Unlocking Consumption

Special Focus: Jobs in Transition

WORLD BANK GROUP

China Economic Update - June 2025

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List of Abbreviations

AI	Artificial intelligence
ASEAN	Association of Southeast Asian Nations
Bps	Basis points
CASS	Chinese Academy of Social Sciences
CEU	China Economic Update
CFC	Consumer Finance Company
CO2	Carbon Dioxide
CPI	Consumer Price Index
CRIC	China Real Estate Information Corporation
EAP	East Asia and Pacific
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
G-SIB	Global Systemically Important Banks
HH	Household
IMF	International Monetary Fund
IFR	International Financing Review
IT	Information Technology
MoF	Ministry of Finance
NBS	National Bureau of Statistics
NIM	Net Interest Margin
NFRA	National Financial Regulatory Administration
NPL	Non-Performing Loan
OECD	Organisation for Economic Co-operation and Development
PBC	People's Bank of China
PFB	Public finance budget
PIT	Personal Income Tax
PPI	Producer Price Index
PPP	Purchasing Power Parity
Ppt	Percentage Point
Q1	First Quarter
RMB	Renminbi
RRR	Required Reserve Ratio
RURS	Rural and Urban Resident Scheme
SAFE	State Administration of Foreign Exchange
SME	Small and Medium-sized Enterprise
SOE	State-Owned Enterprise
STEM	Science, Technology, Engineering and Mathematics
TLAC	Total Loss-Absorbing Capacity
TVET	Technical and Vocational Education and Training
UMIC	Upper-Middle-Income Countries
US/USA	United States / United States of America

USD	US Dollar
UWS	Urban Worker Scheme
VAT	Value-Added Tax
y/y	Year-on-year
Ytd	Year-to-Date
3mma	Three-month moving average

Executive Summary

China's economy maintained solid growth momentum in early 2025, with real GDP expanding by 5.4 percent year-on-year (y/y) in the first quarter—matching the pace of the previous quarter. Consumption growth, supported by fiscal subsidies, improved, though it remains below pre-COVID levels, contributing only 2.8 percentage points (ppts) to y/y growth compared to an average of 3.6 ppts in 2019. While new home sales are picking up in large cities, the property sector in lower-tier cities continues to face challenges. Manufacturing investment and exports have shown resilience in recent quarters, though they are now encountering headwinds from global trade policy uncertainty. Amid weak aggregate demand, low inflation and soft labor market conditions persist (see also special focus chapter of this report).

Growth is projected to moderate from 5.0 percent in 2024 to 4.5 percent in 2025 and 4.0 percent in 2026, as higher trade restrictions slow export growth and heightened uncertainty weighs on manufacturing investment and labor demand. Fiscal policy is expected to partially offset these headwinds, with increased infrastructure spending and an expansion in consumer subsidies and some social benefits providing support to investment and consumption. The baseline forecast also assumes a gradual stabilization of the property sector. Structural challenges—including slowing productivity growth, high debt, and an aging population—are expected to constrain growth over the medium term.

China Economic Outlook	*2021*	*2022*	*2023*	*2024*	*2025f*	*2026f*
Real GDP growth (%)	8.6	3.1	5.4	5.0	4.5	4.0
Consumer price index (% change, average)	0.9	2.0	0.2	0.2	0.5	1.3
Current account balance (% of GDP)	1.9	2.4	1.4	2.2	1.0	0.8
Consolidated fiscal balance (% of GDP)*	-3.9	-6.1	-5.5	-6.5	-8.1	-7.8

Source: World Bank.

Note: f = forecast (baseline). * World Bank staff estimates.

Risks to the outlook are broadly balanced but significant. Globally, uncertainty around trade policy and global growth poses downside risks to China's growth outlook. Domestically, prolonged weakness in the property sector could further temper investment. Further softening of labor market conditions due to higher uncertainty and delayed corporate investment could weigh on consumption. On the upside, higher-than-expected fiscal spending, financed to a significant extent by the central government, could lift growth above baseline projections.

The authorities have responded to the domestic and external headwinds with macroeconomic policy easing. With a fiscal impulse estimated at 1.6 percent of GDP in 2025, these stimulus measures are expected to support near-term growth. However, the share of stimulus that

directly targets households is small, about 0.5 percent of GDP in 2025, while the remainder largely consists of public investment. A sustained improvement in household consumption will require greater reform ambition. First, redirecting fiscal resources towards healthcare and social protection to broaden coverage and raise benefits can reduce precautionary savings, encouraging households to spend more. Second, addressing local governments' financial constraints through enhanced transfers and sustainable revenue reforms will help maintain public services and drive public consumption. Third, pursuing a more progressive fiscal system, anchored in equitable taxation, can stimulate consumption as lower-income households have a higher propensity to spend. Finally, addressing the property sector's debt overhang while implementing targeted support to lower-tier cities can lead to a more sustained recovery and boost consumer sentiment.

Special Focus: Jobs in Transition

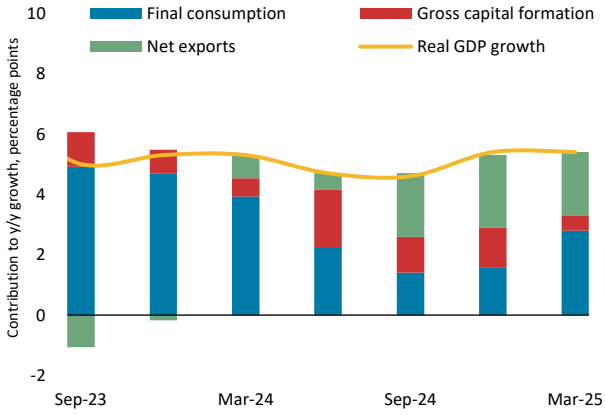
This edition's special focus examines the factors—both short- and long-term—that are reshaping China's labor market. China's economic growth has long driven strong job creation, but this link has weakened in recent years. Between 2015 and 2019, GDP grew by an average of 6.7 percent annually, while urban employment increased by 2.7 percent. 55.5 million net new urban jobs were created. Between 2020 to 2024, GDP growth was 4.9 percent, while average urban employment grew by just 0.9 percent. Only 21.0 million net new jobs created during these five years. Employment growth has slowed, particularly in construction amid the property sector downturn and in services due to subdued consumer demand and economic and policy uncertainty. Manufacturing jobs have benefited from strong exports and policy support since 2020 but now face growing external risks. At the same time, technological change—automation, AI, and digitalization—is displacing low-skilled jobs while increasing demand for high-skilled talent. These trends have disproportionally affected informal, migrant, and temporary workers due to limited job security and social protection.

Navigating these labor market transitions will require reforms along three key dimensions. First, enhancing the enabling environment for private sector job creation—anchored in predictable regulations and a level playing field—could expand employment opportunities. Second, targeted investments in skills development would prepare workers for a dynamic, technology-driven economy and help them seize emerging opportunities. Third, stronger social protection coverage and active labor market policies would support workers during the transition.

The *China Economic Update* at a glance

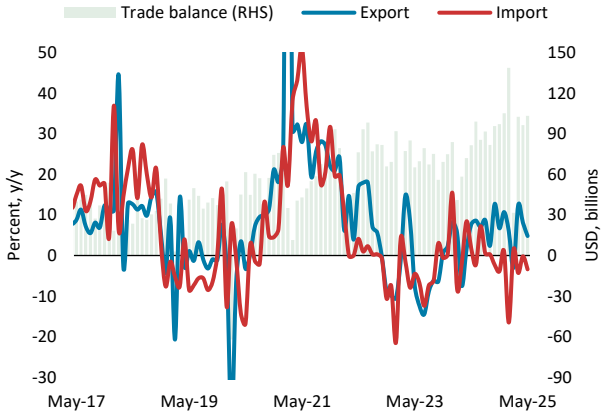
Growth was robust in early 2025, supported by policy easing…

A. GDP demand components



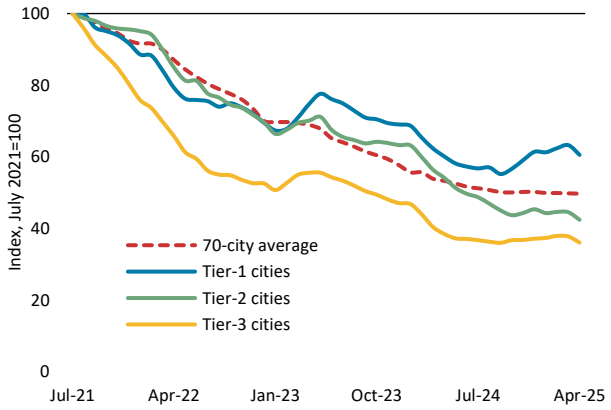
… and export strength due in part to shipment frontloading.

B. Export and import growth



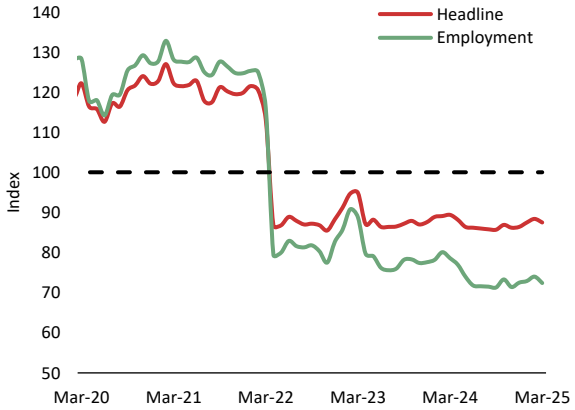
But the property sector downturn remains a drag to growth, generating a negative wealth effect …

C. New housing sales in cities



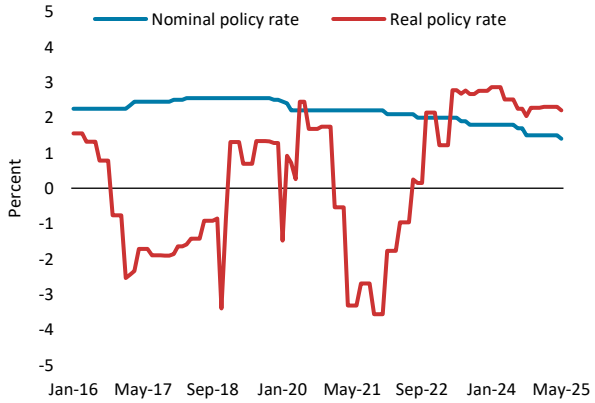
… that contributes to lackluster consumer confidence.

D. Consumer confidence



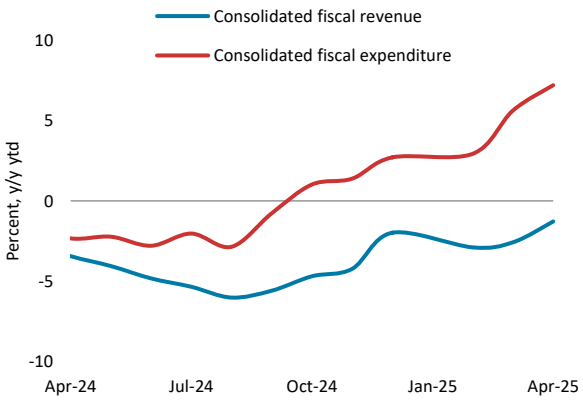
To support domestic activity, the authorities have reduced the key policy rate, though real rate remains high, …

E. Real and nominal policy rates



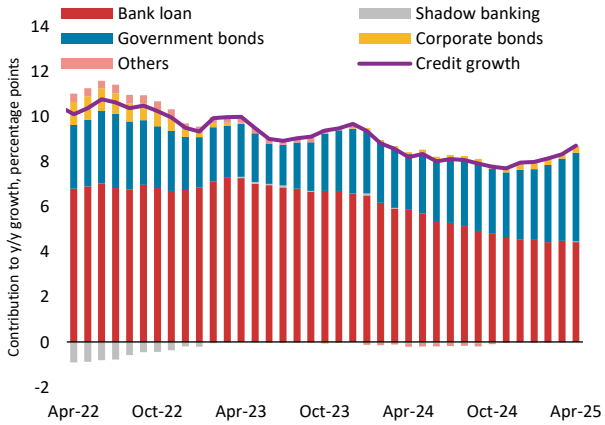
… and have expanded fiscal expenditure on the back of higher capital spending, …

F. Consolidated fiscal revenue and expenditure



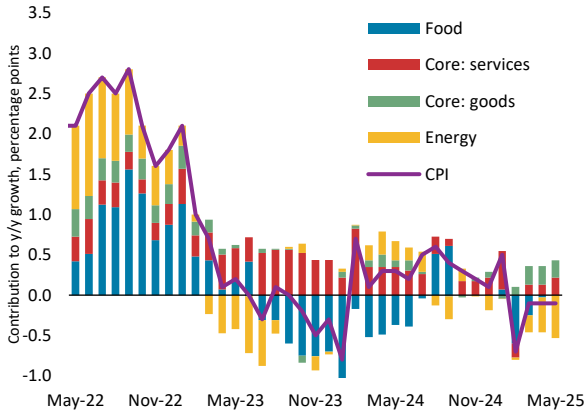
… but private sector credit demand has remained weak, …

G. Credit growth



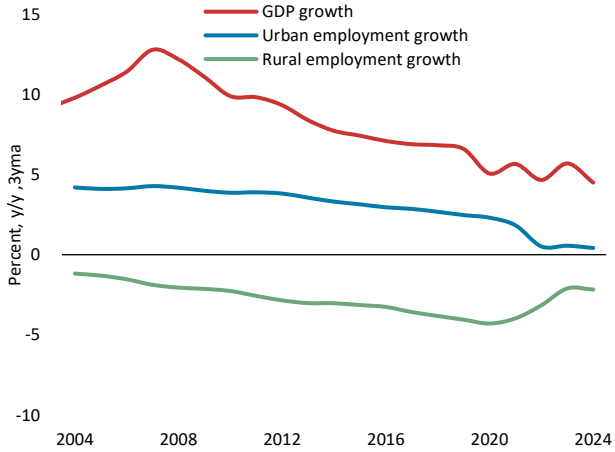
… and inflation has remained low.

