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**The Eroding *Hukou* System and the New
Minimum Wage in China:
The Impacts of Economic Inequality, Labor
Shortages and Social Unrest**

A thesis presented by

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to

The Department of International Studies

Directed by Dean Xiangming Chen

Trinity College

Hartford, Connecticut

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Abstract

The *hukou* system, also known as the Household Registration System, has had a significant impact on China's social, political, and economic trajectory since the time of its implementation in 1958. Specifically, it has helped to create the societal-wide imbalance between the prosperous coastal cities along the eastern seaboard and the lagging rural countryside of China's interior provinces, where a second class group of citizens has emerged. As a result, the central government has strategically begun to increase the minimum wage nation-wide, as evidenced by the 12th Five Year Plan. The repercussions of this are potentially enormous, not only for low-paid workers in China but also for world-wide consumers of Chinese products and competing producers. This paper delves into this topic and speculates on both the positive and negative implications of an increased minimum wage moving forward. Furthermore, this paper speculates on the future of the *hukou* system. Is the *hukou* system too deeply rooted in society, or will an increased minimum wage lead to the erosion of the system?

Acknowledgments

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Chapter One: Introduction

Early in the morning on January 23, 2010 the body of a nineteen-year-old migrant worker at Foxconn was found disembodied in front of his high-rise dormitory. After a police investigation, it was concluded that Ma Xiangqian leapt from a high floor of the building and fell to his death. The suicide came relatively soon after he had been demoted to cleaning the factory's toilets, simply after he accidentally broke two pieces of machinery while at work. Moreover, after some media investigation of Ma's working condition in the month before he died, it was found that he had worked 112 hours of overtime (three times the legal limit) for the approximate equivalent of one dollar per hour (Barboza 2010). Ma's suicide was just the first of a cluster of fourteen suicides, with eighteen attempted suicides, that occurred between January and November 2010 at Foxconn production plants. All of the people who jumped from buildings were between the ages of eighteen and twenty-five, and most were relatively new workers at Foxconn.

Foxconn Technology Group is a subsidiary of the Taiwanese company Hon Hai Precision Industry Company. Foxconn is generally regarded as the world's leading electronic manufacturer; it makes products for Apple, Sony, Dell, HP, Motorola and Nintendo, to name a few. They currently employ approximately one million people in China, with approximately 400,000 workers at the Longhua plant in Shenzhen alone.

The Foxconn suicides were a widely reported event in the international media. They shed light on the deplorable working conditions and wage rates of the migrant laborers employed there. Some reports have portrayed Foxconn as a labor camp with military style rigor. For instance, stringent production quotas are set daily for each worker, though these may have subsided somewhat by now. Additionally, the labor force

is strictly disciplined and faces pay docks for not adhering to the rules. Some of the rules are quite bizarre by Western standards. For instance, the following things were prohibited: “having long nails, being late, yawning, eating, sitting on the floor, talking or walking quickly” (Malone and Jones). Moreover, the pay for dealing with this appalling treatment is meager. One media source reported that in 2010 Foxconn workers were paid a base salary of 132 dollars per month, not including overtime work which can pay one and a half times the standard hourly rate (Dean). These rates are not much above subsistence level, especially given the increasing cost of living in China’s coastal cities.

The magnitude of attention that these events drew was enormous. It put pressure on U.S. companies associated with Foxconn to address the situation, most notably Apple. In response to these incidents, on June 1, 2010 at the All Things Digital Conference Steve Jobs is quoted as saying, “It’s not a sweatshop... You go in this place and it’s a factory but, my gosh, they’ve got restaurants and movie theatres and hospitals and swimming pools. For a factory, it’s pretty nice” (Malone and Jones). Perhaps Jobs was completely misinformed, or, more likely, he was trying to divert negative attention away from the company.

Though the Foxconn suicide cluster is a tragedy, one upside that can be taken away from this occurrence is that it was a catalyst for a change at Foxconn. In response to the suicides, Foxconn increased workers’ wages by about thirty percent. This pay raise was badly deserved and much overdue. Foxconn also brought in Buddhist monks and social workers as an outlet for the factory workers. As a precautionary measure for potential jumpers, the company installed netting around the base of all tall buildings and made each worker sign a no suicide pledge.

The initiative taken at Foxconn production plants in the wake of the tragedies to better the lives of the workers was commendable. However, the workers there represent only a small fraction of the overall total factory population in China. Millions of factory workers are still mistreated in China's key production hubs along the eastern seaboard, some of which are Shenzhen, Guangdong, the Yangtze River Delta, and the Pearl River Delta. In total, China has approximately 167 million migrant workers that travel outside their home provinces to find work in factories or other manual labor positions (Zhu); however, the number of migrant workers has shown some decline in recent years. The troubles at Foxconn illuminate the need to thoroughly address the way in which factory workers are treated and compensated in all of the country's factories. The colossal magnitude of workers in Chinese factories particularly underscores the need for change, as proactive measures would better the lives of such a vast population. Foxconn has given the world a startling insight into the inner workings of large-scale production plants, and perhaps it is the reason as to why the Chinese government has recently begun to increase the minimum wage.

The emergence of a higher minimum wage in China is a relevant and timely happening for people around the globe; it could potentially affect both producers and consumers of Chinese-made goods, as well as low paid workers in other countries competing with China to produce low-end manufacturing goods, such as Mexico, India, Bangladesh, and Vietnam, just to name a few. The following paper examines the Chinese labor market for migrant workers¹ from a social, political and economic prospective.

¹ The term migrant worker refers to all people who work outside the province in which their *hukou* is registered. Not all migrant workers are unskilled, some are highly educated; however, skilled migrant workers are only a small proportion of the overall migrant population. This paper mainly refers to migrant workers as the unskilled proportion of the migrant population.

Specifically, the paper seeks to understand why the central government has decided to raise the minimum wage now. This paper has found that there are three major factors that led to the wage increase: high inequality, uneven labor shortages, and social instability. These three things were all caused by the *hukou* system, also known as the Household Registration System. Furthermore, this paper speculates on the positive and negative repercussions of an increased minimum wage moving forward. The positive implications of an increased minimum wage could possibly include structurally rebalancing the societal-wide distribution of income in the long-run, drawing more migrants back to work in the factories, and quelling migrants' social unrest and protests. The negative implications of an increased minimum wage could be increased business operations cost and decreased competitiveness of Chinese goods on the world market. Lastly, this paper examines the implications that an increased minimum wage may have on the current state and future of the *hukou* system. On the one hand, some may argue the *hukou* system is deeply rooted in society and higher wages may have no effect on the relevancy of the system in society. On the other hand, some may argue an increased minimum wage may lead to the eventual erosion of the system because with more disposable income migrants will be able to more fully integrate into urban society. This paper will offer evidence to support the latter view.

Features of China's Current Labor Market:

Before continuing with the discussion of minimum wage in China, it is important to contextualize China's current labor market. The most important feature of the labor

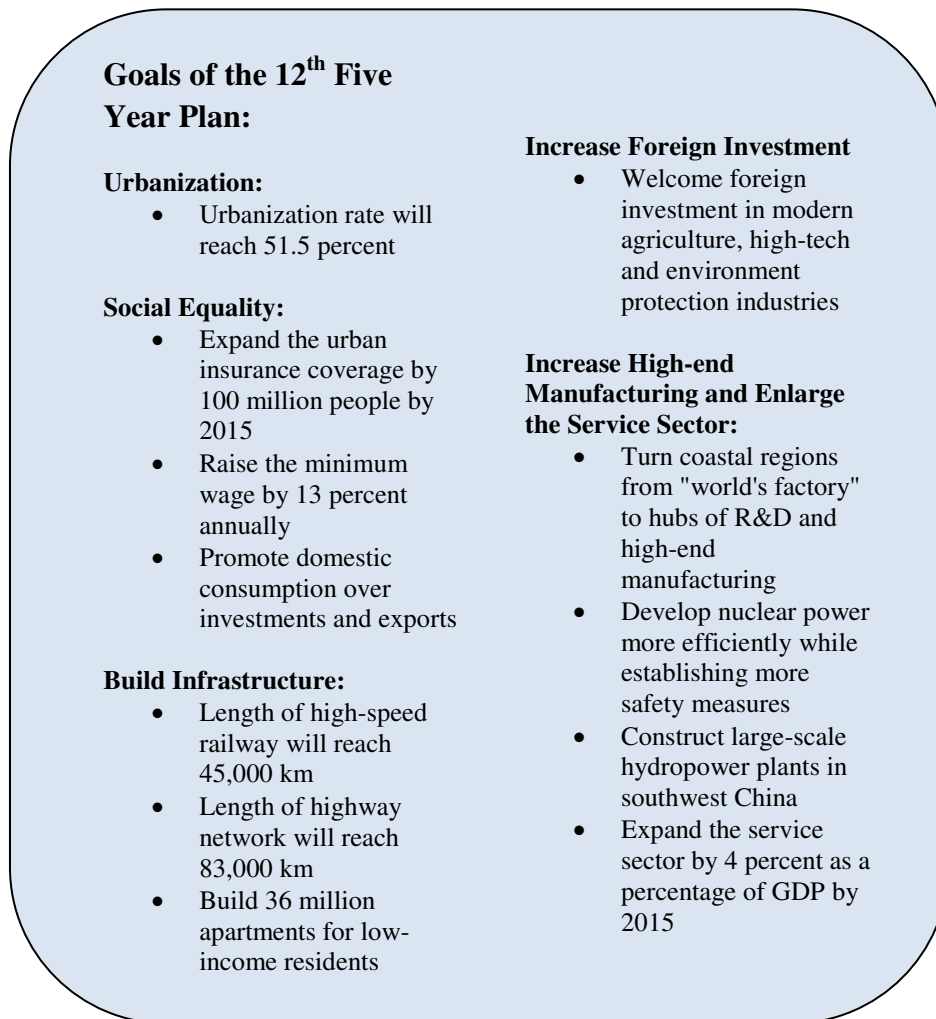
market is its dualistic structure due to the *hukou* system. Similar to the way in which some societies discriminate based upon one's race, ethnicity, religion, caste, etc., the *hukou* system is a form of institutional exclusion that discriminates based upon one's place of birth. At birth, each citizen is registered either with urban *hukou*, the privileged class, or rural *hukou*, the underprivileged class.

