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1 April 2009

Online at <https://mpra.ub.uni-muenchen.de/19187/>

MPRA Paper No. 19187, posted 12 Dec 2009 07:01 UTC



Human Development  
Research Paper  
2009/09  
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# Migration and Labor Mobility in China

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# Abstract

China has witnessed the largest labor migration since the reform and opening up policies were implemented. According to the most recent statistics, the total number of rural to urban migrant workers reached 136 million. Migrants are defined as persons who have left out of township for more than 6 months. The migration flow has propelled the economic and societal transition in China through labor productivity enhancement and social restructuring. Accordingly, the Chinese government has improved the migration policies with increasing migration flow and the changes of labor market situations. This report is organized as follows. Section one briefly introduces when and how the migration started by reviewing the history, size and trend, impacts of migration in China and the vulnerability of migrants. Section two reviews the main migration policy changes in the past three decades. Section three illuminates the *Lewisian* turning point that marks economic development and transitioning in China. Section four discusses the relevance of China's experiences to other developing economies in terms of economic development and migration policy changes.

Keywords: Migration in China, Labor mobility, Impact of crisis.

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## **1. Introduction**

During the era of planning economy, people were not allowed to move according to their own willingness. On the contrary, forced migration or population floating happened sometimes due to particular political purposes. For example, to build up the third front in 1960s and 1970s, a lot of people were moved to central and western China with industries together. Another example is the reeducation movement during Cultural Revolution which sent millions of urban graduates to countryside. Considering that the mobility was not personal choice, it is hard to see positive effect of those kinds of migration in terms of factor allocation and social development.

It is a different case since the reform and opening up in 1978. Rural to urban migration has been a historical phenomenon in China, which drives industrialization, urbanization, and economic growth. The migration also encourages labor market development through labor mobility and labor reallocation. Migration in China is dominated by labor migration, which was caused by the rural reform that released surplus labor from agriculture. With economic development the size of migration keeps growing. Meanwhile, the productivity growth by moving labor out of low-productivity sectors to high-productivity ones has been one of the important sources driving economic growth.

### **Rural Reform and Labor Mobility**

Prior to 1978 China had been a typical dual society characterized by economic and institutional segmentation between rural and urban areas. Rural labor forces were not allowed to work in off-farm activities or out of collective farms. Meanwhile, the economic development in coastal areas started creating employment opportunities for farmers. As a result, there was no migration in China during that period.

The “household responsibility system (HRS)” initiated in late 1970s made rural households the residual claimants of their marginal effort, thus solving the long-standing incentive problems associated with the egalitarian compensation rules created in the commune system. At the same time, the pricing system of agricultural products was altered, which stimulated the increase in farm productivity, thus releasing surplus labor

from agriculture. The higher returns to labor in non-agricultural sectors motivated farmers to migrate out of agriculture. As the result of labor mobility from agricultural to non-agricultural sectors and from rural to urban areas, labor markets began to develop and migration appeared (Cai, et al., 2003; Fan, 2008).

In the early 1980s when various institutional barriers deterring labor mobility had not been significantly removed, the government encouraged rural laborers to “leave the land without leaving the village (litu bulixiang)”. In addition to some small-scaled self-employment activities, the most important channels through which the farmers to move for off-farm employment was the township and village enterprises (TVEs). Employment in TVEs increased from 28.3 million in 1978 up to 146.8 million in 2006, which accounted for 9.2% and 27.7% of rural labor forces in the two years respectively.

Having encountered with strong competition from state-owned enterprises, joint ventures, and private enterprises since late 1980s, TVEs were forced to improve their technologies used and quality of products through investing more capital instead of employing more labor. As a result, TVEs’ absorption of labor force has been slowed down since the middle of 1990s, pushing rural laborers to migrate across regions.

The gradual abolition of institutional obstacles has been the key for increased labor mobility since 1980s. Observing the narrowing space absorbing surplus labor in rural sectors, in 1983, the government began allowing farmers to engage in long distance transport and marketing of their products beyond local market places, the first time that Chinese farmers had got legitimate rights of doing business outside their hometowns. In 1984, regulations were further relaxed and farmers were encouraged by the state to work in nearby small towns where emerging TVEs demanded for labor. A major policy reform took place in 1988, when the central government allowed farmers to work in enterprises and/or run their own business in cities under the condition of self-sufficient staples<sup>1</sup>. Since then, rural to urban migration has been a more and more significant phenomenon in China.

With abolition of institution barriers that blocked migration flow, the significant rural-urban income disparities have become a long-existing force that drives migration

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<sup>1</sup> At the time, rationing system of food and necessities had not been abolished and people without local *hukou* were not entitled coupon for buying food and other necessities on the local market.

flow. As shown in Figure 6, the ratio of urban household income per capita to rural household income per capita was 2.57 in 1978. Under such circumstance, the rural labor forces have a strong incentive to work in urban labor market.

The regional disparities determine the direction of migration flow. According to Cai and Du (2000), the economic takeoff in coastal regions has increased the regional inequality among China's provinces since 1990, which in turn caused rural labor in Central and Western China to migrate to the developed regions.

### **The Size and Trend of Migration**

In 1978, there were 283 million rural labor forces who worked in agriculture, which accounted for 93 percent of rural labor. With economic development and reforms, an increasing size of rural to urban migration flow has been seen in China. In contrast to other developing countries, labor mobility presents a circulated pattern due to historically existed segmentation between rural and urban areas at the core of hukou system.

At the early stage of the reforms, there was only a small amount of labor migration. The composition of migration flow was dominated by craftsman who moved within rural areas. With increasing labor productivity in agriculture, rural labor forces began to move out of rural areas with increasing size. According to estimation by MOA (2001), the total amount of rural migrants was only 2 million in 1983 but reached 30 million by the end of 1980s. The economic booming after 1992 significantly encouraged migration. Fast economic growth in coastal areas attracted more and more rural labor forces from other parts of China to seek off-farm job vacancies. According to MOA (2001), the migrant workers amounted to 62 million in 1993 and the number climbed to 75.5 million in 2000.

In the new century, National Bureau of Statistics (NBS) started collecting the information of migrants in rural household survey, so we can get a continuous series of size of migration based on consistent sampling surveys. As Table 1 displays, the total number of migrants has kept growing and reached 136 million in 2007. It is obvious that migrant workers have been substantial role on urban labor market. In 2007, migrant workers accounted for 46.5 percent of total urban employment.

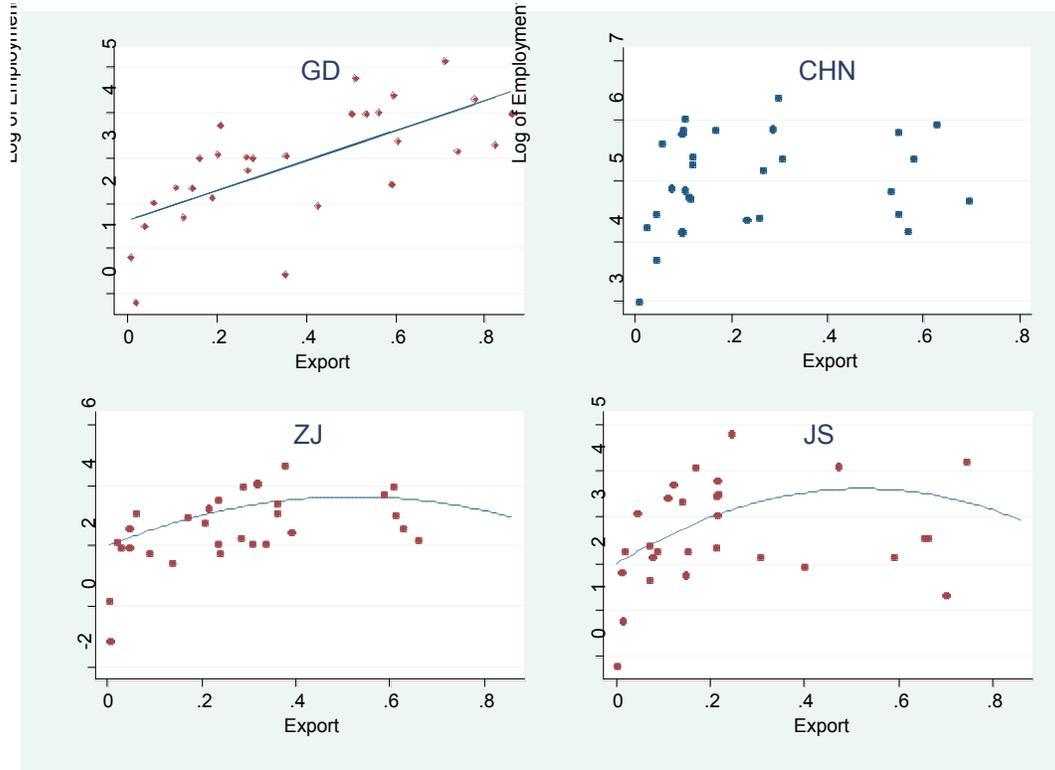
**Table 1 Migrant Workers and Urban Employment**

Year	Migrant Workers _million_	Urban Employment _million_	Ratio _1/2, %_
2000	78.49	212.74	36.9
2001	83.99	239.4	35.1
2002	104.7	247.8	42.3
2003	113.9	256.39	44.4
2004	118.23	264.76	44.7
2005	125.78	273.31	46.0
2006	132.12	283.1	46.7
2007	136.49	293.5	46.5

Source: National Bureau of Statistics (NBS), China Statistical Yearbook (various years), China Statistics Press; National Bureau of Statistics (NBS), China Yearbook of Rural Households Survey (various years), China Statistics Press.

