The Oxford Companion to the Economics of China

Edited by
Shenggen Fan
Ravi Kanbur
Shang-Jin Wei
Xiaobo Zhang

OXFORD
UNIVERSITY PRESS

62 Rural-urban migration in China

Xin Meng

62.1 History and institution

One of the most important forces driving China's miraculous growth is rural-urban migration (Bosworth and Collins, 2008). Hundreds of millions of unskilled workers have moved from low-productivity agricultural sectors to high-productivity urban sectors, creating significant productivity gains in China.

Although the total number of rural-urban migrants reached 145 million in 2009 (National Bureau of Statistics, 2010), accounting for over a quarter of the urban labour force, the large scale rural-urban migration is a rather new phenomenon. In 1990 the number of rural-urban migrants was only 25 million,¹ and after 9 years by 1999 it had doubled to reach 52 million, and a decade later it had tripled (World Bank, 2009).

Rural-urban migration has been a controlled process since the early 1950s when the Communist Party rose to power. Since then, the Chinese economy has been divided into rural and urban economies. During the Mao era, rural people received lower incomes and no welfare from the state, while city-dwellers had higher incomes and a state-provided welfare system. This rural-urban segregation was sustained by the household registration system—*Hukou*. Individuals born in rural areas received 'agriculture or rural *Hukou*' while those born in cities received non-agriculture or urban *Hukou*. Only urban *Hukou* holders were allocated food coupons. Without food coupons, one could not purchase any food in cities. This way rural-urban migration was easily controlled, and the need to do so was partly related to the sustainability of the very unequal treatment of the rural and urban populations.

It was not until the 1990s when the influx of foreign direct investment generated significant demand for unskilled labour that the government loosened its control over rural-urban migration. However, even today the *Hukou* system still restricts labour mobility, although in a more subtle way. Migrants in cities are treated differentially from their urban *Hukou* counterparts. They often obtain lower-end jobs and are not entitled to social welfare and social services which are available to urban *Hukou* people. As such, migrants and their families have no access to unemployment, healthcare, or pension support in cities; and their children only have limited access to urban public schools.

¹ Author's own calculation based on a 1 per cent sample of the 1990 population census data.

62.2 Who migrates and how they are doing in cities

In response to institutionalized discrimination, most migrants come to cities alone, leaving their families behind in the rural villages. For example, data from the RUMiCI² 2009 migrant survey indicate that of the 5,214 migrant household heads, around 56 per cent are married, and of these only 63 per cent have their spouse with them. Among children of migrants who are aged below 16, 56 per cent are left behind in rural villages. Because of these left-behind families, migrants have a special demographic structure.

Migrants normally come to cities in their late teens and return to their home village at marriage and child-bearing age for women (around 25–30 years of age) and when children start schooling for men (in their mid to late 30s). RUMiCI rural household survey data indicate that at the age of 25, 58 per cent and 50 per cent of the male and female rural labourers, respectively, had migrated out of their own counties to work in 2009, whereas at 35 years of age, only 30 per cent males and 20 per cent of females had migrated. In total 22 per cent of the rural labour force worked in cities in 2009 (Meng, 2012).

On average, migrants in cities in 2009 are 32 years of age, and around 59 per cent are male. Their mean years of schooling is 9.2 years whereas for urban *Hukou* workers it is 11.5 years.

Migrants work extremely long hours, mainly as manual labourers, and earn much lower wages than their urban counterparts. This was true in the 1990s (Meng and Zhang, 2001) and is still the case now. In 2009, 31 per cent of urban workers held a professional or managerial job while the proportion for migrants is a mere 3 per cent; 91 per cent of migrants work as production or service workers, while the proportion for urban workers is 35 per cent (Frijters et al., 2011b). Migrants, on average, work 63 hours a week, while their urban *Hukou* counterparts work 43 hours, almost one-third less. Although this difference may seem to be due to the fact that more migrants are self-employed (28 per cent) than their urban counterparts (6 per cent), the difference remains large when comparing hours of work for wage-salary workers (57 vs 42 hours). The average hourly wage for migrant wage-salary earners is 7.4 yuan in 2009, while for their urban counterparts it is 16.6 yuan.

