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Stober, Emmanuel Olusegun

Bucharest University of Economic Studies, Romania

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## CHINA'S RURAL – URBAN MIGRATION: WHO GAINS, WHO LOSES?

**Stober Emmanuel Olusegun**, Bucharest University of Economic Studies, Romania,  
Institute of Doctoral Studies,  
Doctoral School of Economic and International Business  
Stober.emmanuel@gmail.com

### **Abstract**

*There is a price to pay for any and every country to develop. This price can be said to have been duly paid by migrant workers in China. The benefit of such price is the stamping out of extreme poverty by 94% from 1990 – 2015. This study is embodied by the Lewis Structural Change Model and looks at China's population control programs – the restriction on internal labor mobility, its income inequality implication and economy development. The research reveals how the sacrifices of the migrant workers payoff in reforming the economic conditions in the rural areas; this points to the reasons why the rural income and development are highly dependent on migrant remittance and why China's economy development would not have been possible without labor migration.*

**Keywords:** China, Internal migration, Migrant workers, Remittance, Wages discrimination.

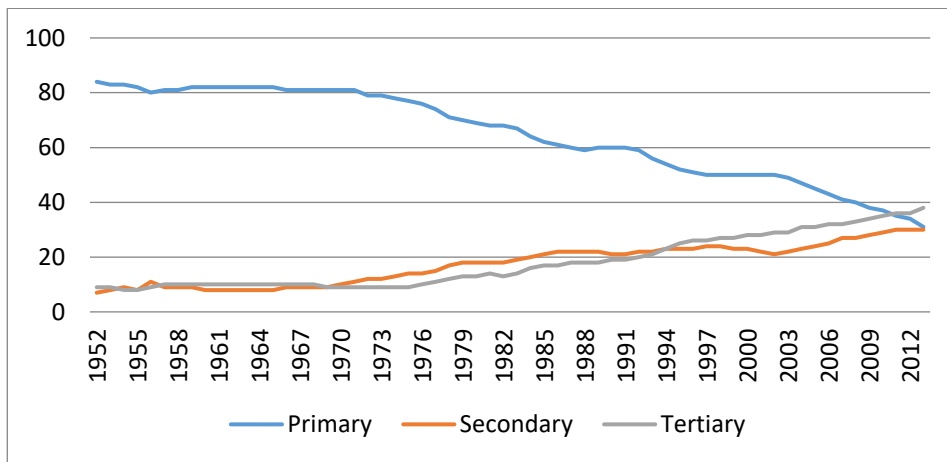
**JEL Classification:** F24, J8, J61, O15, R23

### **1. Introduction**

In various ways, internal movement has been restricted in China for decades. Official efforts to limit free migration between villages and cities began as early as 1952 with a series of measures designed to prevent individuals without special permission from moving to cities in taking advantage of the generally higher living standards. The Communist party decreased migration to cities during the 1960s and 1970s for economic and political reasons. Large numbers of urban youths were "sent down" to the rural area in the early stages of the Cultural Revolution for political and ideological reasons. However, by the mid-1980s many relocated youths were eventually permitted to return to the cities. The household registration system was used by the central government in attempt to control movement through promoting development of small cities and towns. Nonetheless many people were still able to migrate primarily for employment or educational purposes within this system, leaving their official registered place for days, months, and even for years. They were several reasons for this situation to occur, this include the temporary mobility permission by the authorities due to its concurrent spur of absorbing large amount of surplus rural labor; the improvement of the rural economy; and satisfying urban requirements for service and cheap labor. As a result of this permission, unemployed agricultural workers found jobs in construction, housekeeping, commune-run shops and restaurants (Library of Congress, 1987).

After 30 years of economic reform, China has been transformed from a predominant agricultural economy into an industrial powerhouse. Its urban population increased from 12% in the late 1970s to 51.3% in 2012 (NBS, 2013), a result not only of the rapid rate of urbanization, but also of a dramatic increase in the rural to urban migration rate. This is also reflected in the flow of workers in the three sectors (Primary, Secondary and Tertiary) of the economy over time, as illustrated in figure 1.