Considering that migrant workers concentrated in coastal areas where the most export oriented and labor intensive industries locate, however, the recent financial crisis is possible to further slow down the trend of migration in the near future. As Figure 1 indicates, in the most employment concentrated areas, Pearl River Delta and Yangtze River Delta, there is a tendency of employment increase with shares of export increasing. With the financial shock, it is good to believe that the crisis has serious negative impacts on employment. In addition, most low skilled rural migrant workers work in the labor intensive firms, so the financial tsunami brings more shocks to migrant workers this time. A widely reported phenomenon that a large amount of migrant workers return their hometowns in advance proves our conjecture.

**Figure 1 Exports and Employment in Manufacturing**



Note: the horizontal axis is the ratio of exported value to total sale value in sub-sectors of manufacturing, and the vertical axis is the employment in the sub-sectors.

Source: National Bureau of Statistics (NBS) (2007), Data on Economic Census, China Statistical Press.

### **The Impact of Migration**

Since the rural to urban labor mobility dominates the migration in China, it is good to believe that the labor transfer from low productivity sector to high productivity sector improves the economic efficiency and provides source of economic growth. Wage incomes are more and more important income sources of rural households. The remittances from migrants play active role on poverty reduction in rural China. A study shows that, migration raises the income of poor households to a larger extent than that of rich households. Poverty headcount, poverty depth, and poverty severity are significantly lower in the presence of migration in the case of Hubei. Remittances not only narrow the

income gap among rural poor households, but also disproportionately improve income of the poorest poor (Zhu and Luo, 2008).

A host of studies suggest that the fast growth of the Chinese economy has benefited from the improvement of TFP and increase in share of TFP's contribution to overall growth (for example, Perkins, 2005 and Wu, 2003). The successful reform in the past decades not only enhanced technical efficiency by improving incentive mechanism at micro management level, but also gained resources allocative efficiency by developing markets of production factors, especially by promoting labor mobility. Cai and Wang (1999) decompose the GDP growth in the period of 1982 to 1997 into five sources: physical capital, labor quantity, human capital, labor allocation and TFP. The labor allocation (labor mobility from agriculture to non-agricultural sectors) contributed 20 percent to overall growth. Other research also proves that the labor market development makes up a key part of the improvements of efficiency during the reform (World Bank, 1997).

In addition, under current institutional arrangement that rural migrants are hardly to get permanent living residency in urban areas, the huge migration could distort the demographic structure in rural area. Rural-to-urban migration under the present institutional arrangement adds labor force to urban sector, whereas it leaves rural population less productive. Because of the hukou control, migrant workers do not expect to live in cities permanently, in most cases their spouses, parents, and children left behind in home villages. Higher rate of aging, feminization, and large proportion of children in rural area make rural population more dependent, weakening the capability of social and economic development in rural area.

### **The Vulnerability of Migrants**

Since the 1980s, China has implemented, to varying degrees, reforms in different social and economic systems that are aimed at dividing up the urban and rural labor markets. These reforms have brought forth many changes such as relative relaxation in the hukou system, the building-up of a socialized welfare system for urban dwellers, gradual marketization of labor and employment, and increasing mobility of work forces,

particularly those moving from the farmland to non-agricultural businesses and enterprises in the countryside, or to those in small and medium-sized and even large cities. But the hukou system, because of its half-baked reform as regards fundamental issues, still functions as an “invisible wall” that defines the different identities of urban residents and migrant workers from the countryside, and treats migrants differently (Chan and Zhang, 1999). Rural migrants holding their rural hukou mostly are low-skilled and work in three D occupations in urban labor market. Even worse, they are not well protected by current social protection system because most of them work in informal sectors. The informality of migrant workers leads to vulnerability.

The Chinese labor market has witnessed a process of informalization in recent years. Since the informal employment is easily ignored in formal statistics system, it is hard to get the size of the informal sector directly. Some studies estimated the share of informal employment in the overall employment on urban labor market and gave an interval between 30 percent and 40 percent of workers who work informally (Cai, et. al, 2005; Du et. al., 2006).

In addition to the informalization caused by urban labor market dislocation happened in the late 1990s, migrant workers have been a large component of informal sector since they appeared in urban labor market. According to migrant surveys done in five big cities in China, the proportion of migrants who worked in the informal sectors was 73 percent in 2001 and 84 percent in 2005.

Using the 1% Population Sampling Survey data in 2005, which is national representative, we may observe the whole picture of informality for both migrant workers and local residents. We categorize three types of workers in urban labor market, local workers, rural migrant workers, and urban migrant workers. In contrast, most rural migrant workers (65.4%) work informally while the proportion for urban migrant workers is 29.8 percent. Table 2 presents the outcomes calculated from the data by various groups of people with different characteristics.

**Table 2 Informality in Non-Agricultural Sectors (%)**

	Rural Migrant Workers	Local Workers	All Workers
<b>All</b>	<b>65.4</b>	<b>52.5</b>	<b>52.6</b>
<b>By Age Group</b>			
20 and below	59.6	79.8	68.8
21-30	60.2	53.6	51.9
31-40	69.8	51.3	52.5
41-50	74.2	47.5	48.2
51-60	76.6	51.2	51.5
61 and above	78.3	71.3	70.3
<b>By Education</b>			
Primary School and below	80.0	82.9	81.7
Junior High School	65.5	69.2	67.4
Senior High School	50.4	35.4	36.8
College and above	26.0	7.1	8.2
<b>By Gender</b>			
Male	66.5	52.9	53.1
Female	64.0	51.9	51.9

Source: Author's calculation from 2005 1% sampling survey.

As Table 2 indicates, for migrant workers, the proportion of workers in informal sector increases with aging, which implies that the older the migrant workers are, the more disadvantaged they are. The informality-age profile is different for local workers: with age increasing, the share of workers in informal sector decreases first and then increases. Education plays the same role for both migrant and local workers: the educated workers are less possible to work in informal sectors.

As we see above, most of migrants in urban labor market worked in the informal sectors. Considering that migration workers have already accounted for a fairly large share of employment in urban labor market evidenced by Table 1, China needs to pay more attention to this group of people for decent work. When comparing with those

workers with urban hukou, rural migration workers are more disadvantaged in urban labor market in terms of earnings, working intensity, and social protection.

Thanks to urban labor market surveys (CULS<sup>1</sup>) conducted by Institute of Population and Labor Economics, comparable individual data using the same survey instrument and sampling strategy are available. As Table 3 presents, since migrant workers are less protected by current social protection system, they have to work intensively to achieve the similar living standard as their urban local counterparts.