It is a system that is still very much in effect today. In terms of the breakdown of the rural versus urban population, some estimates show that sixty percent of the total population have rural *hukou*, or approximately 760 million Chinese citizens (PRC Bureau of Statistics). However, it should be noted that some rules and restrictions pertaining to the *hukou* system have eased significantly since the time of its implementation in 1958. Today, the three main functions of the system are resource allocation, internal migration control, and management of politically targeted people. While migration restrictions have lifted somewhat, the rural population must still seek governmental approval in order to move or work in a new locality. Three other important things that have also helped to shape the trajectory of the labor market are: the recent policy initiatives of the Hu-Wen administration, the Chinese Communist Party regime (henceforth referred to as CCP), and the Global Economic Crisis of 2008-09.

The commencement of the Hu-Wen administration in 2003 marked the first administration of the CCP in some time that has made inclusive economic growth a top policy objective, and the 12th Five Year Plan issued under this administration is a case in point of this. Five Year Plans are very important central government documents. Every five years the CCP publishes its economic goals and initiatives that will be carried out over the period. Three key themes of the 12th Five Year Plan are economic restructuring,

social equality, and environmental protection. The plan was issued in 2011 and will be referenced throughout the paper. The following figure exhibits some of its specific goals.

Figure 1.



(Source: 12th Five Year Plan)

The 12th Five Year Plan will surely change the face of Chinese business and have a definitive impact on the labor market.

The CCP regime has also played a role in shaping China's labor market into what it is today. Since the CCP is fully in control of the entire electoral process, China's top eight politburo members in the politburo standing committee were not elected by popular vote. Instead, each politburo member in power selects his successor, regardless of public opinion. So, China's massive population is ruled by a small group of eight politburo leaders at the top of the central government hierarchy. As a result, the CCP is a regime that is historically insular, paranoid, and very reactive to incidents that threaten its legitimacy (Shirk). This plays a role in the reason why China has enacted such strict and pervasive censorship laws. The Chinese media is rigorously censored for content that may lead to social unrest or challenging of the CCP's authority. In fact, the internet censorship effort has been so extensive that it has been dubbed "The Great Firewall" in Western Media. In addition to China's vigilant censorship, the CCP also limits the voice of the people by allowing for only one state-controlled labor union called the All China Federation of Trade Unions, and all other labor unions are essentially illegal. Unlike traditional U.S. labor unions whose main purpose is to act in favor of workers' wellbeing, China's labor union is not proactive in overseeing workers' wellbeing and often cedes to government pressure (Bradsher and Barboza). The insular, paranoid, and reactive way in which the CCP conducts itself has played a definite role in the shaping the labor market.

Lastly, the third feature of China's labor market worth noting is that the economy is currently recovering (or some would say has fully recovered) from the Global Financial Crisis. China began experiencing diminished demand for its goods toward the end of 2007, and factories started closing their doors in 2008. It is estimated that 670, 000 labor-intensive factories shutdown during that period ("Welcome Home"). The time

period before and after the crisis stands as an anomaly to China's economic and labor trends over the past thirty years. The Global Economic Crisis quickly and severely dampened worldwide demand for Chinese products, and the low-skilled labor market was gravely affected. Estimates show that twenty-three million migrant workers were laid off over the span of just a few months (Chan). During the height of the crisis, the central government froze the minimum wage in an attempt to stabilize employment; the freeze lasted from November 2008 to February 2010 ("Wages in China").

The Chinese economy was able to bounce back fairly quickly, in part due to a massive 586 billion dollar stimulus package put into effect by the central government from 2009 to 2011. In it, policymakers made a decisive commitment to stimulate the interior provinces via a variety of social programs and job creation schemes. Millions of new jobs were created for the rural population, especially in construction positions. Today, the global demand for Chinese goods is vigorous, and migrant labor is back in high demand. The following section provides some data on past and present minimum wage trends.

Past and Present Minimum Wages:

China's minimum wage has been increasing rapidly across the nation. The minimum wage varies by locality, and is set in accordance with the local living costs, with relation to housing prices in particular ("Minimum Wage Levels Across China"). So, as can be expected, the minimum wage is set highest in China's most prosperous coastal regions, such as Shanghai, Guangzhou and Shenzhen, where the cost of living is

relatively higher, whereas the minimum wage is set relatively lower in the poorer interior provinces. Minimum wage in China is set to a monthly standard. The map below provides an indication of the monthly minimum wage level of each province based upon the provincial capital's minimum wage, measured in yuan. The exact dollar to yuan conversion rate varies daily; at the present date, the conversion rate is approximately one dollar to 6.27 yuan (Coinmill.com).

Figure 2.



(Source: "Minimum Wage Levels Across China")

In terms of the dollar, the minimum wage averages to be around 175 dollars per month in the most expensive coastal cities.

At 1,300 yuan per month, or approximately 207 dollars, Guangzhou has one of the highest minimum wages (“Wages in China”). The current minimum wage in this city was set by the “Circular on Adjusting the Minimum Wage Standards of Enterprise Employees in Guangdong Province” which was released by the Guangdong Provincial Government on January 18, 2012. This latest release followed in quick succession to the previous minimum wage hike in Guangzhou, which was issued just eight months before in May 2010. Likewise, other provinces nation-wide have been increasing the frequency and magnitude in which they have been adjusting their minimum wages. Moving forward, the central government has high hopes for minimum wage upgrades and has set aggressive minimum wage quotas to reflect this. For example, the 12th Five Year Plan states, “Minimum wage standard to increase by no less than thirteen percent on average each year. The minimum wage standard in vast majority of areas to reach no less than forty percent of the average wage of the local urban employees” (12th Five Year Plan). The feasibility of this lofty objective will be discussed later on.

Despite the fact that, as of late, China’s lowest paid migrant workers have seen a substantial increase in their pay, historically, migrant workers were well underpaid. A national minimum wage law was not established until the 1994 Labor Law; previous to that, wage was set at each manager’s discretion (“Wages in China”). The 1994 Labor Law states that the minimum wage is to be set in order to guarantee that the lowest income earned by workers is still adequate to suffice their everyday needs. In accordance with this, the minimum wages should be fixed at approximately forty to sixty percent of

the average monthly earnings in that locality (“Wages in China”). The 1994 Labor Law also stipulates the maximum number of overtime hours per month, thirty-six, and the compensation rate for overtime work, which is one and a half times the worker’s usual rate. In addition, the 1994 Labor Law provides more specifications of workers’ rights with regard to the number of days off per year and sets requirements for the humane treatment of workers.

In practice, however, the stipulations in the 1994 Labor Law have not always been upheld, resulting in the stagnation of migrants’ wages with respect to China’s overall productivity growth, export growth and GDP growth. For example, based upon a study conducted by Cai Fang and Wang Meiyan, between 2000 and 2007 workers’ marginal product of labor increased by 178.7 percent, but that was only followed by a 91.8 percent increase in wages (Cai and Wang). A survey conducted by the Hainan Trade Union Federation in 2010 further demonstrates that workers have not received proper wages despite the Labor Law. It found that one sixth of migrant workers in the province earned less than 500 yuan per month, which is far below the minimum wage (“Migrant Workers in Hainan”). The survey also found that many of the workers agreed that their employers did not uphold the proper working conditions and hours as stipulated in the law. One way that large production plants, such as Foxconn, have been able to get around paying the full minimum wage is to set up dormitories and meal services for the migrants, which helps the company further defray costs by providing meager dormitory and meal standards, while paying substantially below minimum wage (“Wages in China”). This poses a problem for authorities to regulate because it is difficult to deduce the workers’ rightful pay once other forms of payment are taken into account.