H. CPI inflation



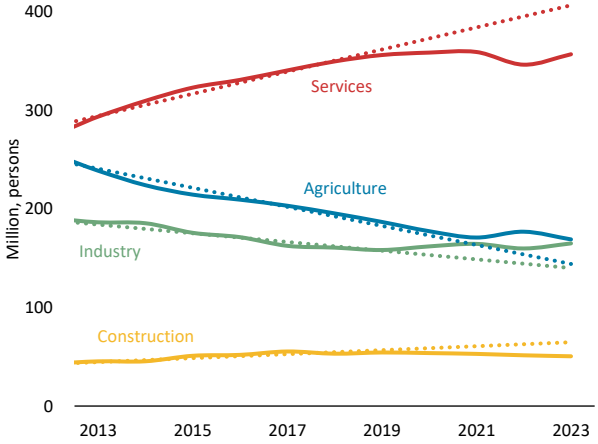
The labor market has been soft in recent years, especially in urban areas …

I. GDP and employment growth



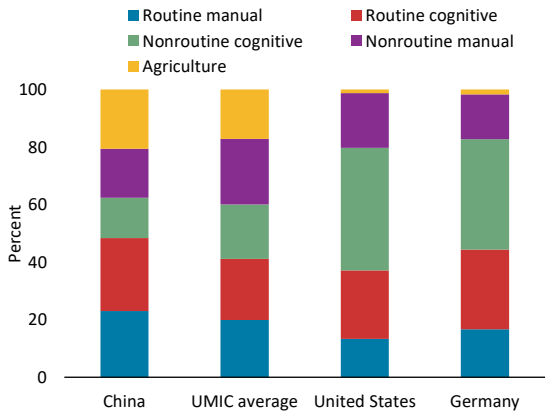
…and in services and construction.

J. Sectoral employment compared to pre-pandemic trend



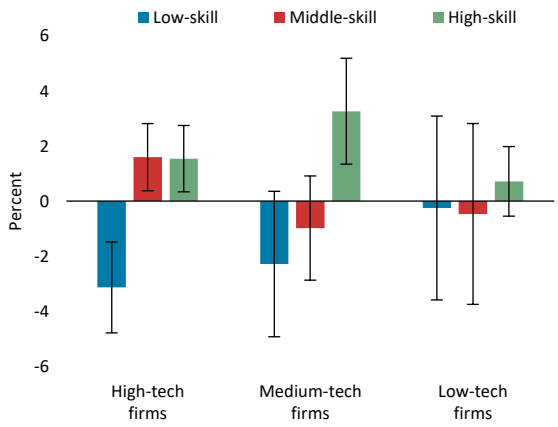
In the long term, China's routine jobs are exposed to displacement from automation and AI…

K. Share of jobs by type



…while demand for high-skilled labor is expected to rise.

L. Estimate of AI impact in changes of skill demand in Chinese manufacturing firms



Source: NBS, PBC, WIND, MoF, Xie et al. (2021), World Bank staff estimates.

I. Recent Economic Developments

Growth was resilient but remained constrained by subdued consumer demand

China's economy maintained its growth momentum in early 2025, supported by accommodative macroeconomic policies and export strength. Real GDP expanded by 5.4 percent year-on-year (y/y) in the first quarter of 2025, matching the pace of the previous quarter (Figure 1A). Robust growth was partly driven by monetary, fiscal, and property sector policy easing. Consumption growth, supported by fiscal subsidies, improved, though it remained below pre-COVID levels. Consumption contributed 2.8 percentage points (ppts) to year-on-year growth, compared to an average of 3.6 ppts in 2019, underscoring still-weak household confidence. Policy stimulus also supported investment, which added 0.5 ppts to growth, as strength in infrastructure and manufacturing offset the contraction in the property sector. Meanwhile, net exports contributed 2.1 ppts to growth, benefitting from shipment frontloading in anticipation of trade policy shifts.

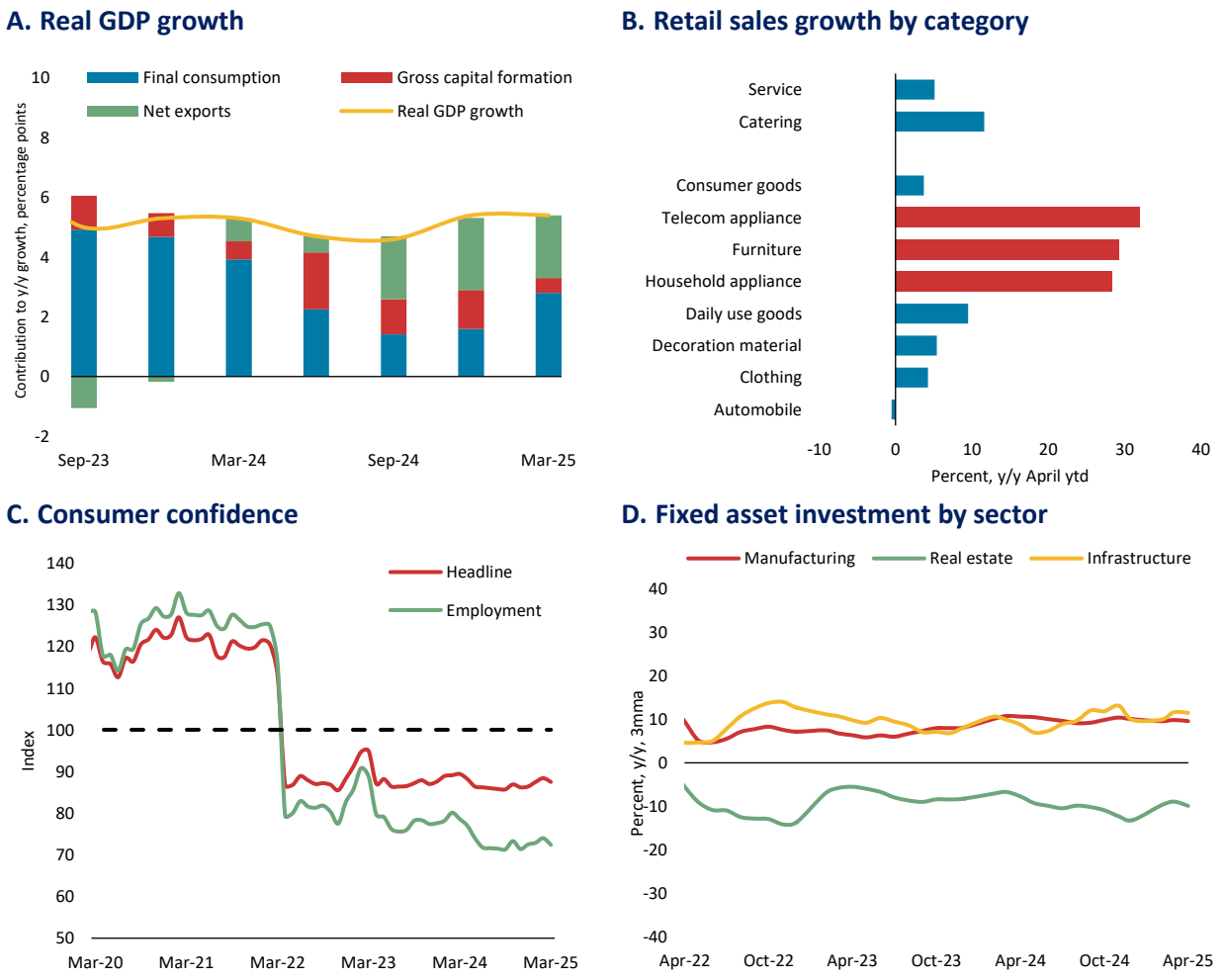
Short-term stimulus measures supported domestic consumption, but underlying household demand remained generally weak. Consumer goods trade-in subsidies helped lift retail sales, which grew by 4.8 percent y/y in real terms in the first four months of 2025, up from 3.3 percent in 2024.[1] Sales of durable goods eligible for subsidies such as household appliances, furniture, and electronic devices posted double-digit growth in the first four months, extending the positive momentum since September last year (Figure 1B). However, consumers remained cautious in their spending on other goods and services. Sales of other discretionary items were subdued, while retail services sales growth slowed to 5.2 percent y/y in real terms in the first four months from 6.0 percent in 2024. The cautious behavior reflects weak confidence, owing to a negative wealth effect from declining home prices, slower income growth compared to pre-pandemic, and uncertain employment prospects (Figure 1C).

Infrastructure and manufacturing investment responded more strongly to policy support, tempering the drag from the continued contraction in real estate investment. Real infrastructure investment expanded by 11.6 percent y/y in the first four months of 2025, rising from 10.0 percent in 2024, supported by accelerated issuance and disbursement of government bonds (Figure 1D).[2] Manufacturing investment in real terms rose by 9.6 percent, bolstered by export frontloading, policy incentives for firms to upgrade equipment, and targeted support to priority sectors. However, real estate investment, which declined by 9.8 percent, and likely

[1] World Bank staff estimate real retail sales by deflating nominal retail sales using CPI inflation.
[2] World Bank staff estimate real fixed asset investments by deflating nominal fixed asset investments using the GDP deflator.

inventory destocking were a drag on growth. Despite policy support, weak homebuyer confidence and high developer debt continue to hold back the recovery.

Figure 1. Policy measures supported growth in some sectors of the economy



Source: China NBS, PBC, World Bank staff estimates.

Note: Figure B. Red bar denotes the items supported by consumer trade-in subsidies

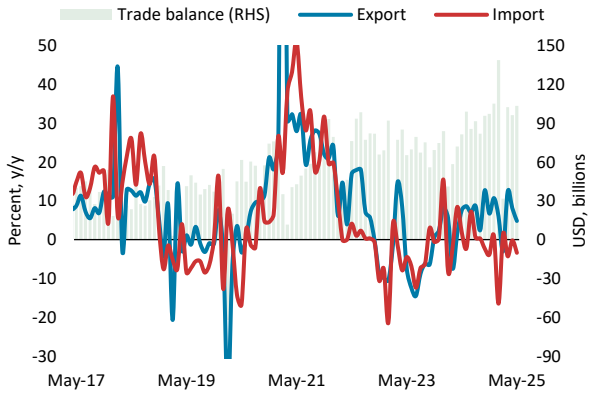
A larger current account surplus only partly offset increased net capital outflows

Export growth remained resilient in the first five months of 2025, supported by robust shipments to emerging markets and the global technology upcycle. Merchandise exports in value terms increased by 6.0 percent y/y in January-May, marginally up from 5.9 percent in 2024 (Figure 2A), as stronger exports to emerging markets, as well as to advanced countries in East Asia and Europe, offset contractions in US-bound shipments. Exports to ASEAN, Brazil, and India rose by over 10 percent y/y (Figure 2B). By product category, exports of medium- and high-tech manufactured goods, particularly semiconductors and electronics, underpinned export growth,

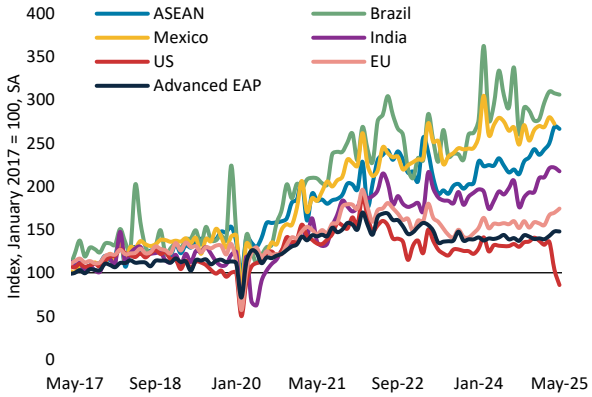
reflecting the global technology upcycle. In contrast, exports of labor-intensive consumer goods such as clothing and footwear, decreased. Resilient goods exports contributed to double-digit growth in services exports, especially transport services (Figure 2C).

Figure 2. Robust shipments to emerging markets contributed to a higher current account surplus

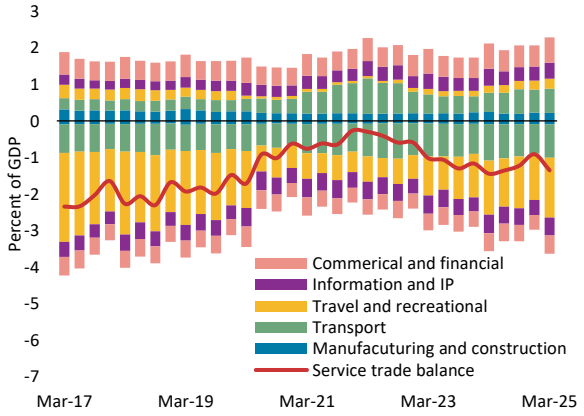
A. Goods export and import growth



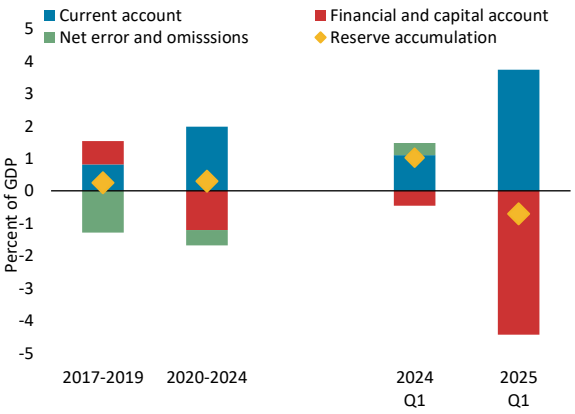
B. Exports by destination



C. Trade in services



D. Balance of payments



Source: General Administration of Customs, SAFE, World Bank staff estimates.

Goods imports contracted, reflecting both lower commodity prices and weak domestic demand. Merchandise imports contracted by 4.9 percent y/y in value terms in the first five months, after expanding by 1.1 percent in 2024. The contraction was driven by the lower global commodity prices and import volumes of key industrial and energy inputs such as iron ore, crude oil, and coal, signaling continued weakness in domestic demand, especially in commodity-intensive sectors like construction. Moreover, consumer goods imports also stayed subdued. In contrast, inventory stockpiling ahead of anticipated trade policy shifts supported higher imports of electronic and other high-tech components. Mirroring the contraction in goods imports, subdued imports for transport services contributed to the deceleration of overall services import growth.

A wider current account surplus was offset by high net capital outflows. Resilient exports and subdued imports increased the current account surplus to 3.7 percent of GDP in the first quarter of 2025. However, larger net capital outflows (including errors and omissions) outweighed the current account surplus, resulting in a US$ 31 billion (0.7 percent of GDP) decline in foreign exchange reserves (Figure 2D). The financial account deficit reflects net outflows of portfolio and other investment, with Mainland-Hong Kong Stock Connect data indicating US$ 57.3 billion in equity market outflows in Q1 2025. In contrast, net foreign direct investment (FDI) outflows declined, supported by a modest recovery in FDI inflows.