**Table 3 Disadvantages of Migration Workers on Urban Labor Market**

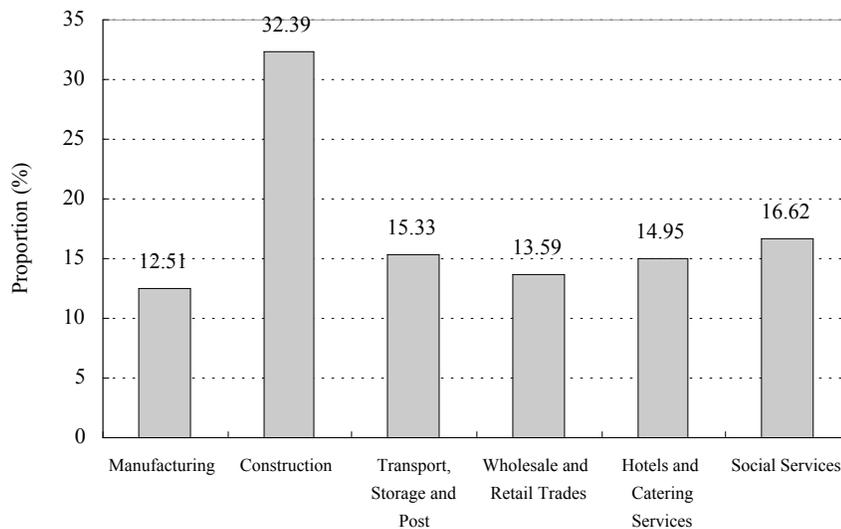
	2001		2005	
	Local Workers	Migrant Workers	Local Workers	Migrant Workers
<b>Informal work</b>				
Working days per week	6.4	6.8	6.0	6.8
Working hours per day	9.3	10.8	8.9	10.6
Monthly earning (yuan)	968	991	1094	976
Pension	-	-	54.8	2.1
Unemployment insurance	-	-	12.6	0.4
Working Injury Insurance	-	-	6.0	1.2
Health Insurance	-	-	32.6	1.3
<b>Formal work</b>				
Working days per week	5.3	6.4	5.3	6.0
Working hours per day	8.3	9.5	8.2	8.7
Monthly earning (yuan)	1001	776	1387	1247
Pension	-	-	82.1	29.0
Unemployment insurance	-	-	39.7	17.8
Working Injury Insurance	-	-	29.1	31.7
Health Insurance	-	-	71.4	29.7

Source: Authors' calculation from CULS data.

<sup>1</sup> This survey was conducted by the Institute of Population and Labor Economics, Chinese Academy of Social Sciences in 2005. In Shanghai, Shenyang, Wuhan, Xi'an and Fuzhou, 500 urban households and 500 migrant households were sampled in each city. In Wuxi, Benxi, Yichang, Baoji, Zhuhai, Shenzhen and Daqing, 400 migrant households were sampled in each city.

The vulnerability of migrants is also reflected on some other aspects such as wage arrears, HIV/AIDS, STDs and bad living conditions. Since 2003, the Chinese government has taken many measures to try to solve wage arrears of migrants. However, migrants are still suffering from it. According to a survey on migrants conducted by National Bureau of Statistics in 2006, 32.4 percent of migrants who work in construction suffer from wage arrears, which is the highest among these six sectors. 12.5 percent of migrants who work in manufacturing suffer from wage arrears, which is the lowest among the sectors (Figure 2).

**Figure 2 Proportions of Migrants Suffering from Wage Arrears by Sector**



Source: Wang (2008).

Table 4 reviews some studies on STDs which were conducted in different provinces in China. Migrants' share in reported STD cases varies considerably. In Jiangsu's Xinghua, it is only 7.5 percent. In Shenzhen, it is 69.0 percent. As for the considerable variation on migrants' share across the studies, Yang argues that it can hardly be taken as evidence that the role of floating migration in the spread of STDs also varies from place to place and is therefore inconclusive; rather, it may reflect differences in the extent of the presence of floating migrants' in the general population across places (Yang, 2004).

**Table 4 Reported STDs by Migration Status in Selected Provinces**

Province/City	Reported STD Cases	Reported Year (s)	Temporary Migrants (%)	Permanent Residents (%)
Guangdong/Shenzhen	1570	1997-1998	1084 (69.0)	486 (31.0)
Liaoning/Lianyungang	13464	1989-1998	2343 (17.4)	11121 (82.6)
Jiangsu/Xinghua	6119	1991-2000	457 (7.5)	5662 (92.5)
Guangdong/Shenzhen	102538	1983-2000	59400 (57.9)	43138 (42.1)
Liaoning	26038	1998	3787 (14.5)	22251 (85.5)
Beijing/Shijingshan	3492	1990-1999	1189 (34.0)	2303 (66.0)
Shanghai	79980	1994-1997	17962 (22.5)	62018 (77.5)

Source: Reproduced from Yang (2004).

Table 5 reviewed some studies on HIV/AIDS in selected provinces. Migrants' share in HIV/AIDS cases varies considerably too, which is the similar to the case of STDs. In Guangxi's Wuzhou, it is only 9.5 percent. In Shanxi, it is 66.7 percent. We do see that migrants become an important component of HIV/AIDS cases.

**Table 5 HIV/AIDS Cases by Migration Status in Selected Provinces, China**

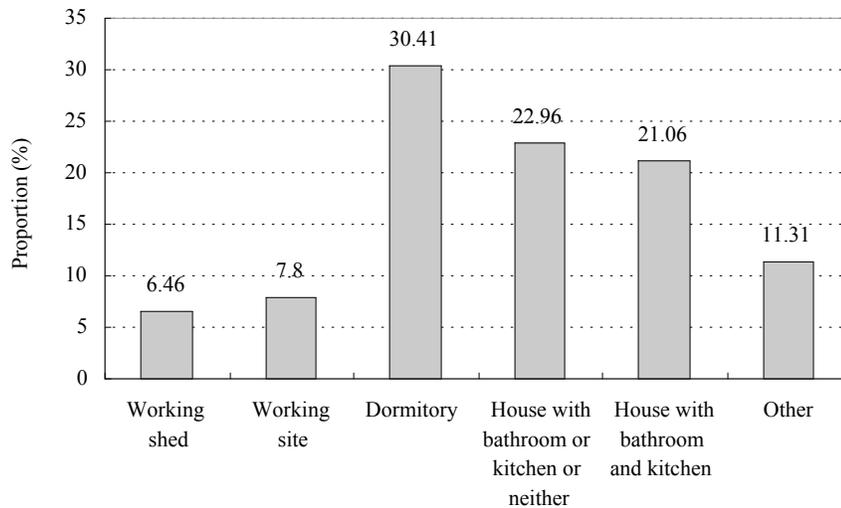
Province/City	Total HIV/AIDS Cases	Reported Year (s)	Temporary Migrants (%)	Permanent Residents (%)
Shanxi	174	1995-1999	116 (66.7)	58 (33.3)
Guangxi/Wuzhou	148	1998-2000	14 (9.5)	134 (90.5)
Yunnan/Chuxiong	226	1991-2000	27 (11.9)	199 (88.1)
Jiangsu	133	1986-6/2001	85 (63.9)	48 (36.1)
Liaoning	137	1991-7/2001	43 (31.4)	94 (68.6)
Guangzhou	267	1985-1999	150 (56.2)	117 (43.8)
Fujian	188	1987-2000	80 (42.6)	108 (57.4)

Source: Reproduced from Yang (2004).

Migrants' living conditions are bad. According to a survey on migrants conducted by National Bureau of Statistics in 2006, 6.5 percent of migrants live in working shed,

7.8 percent live in working site, 30.4 percent live in dormitory, 23 percent live in house with bathroom or kitchen or neither and only 21 percent of migrants live in house with both bathroom and kitchen. The remaining 11.3 percent of migrants live in other places (Figure 3).

**Figure 3 Proportions of Migrants Living in Different Places**



Source: Wang (2008).

In fact, the vulnerability of rural migrants is rooted from segmented institutional arrangement at the core of hukou system. Despite of some experiments on hukou reform at local level, the current hukou system prevents migrant workers from being able to receive the necessary housing, medical care, children’s education, and other public services at reasonable prices. The current phase of dual economy development is characterized by emerging third category of population – the migrant workers and their accompanying dependents, apart from permanently registered rural and urban residents. The exclusion of migrants from the basic social security system is inconsistent with the overall goals set by the central government to equalize social welfare and public services between rural and urban residents. Without hukou system reform, migrants are very much likely to be left behind in the progress of rural and urban social security system building.

At a glance, there seems a paradox – the more welfare the hukou identity contains, the more difficult it is for the reform to push forward, whereas the affiliated welfare

factors exist if the reform of hukou system remains hovered. However, if the reform in this area takes an indirect approach – that is, to focus on peeling off the function of welfare provision from hukou status instead on changing hukou identity for certain group of people, once the difference in social welfare between rural and urban areas and the hukou status no longer serves as a nameplate to identify whether or not a person should be provided with a certain public service, the dilemma facing the reform can be broken.

Since the beginning of the new century, a host of reforms of welfare regimes affiliated with hukou status, including accesses to social security, social protection, compulsory education, and other public services have been under way. Not only has central government set up the goal of narrowing down the disparities in public service provision between rural and urban areas, but the local governments have recognized the key role that such reforms should play. All in all, linking hukou reform to unification of segmented social welfare system will help reduce the vulnerability of migrants in urban areas.