In general, China has weak rule of law in comparison to other countries of its economic development level. Corruption is a widespread issue within the CCP; government officials have the tendency to serve their own needs or the needs of people close to them instead of serving the needs of the general population. For instance, Michael Martin, a specialist in Asian trade and finance wrote, “The real problem is that many Chinese companies don't follow the “law” in China because they have political connections or influence at the municipal or provincial level...” (Martin). Historically, the CCP does not take a strong response to incidents of companies not complying with the law, especially with regard to minimum wage law. Regardless of the issue of enforcing the minimum wage, the next chapter gives more specifics on how the *hukou* system has shaped China’s labor market into what it is today.

Chapter Two: The *Hukou* System is the Underlying Cause for China's Inequality, Labor Shortages, and Migrant Unrest

This section returns back to the *hukou* system to take a more in depth look at how exactly it contributed to China's underlying socioeconomic structure, beginning with a historical description of the system since its implementation under Mao Zedong in 1958. The *hukou* system is the fundamental cause of China's disproportional dispersion of wealth, labor shortages, and discontent felt by the migrant workers. It has perhaps made the greatest impact on China's contemporary labor market.

History of *Hukou*:

During the command economy epoch from 1949 roughly until 1978, China utilized a Stalinist growth strategy where key cities were favored and the urban population received the majority of government provided services and aid, while the rural countryside was disconnected from the welfare state. The *hukou* system was created as a reaction to the Stalinist growth strategy to serve as a means of preventing mass migration of rural peasantry to the more favored cities along the eastern seaboard. So, in essence, it is a system of planned inequality. Once it was enacted, the peasantry were strictly forbidden from traveling outside of their home province, making rural individuals not able to achieve their individual comparative advantage in labor. Furthermore, in addition to tying the peasants to their land while offering little governmental aid, in 1958 the CCP called for the collectivization of rural land and restricted its conversion to nonagricultural uses, both of which added to the detriment of the rural population's economic wellbeing

and perpetuated an underclass of citizens. As a result of the *hukou* system, a huge agglomeration of undereducated and very poor citizens accumulated in the countryside while the coastal cities advanced, especially after China opened its doors to the international market in 1978.

Mao Zedong's ultimate successor, Deng Xiaoping, was the leader responsible for allowing China to begin trade with the outside world. He developed the motto "socialism with Chinese characteristics," meaning that a socialist society and capitalist economy are not mutually exclusive. Personal incentives were reintroduced and State Owned Enterprises (SOEs) were gradually privatized. He also reinstated the "Four Modernizations" Policy, which sought to achieve advances in the following four areas: agriculture, industry, national defense, and science/technology. Overall, Deng is considered to be one of China's most revered politicians, and his ideologies helped China unleash its economic dynamism in the 1980s. Once China opened its doors to the rest of the world in 1978, it latched onto a labor-intensive, export-oriented economic model and reached rapid economic advances (Rodrik). The *hukou* system is responsible for China's comparative advantage in cheap labor, which was essential in China's ability to price its goods lower than its competition and establish this model so effectively.

In the years after China began its export-oriented model, *hukou* restrictions on rural peasantry migration slowly began to ease in order to allow them to migrate to the cities to fulfill labor needs created by the global demand for inexpensive Chinese goods (Wang). The migration was gradual at first, but has picked up considerably from the mid-1980s to the present, most notably from 1988 to 2000 (See Figure 3). Though the rural peasantry were now able to migrate outside of their home locality to find work, they still

could not attain jobs based upon their own comparative advantage because they were assigned to undesirable manual labor positions, most typically factory positions. In the workplace migrants faced low wages and wage arrears, lack of written contracts, long working hours, short weekly rest periods, low social security coverage, poor housing conditions, and difficulties in accessing public services (Shi). As a further detriment to their wellbeing, migrants were (and still are) technically considered to be part of the rural population, and therefore they did not receive equal access to government subsidized services, such as education, health care, social insurance, and government housing.

Effects of *Hukou*:

The term “shallow urbanization” has emerged to characterize the way in which migrants live and work in cities but are not integrated into society. Another term, “temporary contract workers,” was coined by the government as a way for it to justify the unequal appropriation of rights, despite the fact that many workers lived in their city for a number of years. For instance, in Beijing, most rural migrants live there for approximately five years, which is hardly “temporary” (Rongjiao). The *hukou* system is a direct cause for the economic disparities between the rural and urban population that currently persist in China today, and chapter three will continue with this topic to show that the economic inequality is one of the three main reasons that the CCP has begun to raise the minimum wage.

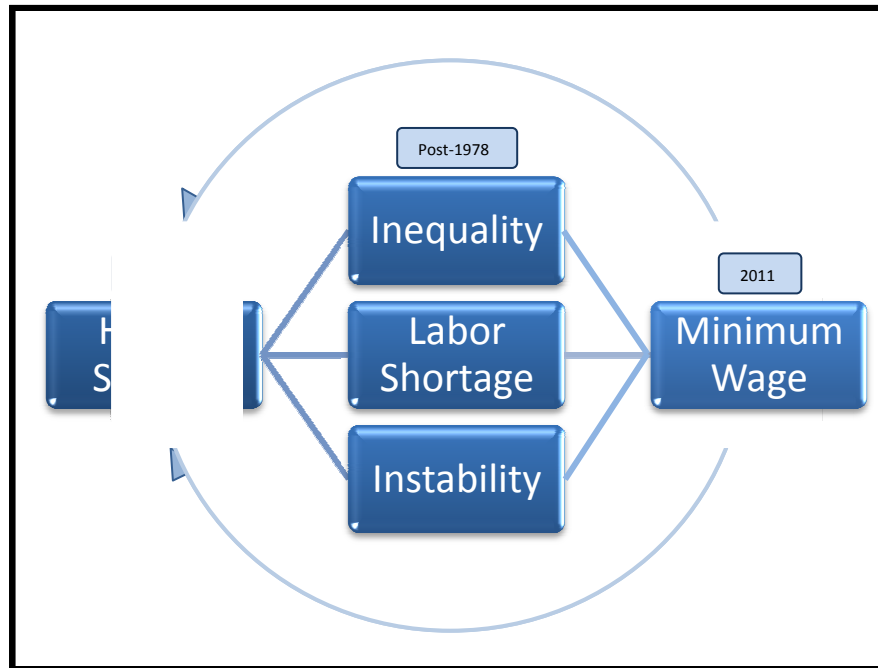
Additionally, the *hukou* system is responsible for the labor shortages in China’s factories that have occurred in the past few years. After years of mistreatment, migrants

have begun to show a diminished desire to seek employment in China's production hubs. Historically, factory jobs were in high demand; long lines of people would wait outside of newly opened factories for the chance to meet a recruiter (Chan). As a result of the high volume of job seekers, in the eyes of the factory owners, each individual worker was expendable; however, this may no longer be the case. The *hukou* system is responsible for the labor shortages because it has increased the real cost and opportunity cost of leaving home, especially in light of the rising Consumer Price Index in China. As a result, the CCP has begun to raise the minimum wage, as discussed in chapter four.

The exploited migrant workers have begun to speak out about their grievances. They have joined together in large and small-scale protests throughout China. The injustices of the *hukou* system, with the resulting suppressed wages, are the key source of their grievances. The *hukou* system is a direct cause of the social instability amongst migrant workers, which is an additional reason that the CCP has started to raise the minimum wage. This will be discussed in greater detail in chapter five.

As discussed in this chapter, the *hukou* system has created China's inequality, labor shortages, and social unrest, which then prompted the government to raise the minimum wage. In turn, the higher minimum wage will have a feedback effect on the *hukou* system. It will help erode the system by giving the migrants more disposable income. This will help them to integrate better into urban society because they will have a better standard of living and be able to afford services on their own, and eventually become full members of urban society. This set of relationships is demonstrated in the following figure.

Figure 4.



(Source: Developed by author)

The next three chapters divert back to the central question, why did the government decide to go above natural market forces to raise the minimum wage? The answer lies in the three contributing factors mentioned previously: rising inequality, uneven labor shortages, and social instability.

Chapter Three: Economic Inequality and the Minimum Wage Increase

The first, and perhaps the most important, reason that the Chinese national government is moving to raise the minimum wage is due to the vast economic inequalities in China. China's gross national wealth has accumulated at an extraordinarily unprecedented rate over the approximate thirty years since its opening to the world economy. China currently boasts the world's richest man and has the most number of billionaires of any country outside the U.S. (Kroll), and this is all despite the fact that only a mere three decades ago its global economic impact was practically nonexistent. However, while it is true that 600 million people were lifted out of desolate poverty over the span of approximately three decades, a very important feature of China's wealth accumulation is that it has been just as inequitable as it has been vast (World Bank). One of the major negative consequences that the income disparity has had on China is low domestic consumption levels, which creates an imbalanced economy that is prone to macroeconomic shocks. This chapter will further explore how the economic growth came to be so uneven and the reasons as to why the inequality has been a direct cause for the government to raise minimum wages.