**Figure 1: Proportion of Employed Persons at Year-end  
By Three Strata of Industry (%)**



Source: NBS, Statistical Yearbook 2014

The total migrant workers in 2012 were 262.61 million up by 3.9% over that of 2011. Of which, the migrant workers that left hometown and worked in other provinces were 163.36 million (increased by 3% from 2011), and the migrant workers who worked in local provinces reached 99.25 million, up by 5.4% (NBS, 2012). The total migrant worker in 2012 accounted for 52% of the labor force in both secondary and tertiary industry combined together. Therefore, we can say, China's economic development miracle couldn't have been possible without the migrant workers service.

In order to access the role of migrant in both the urban and rural economics of China and the implication on migrant workers, this paper is structure as follows: section 2 is literature review, presenting the migrant workers' role in dual labor market, labor market segregation, and the wage differential. Section 3 illustrates the price for migration – how people look more into the future and pay more attention to economics than to emotions, feelings, family ties and all those sorts of things. And the study is concluded in section 4. The definition of industries used in this research is in accordance with standard broad definition used by the China Statistical Bureau, i.e. the primary sector (agriculture), the secondary sector (manufacturing, construction, and public utilities), and the tertiary sector (the service sector).

## 2. Literature review

Migrant worker is a special phrase in China, pointing to the workers of the agricultural population who enter the city from the village, take jobs to support their living, and have no registered permanent residence of the city. They come with the humble and beautiful dream to move to town, to flounce off their agricultural routine of digging food from the earth, and to change the identity their destiny gave to them. They have jobs which can be described as the 3-D "dirty, dangerous and demanding" (Solinger, 1999), these jobs are very bitter in experience, tiring and low-paid which city habitants do not wish to do. They work with no safety net in case of accidents, job termination; and they still consider their living standard as average compared to the majority of their

families at the countryside. It can be said that they are one of the most important factors which push the fast growth in Chinese economy.

### **2.1. Migrant workers' role in dual labor market in China**

A situation where jobs fall into either the agricultural or the industrial sector is said to be a dual labor economy commonly known as the Lewis Model. The Dual Labor Market Theory argues that migration is driven by conditions of labor demand rather than supply: the character of the economy in advanced areas creates a demand for low-skilled jobs which native workers refuse to take up for several reasons, which includes labor shortages in the case of China, due to the compound effect of the labor-intensive industrial sectors' fast expansion and the improvement in living standards in the cities. Couple with this, is the unwillingness of the urban resident workers to take a low pay job with poor working conditions.

Dual Labor Market Theory links migration to structural changes in the economy. Structural-change theory focuses on the mechanism by which underdeveloped economies transform their domestic economic structures from traditional to an industrial economy. Labor transfer from the traditional economy is due to the overpopulated rural subsistence sector characterized by zero marginal labor productivity, low incomes, low savings and substantial underemployment. Therefore aiding the flow from the rural sector to the urbanized, industrial sector where employment in the high-productivity sector results in growth of output. As immigration becomes desirable and necessary to fill the jobs, policy choices in the form of active recruitment efforts follow the needs of the market (Kurekova, 2010). According to Arthur Lewis and other development economists such as Roy F. Harrod and Evsey Domar, the key to development is increase savings and investment. Hence, the people that migrated to the urban areas would earn high incomes which will generate more savings and in turn providing funds for entrepreneurs to invest.

According to a sample survey estimated in 2012 by the National Bureau of Statistics of China, migrant workers accounted for 42.6% of the workers in the eastern region, 31.4% in central region, and 26% in the western region of China, making the urban population to rise from 18% in 1970 to 26% in 1990, 36% in 2001, 49.7% in 2010 and 51.3% in 2012 (NBS, 2013). Li Jianmin, the head of the Institute of Population and Development Research at Nankai University, claimed that urbanization is an irreversible process and in the next 20 years, China's urban population will reach 75% of the total population (AFP, January 17, 2012). Consequently, this rising number of urban dwellers will put a strain on resources as new or expanded cities would have to be built.

