

Sam's

China's Business Advisory

Special Report



China's Migrant Workforce – A Special Report

It has been said that migrant workers are the fuel that has propelled China's economy from the ravages of the Cultural Revolution, to build what is the world's third largest economy today – and with good reason. While the lowest rung on the economic hierarchy, they have furnished the muscle to reshape China from Mao's inspired upheavals of the 50's and 60's, to a country that is the envy of their Asian neighbors and viewed with a certain awe by the West – and in 30 short years!

In this special report, we will take a look at the forces that shaped them, who they are and their role in China's economic policy.

The Beginnings

Migrant workers came to be as a by-product of two seemingly opposite policies; the household registration system established in the late 1950s to control internal migration and Deng Xiaoping economic reforms initiated in 1979 to liberalize and boost the economy.

Household Registration

In 1958, the government initiated a "Household registration system" to serve three purposes: control welfare and resource distribution, limit migration and to maintain surveillance of its citizens. All citizens were assigned a hukou based on their place of residence. The system made each local government agency responsible for providing for the daily needs and services, including education, housing and medical care, for all citizens whose hukou was in its jurisdiction. To prohibit internal migration, residents were not allowed to work or live outside the administrative boundaries of their household registration unit without approval. Moreover, if they leave their place of registration, they would also leave behind all of their rights and benefits.

Economic Reforms

In 1979, Deng Xiaoping opened China's doors to the West through the creation of Special Economic Zones (SEZs); first in Shenzhen, a small fishing village neighboring Hong Kong, and later expanded to include SEZs in seven coastal provinces bordering on the South China Sea.

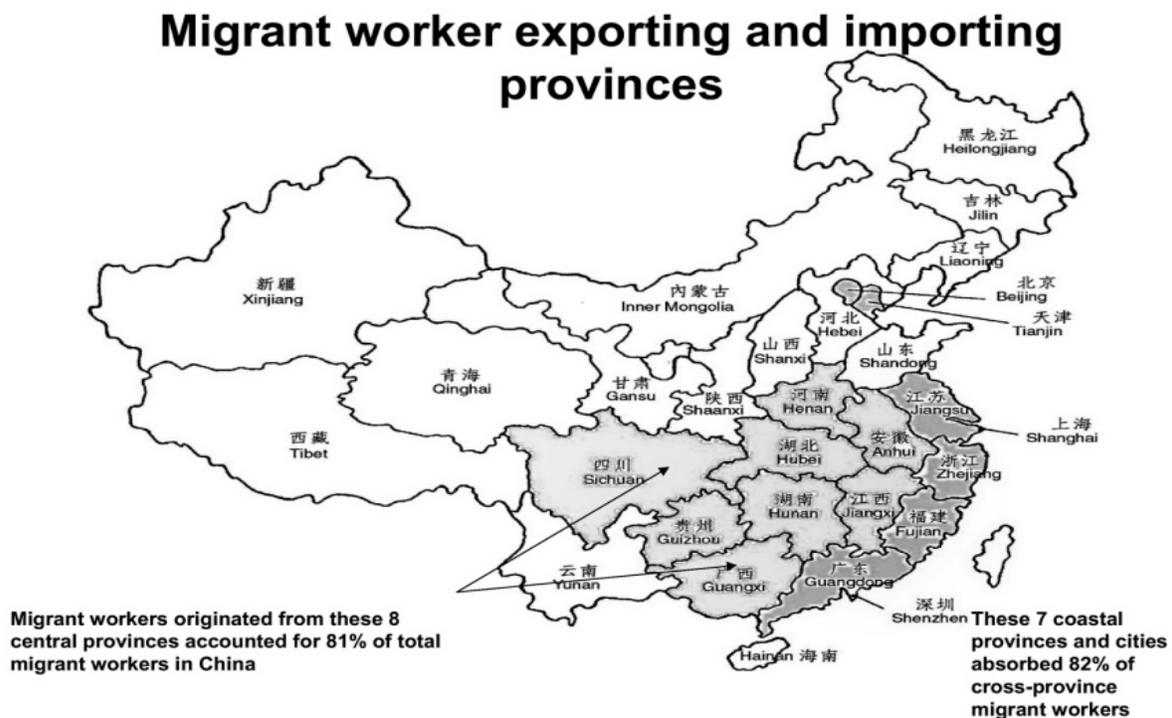
China's Urbanization

As a result of Deng Xiaoping's vision, the SEZs became the stimulus to China's rapid growth and urbanization. The results speak for themselves: number of cities has increased from 191 in 1978 to

661 in 2005, an increase of almost 350%. Urban population increased as rapidly, from 18 percent in 1978 to 44 percent in 2006. As cities have grown, so has the gap between urban and rural income, to over 3 times as much in 2006. This discrepancy in incomes has prompted rural workers to seek better pay in the cities. (“Migrant Workers in China”, 6Jun08, China Labor Bulletin, <http://www.clb.org.hk/en/node/100259>)

Migration of Workers

Much of the growth were in the SEZs, and as companies located in these zones needed additional workers for production and for new construction, workers starting migrating from the countryside of provinces near and far, to meet the demand, as illustrated by the following map:



Source: State Council (2006). *Research Report on Chinese Migrant Workers*. Shiyen Chubanshe.

