

Migration and Socio-economic Insecurity: Patterns, Processes and Policies

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Abstract

The unique *hukou* system, a legacy of the Chinese planned economy, still requires rural and urban residents to register their residence separately and has legitimate discriminatory policies against migrant workers during the ongoing reform period. Although the direction and pattern of migration in China share common features with what has been happening in other developing countries, this institutional factor has strongly influenced the Chinese process of migration and has made migrants a more socially vulnerable group. The reform of the *hukou* system would not only bring efficiency gains, but also eliminate the institutional root of migrants' vulnerability in the vast regions of China.

1. Introduction

The authorities strictly controlled population migration and labour mobility in China before the 1980s – during the era of central planning. Public security departments controlled migration and it was almost impossible to migrate from rural to urban areas without authoritative plans or official agreement. The departments of labour and personnel administration controlled sectoral transfer of labour force and there was no free labour market. The most strictly controlled were resident transfer from rural to urban areas and job transfer from farmers to non-agricultural workers. This control has functioned through the Household Registration System (*Hukou* System), a unique institutional arrangement that strictly segregates rural and urban areas.

Under such a system, those persons who legally changed their *hukou* identity and migrated to other places through related authoritative permissions were conventionally defined as migrants. The process of migration, therefore, was the result of planned urbanization and labour force distribution. Besides these migrants, there were also people floating among regions - those that travelled between regions and between rural and urban areas temporarily, and those who entered the black labour market without any authentic permission. Under the planned system, the migrants and the floating population were two clearly identified groups of people without any statistic overlapping. The so-called floating population was small and could not result in long-term or permanent changes in the place of residence. Hence, it was adequate to use residence registration statistics to understand the level of urbanization and regional distribution of population.

Since the reforms began in the late 1970s, the planned economic system has been changed in many respects. The scope of migration has extended and its size enlarged. Part of the mobility can be reflected in residence registration statistics - the *hukou* system. Even so, there is another statistically invisible population who bear some of the characteristics of migrants in economic and demographic terms and are referred to as the floating population. So at present, when studying migration and population flow in China, the two should be viewed as having some common characteristics and significance, but attention should be paid to their differences. In addition, when presenting figures, they often appear both overlapping and independent from each other, because there has no consistent criteria for collecting data.

In recent years, a lot of studies have been undertaken on migration and population mobility. Researchers and policymakers regard the labour mobility from the agricultural sector to a rural industry and from rural to urban areas, which has formed a floating population outside government control, as among the most positive results of China's economic reform in the past two decades. Due to a lack of official statistics, various surveys suggest estimates ranging from 40 million to 100 million by different definitions and from different research projects (see, for example, Chan, 2000). In spite of this variation of estimation, most observers agree that the current flow of rural labour migrants is the largest in China's and the world's history (Roberts, 2000). The new phenomenon has drawn a great deal of attention from both policy-makers and researchers, who have an interest in interpreting the motivation and process, demographic characteristics, social and economic impact, and general trends of the population flow.

This paper provides a general picture of migration/labour mobility in post-reform China and then discusses some important aspects in detail. Section 2 examines various statistical estimates of migration for contemporary China and section 3 documents the institutional root for restricting migration before the reform and emerging migration trends after the reform. This is followed by section 4, which discusses the geographic features of migration in regard to regional disparity in incomes after the reform, and section 5 mainly describes demographic characteristics of migration in post-reform China. Section 6

reviews the economic and social vulnerabilities of migrant workers after they migrate from their villages looking for a better life in the cities. Section 7 discusses policy changes within the framework of political economy. The final section concludes with some policy implications.

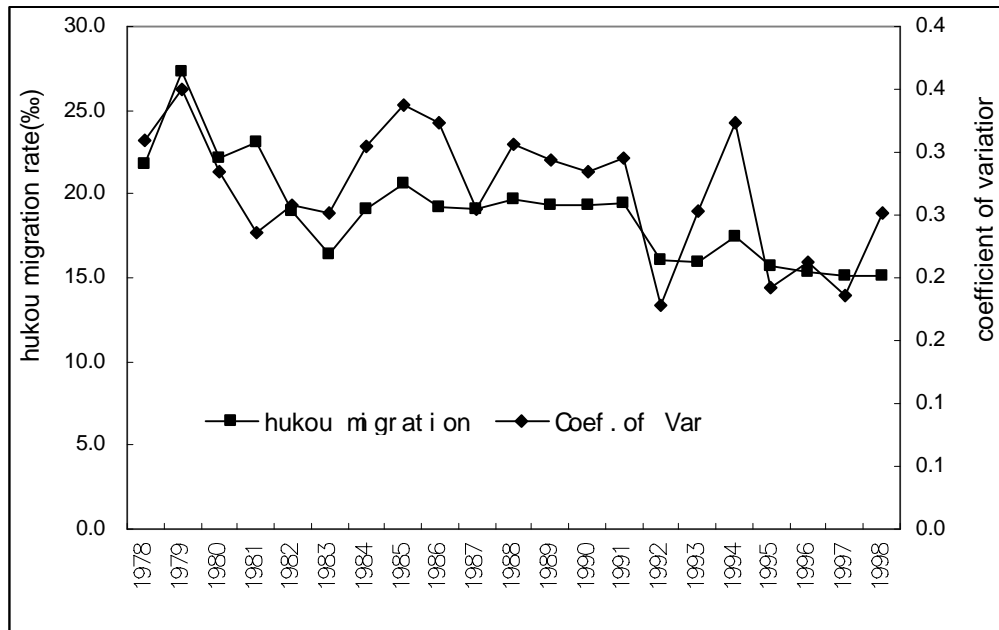
2. Estimates of migrants

Estimates for migrants vary in accordance with different definitions of migrating length (minimum time of stay), geographic boundary (cross-township or county), and official identity (with or without *hukou*). Three categories that are worth examining are:

- ▣ planned hukou migrants;
- ▣ permanent migration with or without hukou change;
- ▣ floating rural labour force.

Migration with *hukou* change is planned migration approved by departments of police annually, reflecting officially recognized population reallocation. The number of migrants with *hukou* has slightly declined, from the annual rate of 22 per thousand in 1978 to 15 per thousand in 1998 during the reform period. In the same period, the differentiation in *hukou* migration rates among regions has become smaller, a trend that the policy is implemented indifferently in each region (Figure 1). According to an empirical study (Cai et al., 2001), the planning authority determined an annual quota of *hukou* migrants mainly in accordance with grain production fluctuation in pre-reform period and with unemployment pressure the government felt in the post-reform period. That is, the government tends to approve more *hukou* migrants when agricultural products were abundant before the reform and when there are more employment opportunities created afterwards. In 1998, a total number of 17.13 million *hukou* migrants were approved to migrate officially and permanently settle in places rather than their home counties.