## **2. Migration Policy Evolution in China**

The rural-to-urban transfer of labor was no triumphant forward march running completely smoothly. Looking back the evolution of migration policy in China, the political economy plays important roles on policy making.

When examining the relationship between the urban employment situation and attitudes towards the floating population, whenever employment pressure or the overt or covert unemployment rate rises in the cities, city governments are inclined to take a more stringent policy toward the floating population, adopting an attitude of exclusion towards outside labor (Cai et al., 2001). Clearly, urban residents and governments regard the outside labor flow as competitors for employment.

When the urban residents' worries about external labor taking their jobs are aggravated, they usually expressed in some way. At the same time, reforms create a dual character on the part of the media: on the one hand, they are required to stay consistent with government's principles, intentions and main concerns, while on the other hand they have to survive in a competitive market, and thus to a certain extent speak for the local

residents. This double bind or dual objectives reach a consensus in attitudes toward the floating population. In other words, if urban people form exclusory sentiments vis à vis the floating population due to being threatened by worries about their jobs, the media is happy to express this for them, because it is often a concern of the local government.

Passing through specific political channels, the voice of local residents and the media, thereby affects local policy measures regarding the mobile population. Under the existing system, local governments are usually evaluated by a set of performance appraisal mechanisms. There is usually a series of indicators for assessing local governments, some of which are rigid, known as the “veto system”; “occurrence of major group incidents” is one such rigid indicator, i.e., if it is ever substandard on this score, whatever the government may have achieved on other fronts will be offset in the examination results. Large-scale unemployment is a ready instigator of group incidents.

More importantly, given the dual economy which still relies on the countryside to provide resource accumulation for industrialization, the policy trend of the entire urban-rural relationship is still dominated by the renowned “paradox of numbers”: while the farmers are many in number, their residence is scattered, their cost of collective action is high, and their negotiation status in policy decisions is low (Olson, 1985). In contrast, while the urban residents are small in number, they concentrate in political centres, where their collective action readily affects social stability; hence their wishes are of greater concern to policy makers. Over a very long time, urban attitudes to migrant workers are therefore unfriendly. They are tightened or loosened up according to the state of urban employment, and the institutional basis of this differential treatment is the residence registration system. In other words, although the process of reform enabled rural workers to cross regional boundaries, to work and reside in the city, migrant workers and the floating population are subjected to unequal treatment in urban areas.

Above all, they were excluded from jobs at the early stage of reform and opening up. Whenever there is pressure on jobs, many cities, in order to protect local urban workers’ jobs, often announce and implement manifestly discriminatory employment policies, e.g., that the only jobs open to the floating population are those that local workers are unwilling to do. External workers thus can work only in the self-employed and informal sectors, or with or non-formal employment status in the formal sector. In extreme cases,

city governments take measures to drive the migrants out.

Second is wage discrimination. Investigations have shown that in cities the average wage of migrant workers is only 70% that of the local workforce. In this wage gap, some 43% cannot be explained by differences in level of education, and is caused mainly by the factor of discrimination with regard to household registration status (Wang, 2007). In addition foreign workers are excluded from both the compensation in kind and housing subsidy that local businesses provide for their workers.

Third is exclusion from social security and public services. Minimum living standard guarantee program and unemployment insurance, which are now universal in cities, are directed solely at local residents, and the migrant population is not covered. Policy requires the extension of equal treatment, including guaranteed age care and medical insurance, to migrant workers, but the coverage they receive is actually very low. In addition, the compulsory education migrant children receive also faces problems of difficulty with admissions and high fees.

However, thanks to economic development that eases the employment pressure in urban areas and the positive roles migrant workers play in urban economy, the migration policy and the public attitude towards migrants have changed over time, which are summarized as “from restriction and exclusion to protection and inclusion”. The changes of migration policy embody the gradualism of the reforms in China. Labor mobility across economic sectors and between rural and urban areas reflects not only the course of sweeping away the institutional barriers but the process of labor market development. During the transition, the migration policies play an essential role.

Looking back the policy evolution, the following stages mark main changes of migration policies in China.

### **Strict Restriction: 1979-1983**

At the early stages of the reforms, although the farmers were endowed rights to make decisions on agricultural production, the labor mobility was still restricted. Due to the insufficient supplies of agricultural products to urban areas, the planners tend to control the surplus labor in agriculture to move out of rural areas. In addition, urban

China was struggling to provide enough job vacancies for those returned school graduates from rural areas and the urban unemployed. For such reasons, rural to urban migration was strictly controlled.

To prevent rural population from working in the cities, the government limited recruiting workers from rural areas. Besides, the local governments cleared up the employees from rural areas who are hired by urban employers. Some other complementary policies had also been implemented. For instance, the domicile control and food distribution in urban areas based on hukou were enforced. Those policies are evidenced by Notice to Strict Control Rural Labor to Work in Urban Areas issued by the State Council in 1981.

To ease the pressure of labor mobility out of rural areas, the Chinese government encouraged the development of rural industry so as to provide local off-farm employment opportunities for rural labor forces. The so called labor policy of leaving land without leaving village stimulated the development of TVEs by provision with plentiful labor resources, which also leads to a unique way to industrialize the rural China.

### **Permission to Migrate: 1984-1988**

By the middle of 1980s, the HRS has already been extended to all the rural China, which symbolized the completion of first stage of rural reform. In addition, some other reforms on rural economic system, like the abolishment the People's Commune System, development of TVEs, have encouraged the labor mobility. Thanks to the successful reforms in rural areas, China started reforming the urban economic system. The main reformed areas include empowering the decision making of SOEs, increasing employment flexibility of enterprises, and encouraging development of non-SOEs in urban areas. Those reforms effectively promote the economic growth in urban areas and increase the labor demand for rural surplus labor.

The economic growth in non-agricultural sectors led to the growth of employment demand in 1990s. To meet the labor demand from TVEs in coastal areas and construction in urban areas, it has been a necessary condition to allow labor mobility between rural and urban areas and across regions. As a result, the Chinese government started

encouraging the labor mobility in rural areas and implemented a set of new policies. For example, rural migrants who work or are self-employed in towns may register their hukou in towns under the condition of making their own grain rations. The government started allowing the farmers to sell some agricultural products and to have their own business.

With economic development, the migration restriction has been further relaxed over time. To encourage the integration of rural and urban economy, the service and transportation sectors were opened to farmers then. SOEs were permitted to high rural migrants in 1986<sup>1</sup>. As an approach to poverty reduction for some rural areas, the Chinese government formulated policies facilitating rural labor transfer from the central and western regions. Those active migration policies resulted in fast growing migration flow in the period.

### **Slow down the Unbridled Flow: 1989-1991**

However, the active trend of migration policy was interrupted by macroeconomic fluctuations sometimes. When the urban economic growth slows down, the policy makers tend to protect the employment opportunities for urban residents by restricting rural migration flow. The economic recession from 1989 to 1991 was one of the cases.

In 1988 a serious inflation caused by the overheated economy triggered the macroeconomic adjustment in China. During the period of three year adjustment, the central government required to compress the investment in capital construction and tightened the fiscal and monetary policies. A lot of construction projects were abandoned or stopped. China suffered from the lowest economic growth rates since 1978.

Under such a circumstance, the urban labor market situations took a turn for the worse. To protect the employment opportunities for urban residents, a lot of migrant workers were fired and local governments were required to strictly control the rural labor forces to move out of rural areas. The restrictive policy is evidenced by Emergency Notices on Strict Control with Farmers to Move out of Rural Areas issued by the State Council in 1989. At the first time, the rural migration flow was defined as unbridled flow

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<sup>1</sup> State Council (1986), *Temporary Stipulations on Recruiting Workers for SOEs*.

or blind flow (mangliu).

To ease the employment pressure in urban areas, the urban employers were required to fire rural migrant workers and sent them back to rural areas. The government re-emphasized the pattern of “leaving land without leaving village” for rural labor transfer and encouraged local government providing employment opportunities for rural surplus labor locally. However, the deteriorating macroeconomic situations formed a shock to TVEs. The employment in TVEs began to decrease.

Due to the strict control for rural migration, the total size of migration shrank during the period. In 1989 the number of migrants who lived in cities was significantly less than the number in 1988.

### **Guide the Migration Flow: 1992-2000**

With the increasing income disparities across regions and between rural and urban areas, migration has been inevitable since then. Regarding to the migration policy, the policy makers started realizing that it impossible to simply block the migration flow through policies. Migration policy turned to a positive direction by normalizing migration during this period.