Due to the need for rapid industrialization that is based on heavy industry under the condition of capital scarcity, the state orchestrated a low cost industrialization process, by suppressing the urban wages, and monopolizing the marketing of agricultural goods; thus making the peasants to shoulder the initial costs of industrialization through the household responsibility system. Labor market partition under urban-rural dual economic structure in China creates institutional discrimination, which produces new forms of social and economic inequality for migrants (Tang, 2014).

### **2.2.Labor Market Segregation and the Wage Differential**

The theory of labor market segmentation can be compared with the view of neo-classical economic theory, which postulates the presence of a cohesive market for labor, consisting of buyers and sellers in open competition with each other. It is recognized that labor is not a completely homogeneous commodity: workers differ in their tastes and preferences for leisure rather than work, and for monetary rather than non-monetary rewards; they differ also in human capital, their investment in education and training, work skills, and experience (Gordon, 1998).

Labor market segmentation has also been extensively developed to accommodate different professionals in completely different industries. Some of the major dividing-lines that have been identified are occupational (Huffman & Cohen, 2004; Kleiner & Krueger, 2013), geographical (Forman & Koch, 2012), and industrial (Perman & Stevens, 1989). Labor market segregation and the wage differential between residents have been extensively studied. The Blinder-Oaxaca decomposition approach is the most popular method for analyses. The implementation of this approach requires the estimation of a wage determination equation, which is mainly based on the human capital theory. Brown et al. (1980) assume that there may be unequal access to occupations for minority or disadvantaged workers in the labor market. Thus, they incorporated the effect of occupational segregation in their decomposition to extend the approach (Blinder, 1973; Oaxaca, 1973).

The work of Meng & Zhang (2001) is pioneering in estimating the real impact of potential labor market segregation on wage inequality between urban and rural migrant workers. They employed the data of two conducted surveys in 1999 for Shanghai, and (Brown, Moon, & Zoloth, 1980) methodology to decompose wage differential into the productivity effect, occupational segregation effect, and unexplained or discrimination effect. Their findings revealed that occupational segregation contributes approximately 4.85% of the total wage differential, compared to 82% account for by intra-occupational factors. Meanwhile, Xiangdong & Ruosi (2007) was found that 47% of the wage differential is attributable to between-group effects, and 37% is associated with industry and occupational segregation (unexplained between-group effects). These findings confirm that labor market segregation is indeed an important factor that contributes to the wage inequality between urban resident and rural migrant workers.

### 3. The Price for Migration

It is estimated that the rural-urban labor mobility contributed about 16-20% of the increase in China's GDP (Lee, 1997; Nehru, Kraay, & Xiaoqing, 1997; Cai & Dewen, 1999). For such economic prosperity to be made; there are prices to be paid. The 6th National Population Census of the People's Republic of China estimated that 61.03 million rural children until the age of 17 grew up without their parents. Migrant workers in search for a better life for their family, go to a great distance in search for a better paid job and only get to see their children and parents mostly once a year during the Chinese New Year holiday. Brook (2006) reported a case of a migrant worker called Wang, who with his wife "Sun" had used hugs and sweet biscuits for two weeks to win back their two years old daughter's trust, and for her to finally call them "mama" and "baba" after leaving her behind for almost a year with their parent. Wang admitted that it's hard to bear but there's no other way for them to give their daughter a future. This Wang's case is a common phenomenon in rural China. Now people look more into the future, and pay more attention to economics than to emotions, feelings, family ties and all those sort of

things. However, the sacrifices of the migrant workers seem to be already paying off; according to (Lin, Wang, & Zhao, 2004) estimation, the coast-inland income ratio rose from 1.31 in 1985 to 1.65 in 2000, and the urban-rural income ratio also rose from 1.82 in 1985 to 2.42 in 2000.