Figure 1. *Hukou* migration rate and its regional variation, 1978-98



Source: Yao, Xinwu and Yin Hua (ed.) (1994); Ministry of Public Security, P.R.C. (MOPS) (various issues)

There have been some national surveys that give estimates of the magnitude of migration for longer periods. Migration statistics of the Fourth National Census of China, which includes those who had migrated to the enumeration areas during the period of July 1st, 1985 - July 1st, 1990 and lived for at least a year there, show that there were a total of 34,130 thousand in-migrants or out-migrants in China in 1990, among whom 16,720 thousand were rural-urban migrants. Rural-urban migrants constituted 59.24 per cent of the total urban in-migrants (PCOSC, 1993). Because the 1 per cent National Population Sample Survey in 1995 excluded those persons who moved within the boundary of city from its migration statistics, the total in-migrants or out-migrants during 1990-1995 was 36,430 thousand.¹ Compared with the figure for 1985-1990, there seemed no much increment immigration for 1990-1995. In consideration of the changed concept of migration for data collection, which has neglected large volume of intra-city migration, the figure for 1990-1995 obviously underestimated the real situation of migration, and then underestimated the increment in migration volume in these years.

Although there are some differences in the estimates of the floating population, the commonly accepted figures range from 80 million to 100 million for mid 1990s, e.g. estimate by the Central Committee of the Communist Youth League of China is 80 million (Cui, 1995). Estimate by He et al. (1994) is also 80 million. The Policy Research Office of the Secretariat of CCCP estimates that the total floating population in 1992 was about 60-70 million (Pan, 1994), then in a rate of 10 per cent increase, the figure for 1995 would close to 80 million. Estimates by Shi (1995) and Xiao (1995) are 90 million and 100 million respectively. If we hold 80 million as mostly accepted estimation, it is safe to say that cross-township floating population with a few days length was 100 million in the late 1990s (Chan, 2000). Given the fact that rural labourers move back and forth between home township and off-township places, this estimate best characterizes the floating process in numerical terms. Above figures all came from research based estimation and featured by relatively small sampling deduction.

There are also some official surveys with larger and wider samplings. Based on their surveying systems, State Statistic Bureau (NBS), Development Research Centre of State Council (DRC), Ministry of Agriculture (MOA), and Ministry of Labour and Social Security (MOLSS) have collected data on floating population. The estimates are summarized in a manner of time series (Table 1). Although those figures are by no means consistent, they reflect policy-based estimation and a somewhat changing migration pattern. For example, from the panel surveys conducted by State Statistic Bureau and Ministry of Labour and Social Security, one can observe a clear trend that both total and cross province numbers of floating labourers increased between 1997 and 2000. By reckoning from sampling data of the 2000 census, there were 124.6 million internal migrants, 73.4 per cent of whom were inter-provincial migrants. 52 per cent of total intra-provincial migrants and 78 per cent of total inter-provincial migrants were rural-to-urban migrants, respectively (COSC et al., 2002).

¹ In-migrants and out-migrants represent those who have lived at the surveyed place with or without registration and those who have left their registered place for more than half a year, respectively. So either in-migrants or out-migrants are not necessarily *hukou* migrants.

Table 1. Official estimates for floating population (10,000)

Sources	Year	Beyond township	Beyond county	Beyond province
DRC	1983	200	-	-
DRC	1989	3 000	-	700
MOA	1993	6 200	4 300	2 050
MOLSS	1994	8 000	5 200	2 400
1% Sampling	1995	7 000	5 400	2 500
Agr. Census	1996	7 223	4 487	2 364
NBS & MOLSS	1997	3 890	2 602	1 488
NBS & MOLSS	1998	4 936	3 218	1 872
NBS & MOLSS	1999	5 204	3 622	2 125
NBS & MOLSS	2000	6 137	4 513	2 833
MOA	2000	7 550	-	-

Sources: Research Team of Ministry of Agriculture (2001)

3. Institutional root for migration and changing migration trends

During the pre-reform period, the central government adopted a heavy industry-oriented strategy, which is at the root of China's rural-urban divide. This strategy aimed at achieving rapid industrialization by extracting agricultural surplus for capital accumulation in industry and for supporting urban-based subsidies. The main enforcement mechanisms were a trinity of institutions that included the Unified Procurement and Unified Sale of Agricultural Commodities, the People's Communes, and the Household Registration System (*hukou*). Shortly after the founding of the People's Republic, the state acquired agricultural products with lower prices in the commodity markets. When the purchases became increasingly difficult in 1953, the state instituted the Unified Purchase and Unified Sale System, which became fully operational in 1958. Under this system, the government monopolized the whole process of production and procurement of agricultural commodities in rural areas and, at the same time, controlled the distribution of food and other agricultural products through rations in cities. Because this system lowered the cost of living in urban regions, the government had to implement corresponding policies to manipulate inter-sectoral labour movements. Because the control of labour flows was a key link for implementing the development strategy, a formal system of Household Registration System was established in the late 1950s that in effect designated the legal place of residency and work for the entire population. A rural registration status would restrict a family and its future generations to live in the countryside. This package of policies and institutions enabled the state to effectively lower down agricultural prices and to tightly control the mobility of production factors, especially for labour.

Under the traditional system, farmers could not change residence or work unit unless these changes were part of the planning formulated by the state. Furthermore, peasants were also allocated specific crops in line with state agricultural policies that emphasized grain production over non-grain and non-cropping production. As a result, residential movement could only take place within an officially approved registration change that came to the meaning of migration during this period². Until the beginning of rural reform, there were no noticeable labour flows among sectors and regions. This strategy resulted in massive distortions in the factor market with an excessive concentration of capital in urban

² In practice, residential movement across regions was controlled by departments of public security, it was impossible for rural residents to move to cities without official approval; labor mobility across sectors was planned by departments of labor and personnel, there was no labor market allowed.

areas and of labour in rural areas. In 1978, the urban sector employed 95 million workers while the rural sector had approximately 306.4 million labour force. In contrast, the total value of fixed assets in the state-owned enterprises (primarily urban) counted for 448.82 billion yuan while the value of the fixed assets in agriculture was only about 94.98 billion yuan (NBS, 1993). These numbers indicate a ratio of 3.2:1 in labour and 1:4.7 in capital between the rural and urban sectors. Prior to the reforms in 1978, urban workers' productivity and earnings far exceeded that of their rural counterparts.

The above discussions suggest that the traditional institutions introduced a level of segmentation between rural and urban residences in the Chinese economic system. Therefore, along with reforms that began correcting certain elements of the inefficient system, we would expect an increase in migration and population flow between rural and urban areas. That is what happened in the post-reform period.