The first practice is to establish 50 experimental counties developing rural human resources from 1991 to 1994, and then the pilot was extended to 8 provinces from 1994 to 1996. Meanwhile, the government started emphasizing to strengthen administration on rural to urban migration.

However, the measures to strengthen management were to issue various credentials. Before migration, rural farmers have to gain Migration Work Registration Card at local governments of their hukou locality. At the destination places, migrants have to get Employment License based on the card issued by government of origin places. By holding both the Card and the License, migrants were available to get relevant employment service from government agency. For migrants who live in destination places more than one month need to apply temporary living certificates in order to facilitate the hukou administration.

Meanwhile, reforms on hukou system have been piloted in various regions. Migrant workers who work and live in small town were allowed to own their non-agricultural hukou. According to a regulation issued by central government in 1998, migrants who have legal housing, stable employment or living sources, and living more than one year at destination place were allowed to move their hukou registration to destination places. However, the enforcement of the regulation varies across cities. In particular, big cities where local residents are subsidized by local finance are reluctant to accept new comers, so the paces of reform in big cities are very limited.

In addition, the training programs for rural labor forces and employment services have been valued by the Chinese government since the period. For example, in 2001 the Ministry of Labor and Social Securities issued a document, Notice on Improving the Employment of Rural Labor Forces, to establish Labor Reservation System. The Ministry also emphasized to improve the skills of migrants and to set up labor market information system, which is the first time to promote the rural labor force transfer in the Ministry's policies.

Despite of attitude changes in government documents, at least in literal, the treatment to migrants were still subject to the political economy that rooted from the interests of urban residents. Since the late 1990s, a large number of urban workers have been laid off by their employers and, as a result, the urban unemployment rate climbed for a few years accompanying a declining labor force participation rate (Cai, et al., 2005). The urban labor market dislocation was translated to migrant workers. To provide job vacancies for the urban unemployed, many cities adopted employment protection for local workers. Despite of the discrimination in terms of wage and working conditions, migrants were excluded from some employment opportunities (Cai, et al., 2001).

### **Treat Rural Migrants Friendly**

Since 2000, relevant central government documents began to display active support and encouragement for rural migration, clearly proposed reforming the institutional segmentation between city and country, and eliminating the guiding ideas that unreasonably restrict rural residents migrating to the city for work, which implies that

China started integrating urban-rural employment policy.

In detail, the evolution of migration policies consists of the following aspects. One of the positive changes was to remove fees imposed on migrants, including temporary living fees, administration fees for migrants, and service fees for migrant workers, and etc. In addition, the Chinese government started addressing the training for migrant workers. In 2003, the State Council issued Training Plans for Migrant Workers: 2003-2010, which proposed that central and local governments should finance the training programs for migrant workers.

The trend of this policy is unambiguous and stable and was clearly written into the 10th and 11th Five-Year Plans published in 2001 and 2006 respectively. By approaching the flow of labor with encouragement, moreover, by creating fair conditions to improve the migrants' employment, accommodation, children's education, and social security, these policies have gradually become enforceable measures.

In 2006, Document No. 5 of the State Council entitled "State Council Suggestions on Solving Certain Issues Regarding Migrant Workers," upgraded the encouragement, guidance and help of the flow of rural labor, to the level of "conforming to the objectives of industrialization and urbanization", focused attention on solving major problems in the interests of the rural migrant workers, and proposed the principle of "fair and non-discriminatory treatment".

Passage of the Labor Contract Law in 2007 indicates the great importance that the government attaches to protection of the rights and interests of ordinary workers, including the migrant workers, and the policy orientation altered tremendously. The same year the "Employment Promotion Act" directly targeted barriers to employment faced by rural migrant workers in providing that: "rural laborers going to work in the city enjoy equal labor rights with urban workers; setting discriminatory restrictions on rural workers going to work in the city is prohibited."

In addition, in 2008 the Ministry of Human Resources and Social Security announced that the measures to transferable pension for migrant workers will be taken by the end of 2008 (Yin, 2008). According to the announcement, the migrant workers will have two options in terms of participation in pension system. For those who have stable jobs in urban labor market, they will be allowed to join the urban pension system. As a

complementary program, the migrant workers with high mobility, an portable individual account will be designed and their accounts will be connected to current urban system if the migrant workers want to do so.

These policy changes are positive responses of the Chinese government to realistic institutional demands, and thus conform to the requirements of changes in the stage of economic development. They may therefore eventually find expression in genuine improvements in the conditions of migrant workers. A rough picture is that prior to 2003, the basic wage levels of migrant workers' saw no changes for recent decades, but with the emergence of the labor shortage, they increased by 2.8% in 2004, 6.5% in 2005, and 11.5% in 2006 (outstripping the growth rate of the economy). At the same time, due to the intervention of and role played by policy, migrant workers' wage arrears have decreased significantly, and their working and living conditions have been improved.

In the new century, local governments have made much greater efforts in reforming hukou system. In recent years, one common practice in this reform area is to attempt to establish a unified hukou regime integrating rural and urban population registration, by abolishing the distinction between agricultural and non-agricultural hukou identities and integrating them into a unified residential hukou. By 2007, there were 12 provinces having carried out reforms of this kind. In addition, many cities further loosened criteria of applying for local registration for family reunion, the elderly joining adult children, youth joining parents, investors, the talented, local housing buyers.

Such a reform however has encountered some difficulties. One notable challenge facing local governments is that the nature of hukou is not simply a population registration system, but welfare benefits contained in it. An attraction of urban hukou is its entitlement of access to social security and other public services, whose provision is affiliated with local hukou status and differentiated between rural and urban areas. Even if a city announces an unified population registration system, or loosens criteria for migrants to apply for local hukou, if it's fiscal capability is constrained to provide universal public services to all residents regardless of their origins – that is, both previous urban and rural residents can get access to equal social welfare and public services, such a change in method of population registration is meaningless. In reality, reforms of this kind in most cities that announced unified hukou registration and identity but failed to

keep it accompanied with related entitlements because of fiscal constraints have been actually hovering.

### **3. Lewisian Turning Point and Its implications**

In this section, we will illustrate the newly emerging issue in the Chinese labor market, that is, the evidence of coming Lewisian turning point and its implications to labor protection and economic development. Thanks to fast economic growth in the past a few decades, Chinese economy created more and more job opportunities. In the meantime, demographic transition has shown its effect on labor market. In recent years, the labor shortage and wage rising indicate that China reaches Lewisian turning point, which means that a significant change happened for labor market development.

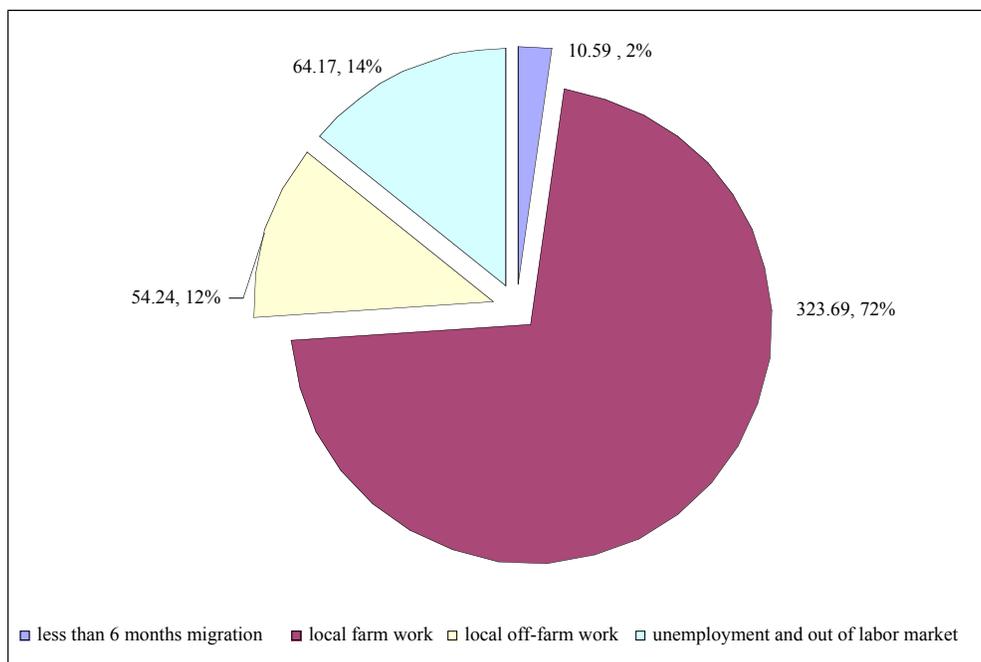
#### **Evidences of Lewisian Turning Point**

As the result of demographic transition and declining participation rates, labor shortage appears in China's labor market. The direct evidence of coming Lewisian turning point is the labor shortage that appeared in 2003. In coastal areas where are the most developed regions in China, it is widely reported on shortage of both skilled and unskilled workers in recent years. Some preliminary investigations observe the labor shortage happening in the past few years. The Ministry of Labor and Social Security confirmed the labor shortage after an investigation in coastal areas. The survey conducted in 2749 villages of rural China indicated that three fourth of villages exhausted their young human resources (Cai, 2007). As time goes by, the phenomenon of labor shortages has not gone away but has spread to the Yangtze River Delta region, and even to provinces in central China, from which migrant laborers are generally sent out.