Rural Countryside Got Left Behind:

The groundwork for China's vast economic inequality between the rural countryside and urban centers was set by the *hukou* system; however, this does not depict the entire story. As China was amassing great wealth during the 1980s and 1990s, the

government policies at that time were not designed for attaining inclusive wealth (Rodrik); rather, they were simply directed towards achieving massive national wealth. Consequently, the ruling elites of China captured a lot of the wealth, but at the expense of the working class. For instance, Deng's labor-intensive, export-oriented economic model can be embodied in his famous quote: "It is good for some people to get rich first" (Whyte). Indeed, some people did get rich first, but others have been left far behind. In essence, the CCP's policy objectives during that time are another instance of planned inequality.

Specifically, the core policy objectives of the national government in the years following the implementation of the labor-intensive, export-oriented model were to meet high export quotas by setting the quality and price of their exports low. For instance, the 7th Five Year Plan, which was in effect from 1986 to 1990, stressed the importance of reaching lofty production goals. It states that production goals for major industrial and agricultural products by 1990 were: "between 425 and 450 million tons for grain, 4.25 million tons for cotton, 550 billion kWh for electricity, 1 billion tons for raw coal, 150 million tons for crude oil, and between 55 and 58 million tons for steel" (7th Five Year Plan). Under this high export volume economic model, China experienced much success. By the late 1980s China had become a major force in the world's exporting market, and has suitably been coined "the world's factory."

The Gini Index, the most commonly cited measure of income inequality, can provide data to demonstrate China's rising inequality. The World Bank has given the following definition of the Gini Index:

The Gini index measures the extent to which the distribution of income (or, in some cases, consumption expenditure) among individuals or households within an economy deviates from a perfectly equal distribution. A Lorenz curve plots the cumulative percentages of total income

received against the cumulative number of recipients, starting with the poorest individual or household. The Gini index measures the area between the Lorenz curve and a hypothetical line of absolute equality, expressed as a percentage of the maximum area under the line. Thus a Gini index of 0 represents perfect equality, while an index of 100 implies perfect inequality (World Bank).

The most recent data on China's Gini indicator was collected by the World Bank in 2005, and it estimated China's Gini coefficient to be at .425 (World Bank). It is generally accepted amongst poverty researchers that anything above 0.4 is potentially socially destabilizing, which poses a major problem for the CCP regime. The way in which to deal with the inequality gap has been the subject of much political debate in recent years. The table below provides all of China's Gini coefficients that have been collected by the World Bank to date. Note the rapid increase since 1984, especially during the 1990s.

Figure 5.

China's Gini Indicators 1981-2005

Year	Gini Indicator
1981	.291
1984	.277
1987	.299
1990	.324
1993	.355
1996	.357
1999	.392
2002	.426
2005	.425

(Source: the World Bank)

The degree of inequality currently facing China can be attributed to the vulnerability of the rural segment of the population under the *hukou* system, and furthermore, the fact that CCP policy objectives during the 1980s and 1990s were

focused on the accumulation of massive national wealth with little regard to inclusivity. A higher minimum wage would potentially help to structurally redistribute profits vertically and laterally across China.

Move Toward Higher Quality Goods:

As China began to export at an astounding rate and amass more wealth in the 1990s and 2000s, some of China's policy directives started to change shape. Instead of focusing solely on meeting high production quotas, the CCP also set objectives to produce higher quality goods (Rodrik). As a country increases the sophistication of its export bundle, it is able to achieve more gains from trade and accumulate even greater national wealth. The CCP sought to enhance domestic production capabilities by partnering with Western companies in joint ventures to gain access to Western technology and scientific advances. One way in which the government was able to entice Western companies to foster partnerships with Chinese companies was by creating Special Economic Zones (SEZ), which are certain zones that allow for considerable tax breaks (Rodrik). The Pearl River Delta is one of China's most prominent SEZs. Additionally, the government sought to increase their amount of Foreign Direct Investment (FDI) and protected and funded select infant industries.

The government's initiatives to enhance China's domestic capabilities have proven to be very successful. In a matter of decades, China's export basket surpassed the expected level of sophistication for a country commensurate with China's development stage, a crucial element that let China get rich so quickly (Rodrik). The author of A

Modern Chinese Journey to the West, Ulric Killion, wrote, “The export-push strategy, including the establishment of free trade zones to foster favorable environment and incentive for exporters, provided an invaluable mechanism through which export industries quickly became strong enough to be internationally competitive” (Killion). The central government’s initiatives to increase the sophistication of China’s export bundle were a significant reason for the country’s overwhelming economic success over the past thirty years. However, a major shortcoming of the CCP regime at that time was that they did not pay enough attention to the dispersion of wealth across the populace.

China’s transition to a market economy has created vast income inequality; while the elite have accumulated massive wealth, the working class people have been left behind. Currently, the rural *hukou* segment of the population does not have nearly the amount of disposable income as their urban counterpart, and thus they are not able to consume as much as would be expected of a country with a 1.3 billion populace (Wang). This is especially true given the typically high savings rate among migrant workers. In fact, due to rising inflation and other factors, household consumption levels in China have actually started to fall since 2000 (International Monetary Fund). As a result of China’s restrained domestic consumption, the country remains very dependent upon external demand to consume its excess production goods, and China’s vulnerability was certainly revealed during the Global Financial Crisis.

The Hu-Wen administration faces the dilemma of dealing with the economic disparity between rural and urban *hukou* holders, and indeed the government has already put in place some policies to promote societal rebalancing. Raising the minimum wage will promote domestic consumption and facilitate a transition to a consumer based

economy, which will help protect China from future instances of global economic downturn. While it is still a long way off before Foxconn workers will be able to afford the goods they produce every day, it is not improbable to think that it may be a possibility at some point in the foreseeable future.

Chapter Four: Labor Shortages and the Minimum Wage Increase

In February 2010 media sources started to report that factories were in short supply of labor. This disclosure came as a shock to many because just two years previous, twenty-three million migrant workers were let go in the wake of the Global Financial Crisis (Chan). Despite the blip in the labor market caused by the financial crisis, China is currently experiencing high demand for migrant labor that is not met by supply. For instance, according to a survey of 222 enterprises in the Pearl River Delta Region that was conducted by the Chinese Manufacturers' Association of Hong Kong, ninety percent of the enterprises stated they had difficulty in recruiting the desired amount of workers (Cai and Wang). As another example, in 2011 the Vice President of the Jinhua Group reported that about 500 of the 1,500 people that his company normally employs resigned to take a longer than usual New Year holiday (Winter).

Due to rural Chinese farmers' historical lack of access to capital, they were extremely unproductive, which was reflective in their wages. So, regardless of the poor treatment and low wages, rural people used to be eager to find jobs outside of their home province because they earned more money working there than they could as peasant farmers. However, this eagerness to obtain migrant labor work is no longer the reality. Some estimates have shown the rural surplus of working age people to be in excess of 100 million people (Chan). Hence, there is a structural mismatch between supply and demand for labor in China's production hubs.

There are three factors that have exacerbated the labor shortage: a waning desire to work in poor conditions with inadequate pay, a gradually aging population, and higher

opportunity costs for leaving home. The combination of exploitative working conditions and rising opportunity costs has led more and more migrants to choose to stay home. The second reason that the central government is going beyond market forces to raise the minimum wage is to address the growing labor imbalance. Presumably, this will encourage people to come back to the factories to help close the void between supply and demand for labor.

Factors Leading to Labor Shortage:

As demonstrated throughout the paper, migrant workers routinely face deplorable working conditions when they come to find work in China's factories. This is coupled with the fact that until recently they were compensated at wages that are much below a realistic living wage; recall that Mr. Ma, the Foxconn worker who leapt to his death, was working for less than one dollar per hour. Furthermore, some migrants are faced with the breakup of their family because they are not able to bring their children or spouse to the location of their work due to *hukou* restrictions. So, after the Chinese New Year holiday in 2010 in which migrants typically return home to celebrate, it is no wonder that many did not return back to the far off factories to continue working. Highlighting this sentiment K.M. Chan, a Professor of Asian Studies wrote:

The rather deplorable (mis)treatments of migrant labor by employers during the global crisis period in the Pearl River Delta also discouraged some rural migrants from coming back to seek work in the region later, even when jobs were available. Some were simply not at all eager to return to the exploitative grind of the "world's factory." This had the effect of reducing the labor supply that otherwise would have been available for those factories (Chan).