China's economic reforms started with the introduction of the Household Responsibility System in rural areas in the late 1970s. As a consequence of the increase in labour productivity of agriculture, a large part of farm labour force moved from the cropping sector to other sectors such as forestry, husbandry, fishery and, most importantly, to the rural industrial sector. In the 1980s, flows in rural labour were confined within rural areas. Migration to urban areas had not yet become a common phenomenon, in accordance with the state policy "leaving the land but not the hometown". In this period of development of township and village enterprises (TVEs), one can see a clear feature of TVEs in absorbing labour. Output value per worker in TVEs as a whole had increased in real term since the beginning of reforms although at a relatively slower rate during the 1980's. As the TVE sector has grown, so has the requirement to upgrade quality of products and level of technology in the sector. As a result, the growth of capital has been faster than growth in number of labourers in the TVE sector. Original value of fixed assets per worker of TVEs in real term increased from 812 yuan in 1978 to 1312 yuan in 1989 and 2896 yuan in 1998. During the periods of 1978-1989 and 1989-1998, this indicator increased annually 4.5 per cent and 9.2 per cent, respectively. This shows that the capacity of the TVE sector to absorb rural labour has decreased. More recently, the absolute numbers of employees in TVEs has even declined. Rural labourers engaged in TVEs were 92.65 million in 1990, and then the number increased to 128.62 million in 1995, and declined as 125.37 million in 1998.

At the same time, the household registration system has been relaxed gradually, making it possible for residents of both rural and urban areas to move freely without having to change their household registration. For instance, with the development of small towns, a series of policy changes have been made to approve residence registration in towns fulfilling certain conditions, such as, giving up contracted land in home village, finding a stable job and housing steadily. The removal of rationing and reforms in urban welfare provision has also made it more feasible for rural labour migrants to make a living in the cities. A division of agricultural and non-agricultural household registrations no longer exists after the removal of rationing system of food distribution in early 1990s, while the division of rural-urban residency now is still identifiable. In consequence, rural labour has begun to move in a much greater range and migration in China is taking its present shape.

According to a newly released survey by NBS and MOLSS (2001), 23.6 per cent of total rural labourers with *hukou* registered in rural areas were engaged in non-agricultural sectors in 2000. Of those occupationally shifted labourers, 37.7 per cent were engaged in industry, 14.7 per cent in construction, 36.4 per cent in services, and 11.3 per cent in other sectors. In terms of geographic distribution, 45.9 per cent of those labourers engaged in non-agricultural sectors migrated out of their home townships.

4. Spatial patterns

In Chinese statistics and policy analysis, it is a usual practice to classify the country into three categories according to economic development levels and geographical features. In the recent policy definition (**LOWD, 2002**), the East includes Beijing, Tianjin, Liaoning, Shanghai, Jiangsu, Zhejiang, Shandong, Fujian and Guangdong; the Central area covers Hebei, Shanxi, Jilin, Heilongjiang, Anhui, Jiangxi, Henan, Hubei, Hunan; and the West includes Guangxi, Inner Mongolia, Sichuan, Chongqing, Guizhou, Yunnan, Tibet, Shaanxi, Gansu, Qinghai, Ningxia and Xinjiang. According to the observation by Chinese geographers (Wu, 1998, p.44), there is a line called Hu Huanyong line in the name of its inventor that links Heihe, Heilongjiang province and Tengchong, Yunnan province and divides approximately China's territory into two halves. The southeast part of the territory has 43 per cent of total area and 94 per cent of total population, and the northwest part 57 per cent of total area and 5.7 per cent of total population. According to the Fifth Census (NPMPC 2001, p. 20), the East is the most populous region with a population density of 452 persons per sq. kilometre, 73 per cent higher than the population density of central region (262 persons per sq. kilometre) and 7.8 times higher than that in western region (51 persons per sq. kilometre).

Figure 2. Hu Huanyong population divide line



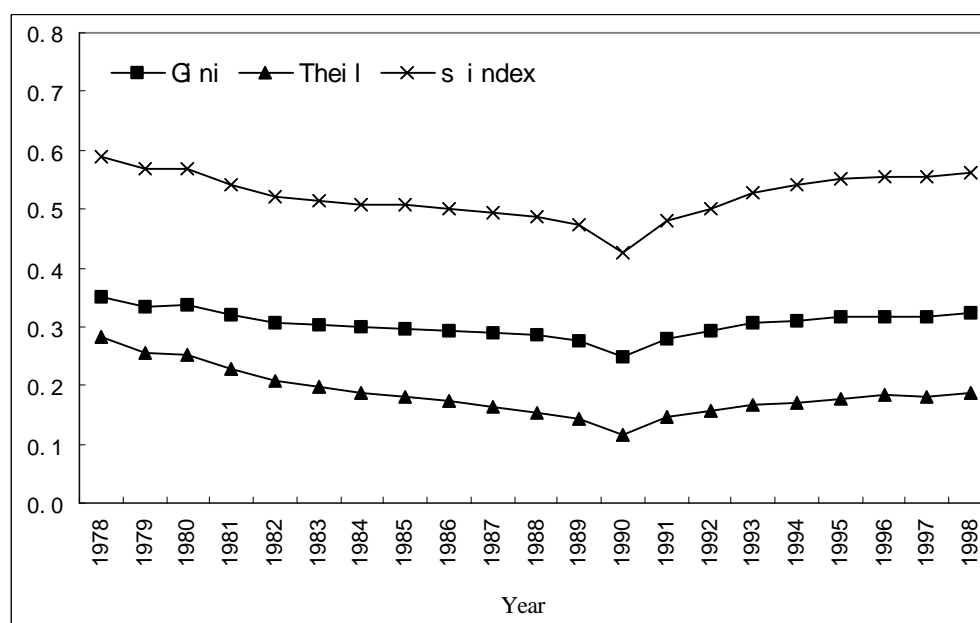
Source: Wu, 1998

Spatial patterns of migration refer to migration patterns such as county-to-county, province-to-province, rural-to-urban, rural-to-rural, and within and among western, central and eastern regions. What these patterns look like is derived from the characteristics of regional disparity of income. Apart from the push force caused by the increase in labour productivity in agriculture and the reform of the household registration system, external pull forces exist alongside. The mainstream theories of migration see the difference in expected income between regions as the driving force of migration. So, to examine the regional disparity is a key to understand spatial patterns of internal migration in China.

The regional disparity of development was present also before the reform period in China. Before economic reforms were introduced, the large gap between rural and urban areas, as well as between regions, remained despite the central government attempts to redistribute fiscal and physical resources between regions (Tsui, 1991). At that time regional disparities, however, did not result in a significant migration rate, due to the institutional constraints (Zhao, 1997). Only after the introduction of economic reform, have regional disparities led to significant migration, because many aspects of the institutional barriers deterring migration have been changed. During the outset of reform in the late 1970's, the central and western regions of China played a key role in the reform process. The rural household responsibility system was initiated from below poor regions such as Anhui and Sichuan. Experiments with fiscal decentralization, which among other things let enterprises keep part of the profits, also began in Sichuan. As the reform process deepened, however, the eastern regions of China have taken the initiative, in particular after price and fiscal reform were implemented. After the mid-80s, township and village enterprises, which had a good basis in the coastal regions, have become a driving force in China's economy. The development strategy formulated by central authorities gave the eastern regions favourable policies, moving the gravity of economic reforms and development eastward. Favourable policies to the coastal regions at the expense of central and western regions have led to a discrepancy of economic growth and income between regions. The gap between regions has thus widened in the later part of the reform period.