This trend is also demonstrated by demographic data in rural areas. If we look at age profile of rural migrants, we may find there is only very limited number of those who are below 30 years old and work in agriculture. Let's first observe current labor force distribution in terms of the types of economic activities. If excluding the labor that left sending places more than 6 months, using 1% Population Sampling Survey data in 2005,

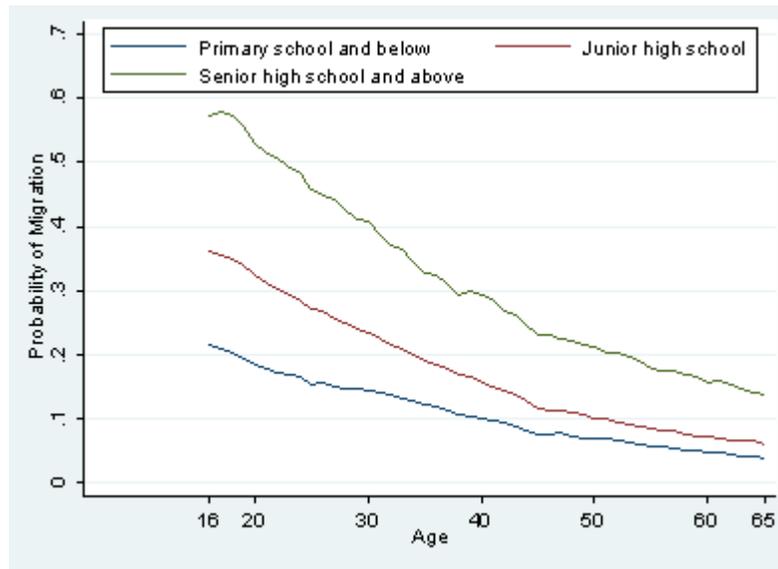
we may look at the distribution of local labor forces as Figure 4 presents. Our focus group is those who worked in agriculture and accounted for 72 percent of local labor forces in 2005 because the unemployment rate in rural areas is pretty low and farmers who are engaged in off-farm work or work outside less than 6 months could be taken as transferred labor. The total number of this group was 324 million whereas the surplus number of rural labor varies depending on the estimation for labor use in agriculture.

**Figure 4 the Distribution of Local Labor Forces**



After a Probit estimation including variables reflecting individual characteristics, we may predict the probability of migration for each individual as per his/her personal characteristics. Based on the predicted probability, we can get average probability of migration for each group people categorized by age or education so as to visualize the impacts of demographic transition on migration. As Figure 5 displays, the probability of migration did vary among different education groups and the probability declines with age increasing for each group. It is easy to find out that the migration probability for people who have low education and aged more than 40 years old is particularly low.

**Figure 5 Predicted Probabilities by Age and Education Group**



We sum up the above findings by age and education group, see appendix. The first column in the table is the current labor resources in agriculture, and it gives the maximum potentials for labor use in non-agriculture sectors. The second column presents average group probability according to individual probability predicted from the Probit estimation. The last column displays the predicted amount of migration from current labor resources. As the table shows the fact that labor forces remaining in agriculture are dominated by those aged labor with low human capital. Accordingly they are laborers who have low probability to work in off-farm sectors. The summation of the last column gives the total number of 43.57 million labor forces that available for non-agricultural industries.

The other indication of labor shortage is the rising average wage. Breaking through the constant level of average wages of migration workers for decade, average wages of migration workers started rising up a few years ago. According to surveys on migration workers, in 2006 the wages of migration workers increased more than 10 percent than previous year (Cai, 2007). As Table 6 presents, the average wages for both migrants and local workers have kept growing in recent years. Considering that labor productivity of agriculture is lower than many countries due to the land tenure, agriculture still requires a

large amount of labor input. In addition, old labor forces in rural areas have relatively lower years of schooling and are more incapable of working in non-farm sectors than the young generation. It is good to believe that China has already faced with the Lewisian Turning Point and ended the era of unlimited labor supply.

**Table 6 Wage Increase in Urban Labor Market (yuan/month)**

	Migrants (NBS)		Migrants (MOA)		Local Workers	
	Nominal	Real	Nominal	Real	Nominal	Real
2001	644	644.0	-	-	903	896.7
2002	659	665.7	-	-	1031	1041.4
2003	702	702.8	781	774.0	1164	1153.6
2004	780	755.9	802	776.4	1327	1284.6
2005	861	821.3	855	841.5	1517	1493.1
2006	946	889.0	953	938.9	1738	1712.3
2007	1015 <sup>a</sup>	912.8	1060	1014.4	2078	1988.5

Note: “a” is the average monthly earnings for the first three quarter in 2007.

Source: urban local wages are from China statistical Abstract (2008), and migrants wages are from Statistical Report of NBS and Research Center of Rural Economy, MOA.

It is worth noting that the Chinese labor market approaching to LTP is mainly driven by the demographic transition, which is a long term trend and can not be reversed in the short run. Despite of shocks caused by economic cycle, for instance, recent financial tsunami, the judgment of Chinese economy closing to the turning point is still unchangeable.

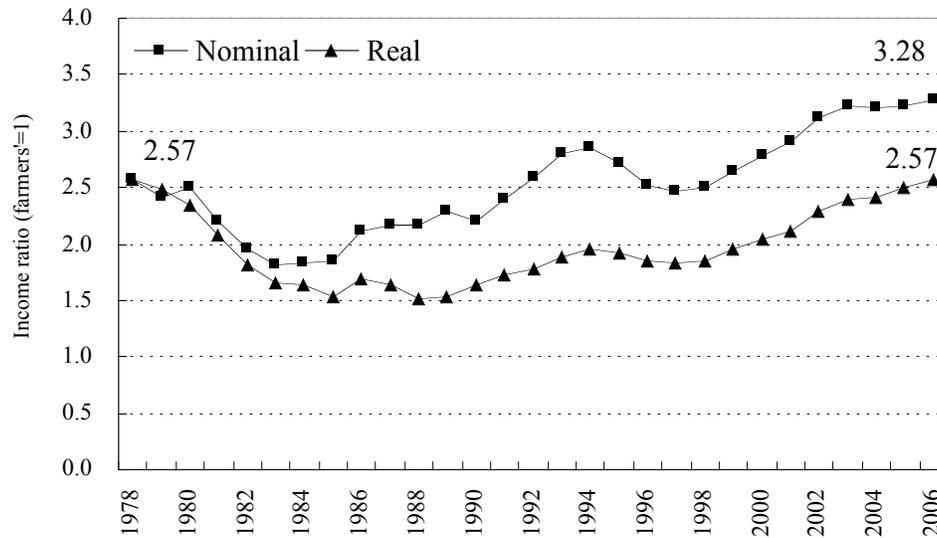
### **The implications to rural-urban divide**

It is widely observed that migration is ultimate factor narrowing down the rural-to-urban income gap, as a result of Lewisian dual economy development. Dual economy development commonly passes through two turning points. First is the one we described above. At this point the growth of demand for migrant workers exceeds the increase of

labor released from the pool of surplus labor force so that the wage rate of migrant workers increases. Second turning point is reached when the gap of marginal productivity of labor between rural and urban sectors disappears so that there is no more dual economy. Passing the first turning point implies, therefore, that the rural-urban income gap will have declined in a much faster pace until the second point arrives, under the conditions that enable the Lewis turning point to combine with Kuznets turning point (the point at which income inequality shifts from increase to decline).