Furthermore, not only has there been a reduction in the amount new coming workers, but the industry also has a remarkably high turnover rate amongst already hired workers. For example, in interviews with Foxconn workers conducted in 2010, it was revealed that the typical newcomer lasted only a few months (Barboza 2010).

Coupled with the waning desire to work in the factories, China's ageing population also contributes to the labor shortage. There are simply less people to hire in the target age range of sixteen to thirty because of the One Child Policy (Chan). The workers in this age range are more desirable because they are more malleable and able to handle the strenuous hours. The One Child Policy, enacted in 1979, has gradually diminished the supply of young labor by artificially lowering the fertility rate. In 2009, for instance, the birth rate for Chinese women was estimated to be 1.65 (Chan). Under the One Child Policy, women in urban areas are limited to one child and typically face monetary or physical punishment if they do not abide by this. Women in rural areas are slightly less restricted, though one child is still encouraged by the government. This policy was once thought to be a temporary measure, but as of 2007 the National Population and Family Planning Commission has articulated that they have no intent to change the One Child Policy in the future. The following table shows the decreasing availability of the rural population by age distribution between 2000 and 2010.

Figure 6.

Distribution of De Facto Rural Population by Age, 2000-2010 (in millions)

Age Group	2000	2005	2010
0-4	57.1	44.2	43.3
5-9	65.0	51.6	47.7
10-14	87.8	67.6	53.3
14-19	59.6	65.3	59.4
20-24	52.9	40.2	66.0
25-29	67.7	41.7	36.1
30-34	76.3	56.0	34.2
35-39	63.6	68.9	49.9
40-44	46.9	60.9	61.7
45-49	52.8	48.3	55.2
50-54	40.2	55.7	42.3
55-59	29.8	41.8	48
60-64	26.3	31.1	35.8
65+	57.8	71.1	71.6
Total	783.8	744.5	704.4

(Source: Chan)

According to this table, the number of workers in the desired age diminished from eighty-eight million, to sixty-eight million, to fifty-three million in the five year periods from 2000 to 2004, 2005 to 2009, and 2010 to 2014, respectively (Chan); and this trend of a decreasing working age population will become even more pronounced in the future. Moreover, while the supply of young workers decreases, the surge in demand for them

following the turnaround of the export sector after the Global Financial Crisis has been picking up speed.

As another source of China's uneven labor shortage, migrant workers face rising opportunity costs when deciding to leave home to find work due to increasing living costs in the coastal cities. The discrepancy between the cost of living in China's urban centers and rural areas is on the rise. This takes away from migrants' meager earnings, and may make it not worth their while to work in far off factories. One article states, "Now many workers in Sichuan say that taking into account expenses, less well paid jobs closer to home are beginning to look much more competitive" ("Welcome Home"). Accordingly, the China Consumer Price Index has shown a substantial increase from 2.9 in June of 2010 to 6.4 in June of 2011 (See Figure 7). The rising living cost of China's expensive coastal cities, coupled with the increasing costs of travel, make factory work less profitable than it once was.

As a second rising opportunity cost, migrants must take into account the fact that the standard of living in the interior provinces has reached new heights. In the last few years, the Hu-Wen administration has sought to improve the general living conditions of poor inland provinces and has put this goal at the top of their agenda. Also, due to the stimulus plan enacted after the Global Economic Crisis there are more jobs in the interior. In the stimulus plan there was a particular emphasis on the construction of new railway lines, and it was reported that twenty million jobs were created just by railway projects alone (Chan). Since jobs are easier to find within migrants' home province at wages not too far below coastal factory wages, there is less incentive to leave. Supporting this, preliminary evidence has shown that there has been a rise in intra-province migration to

seek work, as opposed to the once predominant inter-province travel (“Welcome Home”). In earlier years migrant workers faced impoverished conditions in their home localities and would leave their home out of necessity, but now that may no longer be the case. Whereas once it was clear that able workers must seek work elsewhere, the question of “Is it worth it?” has become fuzzier.

Due to the working conditions, aging population, better living conditions in the interior, and especially in light of the high demand for migrant labor, the Chinese government is raising the minimum wage to encourage people to return back to the coastal production centers. Theoretically, this will help to rebalance the disparity between supply and demand for migrant labor, but only if the government is serious about enforcing the law. Recall that many migrants have reported not receiving their rightful compensation as stipulated in the 1994 Labor Law. If the government is serious about drawing more migrants back to the coastal production hubs, then it must continue to raise the minimum wage.

Chapter Five: Social Instability and the Minimum Wage Increase

The government has created an official term to label all incidents of civil unrest, “mass incidents.” A common theme amongst all of the dissenters is that they are dissatisfied with the way in which they are being treated by the government. In the case of migrant workers, they are seeking more protection from the government for the injustices occurring in China’s factories. Specifically, the aim of migrant labor protests is to gain higher wages and better working conditions. The third reason the Chinese government is moving to raise the minimum wage is to improve social stability among migrants. In the short-run, this will deter future labor protests and safeguard the CCP’s political legitimacy, and in the long-run, this will facilitate a more overall socio-politically stable society.

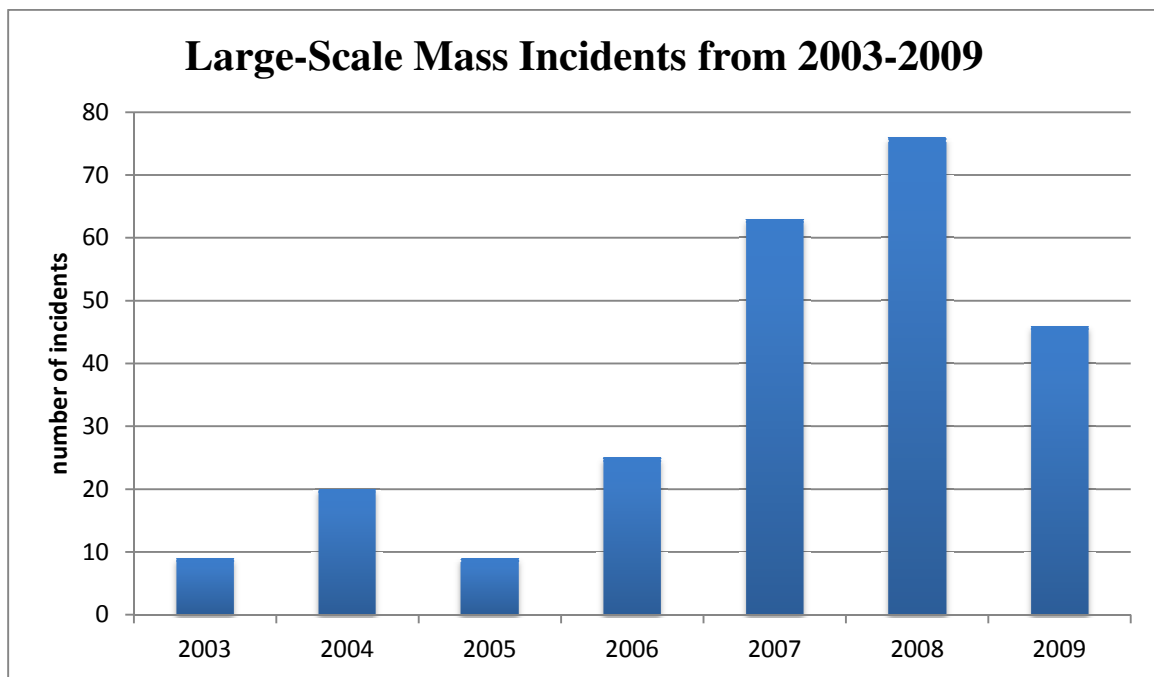
Increasing Number of Protests

Unlike the first generation of migrant workers, the second generation has been much more vocal about their concerns. The second generation of migrants is comprised of people aged sixteen to thirty. These people tend to be better educated than the previous generation and have higher expectations for their life. They are not satisfied with their current standard of living, but aspire to urban standards of living. With the absence of an effective labor union, migrants may feel that protest is the most effective way in which to get their voices heard. They have joined together in large and small-scale protests

throughout China to demonstrate their frustrations. So far, demonstrations have been relatively peaceful and limited to one enterprise.

Incidents of civil unrest in China have been on the rise, including incidents of protests, demonstrations, walk-outs, picketing, and group petitioning. According to Jianrong Yu of the Chinese Academy of Social Sciences (CASS), the number of incidents rose tenfold from 1993 to 2005, with 8,709 and 87,000 incidents respectively (Ren). The table below shows the number of large-scale² incidents from 2003 to 2009, especially during the time of the Global Financial Crisis³.

Figure 8.