The widening regional disparity during the reform period can be understood through the analysis of two trends. First, we can view the changes in inequality indices calculated by province. As shown in Figure 3, during the period from 1978 through the early 1990s, the regional disparity decreased to its narrowest level with a sharp drop in the coefficient of the log income (S Index) from 0.59 in 1978 to 0.43 in 1990, in the Theil Entropy Index from 0.28 in 1978 to 0.12 in 1990, and in the Gini Coefficient from 0.35 in 1978 to 0.25 in 1990. From the early 1990s, the income gap increased again to a high of 0.56 (S index), 0.19 (Theil Entropy) and 0.32 (Gini Coefficient), respectively, in 1998. Over the entire post-reform period the measures of income disparity among Chinese provinces has shown a "V" shaped path characterized by a decline first and an increase later.

Figure 3. The trend of regional disparities of per capita GDP in China, 1978-98

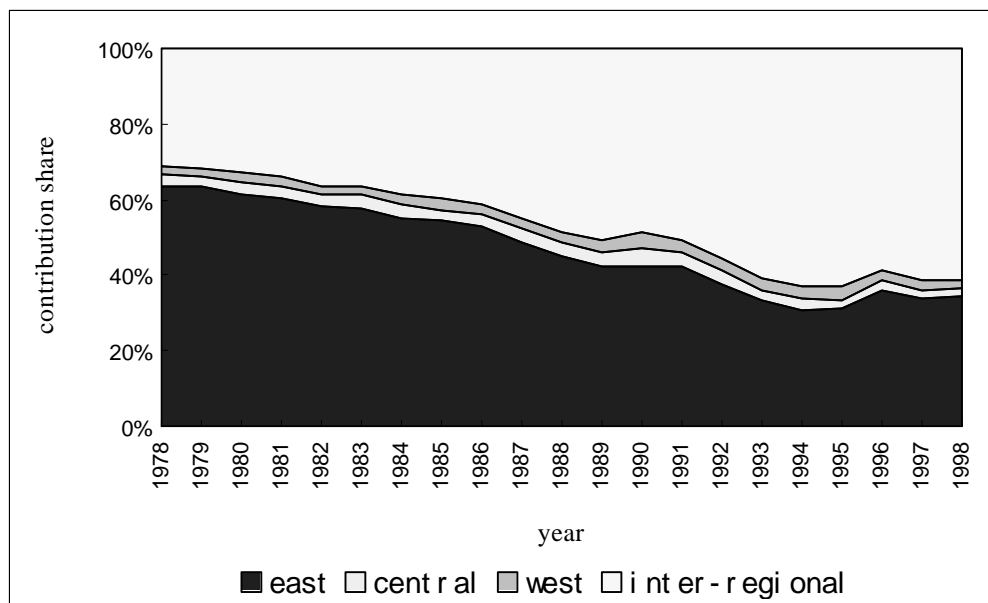


Source: Authors' calculation based on the *Provincial Data in 50 years of People's Republic of China*: China Statistic Press, 2000.

The second trend involves looking at changes in the components of regional disparity by decomposing measures of inequality into four sources – intra-eastern, intra-central,

intra-western, and interregional disparities. While the general regional disparity has experienced a pattern of fall and rise in the past 20 years, inter-provincial disparities within all three (eastern, central and western) regions have narrowed – so called club convergence, implying a dominant role for interregional disparity (Lin et al., 1997 and Cai and Du, 2000). Further decomposition of the Theil Entropy Index³ identifies the contribution of within and between region effects to income inequality, and demonstrates that intra-western and central contributions have been insignificant, ranging from a combined contribution proportion of 5.34 per cent in 1978 to 2.19 per cent in 1998, while intra-eastern and interregional disparities have counted for over 95 per cent of the total disparity (Figure 4). While examining relative importance of sources of overall regional disparity, we found a boundary in the late 1980s and early 1990s dividing the whole period into two periods with a dominant role of disparity within eastern region in the first period and of disparity among the three regions in the second period. Drawing a horizontal line at the 50 per cent contribution level clearly demonstrates the ebb-and-flow of changing contributions from two sources of inequality.

Figure 4. The contributions of intra- and inter-regional disparities to income inequality in China, 1978-1998



Source: Authors' calculation based on the *Provincial Data in 50 years of People's Republic of China*: China Statistic Press, 2000

Given that the existence of regional disparity provides different employment opportunities and income levels among regions, the features of regional disparities have characterized the direction and patterns of migration among regions (Cai, 1999).

First, considering that the regional disparity between counties of the same provinces consists of important share of the overall disparity in China (Lin, et al., 1997), and the important role that distance plays in the migration decision process, intra-provincial migration is a major part of the total migration. Analysing data of 1 per cent population sampling survey in 1995 shows the large proportion of intra-provincial migration in terms of both rural-urban migration and rural-rural migration - 68.4 per cent of the total migrants moved only within their home provinces. If we divide total migrants into rural-to-urban and rural-to-rural migrants, 75.3 per cent of rural-to-urban migrants migrate within their

³ See Shorrocks (1980) for technical details of decomposition.

home provinces, and 54.6 per cent of rural-to-rural migrants migrate within their home provinces. However, since then migration beyond provincial boundary has increased. According to the survey by Ministry of Labour and Social Security (MOLSS, 2001), the proportion of cross province migrants in total rural labour force increased from 3.2 per cent in 1997 to 3.9 per cent in 1998, 4.5 per cent in 1999, and 5.8 per cent in 2000.

Second, because of the role of regional disparities between eastern, central and western regions, it is likely that migration between these three regions will consist mainly of inter-provincial migration flows. The direction is that from western to central to eastern areas. In order to examine the direction of migration flows when they go beyond the borders of provinces, we exclude data on migration within provinces from the data processing. Then flows within and between eastern, central and western areas can be observed more clearly since we are only looking at inter-provincial data. Summarizing the statistical results, the direction of migration from western to central to eastern regions can be shown (Table 2).