According to the “Migrant Workers in China” article, “More than half of all migrant workers move across provinces, usually from the less economically developed central and western regions to the well off coastal regions. Anhui, Jiangxi, Henan, Hubei, Hunan, Guangxi, Chongqing, Sichuan, and Guizhou contribute up to 81 percent of migrant workers nationally, comprising more than 60 percent of the rural workforce in these regions.

Seven cities and provinces – Beijing, Tianjin, Shanghai, Zhejiang, Jiangsu, Guangdong and Fujian – have absorbed 82 percent of cross-province migrant workers. In Beijing and Zhejiang about one third of the total population are migrant workers, while in Shenzhen, which grew from a small town in the

late 1970s to become a vast metropolis three decades later, 12 million of the total 14 million population are migrants.” (ibid, China Labor Bulletin)

Migrant Workers’ Hukou

While limitations on movement were lifted to allow “migrant” workers to work in the new SEZs, their hukou remains their place of residence, as well as location of their rights to services, including education of their children and medical care. As a result, most migrant workers leave their children and spouses behind, leading lonely lives on their job, and return home only once a year – over the week long Chinese New Year holiday. When both husband and wife take jobs as migrant workers, their child (China still has a one-child policy) is normally cared for by grandparents during their absence.

Demographics

According to a 2006 national survey, two-thirds of migrant workers are male, one-half between 16 and 30 of age, and only 10 percent have more than a middle school education, although they are usually the best educated in their villages. While they usually hold labor-intensive, low skill positions, they account for 68 percent of all manufacturing jobs and 80 percent of construction personnel. (ibid, China Labor Bulletin)

Wages, Expenses and Savings

In 2004, according to the national Bureau of Statistics, their average monthly was 780 RMB (US\$ 113), versus the national urban average of 1,350 RMB. While wages have improved somewhat, few migrant workers receive pay in excess of 1,000 RMB per month today.

Despite their low pay, migrant workers save an average of 30 – 50% of their pay every month, which they send home to support their extended families, spending an average of 200 – 300 RMB monthly for food (subsisting mostly on vegetables, rice and noodles), living in worker-provided dormitories (with 12 – 16 in a room) or in enclaves known as “urban villages”.

By the Numbers

While the China government does not publish information on migrant workers, China Labor Bulletin reports that migrant workers grew from 30 million in 1989 to 131 million in 2006, which accounted for 23 percent of the rural workforce. We estimate that there are currently 150 million migrant workers today.

Impact of Global Recession

Worldwide economic conditions are dire. As reported, US employment has reached 7.6% in January 2009 and China’s migrant workforce has been hit hard by the drastic reduction in exports. To put the numbers into perspective, I have put together the following comparison of the most recent USA

and China workforce and unemployment statistics below:

USA & China – Workforce and Employment Stats (000)					<u>Percent</u>
		<u>Workforce</u>	<u>Employed</u>	<u>Unemployed</u>	<u>Unemployed</u>
USA	Workforce - Jan 2009, per US Bureau of Labor Statistics	153,716	142,099	11,617	7.6%
China	Workforce Dec 2007, per CIA World Factbook	807,700			
	Annual growth rate +	1.6%			
	Estimated Dec 2008	820,600	771,300	49,300	6.0%
	<u>Consisting of:</u>				
	Migrant workforce *	150,000	127,500	22,500	15.0%
	All others	670,600	643,800	26,800	4.00%
*	China government does not keep statistics on migrant workers, 150 million estimated based on mid point of the following: Epoch-210 million; UNDP-150 million; WSJ -130 million. Most sources, including govt. estimate current employment between 15 - 20 million. Using 15% as unemployed, results in 22.5 million, which seems reasonable				
+	Used same growth as between 2006 and 2007 per CIA World Factbook				

As can be seen, China's total workforce is 820 million strong. The migrant workforce of 150 million (almost equal to the total US workforce of 143.7 million) accounts for 18% of the total. Unemployment of the migrant workforce is estimated at 22.5 million or 15% and total unemployment in China is estimated at 49.3 million workers or 6% of the total workforce.

What's Ahead

While China's economy as a whole is sound and growing, the migrant workforce has been hard hit and little or no relief is expected short-term. While China's incentive package should result in new jobs principally in the construction sector, and the unemployed, due to their migrant status, can quickly change work locations, it is our belief that real improvements in their situation is six or more months away,

This is of great concern to Chinese leaders as they plan new steps to help this important sector and it

will be interesting to see how fast new work can be created to find the unemployed new work with the global economy reeling.

It is also important, however, to keep things in focus. In the US, unemployed have heavy debt (house, car, credit cards) and are not able to meet their obligations long term if out of work. Most Chinese have savings and little or no debt, live frugally and can more easily withstand loss of wages in both the short and medium term.

Migrant workers have provided the sweat, blood and muscle to make China the envy it is today. Their migrant status, while creating hardships and loneliness of the individual workers and their families, make for a highly mobile workforce, which can quickly relocate to new jobs as needed. While this labor pool was created initially by the SEZs of the 1980s, it has also made possible the rapid growth of the new skylines of the cities as well as the high-speed trains, subways and highway network to link the vast country. At 150 million strong, they will continue to play a vital role in China's future as well.

One Final Note

As pointed out, most migrant workers have only primary school education, but are often the brightest and best educated in the village. Employers can and should help elevate their migrant workforce by providing continuing education through evening and weekend classes, which will result in better employees, enable more internal promotions and give back something to the workforce that has provided the sweat to enable the company's growth.

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