After reform began in late 1978, the income gap between rural and urban areas fell and then increased after the late 1980s. An international comparison shows that this income gap is among the largest in the world (Yang and Cai, 2003). The widely acknowledged rural–urban income gap, however, is calculated in nominal terms and, hence the impacts of different price changes between rural and urban sectors are omitted. If we deflate household incomes per capita by rural and urban price indices, respectively, the gap in 2006 reaches the level of 1978 when rural reform was initiated; that is, in both the starting and ending years, the ratio of urban household income per capita to rural household income per capita in real terms was 2.57, instead of the nominal ratio of 3.28 (see Figure 6).

**Figure 6 Nominal and Real Income Gap between Rural and Urban Areas, 1978–2006**



Source: National Bureau of Statistics (NBS), China Statistical Yearbook (1986–2007), China Statistics Press.

Even if for the income gap is calculated in real terms, it is very likely to be overestimated due to misplacement of statistical data. A critical problem lies in the division between rural and urban populations. When NBS urban and rural socio-economic survey teams conduct household surveys, they cover mainly two kinds of household: urban residence households and rural permanent households, but omit migrant households floating from rural to urban areas. Usually migrants are excluded from being chosen as households keeping accounts for NBS purposes in urban areas, and the income of rural households does not fully reflect migrants' earnings except for a certain fraction of remittance. As the size of this omitted population grows, its share of earnings in total income of rural and urban residents increases. Migrant households' income inevitably changes the contrast range between the two groups. Therefore, we should now compare income differentials in distinguishing between three groups of populations; namely, urban native residents, rural permanent residents, and rural-to-urban migrants.

As for those who migrate to urban areas for less than 6 months, they float between

rural and urban areas frequently, which affect the actual distribution between rural and urban populations. Although the current definition distinguishing between rural and urban populations has incorporated the migrants with more than 6 months stay into urban populations, they could hardly be included in the sampling framework of household surveys, because the absence of formal hukou status makes them unstable in residence. Missing income of long-term migrant households brings about information insufficiency and distortion on actual income in urban areas. Based on data provided by NBS (2006), in 2005, disposable per capita income of urban households was 10,493 yuan, whereas the net income per capita of rural households was only 3255 yuan. However, according to CULS survey, per capita income of rural-to-urban migrant households was 8368 yuan, equivalent of 2.6 times per capita income of rural households and 80 percent of that of urban households. Although we can hardly claim a disappearance in rural urban income gaps, the huge magnitude of the migrant population undoubtedly serves to minimize the rural–urban income gap.

### **The Implications to Labor Protection**

As we mentioned earlier, migrant workers are a vulnerable group in urban labor market in terms of social protection. The coming Lewisian turning point is also a turning point for labor protection. The implications of such a turning point to labor protection are reflected by the following aspects.

During the era of unlimited labor supply, the ceaseless labor flow out of agriculture weakened the bargaining power of labor. Facing powerful employers, workers are in a disadvantageous position. First, the employers make employment decisions in terms of hiring how many workers and what types of workers they want. Second, due to the unlimited labor supply, the employers tend to offer the very basic level of wage rate that was above the workers' productivity in agriculture but below the marginal productivity in current work. Since there was no negotiation process in employment decision and wage formation, the employees have little power to determine the procedure. Third, the employees lack of power to determine some other important aspects of the work. For example, in general the employee makes decision on daily working time, working

intensity, and working conditions. So they are always obliged to accept conditions unbeneficial to themselves. Under such circumstance, even if the laborers require to raise wages and to improve the labor protection conditions, the enterprises would not commit to do so.

The coming of the Lewisian turning point means the greater need of the labor force and brings more job opportunities to laborers, which enhances the laborers' right to speak in the laborer-employer negotiation because laborers can impose stress on employers through voting with feet. Therefore, the employers have to pay more attention to improving working conditions and labor protections as well as raising the wages. In addition, the government is promoting the tripartite talk mechanism for employment and wage decisions, which increases the opportunities for workers to express their demand for wage rates, working conditions, and other work related requirements.

According to the survey on shortage of migration workers in China's southeastern coastal area in 2004, the labor shortage mainly occurred in the small-sized and medium-sized private enterprises in which the workers usually are lack of labor contract arrangements and have to work overtime, and earn low wages. In contrast, the enterprises with good labor protection and high wage offers have no trouble in recruiting enough migration workers. Thus, under the conditions of being short of labor supply, enterprises must improve laborers' treatments so as to reduce the reservation wages for those who were out of labor market previously. The new changes of the supply and demand of labor force in China make more and more entrepreneurs follow "enterprises shouldering social responsibilities" with great interest.

In China, local governments take the responsibility of keeping economic development in local areas. In addition, the local governments are responsible for social stability too. For those reasons, the decisions of local governments were often rooted from political concerns. For example, during the period of unlimited labor supply, the local governments were required to protect local residents' employment opportunities, which led them to make policy excluding rural migration workers in urban labor market. When facing with the situations of labor shortage, attracting the migration workers is of importance to guarantee the labor input and then sustain local economic growth. Under such situation, local governments tend to make friendly policies for migrants. For

example, in recent years some practices on social security system have been applied in coastal areas in order to cover migration workers. In addition, local government plays active role on labor market by passing on the information about labor supply and job opportunities so as to mitigate the impacts of labor shortage.

### **The Implications to Migration Policies**

With the coming Lewisian turning point, China needs to change the directions of migration policies from suppressing labor supply into digging out the potentials for labor supply. In general, there are two aspects of policy changes to tap the potentials for labor supply. One of them is to make good use of current population at labor age and economically activate them as much as possible. The other is by all means to improve labor quality through accumulating human capital and strengthening the linkage between human capital formation and labor market.

As we have already shown in Figure 4, it is hard to say China is a country with surplus labor in agriculture now. However, it does not mean that China does not have the potentials for labor supply anymore. In the era of unlimited labor supply, the employers tend to hire young and productive workers at low costs. When approaching the turning point, the labor costs for hiring the specific group of workers start increasing and the comparative advantage of old workers is raised.

In addition to quantity concerns, improvement of the quality of labor forces is another means to exploiting labor supply. Accumulation of human capital is also the necessary preparation for upgrading the industrial structure. The practice of Newly Industrialized Economies has already proved that accumulation of human capital was one of the essential drivers to push economic growth. China has the similar process of human capital accumulation to NIEs. For example, in 2004 Chinese working labor forces had similar educational attainment with those in Korea in 1990 when the latter just finished the period of high speed of economic growth.

However, China has its unique pattern of demographic transition. As we have already noted earlier, the younger labor forces who were educated during the period of the Reform and Opening-up are not surplus anymore, while the old labor forces with low

human capital seem to be incapable of working out of agriculture. Therefore, in the next decade, the focus of increasing human capital accumulation will be put on the old labor forces and the means to this group of people differs from the younger generation. For old labor forces, training and skill development are important rather than formal education.

Given such a distribution of education attainment among labor forces, in addition to formal education, the training system plays more important and timely role in contemporary China. For those aged labors that have low level of educational attainment, it is hard to increase their human capital through formal education system. In contrast, some appropriate skills may be helpful for them to participate into urban labor market. Considering that young labor forces in rural areas are nearly exhausted, it is more important to make good use of the old group of labor forces than ever before. According to the survey done by NBS (NBS, 2006), in 2005 the proportion of migrant workers who were trained accounted for 34.4 percent of total migrant workers, while in 2004 the number was 28.2 percent. The number indicates there is a large share of migration workers who need to be trained. As far as the farmers remaining in agriculture are concerned, the necessity of training is even more urgent because they mainly consist of labor forces with low educational attainments.

#### **4. Relevance of Chinese Experiences to Other Developing Economies**

Migration is an internationally recognized development phenomenon prevailing in developing countries. However, its impacts on development differ among countries. Concerning internal migration, it is not always and everywhere a stimulus of successful economic growth and sometimes it even causes economic inequality and social instability due to its spontaneous nature and other institutional constraints. As for international migration, whereas there are income gains for family, community and even country from remittances, it is hardly linked to domestic development. China's international migration, comparing to such lessons, has been mainly productive and beneficial for all stakeholders. In this section, we will summarize China's experiences in migration and changes in policy towards it, and try to draw implications to other developing countries.

#### **4.1 Migration as an approach to development**

In most developing countries, comparing to other factors of production, labor is the most abundant and important resource for development. Developing countries are characterized by their dual economy in which labor force is redundant in agricultural sector and marginal productivity of agricultural laborers is extremely low (Lewis, 1958). Migration is one of the effective ways to take advantage of human resources and gains reallocation efficiency of resources. The Chinese experiences indicate that migration is an intrinsic aspect of economic and social life when people naturally seek out opportunities to improve their welfare and the well-being of their families. However, it is not always utilized as a development tool effectively. The first lesson can be learnt from Chinese experiences is that policy matters.