In 2012, the National Bureau of Statistics of China (NBS) reported an increase of 13.5% rural per capita income or a real increase of 10.7% when the factors of price increase was deducted, amounting to 7,917 yuan per annual. This increase is still relatively small when compared to 12.6% increase or a real increase of 9.6% amounting to 24,565 yuan annual per capita disposable income for the urban households. Such a rise in inequality may appear at odds with conventional economic theory, which predicts factor price equalization accompanied by the movement of labor from the agricultural to industrial activities. Meanwhile, only a third of rural migrant workers have signed a formal labor contract with their employers, and their average wage is only 58.8% of their urban counterpart. In 2012 migrant worker earn 2,290 yuan on average while urban residents earned 3,897 yuan on average (NBS, 2012). Even so, they are still better off if we compare 2012 situation with that of late 1970s or even 1980s and 1990s. For example, according to data from the NBS, free lodging units are provided for 49.5% of the migrant workers by their employers; although 9.2% of them does not get any form of accommodation, but their housing are subsidized; and remaining 41.3% of them did not receive neither housing unit nor housing subsidies. When compared with 2011, the proportion of housing subsidies improved by only 0.4%. Table 1 shows distribution of migrant workers according to housing unit.

**Table 1: Migrant workers accommodation in (%)**

	2008	2009	2010	2011	2012
<b>Unit dormitory</b>	35.1	33.9	33.8	32.4	32.3
<b>Camp site</b>	10.0	10.3	10.7	10.2	10.4
<b>Production establishments</b>	6.8	7.6	7.5	5.9	6.1
<b>Sharing housing with others</b>	16.7	17.5	18.0	19.3	19.7
<b>Independent rental housing</b>	18.8	17.1	16.0	14.3	13.5
<b>Workers purchased house</b>	0.9	0.8	0.9	0.7	0.6
<b>Township practitioners living outside home</b>	8.5	9.3	9.6	13.2	13.8
<b>Other</b>	3.2	3.5	3.5	4.0	3.6

Source: NBS 2013

The level of migrant workers who benefit from social insurance has also increased, but overall it is still low. The proportion of work-related injury insurance,

medical insurance, unemployment insurance and maternity insurance were 14.3%, 24%, 16.9%, 8.4% and 6.1% in 2012. This is higher than that of 2011 by 0.4%, 0.4%, 0.2%, 0.4% and 0.5%. See table 2 for details.

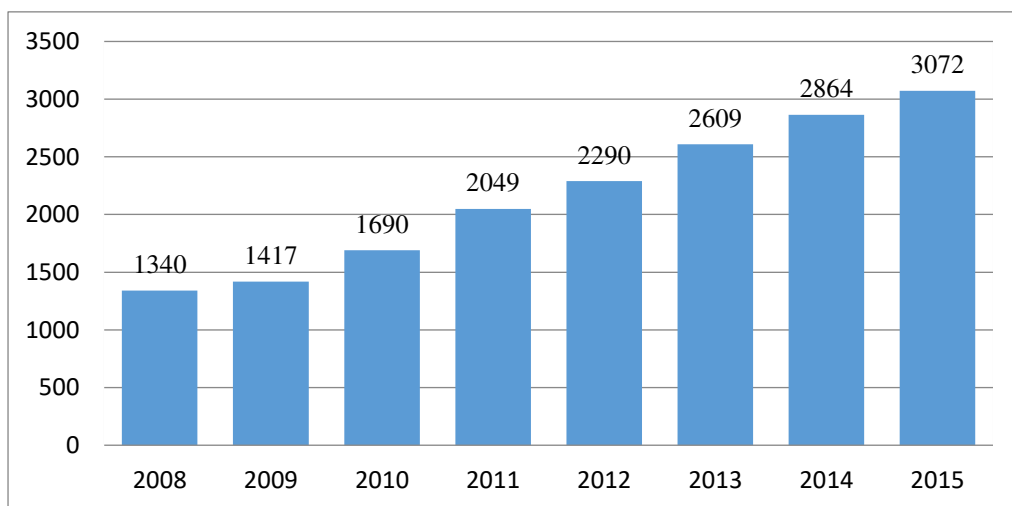
**Table 2: Proportion of migrant workers to participate in social security (%)**