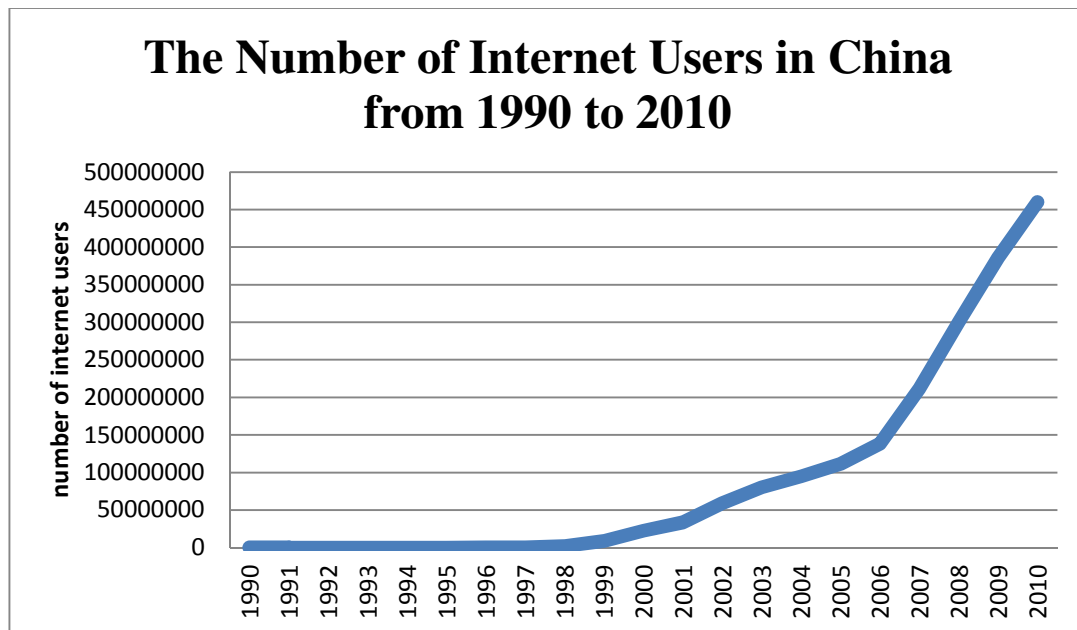
(Source: Tong and Lei)

² A large-scale incident is an incident with 500 or more participants.

³ Though there was an upswing in the number of incidents of protest during the Global Financial Crisis, this number is not as high as officials initially expected given the huge number of suddenly unemployed migrants.

Factory workers live and work in very close proximity, making the transmission of ideas and the ability to organize very simple. Also, the major factories are located near China's most prominent and influential cities, placing the workers physically close to China's top power holders. In addition, the internet provides a forum for disgruntled people to anonymously voice their opinions, which could potentially spark a collective movement. The internet has also helped people to gain a growing awareness of their rights. China has the most number of internet users of any country worldwide⁴, and the number of users is on the rise, as shown on the graph below.

Figure 9.



(Source: World Bank)

⁴ China currently has more than 470 million internet users, compared with 248 million in the U.S. (Worldbank).

As students of Marxist theory, communist leaders view labor unrest as a serious and potentially damaging issue. They are aware of their political vulnerabilities and are especially paranoid of a political overthrow. While the CCP maintains strict censorship laws and continues to avidly monitor the internet, people have still found ways to circumvent the censors. The CCP is conscious of the damage that the current labor strife could potentially have on China. Their main mechanism for conflict resolution is to silence the dissenters through strict media censorship and by quickly dispersing protests, but that is obviously not a long-term solution.

Social Unrest: Past and Present

The first major incident of widespread public protest since the beginning of the CCP regime in 1949 was the Tiananmen Square Protest which occurred from April until June of 1989 in Beijing. This now infamous event was a student-led pro-democracy demonstration that erupted after the death of the deposed politician Hu Yaobang. Grievances were aimed at the central government over a range of issues such as corruption, nepotism, poor job market, the lack of free press, and the slow pace of market reforms. On June 4th, the protest was brought to a violent end when the government took military action to disperse the protestors, resulting in hundreds or thousands of deaths across China's capital city.

However, none of the current protests have reached nearly this magnitude or sparked such global media attention, and all have been peaceful by comparison. The most

noteworthy migrant labor demonstration to date was a series of strikes that occurred at four Honda factories beginning on May 21, 2010. Approximately 1,900 workers in total were involved (Bradsher and Barboza). Like many other labor protests in China, the main objective was to receive a higher monthly wage. In an interview conducted by the *New York Times* one protestor stated, “If they give us 800 renminbi a month, we’ll go back to work right away” (Bradsher and Barboza). In the end, the striking workers were replaced with new incoming staff and factory management did raise the workers’ wages, though not to the full wage protestors were demanding.

In addition to the protests conducted by unsatisfied migrant workers, another example of protest in China occurred on March 1, 2010 when a group of thirteen prominent Chinese newspapers published a joint editorial demanding the government put forward a clear timetable for the elimination of the *hukou* system. The editorial was titled “A Call for Accelerated Reforms to the Household Registration System to Truly Grant Rights to the People” and was published just before a meeting of the National People’s Congress. The article reprimanded the out datedness of the system and urged the government to take more aggressive action in eliminating the system. The following is a particularly poignant excerpt:

The household registration system has divided cities and countryside. The first generation of migrant workers invested their labor into the development of the cities. However, their offspring still have no means to resolve the status of their identities. Their children still have to bear the quandary of the previous generation. The cities in which they live remain unable to accept them. We have to ask: for how many more generations must this divide last? (“A Call for Accelerated Reforms to the Household Registration System to Truly Grant Rights to the People”)

The editorial was removed from the Internet by government censors within hours of its publishing, and the man who conceived the idea, Zhang Hong, who was editor-in-chief of

The Economic Observer at the time, was immediately removed from his position. The editorial is a unique example of protest in China because powerful societal figures do not often speak out against the government to defend the wellbeing of the lower class.

The large number of mass incidents in recent years has been a signal to the central government that they must do something to quell discontent. The government has been lucky that the incidents have been relatively isolated so far and that no unified movement has occurred. If unrest continues to grow, it may severely threaten the sociopolitical stability of the CCP regime. In order to ease tension amongst migrant workers, the central government has raised, and will continue to raise, China's minimum wage. As long as the migrant workers receive fair, livable wages, mass incidents will most likely decline from this segment of the population. In the long-term, the central government must be more assertive to the people's needs. Institutional reform must take place in order to reduce government corruption and increase popular trust of the government. In a book titled *China: Fragile Superpower* by UCSD political scientist Susan Shirk, she offered three possible steps the central government should take in order to stay in power: forestall large-scale popular protests, keep politburo leadership publicly united, and keep the army loyal to the government (Shirk). As long as the government takes proactive steps to address the needs of the people, China should hopefully see a decline in future unrest. Raising the minimum wage will appease migrant workers and create a more stable population.

Chapter Six: Implications and Conclusion

As evidenced by the 12th Five Year Plan and other recent government publications, the CCP has made a decisive effort to promote a society that fosters inclusive growth, and raising the minimum wage is the first step to accomplishing that. It is a plan that will certainly change the structure of Chinese business. To this effect

Stephen S. Roach of the *Washington Post* wrote:

This plan is likely to go down in history as one of China's boldest strategic initiatives. In essence, it will change the character of China's economic model -- moving from the export- and investment-led structure of the past 30 years toward a pattern of growth that is driven increasingly by Chinese consumers. This shift will have profound implications for China, the rest of Asia, and the broader global economy (Roach).

If minimum wage reforms are truly instituted, there will be significant change to the underlying cost structure of China's export model. The implications will be wide sweeping. It will affect both consumers and producers of Chinese goods, everyone from Americans, Europeans and Chinese citizens to the countries that compete with China to produce low-cost goods, such as Mexico, India, Bangladesh, and Vietnam, just to name a few. As one of the most underprivileged segments of society, China's migrant workers will benefit the most. They will have more disposable income, which will help spur domestic consumption and lessen China's reliance on foreign demand for its exports. This chapter discusses the feasibility of the goals in the 12th Five Year Plan and offers a few intended and unintended implications that an increased minimum wage may have on migrant workers and the global economy. Furthermore, this chapter addresses topics related to China's transitioning economy and the present status of the *hukou* system, and also speculates on the future of the *hukou* system.

Will the CCP Reach Its Goals?:

The CCP's goal in the 12th Five Year Plan to raise the minimum wage by thirteen percent annually is clearly an ambitious goal. Is the CCP's goal feasible or too aggressive? When looking at a variety of other factors, such as China's annual government spending and the increasing inflation rate, in tandem with the thirteen percent increase, the goal does not seem as ambitious. For instance, according to the Heritage Fund, consolidated government spending is estimated to be about thirty percent of GDP, which means that they have room in their budget to increase spending on social welfare. Also, China has been experiencing increased inflation rates, meaning that an increased minimum wage is simply keeping migrant workers' real wages in line with their previous real wage. Also it is important to point out that the CCP places very high importance on meeting the goals of Five Year Plans. Historically, Five Year Plans have a good record of meeting or exceeding their proposed targets (KPMG). When looking at a multitude of factors, the CCP's target to raise the minimum wage by at least thirteen percent each year for the next four years seems like a feasible objective.