Table 2. Direction of rural migrants cross provinces in 2000 (%)

	Origin			
	East	Central	West	Total
Destination:				
East	7.5	48.5	26.0	82.0
Central	1.8	6.1	2.4	10.3
West	0.7	1.4	5.5	7.7
Total	10.3	56.0	34.0	100.0

Source: MOLSS

Third, given the regional disparities of development and income between rural areas of different provinces, rural-to-rural migration is an important phenomenon⁴. Its direction follows the same pattern as general migration, from western to central to eastern areas. According to the 1 per cent sampling population survey conducted in 1995, the total population is divided into three categories: city population, town population and county population.⁵ In Chinese statistics, city population and town population is summed up as urban population, referred to as urbanization. However, towns in China function like a bridge between urban and rural areas both in a geographical sense and an economic sense. It is also in the towns that most of the TVEs are based and they are therefore important to the rural economy. This study considers both county and town in-migration as rural in-migration. According to the figures provided by the National Population Sampling Survey Office, in 1995, 33.4 per cent of total migrants migrated to rural areas, and 48 per cent of inter-provincial migrants migrated to rural areas. When farmers migrated beyond their home provinces, 40 per cent of the easterners moved to wherever rural areas, 47 per cent of the central migrants and 59 per cent of the westerners moved to rural areas.

Fourth, regional disparities between the three regions and between rural and urban areas may provoke migration in a two step process - labour moves from rural areas in less-developed regions to more advanced rural areas as a first step, then it moves from more advanced rural areas to cities as a second step. One major obstacle for farmers to enter into

⁴ The Gini Coefficient of rural income by province is 0.1796, higher than that of urban income (0.1095) in 1995 (see Lin et al., 1997).

⁵ City population consists of population in districts of cities; town population consists of population in towns, which are under the administration of cities or counties; county population represents the remaining population, which is not included in the above categories. See National Population Sampling Survey Office (1997), Preface.

the urban sector is the low quality of human capital (Cai, 1998). Because jobs of the urban sector require different skills from those in the agricultural sector, those who directly migrate from the agricultural sector have fewer chances to find a job compared to those who were formerly engaged in the non-agricultural sector, such as TVEs in rural areas. Since the opportunities of non-agricultural activities vary from place to place in rural China, and the information that migrants need for their job searching is increasing as the migration expands from that within rural areas to the rural-to-urban type and from the intra-regional to inter-regional type, logically, migration will end up in two steps: farmers first move from farming works in their home countries to TVEs in more advanced rural areas, and later move to the urban sector. As is shown in Table 3, there is a pattern that farmers in western and central regions move to urban areas within regions, or to rural areas if they move out from their home regions, as a first step of their migration process, migrants from the rural areas in the eastern regions have more chances to move from the rural sector to the urban sector directly.

Table 3. Spatial distribution of the moved-in: To rural or urban areas (%)

Destination	Origin			
	East	Central	West	Total
Urban areas:				
East	95.1	24.5	20.7	60.7
Central	3.4	72.7	3.7	26.1
West	1.5	2.8	75.6	13.3
Rural areas:				
East	87.2	34.6	23.1	49.6
Central	8.7	58.6	7.9	26.1
West	4.1	6.8	69.0	24.3

Source: National Population Sampling Survey Office, 1997

Data from the Fifth Census indicates a change in the migration pattern, if only migration beyond provincial boundaries is considered⁶. First of all, there was more migration from eastern regions to central and western regions, showing a trend consistent with western development strategy; second, migrants from both central and western regions are more likely to migrate directly to eastern regions, while relatively less migrants from all three regions move to central regions, implying a stronger attraction of the eastern regions and enhanced capabilities for central and western regions to migrate across regional boundaries (Table 4).

Table 4. Directions of migration revealed by 2000 census (%)

Destination	Origin			
	East	Central	West	National
East	67.2	85.0	77.8	78.4
Central	17.7	6.7	9.4	9.5
West	15.1	8.2	12.8	12.1
Total	100.0	100.0	100.0	100.0

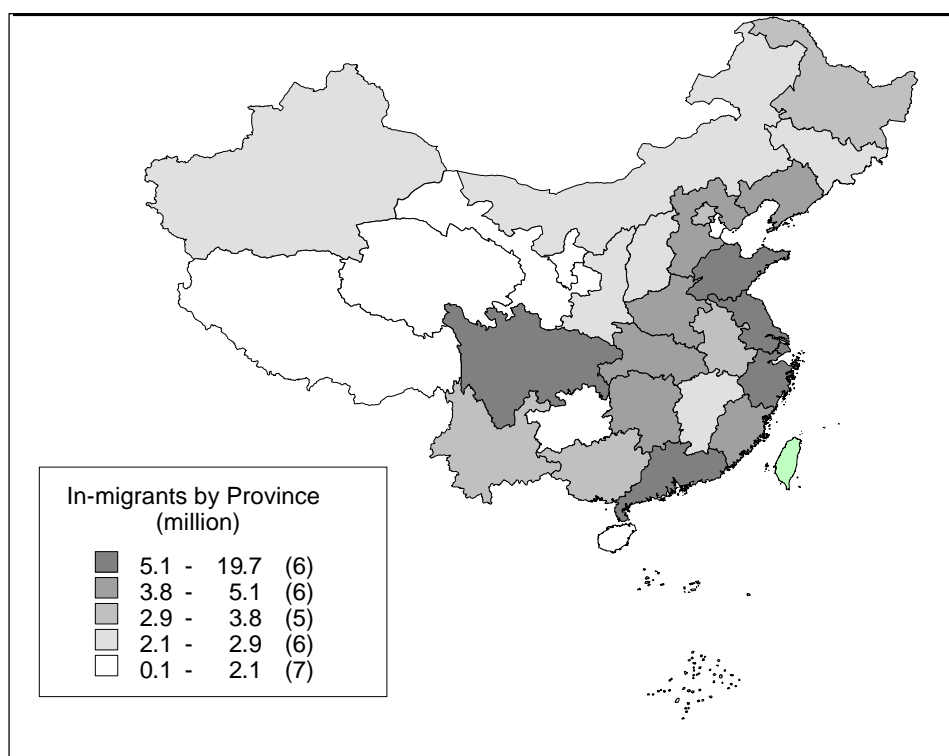
Source: COSC et al., 2002

⁶ Migrants here refer to those who, during the enumeration, have lived in destination provinces for six months and longer and lived in other provinces permanently dated back to five years.

Finally, because economic growth in the coastal regions has been the fastest in the country as a whole since the reform, and economic expansion differs between regions; fewer regions actually receive a large portion of the total inflows of migrants. In 2000, 49 per cent of total rural migrant workers were found in Guangdong province, 8 per cent in Zhejiang province, 6 per cent in Beijing city, 6 per cent in Shanghai city, 5 per cent in Fujian province, and 4 per cent in Jiangsu province (MOLSS and NBS, 2001), while 48 per cent of total inter-provincial migrants were absorbed by these six provinces (NPMPC, 2002).