The property sector remained weak despite higher demand in first-tier cities

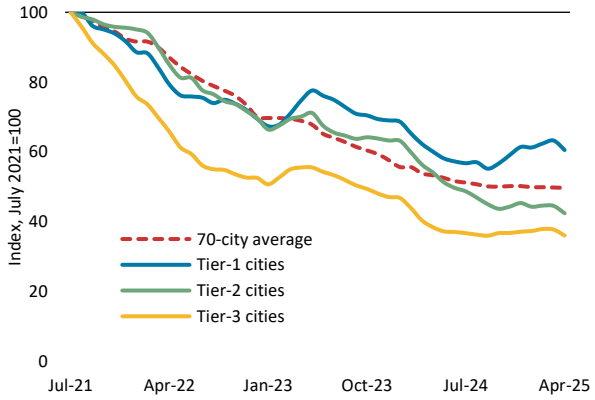
Demand picked up in top-tier cities, though a broad-based recovery has yet to emerge. In the first four months, the contraction in new housing sales across 70 major cities—both in value and volume—narrowed to about 3 percent y/y, compared to double-digit declines in 2024. Home sales in April were around 50 percent below their peak level in 2021 (Figure 3A). The narrower home sales contraction was driven by higher demand in top-tier cities after easing measures introduced in 2024. However, the property sector remains weak in lower-tier cities which face a more acute housing supply-demand imbalance. The period necessary to destock housing inventories[3] in tier-3 cities was 34 months in April, which was 14 months longer than in tier-1 cities and 20 months above the 2017-2020 average. Meanwhile, home prices in primary markets declined further, particularly in lower-tier cities (Figure 3B). To further stimulate housing demand, the authorities cut mortgage rates by an additional 25 basis points in May, bringing the average rate down to 2.8 percent.

Property developers continued to confront financing constraints, despite policy easing. On the supply side, new housing starts, construction, and completion continued to contract in January-April, as funding available to developers decreased (Figure 3C and 3D). These persistent declines show that the impact of current support measures, including local government purchases of unsold housing and idle land, has been limited. This could be due to misaligned incentives between developers and local governments. On one hand, discounted valuations may discourage developers from selling idle land and inventory to local governments. On the other hand, local governments may resist acquisitions over concerns of low returns on land resale and social housing. As of May, only two provinces had issued bonds worth RMB 457 billion (US$ 63 billion) to buy idle land, while the affordable housing relending facility of the People's Bank of China (PBC) had a utilization rate of just 13.3 percent.

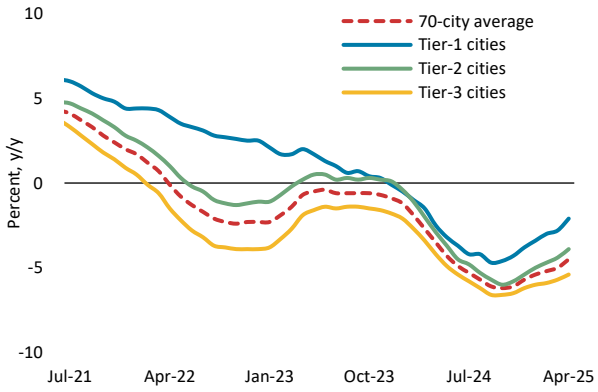
[3] The destock period is calculated as the ratio of housing inventory to monthly sales, based on data from China Real Estate Information Corporation (CRIC).

Figure 3. The property sector remains weak despite demand rebound in top tier cities.

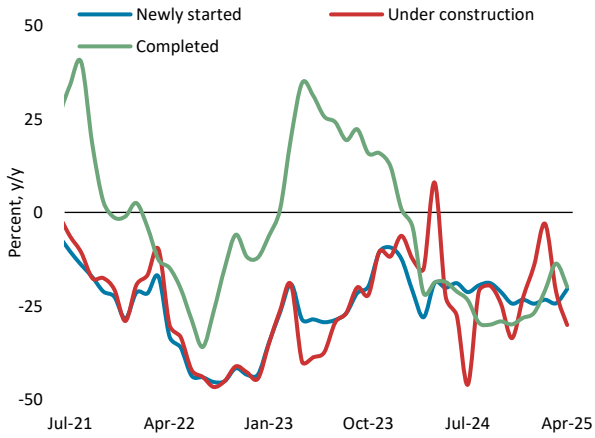
A. New housing sales in cities



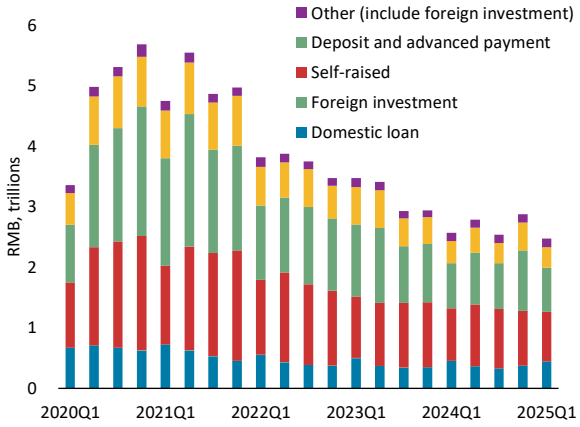
B. Housing prices



C. Housing supply



D. Property developer financing



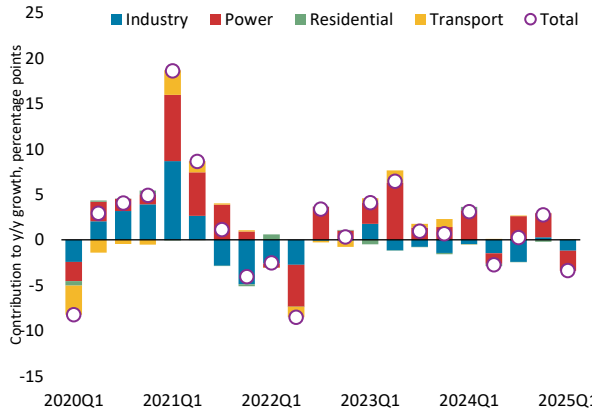
Source: NBS, WIND, World Bank staff estimates.

More renewables and slower power demand growth reduced carbon emissions

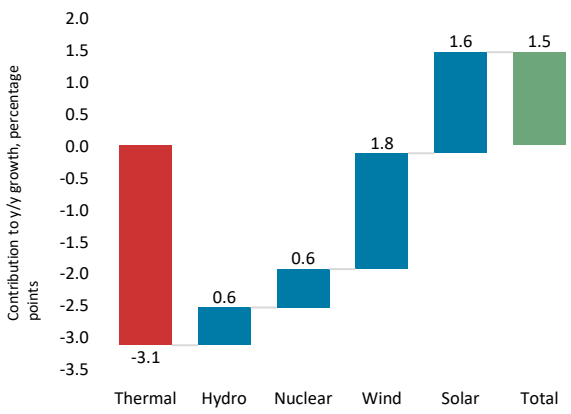
Carbon emissions decreased in the first quarter, as renewable electricity generation outpaced growth in demand. China's carbon dioxide emissions declined by an estimated 3.4 percent y/y in the first quarter of 2025 (Figure 4A), even as GDP grew by 5.4 percent. Lower emissions were driven by stronger growth in renewable energy generation meeting slower electricity demand growth, the latter partly due to warmer weather compared to last year. Thermal power generation, mainly fueled by coal, contracted (Figure 4B). Meanwhile, industrial emissions continued to fall, due to the weakness in the property sector.

Figure 4. Carbon emissions declined amid accelerated growth in renewable energy production

A. Carbon emissions



B. Contribution to electricity generation, Q1 2025



Source: Carbon Monitor, NBS, World Bank staff estimates.
Note: Figure B electricity generation is by firms with annual revenues of RMB 20 million.

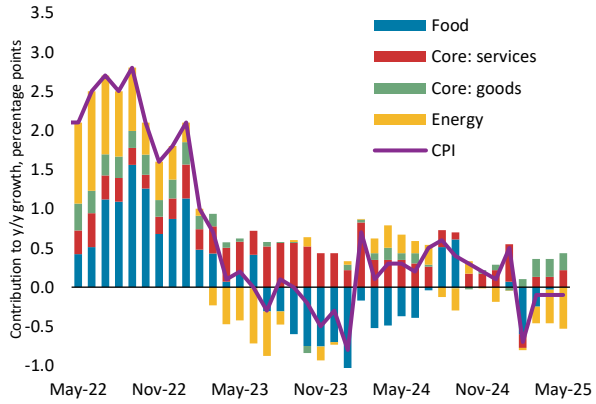
Low inflation persists amid weak aggregate demand

Consumer price inflation remained tepid, as domestic demand weakness persisted. The headline consumer price index (CPI) contracted by 0.1 percent y/y in the first five months of the year, compared to a 0.2-percent increase in 2024 (Figure 5A). The decline was mainly due to lower food and energy prices, as prices of fresh produces, meat and fuel all fell. Meanwhile, improved demand for goods covered by the consumer goods trade-in program supported an uptick in core goods prices, but this was offset by more moderate service price growth, especially rents amid the property sector weakness and tourism prices as travel demand normalized. As a result, core inflation, excluding the volatile food and energy components, remained subdued at 0.4 percent y/y, below the 2024 average of 0.5 percent.

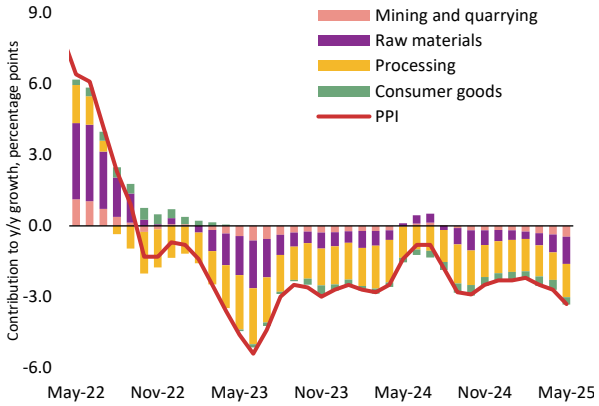
Producer price deflation intensified on the back of both falling global commodity prices and subdued domestic demand. As of May, the producer price index (PPI) had declined for 32 consecutive months, contracting 2.6 percent y/y in the first five months of 2025, following a 2.2-percent drop in 2024 (Figure 5B). Upstream sectors remained the primary source of disinflation, with recent commodity price declines leading to falling output prices in the coal, oil, gas, and related processing industries, while weak demand from the property sector weighed on prices in the steel and other construction-related sectors. In addition, factory-gate prices of some mid- and downstream sectors, such as electronics and electric equipment manufacturing, faced additional deflationary pressures from expectations of weaker exports, as well as domestic demand-supply imbalances.

Figure 5. Consumer price inflation remained tepid, while producer price deflation intensified

A. CPI inflation



B. PPI inflation



Source: NBS, World Bank staff estimates.

Fiscal support helped shore up domestic demand

A positive fiscal impulse of 1.6 percent of GDP is expected to support the economy in 2025, mainly through higher public investment, with some targeted support to households.[4] The government expanded the consumer goods trade-in subsidy to RMB 300 billion (0.2 percent of GDP), which is expected to provide a near-term boost to consumption, but its impact is likely to be short-lived and insufficient to address the structural factors underlying low consumption. The budget also allocates 0.3 ppts of GDP more to the voluntary social pension and health insurance scheme (the Rural and Urban Resident Scheme, RURS), raising the basic pension benefit by RMB 20 to RMB 143 per person per month and the medical insurance subsidy by RMB 30 to RMB 700 per person per year. Yet, the pension and health benefit levels of the RURS remain very low compared to the employer-backed Urban Worker Scheme (UWS), with the basic pension benefit of the RURS equivalent to 12 percent of per capita rural income. This limits the effectiveness of social protection in boosting household consumption.

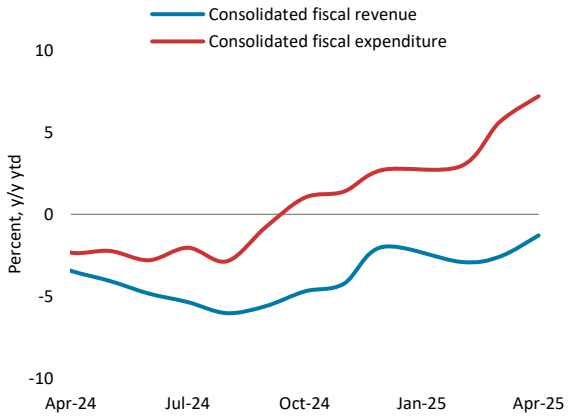
Implementation of the stimulus is reflected in a wider fiscal deficit in January-April compared to the same period in 2024. The consolidated fiscal expenditure increased by 7.2 percent y/y, driven by infrastructure investment (Figure 6A). This was financed by faster bond issuance, with local government special bonds reaching 27.1 percent of the annual quota by April, up from 18.5 percent a year earlier. Social security and education spending also picked up, in line with the budget plan. On the revenue side, headwinds in the property sector and subdued business earnings weighed on tax collection. The consolidated fiscal revenue fell by 1.3 percent y/y, with land lease revenues, an important local revenue source, declining by 11.4 percent. Resilient retail

[4] The fiscal impulse is calculated as the change in the estimated consolidate fiscal primary deficit relative to the previous year's actual primary deficit, factoring in potential budget under-execution and cyclical adjustment.

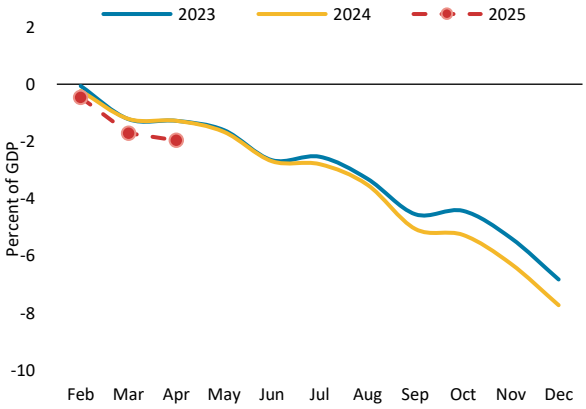
sales contributed to a 1.8-percent increase in value-added tax, whereas corporate income tax receipts declined by 3.1 percent, reflecting profit margin compression.[5] All in, the consolidated fiscal deficit widened to 2.0 percent of GDP in April, compared to 1.3 percent a year earlier (Figure 6B).