None of the above differences can be fully explained by the observed differences in human capital (such as age, city work experience, and education); physical capital (height and health); or regional variations (cities where they work). For example, after controlling for these observed differences migrant wage-salary earners still earn 6.4 yuan less per hour than their urban counterparts, almost 40 per cent (Frijters et al., 2011a). Furthermore, the RUMiCI survey shows that only 13.5 per cent of migrants have unemployment

² Rural-urban Migration in China and Indonesia (RUMiCI) project is sponsored by the Australian Research Council, AusAID, and the Ford Foundation and was carried out by the Research School of Economics, Australian National University. See <<http://rse.anu.edu.au/rumici/>> for detailed information on the project.

insurance, only 17 per cent have work injury insurance, and only 12 per cent have city health insurance. These ratios for urban local workers are 66 per cent, 87 per cent, and 64 per cent, respectively.

Institutional discrimination increases the rural workers' opportunity cost of migration. As a result, the number of rural-urban migrants may be significantly smaller than it could have been. Had there been no institutional restrictions deterring marriage and child-bearing aged rural women, parents of school-aged children, and children of elderly parents from migration, the proportion of rural workers who would choose to migrate might well be double its current level.

62.3 Turning point?

As the demand for unskilled labour increases in cities, and institutional restrictions to migration keep many rural workers from migrating, the Chinese are beginning to experience unskilled labour shortages and the wages of unskilled workers have begun to rise. Since 2004, many scholars have argued that China has reached the Lewisian turning point, whereby the rural surplus labour was absorbed and urban and rural unskilled wages began to rise.

The argument that China has reached the turning point is based on increases in the wages of unskilled migrant workers in the past decade and the belief that an oncoming period of rapid ageing will lead to a labour shortage. There is some evidence that rural wages are also increasing. Furthermore, it has also been argued that improvements in rural education will reduce the supply of unskilled workers (Zhao and Wu, 2007; Cai, 2010; Du and Wang, 2010; Zhang et al., 2011).

Not all scholars believe that the Lewisian turning point has arrived (Minami and Ma, 2010; Yao and Zhang, 2010; Knight et al. 2011; Golley and Meng, 2011; Ge and Yang, 2011). In particular, using household level data these studies provide evidence that the relative wages of unskilled to skilled workers in cities have been decreasing rather than increasing over the period 2000–09; only around 20–23 per cent of the rural *Hukou* labour force permanently moved out of their own county into urban cities. Those who migrated stayed in cities, on average, for only around seven years. Golley and Meng (2011) suggest that if institutional change can reduce the churning of migrants so that the average duration of migration is doubled, the supply of migrant workers in cities would be doubled. In fact, the RUMiCI survey asks migrants to state the length of time they would like to spend in cities if the policy allows them to choose. A figure of 63 per cent reply that they would choose to stay in the cities forever. In other words, government policy can do a great deal to ease the migrant supply 'shortage'.

62.4 Future challenges

As a result of the institutionally induced 'labour shortage', city firms are moving towards more capital- and technology-intensive technologies. Labour intensive investment has begun moving to other developing countries and new investments have much higher human capital requirements. Will China's future labour supply be well equipped for this important change?

To answer this question, one needs to know the primary source of the future labour force. The One-Child Policy (OCP) was strictly enforced for the urban *Hukou* population but not for the rural *Hukou* population. Consequently urban *Hukou* births shrank significantly after the OCP. The 2000 Population Census data indicate that for the population aged 20–29 (those who were born just before the OCP) the ratio of urban to rural *Hukou* population is 38 per cent, whereas for those who were aged 10–19 and 0–9 in 2000 the ratios reduced to 25 per cent and 23 per cent, respectively. The population pyramids in Figure 62.1 show that the future labour force will mainly come from the current rural *Hukou* population.

Figure 62.1. Population pyramids for rural and urban *Hukou* populations, 1 per cent of the 2000 Census data

Source: Extracted from Meng (2012).