Another topic related to this is the feasibility of getting all Chinese companies to comply with the new minimum wage rates. As mentioned previously, the CCP has a well-known reputation for corruption within the regime, especially when it comes to business dealings. It is commonplace for businessmen to have close affiliations with their local CCP leaders, which may result in noncompliance with the law. In order for all migrant workers to attain higher wages, the CCP must take a proactive role in making sure that companies do indeed fulfill their obligation to pay their workers at least the

minimum wage set for their province. The CCP could accomplish this by setting severe fines for noncompliance and by establishing a well-developed task force to randomly inspect and audit companies. In the long-run, the CCP should proactively address the issue of rampant corruption within the party and establish a stronger rule of law. Eventually, this will help to establish greater popular trust of the government.

Implications of the Increasing Minimum Wage:

While some may argue that, in theory, an increased minimum wage may have the effect of raising the overall price of workers and thus pricing some workers out of the market, this is not applicable in the case of China. As stated previously, migrant workers' wages historically have not reflected the productivity increases they have made. Over the past thirty years China's export bundle has evolved considerably. It has gone from producing low-end manufactured goods to being capable of producing high-tech goods, and the export bundle is continually expanding in sophistication. For numerous reasons, namely the *hukou* system and the lack of a purposeful labor union, migrants have experienced suppressed bargaining power, and as a result their wages have been artificially low. Despite the productivity gains of migrant workers, factory owners have been reluctant to match this with paying out higher wages. So, the CCP is not disturbing market forces by increasing the minimum wage; raising the minimum wage will simply catch up to productivity increases, and will generally not have a negative effect on migrants' employment rate.

In terms of the effect that an increased minimum wage will have on China's export competitiveness for cheap, unsophisticated goods in the world market place, there will inevitably be some negative consequences that will vary by industry. Some authorities have expressed concern that companies may leave China in search of workers that will accept considerably lower wages. For instance, Vietnam's highest monthly wage is just ninety-six dollars per month (American Chamber of Commerce in Vietnam). The increasing wage rate may drive some companies that are very vulnerable to even tiny changes in input costs out of the marketplace. So, the concern that China may lose some of their competitiveness is a valid concern, to an extent. However, while it is unavoidable that wage hikes will translate into higher consumer prices and make China less attractive of a manufacturing center from one aspect, China still has some crucial advantages over its competitors. One of China's chief advantages is that it has in place the necessary elements of a sophisticated supply chain, such as infrastructure and quality control, which other lesser-developed countries do not currently have in place. Countries like Vietnam may be able to set lower wages, but they often times do not have the required elements needed to run a successful supply chain.

Additionally, while workers' wages may be on the increase in China, one must also remember that their productivity levels are increasing as well. (Recall that between 2000 and 2007 marginal product of labor increased by 178.7 percent) (Cai and Wang). In general, Chinese workers work more efficiently and produce more throughout the course of the day than workers in competing countries. Wage alone is not the only determinant of a country's competitiveness, but the ratio of wage to labor productivity. China has and will continue to see the low-end manufacturing companies leave, but China still remains

competitive due to its superior supply chain and the productivity level of its workers. This is especially true in the high-end manufacturing sector.

There are positive long-term economic implications to be made by allocating more money to China's migrant workers. Since the migrant population is a substantial portion of the population their increased purchasing power will stimulate domestic consumption. This will allow China to rely less on exports and more on internal consumption, which will help protect China against fluctuations in the world economy and future worldwide economic meltdowns. Also, in light of the fact that some enterprises in China have reported up to eighty percent labor turnover rates annually, a positive implication that will come out of higher wages will be higher retention rates. Over the long-term, this will allow factories to run more efficiently and cut down on labor training costs. Finally, the biggest implication of an increased minimum wage rate over the long-term is that it will structurally rebalance the national income disparities and quell the social unrest associated with that.

The *Hukou* System Today:

In the past decade the central government has made a few major attempts at reforming the system, though none were appreciably successful. Once again, the central government has recently revived its *hukou* reform efforts, especially in small and middle-sized cities. In addition to the 12th Five Year Plan, reform initiatives were also outlined in a document by the State Council released on March 23, 2012. This document states that local governments are to offer all individuals that have worked for at least three years in

prefecture level cities the opportunity to register as an urban resident (Roberts). Furthermore, the document mandates that future policies regarding compulsory education, skill training and employment must not make urban *hukou* a means of exclusion (Roberts). In addition, Premier Wen Jiaobao has spoken publicly on numerous occasions about his opinion on the *hukou* system. For instance, when he addressed the National People's Congress on March 5, 2012 Wen said that migrant laborers will become "permanent urban residents in an orderly manner" (Roberts). It appears that the recent speeches and documents supplied by the government demonstrate that the CCP is making a real attempt at improving the much outdated system, which will hopefully make major improvements in the lives of arguably China's most underprivileged citizens, migrant workers.

Despite the central government's acknowledgement that the system must someday come to an end, there are immense structural barriers that stand in the way. Just three of the most significant barriers include: pressure on urban infrastructure, the way in which to deal with forfeiture of land rights that may be associated with urban *hukou* acquisition, and the financial burden of offering equal governmental services to all residents ("China: Update on *Hukou* Reforms"). Furthermore, the fact that the *hukou* system is administered at the provincial level poses an issue. While it is true that the central government is the foremost authority in China's government structure, it has proven difficult to get all of the provinces on-board with *hukou* reform because of the immense financial burden that will be placed on the provincial governments. Increased urbanization forces the provincial governments to spend extra money on urban infrastructure and government subsidized social services. For instance, The Board

Chairman of the China Institute for Reform and Development (CIRD) estimates that for every percentage point increase in China's urbanization rate, 971 billion dollars must be spent on fixed infrastructure ("Rural/Urban Divide").

Nevertheless, some provinces have begun to implement pilot programs for reform that would allow for some rural migrant workers to gain urban *hukou* in the province in which they have been working. Notable pilot programs include those being carried out in Chongqing, Chengdu, and Guangzhou, as shown in the figure below.

Figure 10.

Pilot Programs for *Hukou* Reform

	Guangdong	Chongqing	Chengdu
Policy Announcement Date	June 2010	July 2010	November 2010
Urbanization Target Rate	75% in Guangzhou, 85% in other cities by 2020	60% by 2020	70% by 2020
Number of People to transfer	.6 million quota every year	10 million by 2020	Not specified
How to transfer	Cumulative Points System: migrant workers with 60 points or more are eligible to apply. Points are awarded based on education, skills, social insurance contributions, social contributions (such as blood donating and volunteer work).	Rural residents who have worked or run a business in downtown Chongqing for at least five years or have purchased commercial housing in downtown area can apply for urban <i>hukou</i> .	Anyone with a residence in an urban area can apply for an urban <i>hukou</i> on a voluntary basis.
Social Security	Yes, after transferring to urban <i>hukou</i>	Yes, after transferring to urban <i>hukou</i>	No need to apply, automatic.

(Source: Compiled by author)

The reforms in these cities are similar in nature, but have different procedures on how to obtain an urban *hukou*. To date, no coordinated nation-wide reform program has taken place. In addition to gaining an urban *hukou* legally through provincial governments, there is also a very active black market for attaining urban *hukou*. Purchasing a *hukou* in one of China's most desired cities can run as high as 150,000 yuan (Roberts). With such a high price tag, buying an urban *hukou* is reserved for China's wealthiest migrants.