Figure 6. Fiscal deficit widened on the back of declining revenue and expanding expenditure

A. Growth in fiscal revenues and expenditures



B. Consolidated fiscal deficit



Source: MoF, NBS, World Bank staff estimates.

Note: China's budget system consists of (i) the Public Finance Budget (PFB) which includes tax and non-tax revenues, current expenditures, and a portion of capital expenditures; (ii) the Government Fund Budget which reflects mainly land-lease revenues of local governments and expenditures for specific infrastructure and social projects; (iii) the Social Security Fund Budget which records social insurance contributions and disbursements; and (iv) the SOE Fund Budget which is the state-owned assets operation budget. The consolidated budget balance refers to the sum of (i), (ii), (iii) and (iv) minus net withdrawals from the government's stabilization fund. Data on (iii) and (iv) are only reported at annual frequency. In the PFB, local government revenues exclude transfers from the central budget, and central government expenditures exclude transfers to local governments.

Private-sector credit demand remains muted despite monetary easing

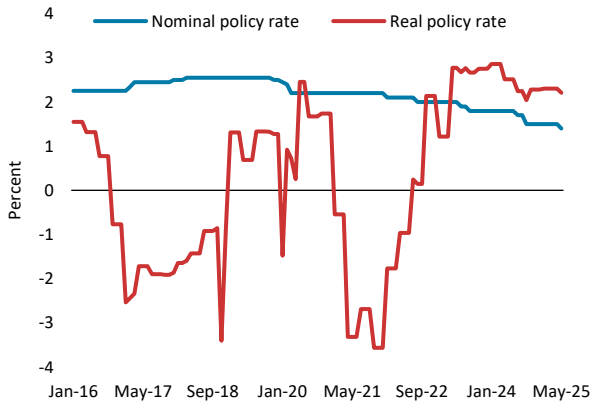
Monetary policy has remained accommodative, relying on liquidity injections and to a lesser extent on interest rate cuts to support credit and economic activity. In May, the PBC announced new easing measures including a 10-bps policy rate reduction and a 50-bps required reserve ratio (RRR) cut, alongside increased lending to priority sectors through its structural credit facilities . The net liquidity injection was substantial at 3.8 percent of GDP in the first four months,

[5] Industrial profit data, covering firms with annual revenue from their main operations of at least RMB 20 million, showed profit contraction in the fourth quarter of 2024. The contraction dragged corporate income tax collection in the first quarter of 2025, as taxes are filed quarterly and within 15 days after the end of each quarter. While industrial profit expanded by 1.4 percent in the first four months of 2025, it was slower than 4.3 percent in the same period last year.

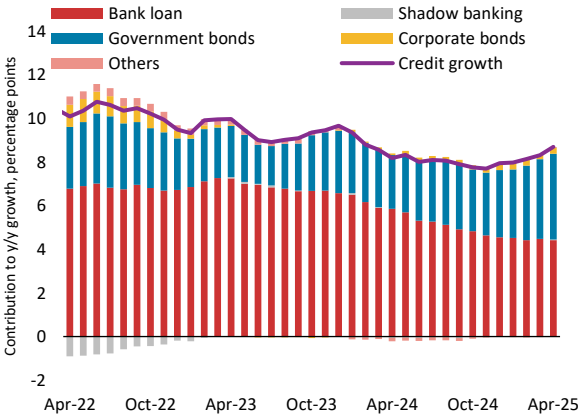
compared with 0.1 percent of GDP in Q4 2024. The modest cut of the policy rate reflects concerns over capital outflows and banks' narrowing net interest margins (NIMs). However, real interest rates remain elevated due to very low inflation (Figure 7A).

Figure 7. Despite easing measures, real interest rates stayed relatively high and credit demand remained subdued.

A. Real and nominal interest rate



B. Credit growth



Source: PBC, SAFE, NBS, World Bank staff estimates.

Corporate and household credit demand has remained subdued despite policy easing. Growth in total credit to the non-financial sector edged up to 8.3 percent y/y in the first four months of 2025, from 8.2 percent in 2024, as an acceleration in government bond issuance more than offset a deceleration in bank loan growth (Figure 7B). The slowdown in bank lending reflected subdued credit demand from both corporates and households. Corporate demand was constrained by the ongoing property downturn, significant uncertainty, and high real borrowing costs, particularly for medium- to long-term loans whose growth fell to 9.4 percent in Q1 2025, from 12.8 percent in 2024. On the household side, below-trend income growth, declining home prices, and an elevated debt burden, with an average debt-to-disposable income ratio of 139 percent, limited appetite to borrow.

Bank profitability has come under pressure

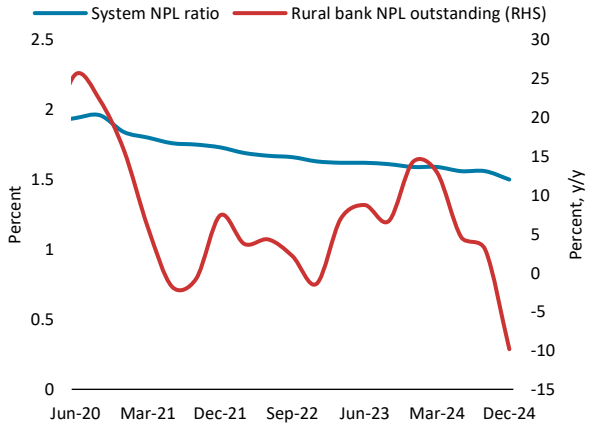
In 2024, banks' net interest margins (NIMs) contracted further, although slower than in 2023, while pressures on profitability persisted. The banking sector's aggregate NIM declined to 1.5 percent in 2024, compared to 1.7 percent in 2023. The decline in banks' funding costs slowed down the NIM contraction by partially offsetting the impact of lower loan rates, which resulted from the benchmark policy rate cuts. However, the accommodative monetary policy stance is expected to sustain downward pressure on NIMs over the short and medium term. While sector-

wide profit growth was slower but positive at 2.3 percent in 2024, rural banks experienced double-digit contractions due to an accelerated write-off of nonperforming loans (NPLs).

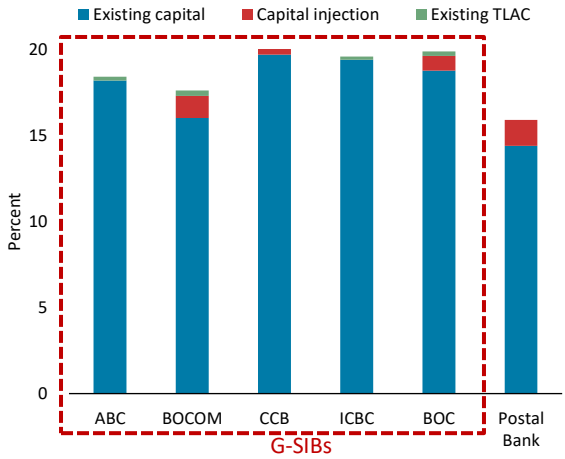
Addressing vulnerabilities in small banks emerged as a key policy priority in 2024, with the authorities resolving around 200 institutions from a pool of approximately 350 assessed as high-risk. These high-risk banks—predominantly rural banks—accounted for 1.7 percent of total banking system assets. Resolution efforts accelerated the disposal of NPLs, leading to a 10 percent reduction in rural banks' NPL stock and a decline in their NPL ratio to 2.8 percent of total loans. The system-wide NPL ratio also declined to 1.5 percent by year-end (Figure 8A). Meanwhile, the capital adequacy of rural commercial banks continued to improve, with their aggregate capital adequacy ratio rising from 12.2 percent in 2023 to 13.5 percent in 2024. This improvement was a result of capital replenishment efforts, with small banks raising over RMB 300 billion through bonds in 2024. Banks' loan exposure to property developers grew by 3.2 percent y/y, while the NPL ratio for this segment, though still elevated, is estimated to have declined to below 4 percent by 2024. Over the past year, various policy support has strengthened the credit profile of real estate exposures. At the same time, commercial banks' risk management strategies have prompted exits from riskier loan portfolios.

Figure 8. System-wide NPL ratio fell while recent capital injection strengthens capital position of systemically important banks

A. NPL at rural banks and system-wide NPL ratio have declined



B. Recent equity injection will allow Chinese G-SIBs to meet TLAC requirements



Source: NFRA, World Bank staff estimates.

Downward pressure on banks' profit growth has reduced their capacity to replenish capital through retained earnings, prompting recapitalization of large state banks by the government. The government injected RMB 520 billion (0.4 percent of GDP) in equity into four large state banks in April 2025, a measure that was announced as part of the comprehensive stimulus

package in September 2024 and primarily funded through central government bonds. The banks receiving the equity injection (three of them Global Systemically Important Banks (G-SIBs)), are expected to see their capital adequacy ratios improve to an average of 18.3 percent (Figure 8B). This intervention serves dual objectives: it strengthens G-SIBs' capital compliance, including the Total Loss-Absorbing Capacity (TLAC) requirements, and boosts institutional resilience. The expanded capital base will further enhance the lending capacity of these banks.

Box 1. The financial sector's role in supporting consumption growth

The expansion of financial inclusion in China has supported rapid growth in consumer credit. Account ownership increased by 24.9 percentage points between 2011 and 2021, rising from 63.8 percent to 88.7 percent of adults. Gaps in financial access for underserved groups—including women, youth, and low-income adults—have also narrowed, driven by improvements in financial infrastructure, expanded service access points, and the widespread adoption of digital financial services.

With fast growth in income, wealth, and consumption, retail lending grew to around 60 percent of GDP in 2024. The property boom and fast economic growth shaped the lending distribution roughly evenly between mortgages and non-mortgage consumer loans (Figure 9A). Outstanding non-mortgage consumer loans were RMB 21 trillion by end-2024, a 340-percent increase over the past decade, reflecting rising consumer demand and improved credit information coverage which enhances lenders' risk assessment capabilities and broadens the client base for loan underwriting (Figure 9B).

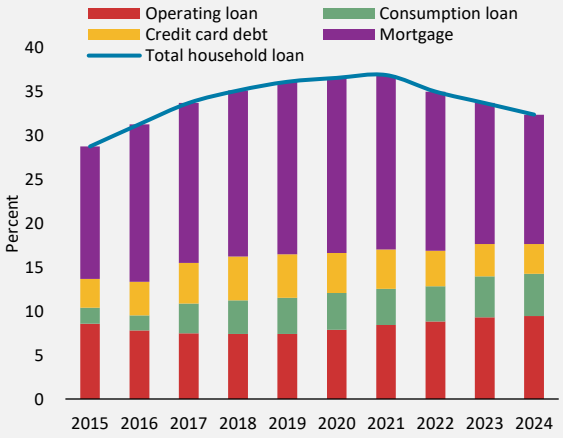
China's financial services landscape has evolved over time, with digital finance growing rapidly. While commercial banks remain the primary providers of all types of consumer loans, internet companies and licensed consumer finance companies (CFCs) specialize in niche segments of consumer lending. Digital consumer credit and CFC lending grew fast over the past decade, albeit from a low base. They still represent very small shares of total loans outstanding, for example, digital lending is estimated to represent about 2 percent of total loans outstanding. With ubiquitous app-based digital payments being used across the country, credit cards have had less of an uptake in China (38.2 percent of adults) than in advanced economies (55.9 percent), and their adoption has declined recently.

Recognizing the importance of financial sector support for expanding domestic consumption, the authorities have introduced targeted policy measures. The National Financial Regulatory Authority extended the maximum consumer loan term from five to seven years and raised the limits on individual consumer loan amounts under prudent eligibility conditions. These measures form part of broader efforts to support domestic consumption.

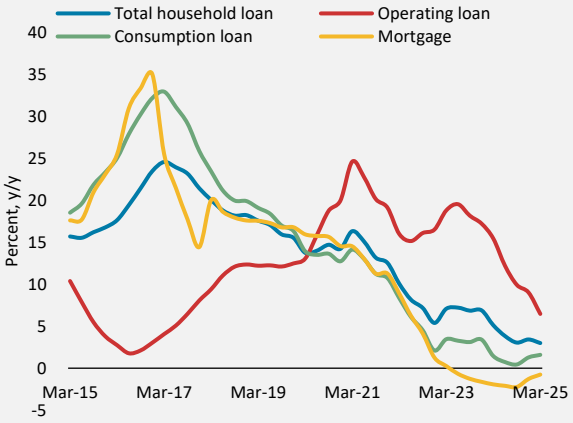
However, such efforts come against the background of household income pressures, a slowdown in borrowing for housing, rising consumer loan NPLs, and persistently high precautionary savings. While China's household balance sheet has a high net worth and is a large net lender to the financial system, the economic uncertainty and the already high debt-to-disposable-income level may temper consumers' willingness to incur more debt for discretionary spending. The rapid expansion of consumer finance during recent years also calls for measures to safeguard financial stability and protect consumers. Such policies include stronger borrower protection, risk management, and financial literacy.

Figure 9. Past property boom and fast economic growth shaped the lending distribution evenly between mortgage and non-mortgage consumer loans

A. Household loans share



B. Growth of household loans



Source: PBC, China Banking Association.

II. Outlook, Risks, and Policy Implications

Outlook

China's GDP growth is projected to moderate to 4.5 percent in 2025 and 4.0 percent in 2026. Despite export frontloading in the first half of the year, export growth is expected to decelerate from the level observed last year. Significantly higher uncertainty could temper manufacturing investment and labor demand. Fiscal policy will be the main lever in mitigating the negative impact of trade policy uncertainty and supporting GDP growth. A significant portion of fiscal support has been allocated to infrastructure investment, while some social benefits and the consumer subsidies have been expanded to boost household consumption. Policy support for the property sector is expected to provide a modest boost to housing demand, mainly in tier-1 cities, but stabilization in the sector is expected to be gradual.

Living standards continued to improve but at a slower pace in 2024. Extreme poverty, as defined by the national threshold (approximately US$2.30/a day in 2017 PPP) has been effectively eliminated. In 2024, an estimated 12 percent of the population – 168 million people – lived with less than US$6.85/day (2017 PPP), a higher living standard benchmark used as a reference by the World Bank to compare progress across upper-middle-income countries. The pace of poverty reduction at this higher benchmark slowed from an estimated 29 million people in 2023 to 26 million people in 2024 and is expected to decelerate to 22 million in 2025 (Figure 10A and 10B).

