.8</td>
<td>7.0</td>
<td>2.5</td>
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<tr>
<td>of Foreign Employees</td>
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Most Common Type of Contracts for Foreigners (%)  
Ranked by Very Common + Common

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<tr>
<th></th>
<th>All</th>
<th>Less 50</th>
<th>50-250</th>
<th>More 250</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Contract</td>
<td>48.0</td>
<td>33.7</td>
<td>31.3</td>
<td>24.9</td>
</tr>
<tr>
<td>Expat Contract</td>
<td>24.9</td>
<td>31.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Project Based Contract</td>
<td>11.1</td>
<td></td>
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</table>
Hiring foreigners using a local contract is the most common option, with 81.7% of companies declaring it very common or common. That is about 11 percentage points higher than last year.

When inquired about what companies plan in the future when it comes to positions held today by foreigners, 4% declare they intend to replace all positions with local staff. The most common outcome though is that companies aren’t planning any changes (41.5%) or only plan to replace some foreigners with local staff (37.5%).

Obtaining visas for foreign staff is seen as a process that has improved or significantly improved for 40.4% of the respondents (very similar to last year’s 39.8%). There is, however, a considerable share of 22.8% of companies that see the visa process in a completely different light (22.1% in 2017), considering that it has worsened or significantly worsened.
11. About the Survey

This year’s data collection started a little earlier in order to offer German Chamber members the final results in September.

Overall, a total of 356 contributors, all exclusively members of the German Chamber of Commerce in China, took part in this year’s survey. Data was collected from 5th June to 20th July 2018 via an online questionnaire accessible only by email invitation. The final sample represents 15.4% of the Chamber’s membership, making the results statistically representative with a 4.8% margin of error for a confidence level of 95%.

12. Profile of Companies and Contributors

As usual, the majority of contributions come from the Yangtze River Delta area (63.2%), with Shanghai accounting for 39.0% of it. North China represents 22.2%, where Beijing accounts for almost half of those contributions; finally, South China contributes to 14.6%.

By industry, machinery / industrial equipment and automotive amount to 53.4% of the overall contributions (47.4% in 2017).

By company size, there is an even split between less than 50 and 50 to 250 employees: 37.4% and 37.6%, respectively.

Profile of Contributors (%)

Position of the Company Representatives Participating in the Survey

- General Manager: 27.3%
- HR Manager: 8.7%
- Finance Director / Manager: 6.8%
- C&B Manager: 4.6%
- C&B Specialist / Supervisor: 7.5%
- HR Director: 7.5%
- HR Specialist / Supervisor: 11.8%
- Other: 8.7%

Nationality of the Company Representatives

- Chinese: 77.8%
- German: 15.9%
- Other nationality: 6.3%

Industrial Distribution (%)

- Machinery: 33.7%
- Automotive: 19.7%
- Plastic / Metal Products: 6.5%
- Chemicals: 5.6%
- Consulting / Legal Services: 5.3%
- Electronics: 4.5%
- Medical Supplies: 3.4%
- Consumer Goods: 3.1%
- Others: 18.3%

Company Size (%) By Number of Employees

- Less 50: 37.4%
- 50-250: 37.6%
- More 250: 25.0%

Main Focus of Activity (%)

- Production: 58.0%
- Sales & Marketing: 56.1%
- Services: 43.4%
- Sourcing / Procurement: 28.7%
- Trading: 25.6%
- R&D: 22.3%
- Production-related Engineering: 20.8%
- Others: 3.7%
13. Notes

1. The direct, positive relationship between expected wage increases and company size that this year’s results display is not a given one. For example, in the 9th Edition of this report (2016/17) the relationship was exactly the opposite: with smaller firms presenting the highest wage increase (6.52%); mid-sized companies followed with a 6.27% wage increase; larger firms, those with more than 250 employees, presented the lowest wage increase (6.01%).

2. The total cost per employee is defined in the questionnaire as the gross base salary plus variable costs such as social insurance, performance bonuses, cash allowances and other benefits (taxes included). Monthly, in RMB based, on a 40hr working week and a 12-month year period. In turn, the gross base salary is defined as basic monthly salary in RMB (taxes included) based on a 40hr working week and a 12-month year period.

3. Median: level of compensation that divides the number of observations in two equal parts: 50% of the observations have a compensation below that represented by the median, and the other 50% have a level of compensation above that of the median. The other measure of central tendency presented in 4, Wage levels is the average (or mean): the sum of all wages in the data set divided by the number of observations. In the next chapter (IV. Survey Results: Compensation Data) we prefer to use the median over the mean since the distribution of the total cost per employee is skewed, meaning that the average loses its ability to represent a central location for the data because it is dragged away from that central point by the extreme values in the data set. However, the median is not as strongly influenced by extreme values making it a more reliable measure of central tendency in this case.

4. By regional level, whether it is using the mean or the median values as the base for comparisons, rankings by compensation remain the same but for Suzhou and Tianjin. If using the median, Tianjin is the 3rd highest paying region (RMB 14,980); Suzhou is the 4th (RMB 14,655). When using the mean, they swap positions, with Suzhou coming 3rd (RMB 23,839), and Tianjin 4th (RMB 23,756).

5. It refers to industries for which there are at least 100 observations available, across the 39 different positions surveyed that come from a minimum of 10 different companies. Results for industries like tourism & hospitality, IT or construction are not presented in this report since they don’t meet this minimum sample size requirement.

6. The percentage combines the mentions very common and common.

7. In the questionnaire, companies are asked about their main focus areas of activity in China. It is a multiple response question that, among others, includes the alternatives “Production” and “Production-related engineering”. Based on the responses to this question we have created the segments of companies that do not do production and companies that only do production.

8. The specific results are as follow: efforts needed to train staff for companies that only do production: high 68%, neutral 26%, low 6%; efforts required to train personnel for companies that do not do production: high effort 56.4%, neutral 34.2%, and low 9.4%.
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The German Chamber of Commerce in China

The German Chamber of Commerce in China supports German companies in their activities in China. Divided into the regional centers of Beijing, Shanghai and South & Southwest China, it assists all together about 2,500 companies.

It is thereby one of the largest foreign chambers in China. The Chamber offers a broad range of seminars, workshops and events to German companies, in addition to access to an enormous network and assistance with matters in relation to the local and regional government offices.

The Delegation of German Industry & Commerce (AHK) Greater China

The Delegation of German Industry & Commerce Greater China is the key representative body for German economic interests in China, working on behalf of the German Federal Government. With offices in Beijing, Shanghai, Guangzhou, Hong Kong and Taipei, the AHK represents German corporate interests in Greater China and supports the expansion of German-Chinese economic relations. The AHK is part of a network of more than 130 German economic representations worldwide, which has been active abroad for more than 150 years. The first office in the Greater China region was opened in 1981 in Taipei.

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