

## China's policies hit the jobs market

Since June, the Chinese government has demonstrated a unique economic concept that blends planned and market economies. We're not worried about the planned part, after all, all policies are planned. But we do worry that the implementation of so many policies in such a short time could hit the jobs market and consumption



Chinese President, Xi Jinping, on a recent tour of the north of the country

### A planned economy aiming for higher labour productivity and sustainable technological advancement

The first reform this year involved the deleveraging of real estate property developers. The debt ratios are now lower, but not enough for a pause in the reforms, which are therefore still continuing. This has affected growth in the construction sector, the wages of real estate agents and also their career prospects. In addition, putting a cap on the rise in home prices seems to be a long-lasting policy.

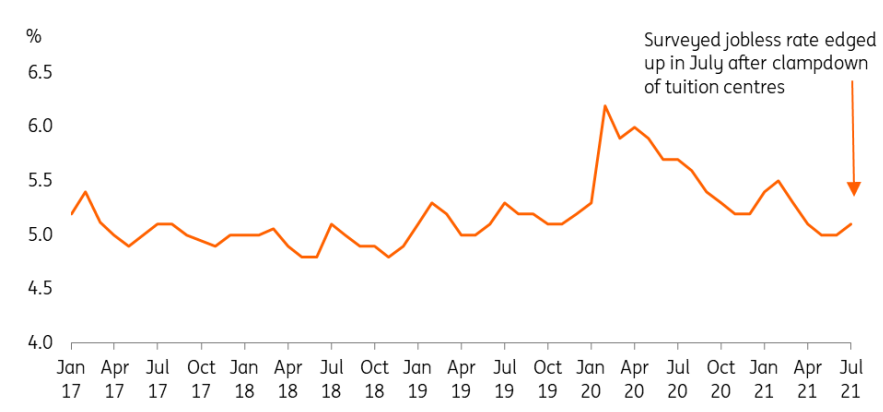
The second reform was a batch of policies that targeted the whole technology sector: from imposing regulations on fintechs to improving data privacy in smartphone apps. The objective of these regulations is to increase the sustainability of the industry and to protect consumers.

## The central government is aiming for a high-quality workforce

Then came a third round of reform which closed down education centres, banned 996 working hours (9am to 9pm for six days a week, which was normal for the technology industry) and limited the time youngsters spend on online games. The closing of education centres is a response to complaints about the high cost of raising a child, which also seems to be a big hurdle to implementing the third child policy. Limiting long working hours could also help facilitate the third child policy. The cap on time spent on online games aims to increase the productivity of the workforce. The government does not want the future workforce to be addicted to various forms of entertainment.

The central government is aiming for a high-quality workforce and a high quality of life for the people in the long term. But there is a short term cost as these industries need to figure out how to adapt to these policies, and in the process, many people could find themselves out of work.

### China surveyed jobless rate



Source: CEIC, ING

### Some people are worried about their jobs; we're concerned about China's spending growth

If more workers consider their job security to be shaky or have already been made jobless (e.g. those working in tuition centres), sentiment around consumption is bound to be weaker. We can't take this lightly as China's consumption market is big.

This adds more pressure to the economy since external demand is also uncertain as a result of the Delta variant of Covid, chip shortages and interrupted supply chains.

It seems that no one wants to talk about "dual circulation" anymore, since these new policies have been introduced in one big lump. Both external and internal growth are weaker than at the beginning of the year.

As such, there should be more plans coming from the government to support overall economic growth, such as speeding up delayed infrastructure projects and cutting the reserve requirement ratio again in October to lower market lending rates so that local governments can more easily

raise funds for infrastructure projects.

Combining the above, our current GDP forecast for the second half of 2021 has been lowered to 4.8% year-on-year. Our USD/CNY forecast for the end of 2021 is 6.70 as China's monetary policy is going to ease against the Federal Reserve's backdrop of tapering.