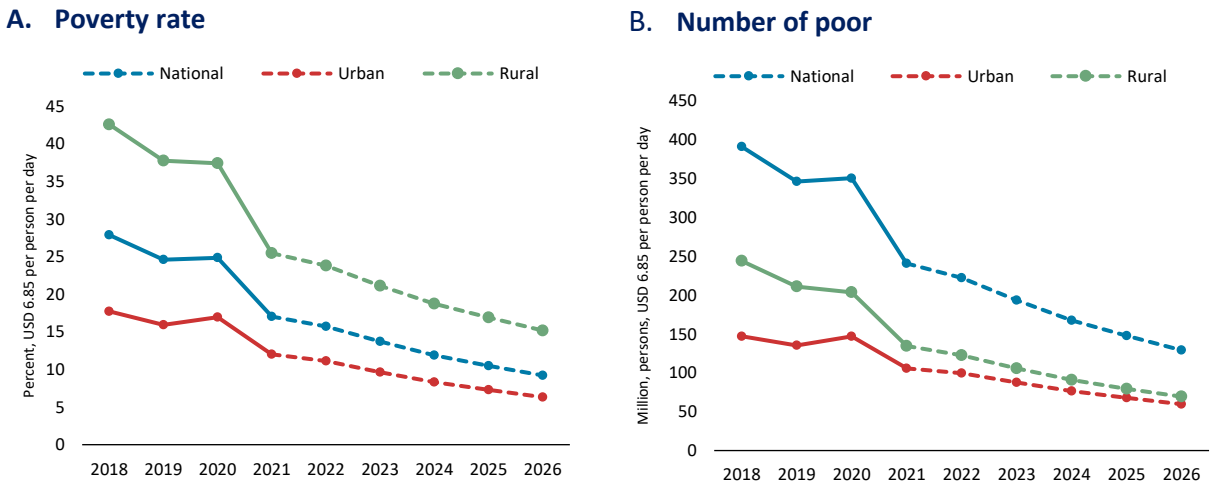
Table 1. China selected economic indicators, 2022-2027

Annual percent change unless indicated otherwise	**2022**	**2023**	**2024*e***	**2025*f***	**2026*f***	**2027*f***
Real GDP growth, at constant market prices	3.1	5.4	5.0	4.5	4.0	3.9
Private Consumption	1.7	9.0	4.3	4.9	4.8	4.7
Government Consumption	5.3	7.3	3.3	5.7	5.2	3.8
Gross Fixed Capital Formation	3.4	4.5	3.6	4.7	3.8	3.6
Exports, Goods and Services	-1.9	1.1	11.5	2.0	1.8	1.9
Imports, Goods and Services	-5.1	5.6	4.3	4.4	3.9	2.5
Real GDP growth, at constant factor prices	3.1	5.4	5.0	4.5	4.0	3.9
Agriculture	4.2	4.0	3.5	3.5	3.4	3.4
Industry	2.3	4.4	5.3	3.6	3.2	3.1
Services	3.6	6.3	5.0	5.2	4.6	4.5
Inflation (Consumer price index)	2.0	0.2	0.2	0.5	1.3	2.0
Current account balance (% of GDP)	2.4	1.4	2.2	1.0	0.8	0.5
Net foreign direct investment, Inflow (% of GDP)	-0.1	-0.8	-0.9	-0.5	-0.2	-0.1
Consolidated fiscal balance (% of GDP)*	-6.1	-5.5	-6.5	-8.1	-7.8	-7.2
Government debt (% of GDP)	49.4	54.7	63.0	71.2	77.5	81.6
Primary balance (% of GDP)	-5.1	-4.5	-5.5	-7.0	-6.7	-6.1

Source: World Bank.

Note: f = forecast (baseline). * World Bank staff estimates.

Figure 10. Living standards will continue to improve, albeit slower than in previous years



Source: World Bank staff estimates using tabulated data from NBS and World Bank's GDP growth projections.
Note: Last grouped data available to calculate poverty is for 2021. Projections based on per capita GDP growth estimates, using a neutral distribution assumption with pass-through 0.85 to per capita household consumption.

Risks

Risks to the growth outlook are broadly balanced but significant. Globally, uncertainty around trade policy and global growth poses downside risks to China's growth outlook. Domestically, prolonged weakness in the property sector could further temper investment. Further softening of labor market conditions due to higher uncertainty, lower enterprise profitability, and reduced hiring could weigh on consumption. On the upside, higher-than-expected fiscal spending, financed to a significant extent by the central government, could lift growth above baseline projections.

Policy implications

Beyond short-term stimulus, a sustained improvement in household consumption will require greater reform ambition. While current policies are expected to support demand in the near term, additional measures are needed to address longer-term headwinds to growth. Investment in infrastructure and property is constrained by diminishing returns due to an already high capital stock and capital misallocation in some sectors (World Bank, 2023a). The infrastructure investment-heavy approach also contributes to rising local public debt, which may constrain the sustainability of such spending over time. The global trade landscape is also undergoing structural shifts. Going forward, China will need to rely more on household consumption as an engine of growth.

Redirecting fiscal resources towards social protection to broaden coverage and raise benefits can reduce precautionary savings, encouraging households to spend more. First, the government could expand the employer-backed social protection scheme (UWS) to cover rural migrants and platform workers. This would entail strengthening and enforcing the labor contract and social insurance laws. Second, the benefit levels of the voluntary social protection scheme (RURS) can be raised. Retired workers covered by the RURS are likely to be in the bottom deciles of the income distribution and to have a higher marginal propensity to consume than those in higher deciles, which suggests that any increase in pension benefits is likely to be spent on consumption. Third, the government could also expand the benefits under the RURS health insurance scheme by including a broader range of services, financed by a higher public share of health expenditures, which remains low by international standards (World Bank, 2023a). This would enhance income security for vulnerable groups, reduce precautionary saving, and strengthen the role of automatic stabilizers in the economy. Empirical studies generally find that the long-term multiplier of social protection expenditure is higher than that of total government expenditure, because these programs target lower-income households which have above-average propensities to consume.[6]

While higher social spending could be financed by shifting resources away from public investment, local governments would also need sustainable revenue sources in the context of fiscal pressure from aging. Enhancing the intergovernmental fiscal transfer system and enabling local governments to raise more own-source revenues can empower local authorities to manage their finances more effectively. The planned shift in excise tax collection—moving it closer to the point of consumption rather than production and assigning collection authority to local governments—will help. Introducing local taxes such as a recurrent property tax—at an appropriate time in the future when the property market has stabilized—and granting local governments some discretion to levy taxes on certain shared bases such as VAT and corporate income tax, could strengthen their revenue generation capacity (World Bank, 2024b).

A more progressive fiscal system, anchored in equitable taxation, can stimulate consumption as lower-income households have a higher propensity to spend. China's fiscal system relies more on regressive indirect taxes such as VAT, while underutilizing progressive instruments like personal income tax (PIT). Increasing the share of fiscal revenues collected through progressive taxes such as the PIT and recurrent property taxes could boost consumption by leaving more income in the hands of lower-income households, which are more likely to spend (World Bank, 2023b).

[6] See Cardoso et al. (2025) for a review of the literature and new evidence.

Fiscal measures could provide much of the needed support to growth, but there is scope to lower policy rates further to reduce real rates and alleviate the household debt burden. Lower mortgage and consumer loan rates could reduce the debt service payments of households, freeing budget to support consumption, though the size of policy rate reductions would need to be balanced against the risk of currency depreciation and capital outflows.

The divergence in housing market performance—recovery in first-tier cities but weakness in lower-tier cities—highlights the need for differentiated policy responses. In lower-tier cities, where demand remains weak, the government could step up support through further lowering downpayment ratios and easing purchase and resale restrictions. Expanding support for low-income households and rural migrants through affordable rental and public housing can help stimulate demand while advancing social goals. Fiscal transfers or targeted subsidies can also help address affordability gaps. Over time, urbanization could serve as a demand anchor. Accelerating hukou reform would enable more rural migrants to settle in smaller cities, broadening the base of homebuyers.

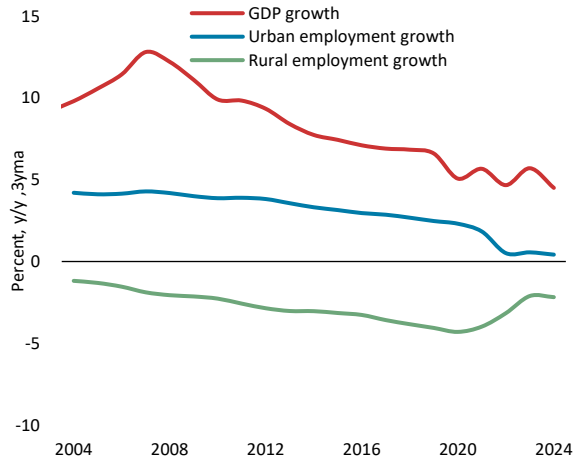
A sustained recovery in the property sector will partly depend on addressing its significant debt overhang. With structurally declining housing demand, developers face diminished revenue prospects, constraining their ability to repay debt. Strengthening the use of the insolvency framework can support the orderly exit of non-viable firms, while debt restructuring would help viable developers complete unfinished projects, deliver homes, and potentially attract fresh capital. In parallel, specialized asset management companies with industry expertise could assist in resolving distressed assets held by developers or banks. Accelerating debt resolution would free up credit for more productive investments across the economy (World Bank, 2024b).

III. Special Focus: Jobs in Transition

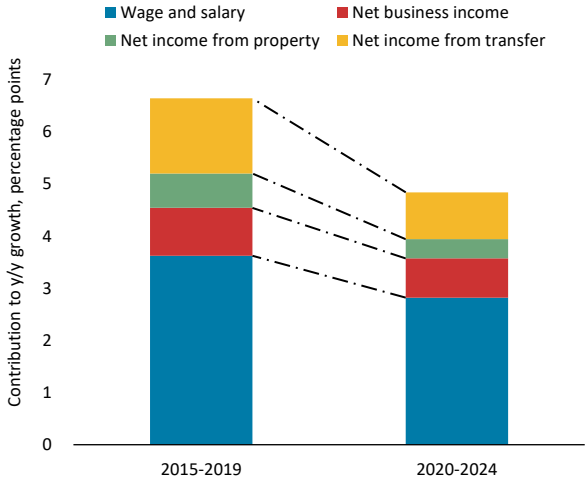
Rapid economic growth has been associated with strong job creation in China for decades, but this link has weakened in recent years. Between 2015 and 2019, GDP grew by an average of 6.7 percent, while urban employment increased by 2.7 percent (Figure 11A). 55.5 million new urban jobs were created in net terms, while real per capita income grew by 6.7 percent per year. Then the link between growth and jobs weakened. In 2020-24, the economy expanded at an average rate of 4.9 percent, while average urban employment growth slowed to just 0.9 percent. 21.0 million net new urban jobs were created over this five-year period, and real per capita income growth moderated to 4.8 percent (Figure 11B). The soft labor market is an important driver of subdued consumer confidence and household spending, as described in Chapter 1.

Figure 11. Labor market has been soft in recent years, dampening household income growth

A. GDP and employment growth



B. Household real income growth



Source: China NBS, Haver, World Bank staff estimates

This chapter provides an analysis of the factors—both short- and long-term—that are reshaping China's labor market. First, it discusses the divergent trends across sectors. Employment has declined in construction amid the property sector downturn since 2021, and job creation in services has slowed due to subdued consumer demand and economic and policy uncertainty. Manufacturing jobs have benefited from strong exports and policy support since 2020 but now face growing external risks. Second, informal and migrant workers have been disproportionately affected by the transition, due to their limited job security and social protection. Third, the chapter explores the impact of the longer-term trends of automation, AI, and digitalization on the labor market. Technological change is displacing low-skilled jobs, creating new high-skilled tasks, and often contributing to rising informality. The chapter concludes with policy recommendations

to expand employment opportunities, target investments in skills development, and strengthen social protection for workers in transition.

Mirroring the shift in growth drivers, labor market trends have diverged across sectors

Although urban unemployment has remained stable at around five percent in recent years, the headline unemployment rate masks several labor market challenges. First, the labor force participation rate (LFPR) declined from 69.3 percent in 2015 to 65.5 percent in 2023, meaning that fewer people of working age are looking for or have a job (Figure 12A). There are several reasons for this. First, population aging has a dampening effect on overall labor force participation, as the share of older people, who tend to have lower LFPRs, increases. Second, young people in China today stay longer in tertiary education and out of the labor force. Gross college enrollment rose from 17 percent of the college-aged population in 2003 to 60 percent in 2023. In addition, technical and vocational education and training (TVET) has expanded since 2018 (World Bank, 2022). Third, some workers may have dropped out of the labor force for lack of opportunities, giving up job search.[7]