	2008	2009	2010	2011	2012
<b>Pension</b>	9.8	7.6	9.5	13.9	14.3
<b>Injury insurance</b>	24.1	21.8	24.1	23.6	24.0
<b>Medical Insurance</b>	13.1	12.2	14.3	16.7	16.9
<b>Unemployment insurance</b>	3.7	3.9	4.9	8.0	8.4
<b>Maternity Insurance</b>	2.0	2.4	2.9	5.6	6.1

Source: NBS 2013

Since 2008, migrant workers have also experienced steady increase in their income (figure 2). However, this income still varies based on the city of migration. In 2015, a migrant worker in municipalities, which include Beijing, Shanghai, Tianjin, and Chongqing, earned on average 3,072 yuan (Statista, 2016).

**Figure 2: Average monthly income of migrant workers from 2008 to 2015 (in Yuan)**

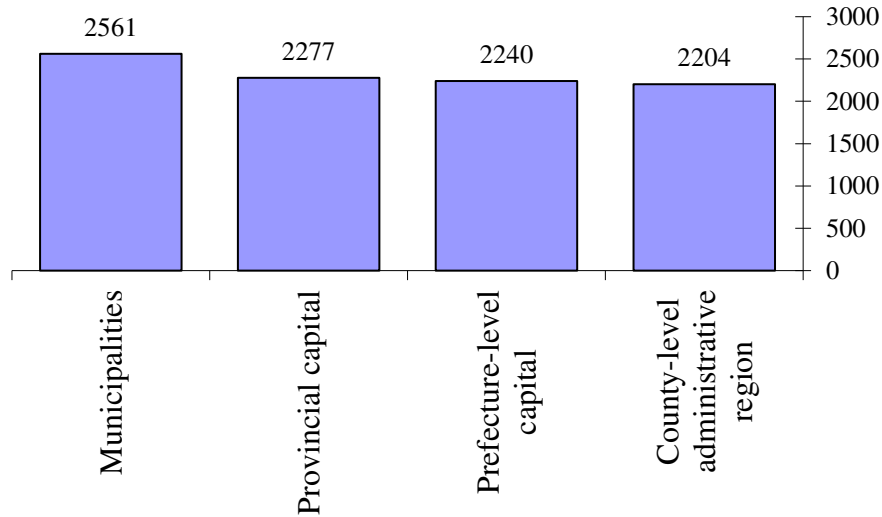


Source: [Statista](#) (2016)

The total migrant workers in 2012 were 262.61 million up by 3.9% over that of 2011. Of which, the migrant workers that left hometown and worked in other provinces were 163.36 million, increased by 3%, the migrant workers that worked in local provinces reached 99.25 million, up by 5.4% (NBS, 2012). Figure 3 reveals the migrant workers average monthly income by administration level.



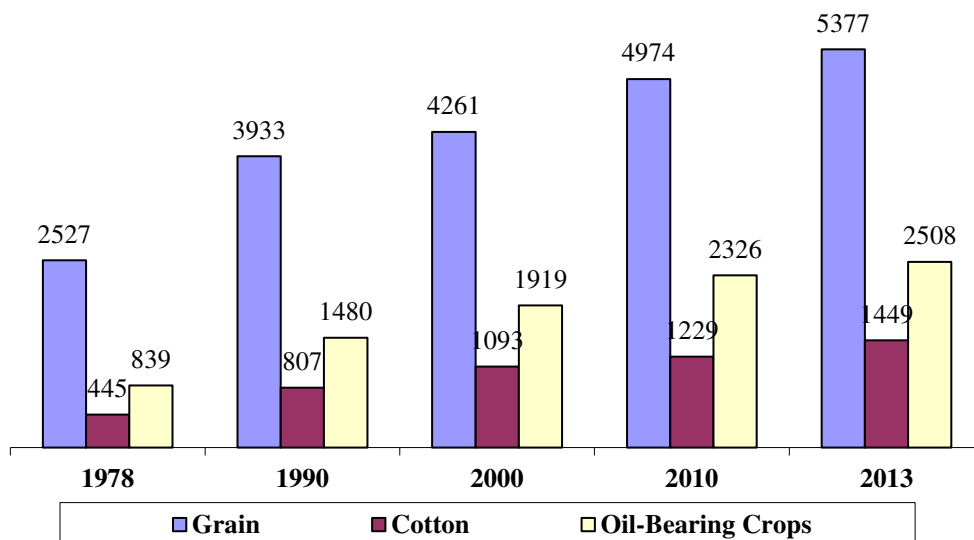
**Figure 3: Average monthly income of migrant workers 2012, by administrative level (in Yuan)**