To see which provinces absorb more migratory people in the past five years, we map 30 cities directly under the central government, provinces and autonomous regions by their total in-migrants in Figure 5 and find that apart from those provinces which are least populous, all others absorbing most in-migrants are the coastal provinces. These provinces are not only relatively developed in terms of per capita GDP, but also more advanced in terms of maturity of markets of factors of production. For example, Guangdong, Zhejiang and Jiangsu have been in lead of *hukou* system reform in the past years and major hosts of inter-provincial migration.

Figure 5. Inter-provincial in-migrants by province



Source: COSC et al., 2002

5. Demographic characteristics

Since substantial labour mobility and population migration is a new phenomenon in China, so migrants or mobile labour force have some special characteristics in comparison with those non-migrants or immobile labour force. Many individual surveys have revealed different characteristics of migrants and concluded some results in common. Although most of those characteristics revealed directly follow hypotheses, some require deeper examination.

First, migrants have higher quality than non-migrants in human capital; i.e. they have received more formal education on an average. Moving out from familiar occupation in

hometown to an unfamiliar job in a new place, migrants have to overcome a set of psychological barriers. The higher their education attainment is, the easier they overcome these barriers. Within the literature on migration, human capital as a precondition of migration has been given significant importance (for example, Schultz 1982). According to the statistics, migrants and rural-urban labour migrants have a lower rate of illiteracy and higher rate of primary and secondary educational attainment on an average than that of the national total in average and that of the rural labour force total in average. For example, the 1 per cent sampling survey conducted in 1995 shows that among the migrants, 30.8 per cent had received senior high and higher formal education, comparing to 11.3 per cent for the national average (Yang, 1997).

The other superiority in demographic characteristics that migrants possess is their younger age structure. Rural labourers migrate to seek higher pay and better job in accordance with their expectation that they will earn more money and live a better life considering their life time period. The younger they are, the higher the expected benefits are. That is especially true for rural labourers after so many years of rural-urban separation of labour market. The survey on urban labour in-migrants in Ji'nan City, Shandong Province shows that the percentage of persons under age 35 was 86 per cent for the urban labour in-migrants (Table 5).

Table 5. Age range of migrants and rural labour in Shandong (%)

Age	Migrant labourers	Rural labourers
Below 20	21.6	14.8
20-24	35.9	15.6
25-29	16.5	13.9
30-34	12.0	11.7
35-39	7.3	12.3
40-44	3.7	8.9
45-49	2.0	6.4
Above 50	1.0	16.5

Source: Survey in Ji'nan conducted by author in 1995; SPSS, 1993

Another notable characteristic of the migrants is their high sex ratio. Because population migration in China is mainly economically motivated nowadays, the percentage of female migrants depends on their relative income level to their male counterparts' in urban areas. Rural labour out-migrants are mainly engaged in physical labour in urban areas, where females are in a relatively inferior position and get relatively less salary. And since the decision to migrate is usually made by families instead of individuals, and rural women tend to be responsible for family chores such as taking care of children and the elderly in the family, the opportunity cost of female migration is likely to be higher than that of male migration. Data from the 380,000 population sample survey in 1992 show that the sex ratio of out-migrants was 119.37 for that year, higher than 104.27, the figure for the national total in the same year. The characteristic of sex selectivity in labour migration is more striking: some survey results show that the sex ratio of rural-urban labour migrants could be as high as 250-450 (Li et al., 1994).

Serving the purpose of mobilizing agricultural surplus to speed up industrialization, the Chinese traditional development strategy has not only accumulated a large reservoir of surplus labour force but has also lead to a large income gap between rural and urban areas. The attraction of higher wages and more employment opportunities in urban areas has long provided rural labourers strong incentives to migrate out of rural areas. Logically, once there exist the conditions allowing, to some extent, rural labourers to migrate, the poorer the rural region and farm household, the stronger their inducement to migrate. However, a

handful of studies contradict this conclusion and show that neither the poorest regions nor the poorest households are most likely to migrate (Du, 2000).

One possible explanation is that the poorest regions and the poorest households do not have the required resources to afford migratory costs. This explanation is valid for only a small proportion of poor people. Inferring it to a wider case with statistical significance requires any of the following deductions: first of all, given the large difference of income between rural and urban areas, for rural regions and households, higher income more the capacity to afford migration costs, and higher is the incentive incidence of migration. Present literature, however, does not provide evidence supporting this deduction; or second, it assumes that those households whose income exceeds a certain level no longer have incentives to migrate, we should expect a turning point before which household migration motivation rises as income increases and beyond which the income level makes a household no longer wanting to migrate. However, there is not statistical evidence proving this case. As a matter of fact, the results from recent surveys show a random relationship between income level and migration incidence (Du, 2000).

Another possible explanation is that migration incidence may be determined by some other driving forces the effect of which on migration exceeds that of expected income as Todaro (1969) suggested. These so-called “other driving forces” pointed out by many studies are often referred to endowments of human capital and social capital.

Similarly, previous surveys suggest that it is not the highest educated who are most likely to migrate. Zhao (1999) finds that better educated people in rural areas shift their jobs from agriculture to the non-agricultural sector in rural areas, but do not leave the countryside. Likewise, a recent survey conducted by the Ministry of Labour and Social Security and the National Statistics Bureau (MOLSS and NBS, 2000) concludes that junior high schooling is a necessary education level for rural youth to migrate, and those who choose local non-agricultural jobs attained better education than those who migrate beyond the county, province, or even the nation’s border. One explanation is that the educated rural people regard migration as a loss of their social status (Zhao, 1999). Then a question arises as to why this seemingly “Pareto Improvement” in terms of increase in income and living standards achieved through migration to cities has a different meaning for those who are educated. In other words, why they do not view this horizontal mobility of occupation a vertical movement of social status? Obviously, there must be some factors that migrants or potential migrants cannot handle and that influence the results of labour migration. As will be suggested in the next section, institutional constraints have shaped the pattern of rural labour migration.

6. Social and economic vulnerability

Due to the existence of *hukou* system and the discriminatory employment policy, migrants’ social status is very much outsider-like, living and working in a different way compared with local residents. Given the institutional constraints and transitional features, migrants tend to be the marginalized and vulnerable group. While reform has created the possibility and opportunity for rural workers to move from their home villages, some traditional institutions still deter this process, preventing migrants from settling down permanently in cities. First, urban segregated labour markets set barriers for migrants to have access to a variety of jobs and posts. As a result, migrant workers can only take up jobs characterized by poor working conditions, with low pay and insecurity. Second, because of the incompleteness of urban social service system reform, outside workers are not able to receive housing, medical care and children’s education at reasonable prices. Third, migrants without a local *hukou* are often expelled by urban authorities simply because they are outsiders and, therefore, potential factors of instability and crime. These factors prevent complete and permanent migration in today’s China. Therefore, urban

migrants have relatively low standard of living to their real income, economic and cultural separation from urban society and individual instead of family migration. Given the impact of institutional transition on migration, those rural labourers considering migration and work in cities for both horizontal (geographic and occupational) mobility and vertical (in terms of social status) enhancement have strong incentives to migrate.⁷ Amongst them, the young with an average education often move out. Those attaining an above average education consider migration only as a horizontal flow⁸ but not as vertical mobility and have less motivation and willingness to move out of their current jobs.⁹ Zhao (1999) finds that the most educated people in rural areas shift their job from the agriculture to the non-agricultural sector in rural areas but do not leave the countryside. A recent survey conducted by the Ministry of Labor and Social Security and the National Bureau of Statistics (MOLSS and NBS, 2000) shows the same pattern that junior high schooling is a necessary education level for rural youth to migrate, and those who choose local non-agricultural jobs attained more schooling than those migrating beyond the county, province or even the nation's border.