Policy towards migration is considered as part of economic development policy implemented and modified by the central and local governments. The great role that central and local governments play in its economic development is commonly viewed as a significant feature of China's development, a phenomenon called developmental state functioning as a firm (Oi, 1999; Walder, 1995). By recognizing migration as a tool to spur economic development, the Chinese governments, both central and local, adjust the policy-orientation towards migration over time in consistent with the stages of its development and reform.

At the early stage of reform, while urban sector was not ready to accept rural migrant workers, the government saw the necessity for surplus labor force released by introduction of household responsibility system and encouraged agricultural laborers to transform from farming to rural forestry, animal husbandry and fishery and local industry. As rural labor became further redundant and non-agricultural activities in small towns developed, the government allowed laborers to migrate to those small towns near their home villages. As reform in urban sector deepened and non-public owned enterprises expanded – that is, the urban sector demands for more extra laborers, rural-to-urban migration became common. In that period, although migrant workers were not publicly recognized as necessary supply of labor in economic growth, the government decision-making was correctly made due to its concern of farmers' income enhancement.

On the other hand, rural-to-urban migration has contributed largely to economic growth during the reform period, and when the inevitability of urbanization and industrialization was revealed as non-agricultural sectors substantially expanded since China's WTO entry, the government policy towards migration became more active and encouraging. Now, encouraging migration and creating better political climate for migrant workers are officially stated tasks of every levels of government.

#### **4.2 Development as an approach to migration**

At the same time, the economic growth is the complementary to migration process. It is hard to believe that China would successfully make use of migration without strong economic growth but simply opening the urban labor market. In China, labor mobility is dominant in migration because the fast growing regions provide plenty of employment opportunities.

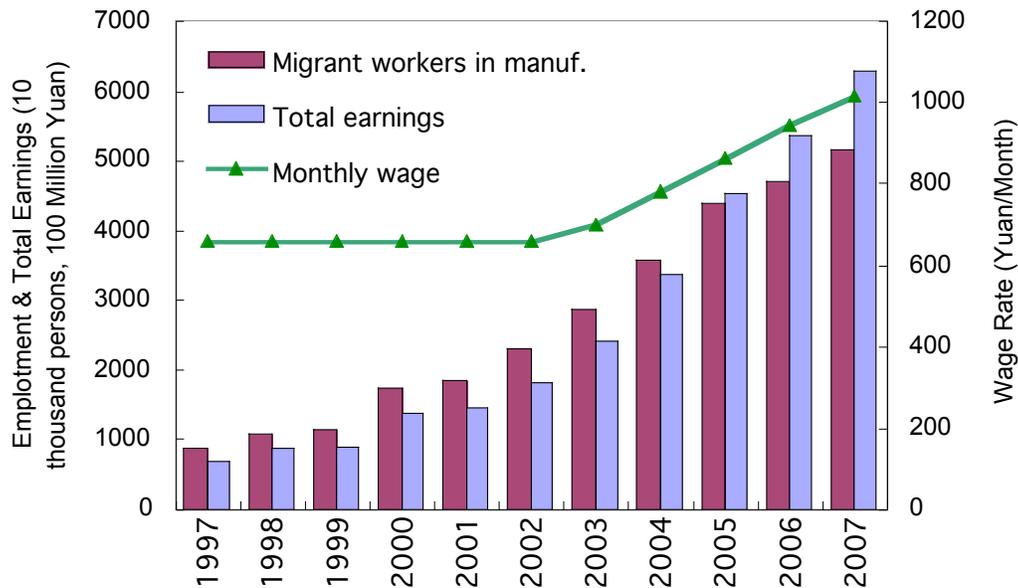
It is development that creates employment opportunities. That is why we commonly see surplus labor in developing countries but migration only works in a few cases. Productive migration is not dependent activity of economic development but a function of economic growth which is vital to provide opportunities of employment for migrants and to motivate migration.

To break through the common dilemma lacking capital in developing countries, at the early stage of reform and opening-up, China put priority to attracting foreign capital in order to seek economic growth. At that time, the governments treat migration as secondary factor after direct goal of national or regional growths of GDP.

However, since then the economic booming has created hundreds of thousands of jobs for migrant workers. Especially after China entered WTO and became world manufacturing center, the strong demand for migrant workers led the government attitude shifting from tolerating migration (aiming at enhancing farmers' income) to encouraging migration (in order to obtain sufficient supply of labor force for industry sectors) and protecting migrants (to maintain social stability). Therefore, a multi winning outcomes are formed: (1) migration provides mass supply of labor for economic growth to actualize comparative advantage in labor intensive industries, (2) the Chinese economy gains

reallocation efficiency of labor (Cai and Wang, 1999), and (3) rural households earn higher income from off-farm activities (Figure 7).

**Figure 7 Increases in Migrant Workers, Total Earnings and Wage Rate**



Source: Du (2008).

### 4.3 The effect of gradual reforms on migration

It is no doubt that the institutional legacy from planning economic system has created extraordinary barriers between rural and urban areas. The migration, which has emerged in China since the 1980s and accelerated since the 1990s, is characterized not only as the economic transformation from an agriculture-dominated economy to an industrial one, a common phenomenon in developing countries with a result of urbanization, but also as its unique economic transition from a planned economy to a market economy. The feature as transition with Chinese characteristics helps China gradually push forward its urbanization during the reform and catch up with normal state that China lagged behind in pre-reform period. The Chinese experiences in gradual reforms could be reflected by the following aspects.

First of all, it is important to realize the potential negative outcomes of migration. In

some countries, like China, migration could result in a more efficient allocation of human resources that spurs overall economic development and reduces disparities between the sending and receiving areas. However, the risk also exists that rural-to-urban migration could lead to overcrowding in cities and increased social tensions and costs, while emptying rural areas of their best educated and most productive. To this point, the policy-makers are justifiably concerned about potentially negative social outcomes and the sequences of policy making are very important.

Second, although the migration flow is from rural to urban, it is good to believe that rural development should be addressed too. At the early stage of the reform, there was a large stock of surplus labor, which is commonly observed in many developing countries. It is difficult to move the surplus labor out of rural areas by simply relying on the development in urban areas. The Chinese experiences suggest that rural industrialization is an effective way to keep growth and labor transfer in a harmonious way. With economic development, the rural development involves a wide range of policies including education, training, social security, land tenure system, and rural taxation policies, and etc.

Finally, the policy makers need carefully select the steps. As noted above, because of the political complexities associated with reforms, a strategy to support migrants must pay close attention to short-run vs. long-run priorities, sequencing, and tradeoffs. It might be similar in other developing countries; the strategy needs to address concerns that urban residents have about job loss and welfare loss because of migration although the future goal of rural-urban integration is clear. These concerns have become more serious with the increase in urban layoffs and unemployment when exogenous shocks happened. Reforms also need to address the concerns that urban governments have about fiscal liabilities if they are to provide services to migrants, which explain the reluctance of many local governments to continue their hukou reform.

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## Appendix

### Appendix 1 Rural Labor Forces and Migration Probability

Age and Education Group	Number of labor (million)	Predicted Probability	Predicted Migrants (million)
<b>16-20</b>	<b>17.16</b>	-	<b>4.97</b>
Primary School or below	4.44	0.189	0.84
Jr. High School	12.03	0.315	3.78
Sr. High School or above	0.69	0.505	0.35
<b>21-30</b>	<b>50.08</b>	-	<b>11.18</b>
Primary School or below	15.39	0.142	2.18
Jr. High School	32.24	0.248	7.99
Sr. High School or above	2.46	0.410	1.01
<b>31-40</b>	<b>88.96</b>	-	<b>13.44</b>
Primary School or below	39.45	0.109	4.31
Jr. High School	46.69	0.178	8.29
Sr. High School or above	2.82	0.298	0.84
<b>41-50</b>	<b>76.48</b>	-	<b>8.29</b>
Primary School or below	39.86	0.078	3.10
Jr. High School	30.52	0.123	3.76
Sr. High School or above	6.10	0.235	1.43
<b>50 and above</b>	<b>93.7</b>	-	<b>5.69</b>
Primary School or below	76.3	0.053	4.04
Jr. High School	15.51	0.084	1.30
Sr. High School or above	1.88	0.182	0.34
<b>All</b>	<b>326.39</b>	-	<b>43.57</b>