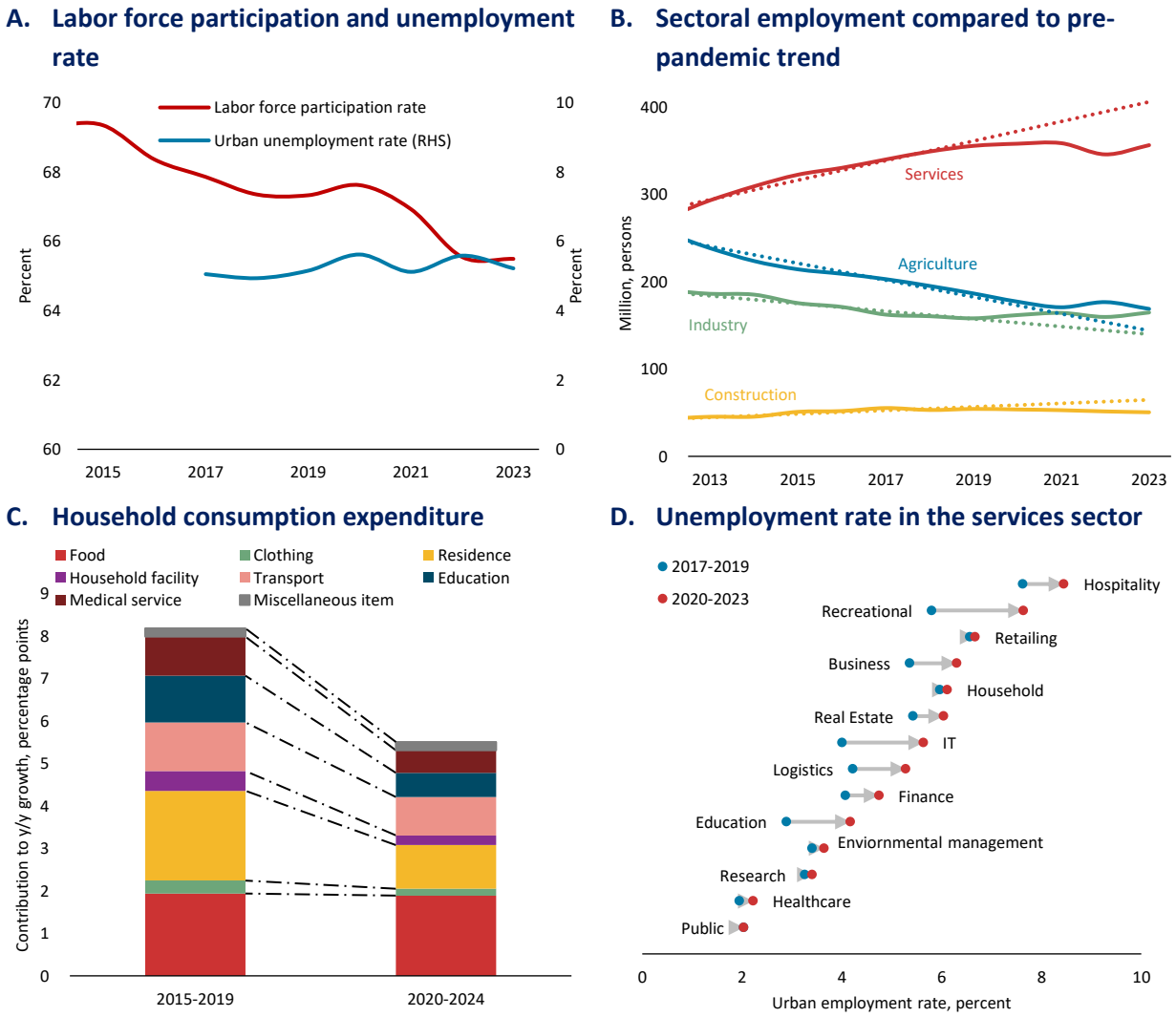
Employment trends have diverged across sectors, with construction and services not creating as many jobs as in the past. The number of construction workers has declined amid the property sector downturn, with higher public infrastructure investment only partially offsetting weak labor demand from real estate (Figure 12B). Job creation in services has also slowed due to weaker consumer demand (Figure 12C). In 2020-22, pandemic-related mobility restrictions, higher uncertainty, and slower income growth reduced the demand for services, particularly in hospitality, recreation, and transport (Figure 12D). Preliminary evidence from listed firms in China suggests that increased macroeconomic uncertainty has been associated with reduced firm employment beyond the direct negative impact of slower growth, and that effect is larger for the services sector.[8] This may be due to the higher sensitivity of services to domestic consumer confidence. Evidence also suggests that elevated policy uncertainty in China has been associated with reduced business investment and employment, especially for some high-skill services such as education and IT (World Bank, 2023c). As discussed in Chapter 1, the weakness in consumer confidence and demand has persisted beyond the pandemic. This is partly due to the continued

[7] A lack of disaggregated labor force data by age group precludes a quantitative assessment of these effects.

[8] This analysis quantifies the marginal effect of a one standard deviation increase in macroeconomic uncertainty on firm employment, using annual data for publicly listed firms in China from 2010 to 2024. We proxy uncertainty by the unexpected component of GDP measured by the residuals from a third-order autoregressive model following Segal et al. (2015). Our specification controls for macro-level indicators (investment, consumption, and retail sales) and firm-level characteristics (total assets, return on equity, revenue growth, and debt-to-asset ratio). We estimate the model by OLS with standard errors clustered at the firm level and include firm and industry fixed effects, as well as an industry-by-year linear time trend to capture unobserved heterogeneity and industry-specific time trends.

softness in employment and wage growth and the negative wealth effect from declining property prices, which has created a negative feedback loop between the subdued labor market and the slowdown in household consumption growth. While the decline in construction jobs is part of the necessary adjustment to slower future demand for housing, slower job creation in services is a challenge, given the sector's considerable potential to drive growth and job creation.

Figure 12. Labor market trends have diverged across sectors and categories of workers



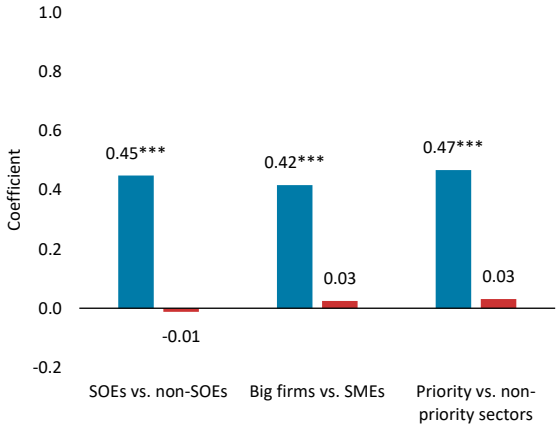
Source: China NBS, Haver, World Bank staff estimates.

Note: The urban unemployment rate line in Figure A refers to the surveyed headline urban unemployment rate, which is based on a National Labor Force Survey and has been released monthly since 2018. The labor force survey collects information on those ages 16 and above, irrespective of their residential status (*hukou*). The labor force participation rate is defined as the proportion of the population aged 15 and above that is either working or actively looking for work. In Figure B, industrial employment excludes construction, even though the sector is officially classified as part of the industrial sector in China.

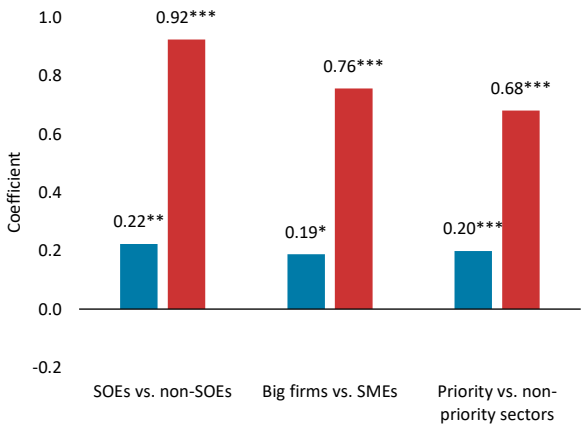
On the other hand, industry has employed more workers compared to the historical trend, in part due to policy support. Empirical evidence based on data for 2011-16 has shown that, when unemployment in a province worsened compared to other provinces, investment by industrial enterprises with many employees in that province rose significantly, suggesting that stabilizing employment was the objective (Xie et al., 2024). Another study has shown that state-owned enterprises (SOEs), large firms, and priority sectors received more credit during the 2008-10 economic downturn than private enterprises, SMEs, and firms in non-priority sectors, and that increase in credit was associated with higher employment (Zhong et al., 2021) (Figure 13A). Higher lending to private firms and SMEs only reduced the likelihood of exit. However, the paper also found that stabilizing employment came at a long-term cost: favored enterprises faced a higher debt service burden and weaker revenues and returns on equity. As a result, they hired fewer workers in 2011-13—not only compared to the other firms (Figure 13B), but also relative to their own earlier employment.

Figure 13. Credit support to SOEs, big firms, and priority sectors has helped stabilize employment during economic downturns but may compromise long-term employment

A. Marginal impact of bank loan increases in 2008-10 on employment in 2009-10



B. Marginal impact of bank loan increases in 2008-10 on employment in 2011-13



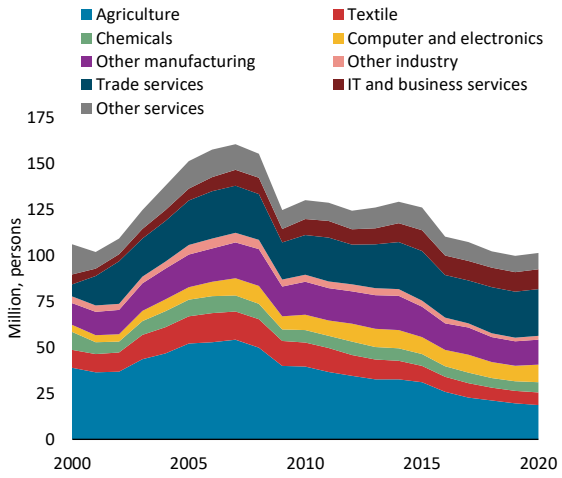
Source: Zhong et al. (2021)
Note: Figures show coefficient estimates from a panel regression of firm employment on the change in long-term bank loans (as a share of firm assets), dummy variables for type of firm, a set of interaction terms, and control variables, based on data from 2,621 listed firms and 534,920 industrial enterprises. For non-SOEs, SMEs, and firms in non-priority sectors, the coefficients on the respective dummy are plotted. For the other firms the linear combination of the dummy and its interaction term are plotted (***P<0.01, ** P<0.05, *P<0.1).

Export strength in 2020-24 also contributed to industrial employment, but export-related jobs are exposed to risks from shifting global trade policies. After the initial shock of the pandemic in 2020, China restored industrial production and exports faster than other countries, adding 2.5 million export-related jobs that year (Figure 14A). Although more recent data are not yet available,

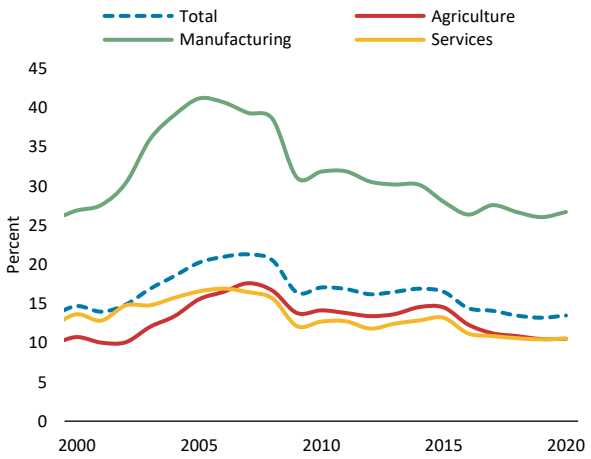
export-related employment has likely remained robust, given that exports accounted for 23.5 percent of China's GDP growth in 2020-24. Higher trade restrictions in 2025 present risks to export-related employment—estimated at around 100 million jobs—going forward, though these risks are lower than in the past due to China's structural decline in export dependence. The share of employment embedded in external demand has decreased across sectors but especially in manufacturing where it fell from 41 percent in 2005 to 27 percent in 2020 (Figure 14B). Another trade risk mitigation factor is the decrease in importance of labor-intensive sectors such as textiles in favor of more capital-intensive sectors such as computers and electronics.

Figure 14. Employment relying on foreign demand has decreased but remains substantial

A. Number of export-related employment, by sector



B. Share of export-related employment in sectoral employment



Source: OECD Trade in employment database, World Bank staff estimates.

Box 2. The potential of the services sector to create more jobs

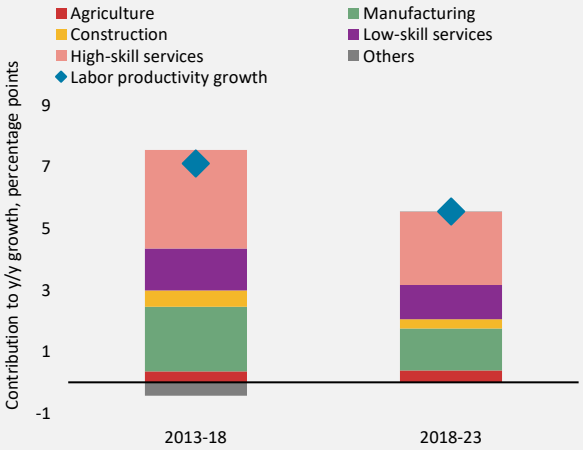
Services are likely to play a growing role in driving growth and job creation in China, due to rising per capita income and population aging. Services have employed more workers than other sectors since 2011. In 2024, the services sector employed 49 percent of the labor force. But this is still below the services share of 73 percent in OECD countries in 2023, which points to room for China to catch up. Beyond rising incomes, rapid aging is expected to increase the demand for services such as elderly care, health care, financial services targeted at the elderly, and education such as digital literacy development (World Bank, 2024a).

High-skill services, in particular, have the potential to drive overall growth, labor productivity growth, and job creation. High-skill services, including IT, finance, real estate, and business services, have contributed the most to overall labor productivity growth (Figure 15A). A decomposition of labor productivity growth into contributions from within-sector productivity growth and between-sector

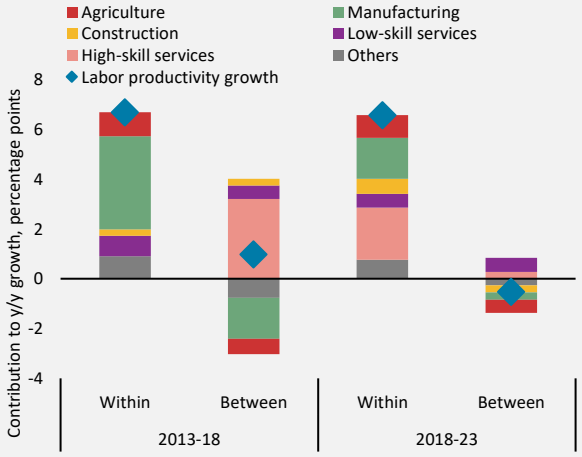
movement of labor (i.e., structural transformation) shows that productivity growth within high-skill services has accelerated in recent years (Figure 15B). At the same time, productivity gains from the movement of workers to this sector have become smaller than in the past. This suggest that there is significant potential for high-skill services to generate growth and jobs.

Figure 15. High-skill services are the largest source of labor productivity growth today

A. Labor productivity growth



B. Within- and between-sector labor productivity growth



Source: China NBS; China economic census; World Bank staff estimates.
Note: Figure A and B show average annual labor productivity growth and its decomposition based on McMillan et al. (2014). Sectoral employment is estimated using aggregate employment from China labor statistics yearbook and sectoral employment share from China economic census. Low-skill services include wholesale & retail trade, transport, and hotel & catering services. High-skill services include IT, finance, real estate, education, business services, and other services.