Future of the *Hukou* System:

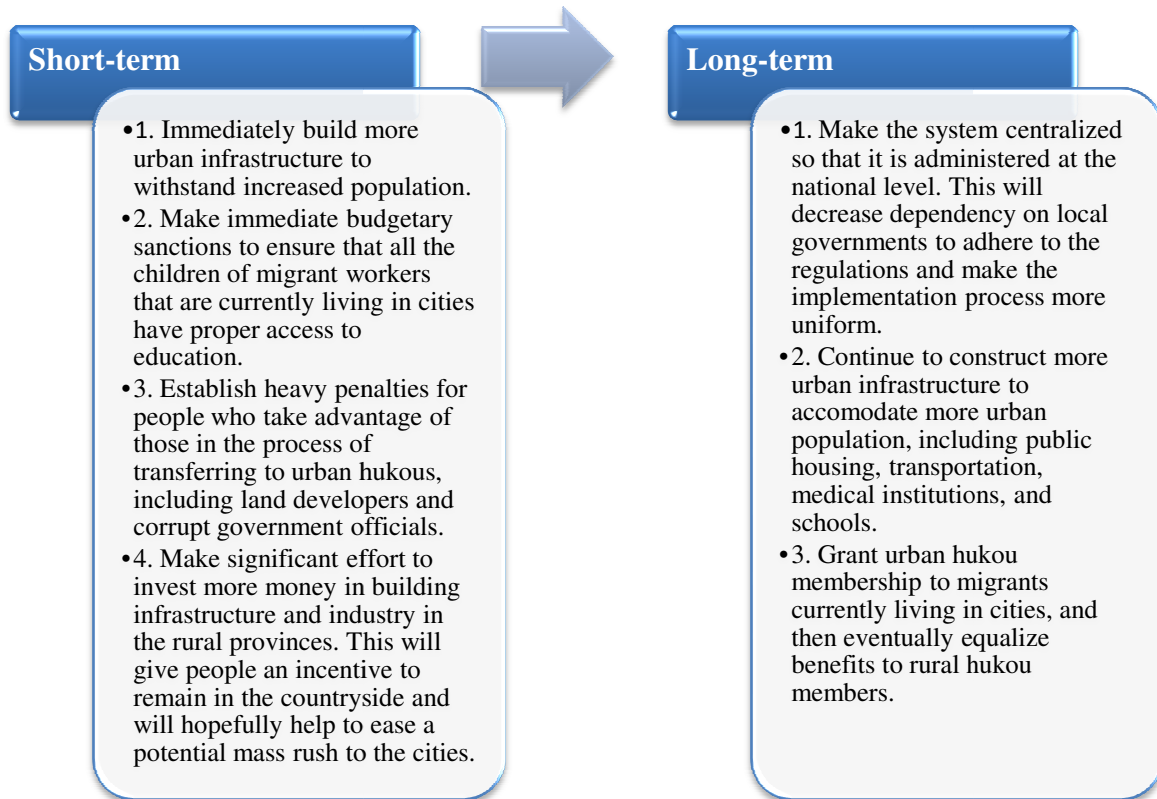
A general consensus has been reached that it is an outdated system that no longer serves society's best interest, but policymakers and academics have not come up with a singular, nation-wide solution on how to eliminate it. One of the biggest counterarguments to eliminating the system is that it is the only thing standing in the way of a massive rush to the cities, which would create overcrowding and overwhelm the infrastructure. The elimination process is an extremely daunting task because it involves reforming a system that has been a key aspect of Chinese society for over fifty years. Policymakers and academics are split on how to best approach the devolution of the system. One school of thought is that the government should gradually minimize the difference in the rights associated with urban and rural *hukou* membership. In other words, migrant *hukou* holders would get gradual access to education, healthcare, social insurance, government funded housing, as well as other benefits that urban *hukou* holders have. The other school of thought is that the government should progressively grant urban *hukou* membership (and the associated benefits) to those migrants currently living

in cities. Both methods are similar in nature, but from a personal perspective, the latter school of thought is a superior route to take.

After examining the pilot reform programs that have occurred throughout China, especially the pilot programs currently being carried out in Chongqing, Chengdu, and Guangzhou, figure 11 is a compiled list of the best practices from each reform program. The first of the two columns represents changes to the *hukou* system that should take place immediately, and the second column represents changes that should take place gradually in the future. The implementation path designed in figure 11 is aggressive yet very realistic and would improve the nation on a number of levels.

Figure 11.

Proposal for *Hukou* Reform



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At the present, true nation-wide *hukou* reform seems far-off. It is too deeply rooted in society, and much too costly for the government to handle right now. However, it is inevitable that the *hukou* system will not persist forever, and the effort to increase the minimum wage is a decisive victory low paid workers. A higher minimum wage is the first step to eroding the *hukou* system because it addresses the biggest barrier that prevents migrants from fully integrating and living happily in urban society: money. With more and more disposable income, migrants will someday be able to access the basic services that were once not available to them by paying for them privately. They will

enjoy a higher standard of living and contribute more proportionately to urban consumption. Someday they will actually be able to consume the goods they work so hard to produce.

Conclusion:

The cluster of suicides at Foxconn in 2010 was nothing short of a tragedy, but one good side that came out of it was that it sparked worldwide attention on the way in which migrant workers are treated in China's factories. On February 13, 2012 the Fair Labor Association (FLA) began a large-scale two week long inspection of four Foxconn plants to ensure that it had kept its promise of change. The FLA conducted approximately 35,000 one-on-one interviews; interview questions were wide-ranging and included topics related to working hours, health, safety, dorm life, and management (Barboza 2012).

In the wake of the suicide cluster Apple promised to make major changes at Foxconn plants, but apparently Apple did not fully follow through on its promises. It appears that the progress they made in the weeks and months following the suicides was short-lived. During the FLA investigation it was found that the plants were in violation of numerous Chinese laws and regulations. In addition, the FLA found that forty-three percent of workers had been involved with or seen an accident, and furthermore nearly two-thirds of the employees stated that their income "does not meet their basic needs" (Barboza 2012). Once again, the electronics magnate has pledged to improve the lives of the factory workers by further raising wages and instating more safety features, but the validity of their claims have been seriously called into question. This is why the

government has and must continue to take matters into its own hands by raising the minimum wage, because apparently companies are not willing to change on their own.

The troubles at Foxconn highlight the importance of greater government supervision of China's labor market. The government must step in and take a firm stance on instances of noncompliance with the law. It is very important to the lives of millions of migrant workers that the government follows through on its promise to significantly raise the minimum wage, and there is much evidence to believe that it will. The CCP must continue to strengthen its rule of law and honor its commitments. Why has the central government decided to raise the minimum wage now? The answer is clear: to rebalance China's socioeconomic structure, to address the gap between labor supply and demand in the coastal production centers, and to address the widespread unrest amongst migrant workers.

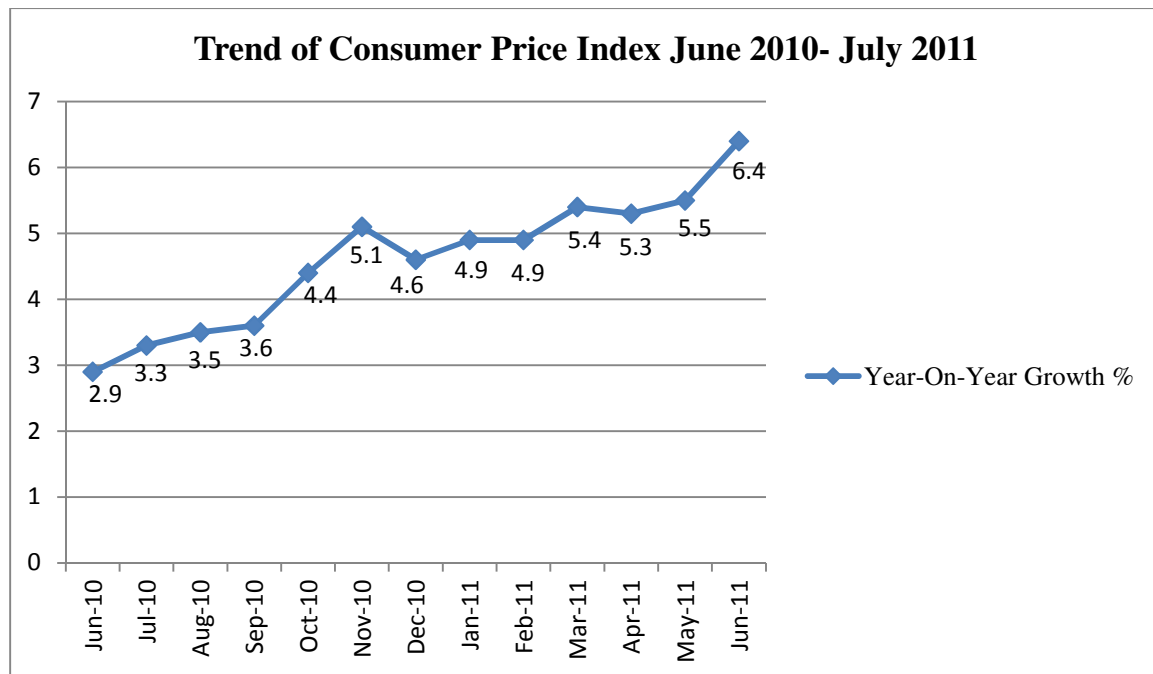
Appendix

Figure 3. Urbanization in China (urbanites as % of population)

Period	China's Urbanization
<i>Pre-PRC: Small and slow urbanization</i>	
1843	5.1
1893	6.0
1949	7.7
<i>PRC- Mao Era: Stagnation</i>	
1953	12.0
1961	16.1
1965	14.0
1976	13.0
<i>PRC- Reform Era: Rapid urbanization</i>	
1978	12.9
1988	18.7
2000	26.1 (33.8)
Easter/coastal China	41.9
Rest of China	16.1

(Source: Wang)

Figure 7.



(Source: National Bureau of Statistics of China)

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