First of all, migrants occupy mainly low paying jobs that are tedious, physically demanding, or hazardous to health and which local workers do not want (see Table 6). Administrations in a number of large and medium sized cities have issued regulations restricting migrants' employment in a variety of jobs and posts. For example, in Beijing, the number of jobs and posts closed to outside workers was 15 in 1996; this increased to 34 in 1997, 36 in 1998, and to as many as 103 in 2000 (Cai and Chan, 2000). Most of the jobs that migrants can take after this regulation are those disdained by locals.

Table 6. Occupational structure of migrant workers in Ji'nan (%)

	Male	Female	Total
Construction	54.66	8.80	41.49
Enterprises	16.70	19.91	17.62
Odd jobs in social services	16.89	44.91	24.93
Domestic service	0.00	12.96	3.72
Restaurant	3.17	2.55	2.99
Repairing	2.99	3.47	3.12
Retails	3.26	2.78	3.12
Tailoring	1.40	4.17	2.19
Others	0.93	0.46	0.80
Total	100.00	100.00	100.00

Source: Ji'nan survey, 1995

Second, migrants and local workers with similar educational levels receive different wages, partly because the two groups are employed under different employment

⁷ Here, both absolute income differentials and relative deprivation play a role in motivating them to migrate to the cities (Stark, 1991). The peasant migrant in the 1990s expected to benefit 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 (see Liu, 1995). Zhao (1999) finds that shifting one labourer from farm work to migratory work increased household income by 49.1 per cent.

⁸ They can only expect to be employed in urban informal sectors.

⁹ In most cases, these people are engaged in rural non-farm works such as TVE workers, village cadres, accountants, teachers and other rural professionals.

entitlements:¹⁰ local workers are protected and subsidized under the old system, while migrant workers face direct competition. A survey conducted in three cities (Beijing, Wuxi and Zhuhai (Wang et al., 2001)), compares the wage rates received by local workers and migrant workers, suggesting a large differential in wage rates per hour between the two groups, not to mention the income in kind and other welfare that only local workers are entitled to enjoy. For example, for male migrant workers, the status of being without local *hukou* reduces wage rate by 27 per cent in Beijing, 2 per cent in Wuxi and 51 per cent in Zhuhai. For female migrant workers, the same reduction of wage rate was 41 per cent, 22 per cent and 58 per cent in the three cities, respectively, which shows the pay discrimination against migrant workers and, in turn, leads to a higher incidence of poverty. As is reported in this survey, poverty incidence of migrant households was 213 per cent, 166 per cent and 67 per cent higher than that of local households in Beijing, Wuxi and Zhuhai, respectively.

Third, migrants' working and living conditions are relatively poor because they lack bargaining power in the employment market, and are discriminated by the community service. In many cases, migrants lack access to normal housing, medical care, day care, and children's education. Thus, there is a demand for self-services in migrant settlements, which can reduce their daily costs of living. For example, in "Zhejiang Village" in Beijing, the largest settlement for migrants, there are numerous nursery schools and clinics especially for the migrants, not to mention commercial facilities such as restaurants, barber's shops, repair shops and recreational facilities. Table 7 summarizes some features in terms of migrants' working and living conditions.

Table 7. Comparison of housing and social security between local and migrant households

	Beijing		Wuxi		Zhuhai	
	Locals	Migrants	Locals	Migrants	Locals	Migrants
Pool housing (%)	4.0	70.0	4.0	61.0	12.0	67.0
Monthly rent (yuan/M ²)	1.7	5.2	1.8	3.6	5.5	10.5
Medical insurance (%)	82.0	21.0	72.0	25.0	49.0	16.0
Pension provision (%)	68.0	2.0	70.0	12.0	50.0	1.0

Source: Wang et al., 2001, p. 295

Under these circumstances, neither expected income nor human capital endowments – conventional factors that are supposedly sufficient to explain migration motivations – are sufficient. For example, even though the big difference of expected incomes between rural and urban areas provides poor households a potentially strong motivation for migrating, if they do not have networks or contacts that help them get to have access to urban jobs, the decision to migrate cannot be made. Moreover, given the existence of urban discriminatory policies, migrant workers are trapped in disdained, harsh, and filthy and exhausting occupations, no matter how educated they are. This certainly reduces the willingness of educated young people to migrate to the city. The uncertainty of future residence and future life plays a role as does the uncertainty of employment in Todaro's model. The consideration of the future also matters more to the educated than to the less educated.¹¹

¹⁰ They include explicit such as comparatively secure job and, in case they are unemployed, unemployment benefits and implicit such as job discrimination against migrants.

¹¹ Taylor (1987), by examining the Mexico-US migration, suggests that in the case of undocumented international migration, the returns to human capital of undocumented migrants in the host-country labour market were significantly undervalued.

7. Policy evolutions

Since the mid-1980s, better-educated and young labourers have migrated from rural to urban areas, from western and central regions to the coastal east. This process has greatly contributed to the economic growth;¹² it has given rise to nation-wide concern on the other. To cope with this phenomenon, the government and society need to gain a better understanding of it. As suggested above, the migration flows are a response by farmers to the changes in economic and social conditions. It can be viewed as a movement of one of the most vital production factors, which is stimulated by rural-urban and regional disparity of income, and adjusted by human capital of potential migrants. Therefore in this process, the invisible hand of market mechanisms directs the visible feet of migrants. This suggests the necessity of formulating policies that can help to reduce regional disparity, availability of cities to absorb the mobile labour, as well as increase human capital of farmers.

There have been two policy orientations differentiated between both local governments of sending and receiving areas. Putting it as a priority the rural development and increase in farmers' income, the governments of sending areas welcome the practice and encourage people to move out, while the local governments of receiving areas make various efforts to limit the move. Because of the asymmetry of incentives and effectiveness of policy tools in sending and receiving areas, the obstacles set by receiving areas have been bigger than the help provided by sending areas. Therefore, the rural-urban and inland-coastal migration has not reached the scale it might have done had there been no policy obstacles. As a result of the mobility restriction, a relatively high proportion of rural labour contributes only a small share to total GDP of the country. In 2001, agricultural labourers who comprise 50 per cent of all labourers in the country only contributed 15 per cent of total GDP. Consequently, the per capita income in urban areas has been about two to three times higher than that in rural areas (NBS, 2002). As economic theory suggests income would be equalized through labour mobility among regions, there would be a potential gain for the Chinese economy by reallocating resources among regions and sectors (Johnson, 1999).