Informal, migrant, and young workers have been disproportionately affected

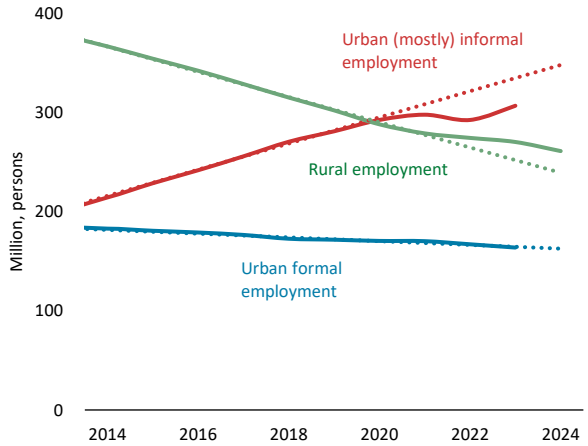
Slower job creation in services and declining construction employment have been reflected in fewer job opportunities for informal sector workers. While urban formal sector employment has remained largely stable, urban informal sector job creation remains below its pre-pandemic trend (Figure 16A). Informal workers face weaker job security, fewer opportunities for career advancement, and limited access to unemployment insurance and other social protection benefits (Figure 16B). A sizeable share of the manufacturing workforce is also temporary—around 40 million workers, or 31 percent of the sector's employment.[9] Especially in export-oriented manufacturing sectors such as consumer electronics, hiring temporary workers for peak periods

[9] Source: Why Temporary Workers Are a Growing Presence in China's Factories, https://www.caixinglobal.com/2024-08-02/weekend-long-read-chinas-facotry-temp-workers-102222909.html.

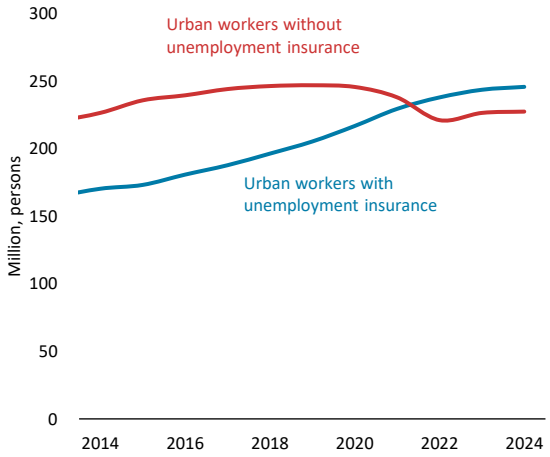
rather than maintaining large full-time staff reduces labor costs and helps companies manage business uncertainty.

Figure 16. Youth, rural migrants, and informal workers face challenges from fewer job opportunities and higher income insecurity

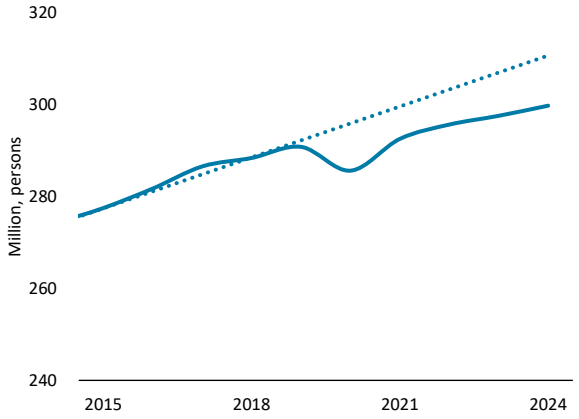
A. Urban and rural employment compared to pre-pandemic trend



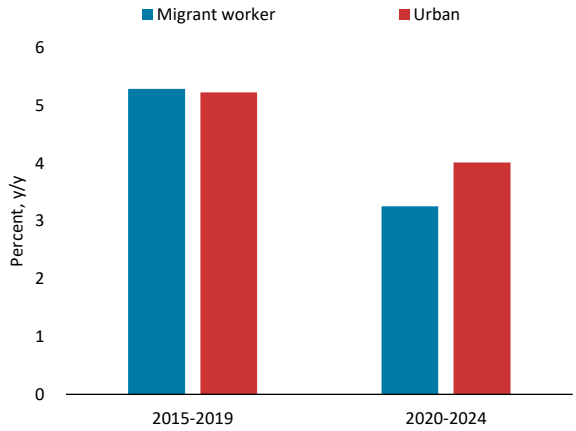
B. Unemployment insurance coverage



C. Number of rural migrants compared to pre-pandemic trend



D. Real wage growth



Source: China NBS; World Bank staff estimates.
Note: In Figure A, urban informal employment refers to urban employment in small private establishments and the self-employed. Urban formal employment refers to work in legally registered enterprises or organizations in urban areas, excluding small private establishments. While there is no standard definition of informality, it often refers to employment without a labor contract and access to social security and employment benefits.

As many informal sector workers are migrants, fewer urban jobs have meant slower rural-to-urban migration. Although the unemployment rate for rural migrants has remained stable at around five percent since 2020, this reflects a slowdown in urbanization rather than sustained employment opportunities in cities. There were almost 9 million fewer rural migrants in 2024

compared to the pre-pandemic trend (Figure 16C). Growth in real wages for migrants has also slowed significantly more than that for all urban workers (Figure 16D). Consequently, many potential rural migrants remain in the agricultural sector, despite a significant wage gap: rural migrants working in cities earn 2.6 times the income of rural residents.

In addition, youth unemployment has become a growing concern in China. The youth unemployment rate, excluding people aged 16-24 who are enrolled in education, has averaged 16.5 percent since July 2024. Larger numbers of college graduates and slower job creation in the high-skill services sector, the largest employer of recent graduates,[10] have contributed to higher youth unemployment in recent years. Evidence also suggests that there has been a growing mismatch between the skills of recent graduates and those required by employers—not only a mismatch between the fields of college study and employers' needs but also variations in the quality of college and TVET education (World Bank, 2022).

Technology is also reshaping the labor market

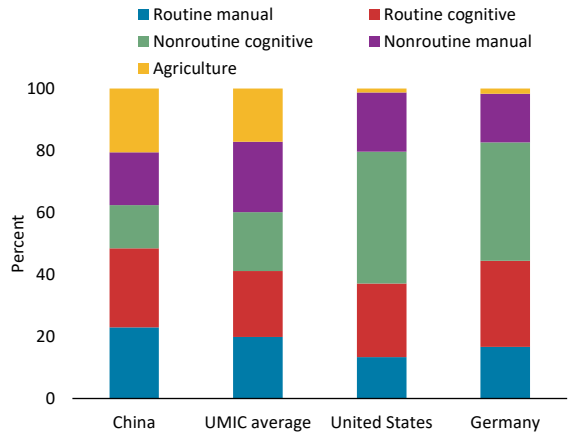
New technologies such as robots, artificial intelligence (AI), and digitalization are affecting the relationship between growth and jobs through three channels: enhancing productivity, creating new tasks, and displacing workers. The productivity gains from new technologies reduce the cost of production by augmenting labor and/or capital, lowering prices, increasing demand, and hence boosting labor demand for existing labor-intensive tasks integral to the production. At the same time, new technologies expand the set of tasks that can be done with capital, displacing workers in routine manual or cognitive jobs. New technologies can also create new labor-intensive tasks which are non-routine (Acemoglu and Restrepo, 2019). For example, the emergence of generative AI has led to new professions such as AI trainers.

China has a large share of routine jobs in total employment, which makes its workers susceptible to the displacement effect of new technologies. Almost a quarter of jobs in China are routine manual and, therefore, exposed to displacement risks from automation technology such as industrial robots. This share is higher than in other upper-middle and high-income economies (Figure 17A). The share of routine cognitive jobs, which can be replaced by computers and AI, is comparable to that of advanced economies. However, China still has a lower share of non-routine cognitive jobs which can be complemented by AI, potentially constraining the benefits from AI (Arias *et al.,* 2025).

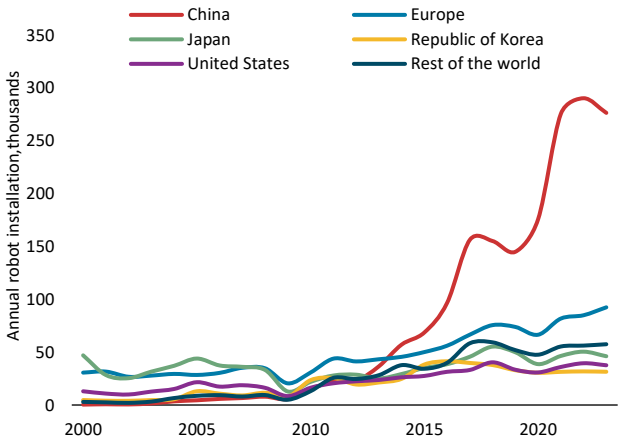
[10] Zheng et al. (2021) found that job seekers' intentions are largely concentrated in five industries—IT, education, real estate/construction, finance, and consulting—accounting for more than 90 percent of all job seekers.

Figure 17. Automation has accelerated and impacted labor demand

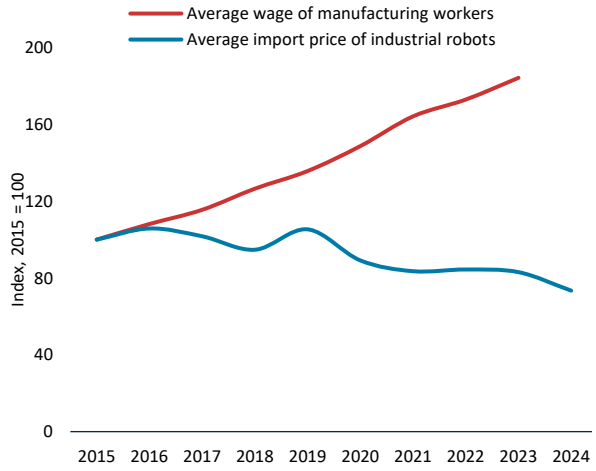
A. Job type distribution



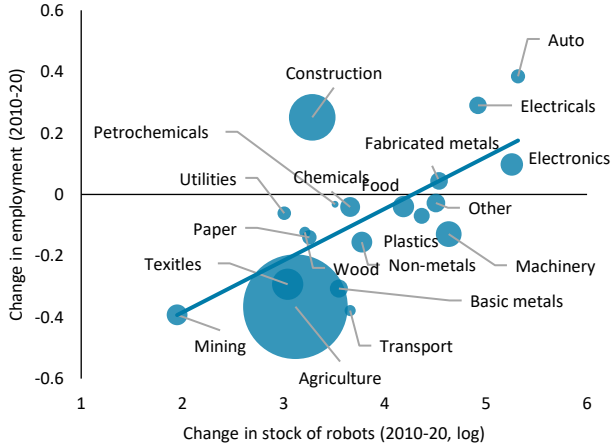
B. Robot installation



C. Robot prices and average wages in China



D. Change in robot stocks and jobs in China



Source: Arias et al. (2025), IFR, National Bureau of Statistics, SAFE, World Bank staff estimates.
Note: Panel A: Task content is measured based on the Autor and Dorn (2013) methodology and normalized at the ISCO08 2-digit level. Occupations are categorized into five groups by the dominant task category. Task content in agriculture is not measured because of data limitations. Data are from the most recent available year. Panel C: Industrial robots refer to multi-functional industrial robots classified under HS code 8479.50.10; the average manufacturing wage refers to urban private enterprises.

Robot adoption has accelerated in China in recent years, partly due to rising relative labor costs. The pace of robot installations has picked up significantly in China in the past decade, outpacing other economies (Figure 17B). Robot adoption has increased not only in the automotive, computer, and electronics sectors but also in others such as rubber and plastics. International evidence suggests that robot adoption is positively correlated with rising wages, share of manufacturing in value-added,[11] and aging (Arias *et al.,* 2025). In China, robot prices have been declining while labor costs have been increasing with the decline in working-age population

[11] In manufacturing, production tasks are more amenable to automation, and the need for product standardization is greater than in other industries.

(Figure 17C). The literature has shown that a rising minimum wage led to higher adoption of robots by firms between 2008-12, and the effect was stronger for firms with higher productivity, with private ownership, and those in skill-intensive industries (Fan *et al.,* 2021).

Investment in AI has also risen sharply in recent months, following rapid advancements in AI development. In China, investments in computer equipment manufacturing and information services increased by 28.5 and 34.4 percent, respectively, in the first three months of 2025. According to a World Economic Forum survey, the demand for AI and machine learning specialists in China is expected to double and the demand for data analysts and scientist to rise by close to 50 percent by 2030.[12] Both automation and AI are significantly reshaping labor demand.

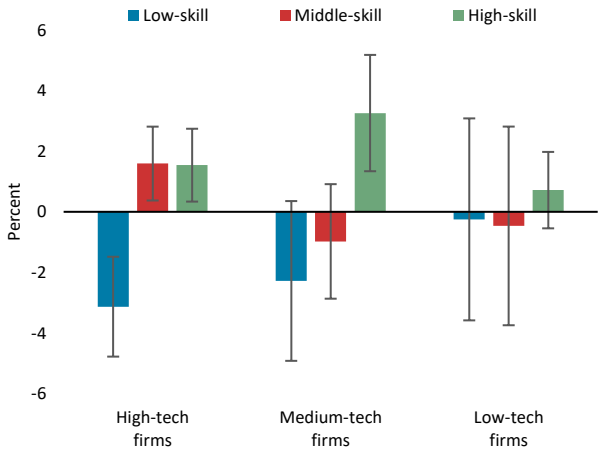
Robot adoption has reduced the demand for low-skilled workers whose tasks can be automated and increased the demand for the high-skilled. Evidence suggests that the adoption of robots adversely impacted the employment and wages of existing salaried workers in China between 2010 and 2016, especially for low-skilled and elderly workers (Giuntella *et al.,* 2025), while it led firms to hire more high-skilled workers (Tang *et al.,* 2021; Wang *et al.,* 2024). The negative effect on low-skilled workers demonstrates the labor-displacing effect of robots, while the positive effect on higher-skill workers shows that there are productivity gains and new tasks created which increase the demand for those workers. High-skill manufacturing sectors such as automobiles, computers, and electronics increased both robot stocks and employment, while employment decreased in most other sectors during 2010-20 (Figure 17D).[13] Evidence from Viet Nam also suggests automation increased employment of the high-skilled while reducing demand for formal wage workers in middle-skill routine-task occupations, with some of the latter pushed into temporary and informal work (Arias *et al.,* 2025).[14]

[12] Source: World Economic Forum, Future of Jobs Survey (2024).
[13] In addition, this has likely been driven by China's moving up the value chain in global production networks in the past decade.
[14] As production processes become more automated and standardized, the marginal productivity of labor becomes less dependent on idiosyncratic human capital such as tenure-based experience or occupation-specific skills. This reduction in skill-biased productivity lowers the returns to experience and facilitates a greater substitutability between permanent and temporary workers.