Source: [Statista, 2016](#)

The rural population is now enjoying the benefit of the rapid economic growth, because of the migrant workers. As a result, the output of farm crop per hectare of sown area has experienced a steady increase over the years (see figure 4). The money also helped the local and national governments avoid dealing with their responsibilities of providing villagers with social services.

**Figure 4: Output of farm crop per hectare of sown area (kg)**



Source: NBS, Statistic Year book 2014

As revealed in figure 2, the peasant migrant obviously has significant gains in wages by moving from a farm job to an urban job. In the 1990s, the peasant migrant



benefited from the large wage gaps, often in the range of 1 to 3 or 4, between an urban unskilled job in a coastal city and a farm job in an inland province (Liu, 1995). Their remittances are a major contribution to the well-being of their family back home. The NBS reported that the average wages of rural migrant workers in cities in 2013 was 2,609 yuan (\$415), growing by 13.9%, while those working in traffic and for the postal service have the highest average income than workers in other industries, reaching 3,133 yuan. Other studies have also indicated that about 50% - 60% of their incomes is remitted back home (Cai & Dwen, 1999). If we use the migrant workers size of 269 million as reported by NBS and remittance figure of 18,785 yuan per year, this will yield 5,053 billion yuan per annual, or roughly an equivalent of 89% of primary sector's GDP.

#### 4. Conclusions

There is a price to pay for each country's development. This price can be said to have been duly paid by migrant workers in China. Through the rural-urban migration and industrialization, China has managed to eradicate extreme poverty from 61% in 1990 to 4% in 2015; which represents a 94% reduction over the time period (United Nations, 2015).

This research showed that the labor transfer from low-productivity sector such as agriculture, to the higher one like industry is a significant source of economic growth and China is no exception. It is estimated by (Lee, 1997; World Bank, 1997; Cai & Dwen, 1999) that the rural-urban labor mobility contributed about 16% - 20% of the increase in China's GDP. The continuing labor market segmentation indicates that there are still untapped growth potentials in labor productivity in China. Johnson (1999) also believed that, if the rural-urban migration barriers are dismantled in the coming three decades, the inter-sectoral mobility can contribute 2% - 3% points of China's GDP growth rate.

The current contribution of the rural migrant labor to the economy is obvious and well recognized. To the national economy, their transfers from the farm to city jobs raised the national economic growth rates and developed China's factor market. The urban economy would not have been able to achieve those impressive growth rates and all the skyscrapers in the cities would not have been built without the low-cost labor provided by rural migrants. The migrant workers obviously have significant gains in wages by moving from a farm to an urban job. The pattern of farmers looking for jobs outside of their hometowns helped industry to drive agriculture, cities to drive the countryside, and developed areas to drive underdeveloped regions. Most of the money made by migrant workers in cities and developed areas filtered back to the countryside, except for workers' day-to-day living costs. As a result, the poorest households with migrant members no longer need to rely on borrowing seed and fertilizer from neighbors for their cultivation.

Capital is now gradually accumulating in the rural areas which make the rate of growth of the economy to converge at steady state; and a direct investment of remittances in agriculture has become a potential way to support production. Therefore, we will be right to say that remittances will help to alleviate capital constraints and provide security in risky agricultural sectors where credit and insurance markets are not developed.

With all the above, this study can conclude that the rural income and development are highly dependent on migrant remittance and China's economy development would not have been possible without labor migration.

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