How well is the rural *Hukou* population equipped for the future changes? The answer to this question is not very encouraging. In 2000, the rural *Hukou* population between 20 and 65 years of age had on average seven years of schooling while their urban *Hukou* counterparts had eleven years. Nineteen per cent of the urban *Hukou* population has education to a three years of college or above, while this ratio is 0.24 per cent in the rural population. Among the younger generation, for those born between 1970 and 1980, the ratio of urban *Hukou* population with a three-year college degree or above is 28 per cent while for rural population it is 0.54 per cent.

The significant rural–urban divide in education, together with the transition of Chinese industry towards a capital- and technology-intensive structure induced by institutional restrictions on migration, pose enormous challenges for China's future rural–urban migration and economic growth. If the institutional restrictions on migration cannot be dismantled quickly and rural education continues to lag behind, many rural workers will be confined to rural areas, the urbanization process will slow down, and rural under-employment and urban labour shortages will co-exist for a long time (Meng, 2012). Thus, an important challenge facing the Chinese government in the next few decades is to make policy changes so that the rural and urban populations are treated equally in all dimensions and to speed up the quantity and quality of education in rural areas.

■ REFERENCES

- Bosworth, B. and S. M. Collins. 2008. Accounting for growth: comparing China and India. *Journal of Economic Perspectives* 22(1), 45–66.
- Cai, F. 2010. Demographic transition, demographic dividend, and Lewis turning point in China. *China Economic Journal* 3(2), 107–19.
- Du, Y. and M. Y. Wang. 2010. A discussion on potential bias and implications of Lewisian turning point. *China Economic Journal* 3(2), 121–36.
- Frijters, P., T. Kong Tao, and X. Meng. 2011a. Migrant Entrepreneurs and Credit Constraints under Labour Market Discrimination. IZA Discussion Papers 5967, Institute for the Study of Labor (IZA).
- Frijters, P., X. Meng, and B. Resosudarmo. 2011b. The effects of institutions on migrant wages in China and Indonesia. In *Rising China: Global Challenges and Opportunities*, edited by Golley Jane and Ligang Song, 245–84. Canberra: ANU ePress.
- Ge, S. and D. T. Yang. 2011. Labour market developments in China: A neoclassical view. *China Economic Review* 22(4), 611–25.
- Golley, J. and X. Meng. 2011. Has China run out of surplus labour? *China Economic Review* 22(4), 555–72.
- Knight, John, Quheng Deng, and S. Li. 2011. The puzzle of migrant labour shortage and the rural labour surplus in China. *China Economic Review* 22(4), 585–600.
- Meng, X. 2012. Impact of economic reform on labour market outcomes in China. *Journal of Economic Perspectives* 26(4), 75–102.
- Meng, X. and J. Zhang. 2001. Two-tier labour markets in urban China: Occupational segregation and wage differentials between urban residents and rural migrants in Shanghai. *Journal of Comparative Economics* 29, 485–504.
- Minami, Ryoshin and Xinxin Ma. 2010. The turning point of Chinese economy: compared with Japanese experience. *China Economic Journal* 3(2), 163–80.
- National Bureau of Statistics. 2010. *China Statistics Yearbook*. Beijing: China Statistical Press.
- World Bank. 2009. *From Poor Areas to Poor People: China's Evolving Poverty Reduction Agenda*. Washington, DC: World Bank.
- Yao, Y. and K. Zhang. 2010. Has China passed the Lewis turning point? a structural estimation based on provincial data. *China Economic Journal* 3(2), 155–62.
- Zhang, X., J. Yang, and S. Wang. 2011. China has reached the Lewis Turning Point. *China Economic Review* 22(4), 542–54.
- Zhao C. B. and Z. G. Wu. 2007. Special report: analysis of wages of rural–urban migrants. In *Green Book of Population and Labor (2007) Lewisian Turning Point and Its Policy Challenges*, edited by Cai Fang and Du Yang (in Chinese). Beijing: Social Science Academic Press (China).