AI adoption also has a differentiated impact on the demand for skills. Evidence shows that manufacturing firms in China, especially high-tech ones, have increased their demand for high-skilled labor and reduced the demand for low-skilled workers following AI adoption (Figure 18) (Xie *et al.,* 2021). During this period, the producer price indices for high- and medium-tech industries generally declined, while those for low-tech industries rose. This likely incentivized high- and medium-tech firms to adopt AI as a means of upgrading operations and enhancing competitiveness, leading to greater demand for high-skilled talent at the expense of low-skilled workers. In contrast, the price increases in low-tech industries appear to have encouraged firms to leverage AI in areas such as marketing to boost sales. This adoption did not lead to significant changes in the pattern of skill demand within low-tech industries.

Figure 18. AI increases high-skill jobs

Impact of AI on skill demand in Chinese manufacturing firms



Source: Xie et al. (2021)

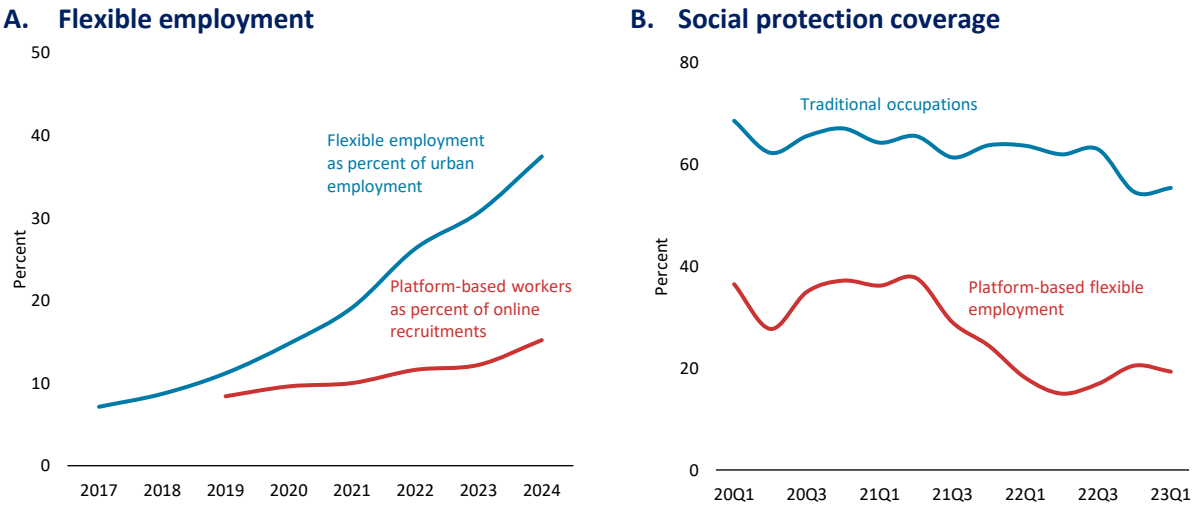
Note: The bars show coefficient estimates from difference-in-difference regressions of changes in skill demand on firms' AI adoption, using listed manufacturing firms in China over 2011-17. Industry categories are from the China Securities Regulatory Commission. The whiskers show 90-percent confidence intervals.

In addition to automation and AI, digital platforms are reshaping the labor market by enhancing productivity and allowing more flexible work arrangements.[15] Digital platforms are transforming services across sectors, including the business practices of wholesalers and retailers, by offering suppliers new ways of connecting with customers through online matching tools and review and rating systems (Rivares *et al.,* 2019). International evidence suggests that digitalization boosts productivity in services and enables flexible employment, which is beneficial for those that may be facing employment barriers, such as women and youth (World Bank, 2025). China's Taobao villages, e-commerce platforms that facilitate online retailing by local entrepreneurs, have brought new jobs and business opportunities to rural areas. Between 2013 and 2016, for example, online sales on Alibaba platforms shipped from poor counties grew from US$1.4 billion to US$4.4 billion (Luo and Niu, 2019). Online recruitment data for China show an increase in platform-based workers (Figure 19A). Women and youth account for 53 and 49 percent of platform-based employment, respectively, compared to 46 and 38 percent in traditional occupations.

[15] Flexible employment in China covers self-employment, part-time jobs, and platform-based workers.

However, platform-based flexible employment entails limited social protection. Urban social insurance schemes, including pension and health, unemployment, work injury and maternity insurance, provide protection for urban workers with labor contracts, but platform-based workers have limited access to these schemes because they often lack an urban *hukou* and formal labor contracts (Figure 19B). Unemployment benefits cover only 47 percent of the urban labor force, and the average benefit is RMB 1,814 per month in 2023, which is less than 20 percent of the average urban wage. The high job mobility of platform workers means unstable enrollment in social insurance schemes, leading to a decline of social protection coverage in recent years. Furthermore, flexible workers often face long working hours, with an average of 10 hours per day, compared to 8 hours per day of formal sector workers.[16] The long working days, often without breaks, contribute to higher accident rates of food delivery drivers who tend not to have occupational injury insurance.

Figure 19. Digitalization has created more flexible but less secure jobs



Source: China Academy of Information and Communications Technology and National Academy of Economic Strategy, CASS (2024), Zhilian and Institute of Economics and Social Research, Jinan University (2024), World Bank staff estimates.

Policies for more and better jobs

Addressing the challenges of China's labor market requires both macroeconomic policy support and social protection and labor market reforms. The above analysis has highlighted that the jobs challenge is related not only to the ongoing growth slowdown amid domestic and external headwinds but also to gaps in equitable access to markets and finance, social protection, and

[16] Employment Department, National Development and Reform Commission. 2022. Improving the Quality of Flexible Employment. https://www.ndrc.gov.cn/fggz/jyysr/jysrsbxf/202209/t20220930_1338242_ext.html.

labor mobility. Meanwhile, technological disruption is creating both risks and opportunities, often deepening labor market dualities. This calls for a recalibration of macroeconomic, market access, social protection, and labor market policies to support inclusive and sustainable employment growth. The government has recognized these challenges. In 2024, the State Council introduced a policy initiative which calls for strengthening labor and social protection for vulnerable labor groups, such as flexible and migrant workers, as well as college graduates, and addressing structural labor market challenges.[17] The following policy recommendations are aligned with these objectives.

Recalibrate fiscal policy

Allocating more fiscal resources to social protection could raise household consumption in a sustainable way which could boost job creation, in particular in the services sector. Chapter 1 argued for rebalancing the composition of fiscal spending from infrastructure and targeted consumer goods subsidies toward social protection programs such as unemployment insurance and pensions. These measures are more likely to allow many consumers to reduce precautionary savings, increase spending as a share of disposable income, and allocate more of it to services in the long term, with a positive impact on job creation.[18]

Level the playing field in market entry and credit allocation

Removing entry barriers for domestic private and foreign firms, especially in the services sector, can unlock the private sector's potential for job creation. The authorities have made restoring private sector confidence a priority. This is important for employment growth, as the private sector generates 80 percent of urban jobs. A new Private Sector Promotion Law has been enacted, aiming to augment legal protections for private enterprises. The National Market Access Negative List, which restricts or prohibits market entry into specific industries and activities, has also been shortened. However, regulatory restrictions to market access remain relatively high in China, especially in services and network industries and to trade and investment.[19] China's services trade

[17] State Council, September 15, 2024, "Opinions on Implementing the Employment Priority Strategy to Promote High-Quality Full Employment," https://www.gov.cn/zhengce/202409/content_6976470.htm.

[18] In the past, China has also used tax cuts to support to firms to stabilize employment. During the pandemic, social insurance premiums were reduced by 1.5 percent of GDP in 2020 and taxes lowered, with the tax exemption equivalent to 0.9 percent of GDP) in 2021 (https://www.gov.cn/xinwen/2021-01/27/content_5582820.htm; https://www.gov.cn/xinwen/2022-01/26/content_5670561.htm). China has scope to reform its tax system to enhance growth, employment, and inclusiveness, but these objectives must be balanced with the need for revenue mobilization in the context of the expected rise in expenditures due to aging and the green transition. This analysis is beyond the scope of this chapter.

[19] Based on the OECD-World Bank Group Product Market Regulation Database, https://www.oecd.org/economy/reform/indicators-of-product-market-regulation.

is also more restricted than in peer countries, according to OECD Services Trade Restrictiveness Index (OECD, 2025). The implementation of the negative list system for market entry has improved transparency but challenges remain, including opaque market entry criteria and screening process and inconsistent enforcement. The government could raise the ambition of market reforms, for example, by further limiting the negative investment list to sectors of national security and lowering service trade restrictions. It could also ensure equal treatment in tax policy and public procurement.

Equal access to credit is also important for sustainable growth and job creation. Government interventions in credit allocation risk leading to resource misallocation (World Bank, 2023a). The analysis above suggests that this may hinder long-term employment growth. Despite some progress in improved differentiation in risk pricing for SOEs, there is evidence that SOEs continue to benefit from more favorable credit conditions.[20] Equal access to credit and capital requires SOEs operating in commercial activities to earn market rates of return on state equity. On the other hand, loans to micro-, small- and medium-sized enterprises (MSMEs) have been increasing in recent years, reaching 38 percent of total loans outstanding at the end of 2024, thanks to policy support such as the PBC's re-financing facility, reduced guarantee fees, and credit facilitation from the National Financing Guarantee Fund. Despite this progress, the combined guaranteed volumes remain relatively small compared to the size of the banking system and the number of private firms. Expanding the publicly backed credit guarantees and leveraging digital financial services could help address the significant gap in MSMEs finance[21] and thus enhance their capacity to generate jobs, which is crucial given that they account for around 80 percent of urban employment.

Policy predictability and transparency are particularly important in the current environment of high economic uncertainty and low confidence. While economic fundamentals matter, shifts in sentiment can exacerbate or mitigate economic slowdowns. Firms need information to assess economic conditions, anticipate policy changes, and forecast the future with some level of certainty. If they lack information, they may remain cautious about investment and hiring, even if economic fundamentals improve. The empirical results presented above confirm that increased macroeconomic and policy uncertainty in China has been associated with lower investment and employment, especially in some services sectors. Recent high-level guidance from the authorities emphasized stability and predictability of policies and regulatory measures. Deliberate efforts to

[20] Although the rise in SOE defaults in recent years has been associated with a decline in perceived local government support on average and with more differentiated risk pricing among SOEs, SOEs continue to benefit from lower interest rates compared to private enterprises (Geng and Pan, 2023; Wang and Wu, 2023).

[21] MSMEs finance gaps are estimated at approximately US$1.8 trillion (16.3 percent of GDP) in China. Source: International Financial Corporation, An Updated Estimation and Evolution of the MSME Finance Gap in Emerging Markets and Developing Economies, https://www.smefinanceforum.org/data-sites/msme-finance-gap.

increase transparency, consult and communicate policies, as well as ensure their consistent implementation would reduce policy and regulatory risks and improve sentiment.

Strengthen social protection for vulnerable workers

The need to enhance China's social protection system is becoming more pressing, given the growing trend of flexible employment and the continuing vulnerability of rural migrants. As shown above, half of urban workers are not covered by unemployment insurance. China's total unemployment expenses were less than 0.1 percent of GDP per year, which is much lower compared to 1.0 percent of GDP on average from OECD countries in 2021. Since 2021, the government has implemented pilot programs for occupational injury insurance in seven provinces, covering 11 million platform workers.[22] This is important because many platform workers are at increased risk of injuries because of the nature of their work (those working on in-situ platforms such as taxi and delivery).[23] Moreover, the government also introduced guidelines in 2021 and 2023 about earnings, working hours, and breaks to strengthen the rights and interests for platform-based workers.[24] Expanding the coverage of unemployment insurance, especially for flexible workers, scaling up occupational injury insurance, pooling the funds from a city level to a provincial level and finally at the national level to reduce risk, regional disparities, and costs, and simplifying the application process for unemployment insurance are the necessary next steps.

In the longer term, delinking social insurance entitlements from the urban *hukou* will also improve labor mobility. Incremental reform of the social insurance system was announced in July 2024. Local governments will allow rural migrants to access social insurance benefits (and compulsory education for their children) in the cities where they work. While this does not necessarily imply full liberalization of *hukou*-based restrictions, the measures aim to decoupling access to social security from *hukou* registration. Reforms could extend *hukou* liberalization and better access to social protection beyond small and medium cities and ensure the portability of social insurance benefits across cities.

Mitigate technological displacement through active labor market policies

To take advantage of the opportunities brought by technological advancements, the government and businesses need to invest in worker skills. China has significantly invested in

[22] https://www.gov.cn/lianbo/fabu/202505/content_7022184.htm.
[23] See ILO technical paper on social protection for platform workers.
[24] See the policy guidelines from the Ministry of Human Resources and Social Security:
https://www.gov.cn/zhengce/zhengceku/2021-07/23/content_5626761.htm
https://www.gov.cn/zhengce/zhengceku/202402/content_6933822.htm

STEM tertiary education, now producing the largest pool of engineers globally. This has helped enterprises take advantage of new technologies. However, technological disruption is also displacing low-skilled and elderly workers. Targeted programs such as basic digital literacy and other technical skills training for these groups is essential. In addition, socio-emotional skills are necessary for creative and social tasks, in which humans can have a comparative advantage over machines, and to navigate changes in working lives (Arias et al., 2025). Such targeted active labor market policies have been effective in mitigating the adverse effects of technology on employment and income (Bürgisser, 2023; Humlum, 2020).

Adapting the labor market monitoring system and increasing public access to labor market data can inform the design of more effective policies. China has established a relatively mature labor market monitoring system. This includes an integrated labor force survey that covers rural and urban areas, an administrative reporting system on employment and wages from urban units and private enterprises, and a rural migrant morning survey. However, there are no formal monitoring arrangements for flexible employment, including platform-based flexible workers, pointing to a lack of a system that captures emerging labor market dynamics. In addition to the labor force surveys, China has a population census, population sample data, and economic census, which can be used to supplement labor market monitoring. Making labor market and census data publicly available will allow researchers to carry out analyses and inform evidence-based policymaking.

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