With China's gradual reform, as the *hukou* system and employment policy relax, the scale of the migration between rural and urban areas and among central, western and eastern regions will expand, which in turn might accelerate the change in government policies such as *hukou* system and the urban employment system. Because the urban authorities have the responsibility to keep a low rate of unemployment and to guarantee welfare of urban residents, they have two options to respond to the challenge posed by labour migration. They can continue to restrict the urban labour market to protect urban workers from job competition, or they can remove the obstacles to labour mobility, making the labour market more flexible in order improve efficiency. The policy reform should aim at improving the functioning of the labour market. The 10th Five-Year Plan that covers the period of 2001 through 2005 officially announced a reform plan to abolish the *hukou* system within a five year period covered by the plan (State Development and Planning Commission, 2001), which made this reform more a local government based decision. As discussed above, the scale, pattern and demographic characteristics of the current labour mobility is institutionally determined by the government's policy orientation. Logically, the trend and foreground of labour migration will all depend on the ongoing reform of institutions. In the meantime, institutions are endogenously induced by a series of social and economic settings in which the institutions function. Thus, the changes in the social and economic environment predetermine the progress and direction of the institutional reform, and may eventually influence the migration processes. Reform in China has been carried out in a gradual manner, characterized by least harm to traditional vested interests,

¹² As is estimated, labour movement from the low-productivity sector to the higher-productivity sector has contributed 16 – 20 per cent to GDP growth rate in the country as a whole (World Bank, 1998; Cai et al., 1999).

with the redistribution of the newly created resources through market mechanisms (Lin, Cai, and Li 1996). This gradual approach of reform can shed light on the local government's decision to abolish the *hukou* system and a future picture of migration.

Under the vested interest structure of the traditional system, urban residents had advantages over rural people in various aspects and thus became beneficiaries of that system. Fears of losing their relative position in the vested interest structure urged them to strengthen the old system further. This can best account for the reasons why the dual economic structure characterized by rural-urban labour market segregation still exists after twenty years or so of reforms and even extends itself into a segregated labour market structure in the urban sector (Cai, 1998). In the late 1980s and early 1990s, when the non-state sector expanded, contributing to the urban economy's growth, structural adjustment, and diversification in ownership, migrants boosted this sector with an unlimited labour supply. Urban development perceived benefits from labour mobility at the time. Accordingly, the government's control over migration was loosened. However, since the mid 1990s, when urban unemployment and lay-offs became severe, urban residents became more concerned about the employment competition from migrant workers and sought the local governments' protection through a variety of measures aiming to discriminate migrants.

Although the central government does not promulgate the policies against migrants in a direct way, it shows its concern over the situation of urban unemployment, tending to view it as a potential cause of political instability. Weighing up the political costs and benefits of different policy options and choosing one that could give the largest net political benefits (Downs 1957), the central government decided not to intervene in the local governments' policies. For example, in 1998, the Public Security Bureau - a police department of the central government - issued new regulations loosening control over *hukou* registration. However, so far the municipal governments in many large cities have not implemented it, and do not intend to do so. Apparently, the central government decided to tolerate this refusal of implementation. Considering migrants have a smaller weight in the present vested interest structure, they are less powerful in policy-making bargaining. In short, migrants are net losers from the re-emerged segmentation of labour markets and the maintenance of the *hukou* system. The segregation of the labour market appears as a necessary insurance of political safety during the disruptions associated with economic transition.

By this political economic logic, the eventual abolition of institutional deterrents to labour mobility depends on two conditions. First, municipal governments find that the policies deterring the development of a labour market cannot help solve the unemployment problem, so that implementing these policies no longer has legitimacy. Second, urban residents and workers find no evidence that migrants are a threatening competitive force in employment opportunities in the long run. In other words, urban people would not encourage the restrictive policies against migrants if they realized that their employment situation is independent from the existence and number of migrant workers in the city. In theory, a well-functioning labour market is not a replaceable mechanism adjusting the supply of and the demand for labour, and its flexibility is critical to overcome the dislocation of employment. Thus, hampering the development of the labour market does not help create employment opportunities. Blocking the labour flow to the cities has merely delayed the maturity of the labour market, which is crucial in deepening the reform process. As a result of this delay, traditional employment institutions remain, obstructing the functions of the labour market as a device in adjusting employment and thus hampering the industry's structural adjustment and sustained economic growth. The present anti-unemployment policies enacted by the government only have two effects. First, keeping unemployment implicit and letting enterprises shoulder the costs of protecting urban workers has restrained enterprises' incentives to substitute labour for capital and have correspondingly reduced the macroeconomic demand for labour. Second, policy

intervention aiming at protecting local workers from competition from migrants has intensified urban workers' dependence on governmental protection. Under this protection, urban unemployed and laid-off workers are not willing to look for new jobs on the labour market, or when they do have a new job, they do not want to be disconnected (untied) from their former enterprise.

On the contrary, an improvement of the labour market functioning, a reduced distortion of wage rate, and an increase in economic growth can have a positive and significant impact on employment. One study of the determinants of China's employment (Cai, Wang and Wang, 2001) suggests that it is positively correlated with economic growth and negatively correlated with an increase in wage rates. Statistically, a 1 per cent increase in GDP enhances employment by 1.1 per cent, while 1 per cent increase in wages reduces employment by 0.67 per cent. This result should discourage the Chinese government from continuing the present policy orientation. Ever since the government enacted policies aimed at solving employment dislocation, there have been symptoms to show that these policies cannot last much longer. That is explained as follows.

First, although the macro economy has suffered from consecutive decrease in labour demand, the rate of decline in employment started to slow in year 2000, and the slightly improved employment situation reflects the need for sectoral adjustment and changes in ownership patterns. Compared to other developing economies with similar per capita income, tertiary industry in China is relatively underdeveloped. In the course of structural change this industry requires more workers than other industries, which were embodied in the labour market that same year. Of all newly entered workers in year 2000, only 2.8 per cent were engaged in agricultural activities, 23.1 per cent in manufacturing and construction, and 74.1 per cent in tertiary industry. The ten occupations for which the market demanded the most were almost all in the service and marketing-related sectors.

For the past decade or so, non-state sectors have grown much faster than the state sector. During the period of economic downturn, non-state sectors have shown a much greater ability to absorb labour. In proportion with its share of national output, the state sector's demand for labour accounts for only 8.5 per cent of the total, while the collective sector accounts for 9.4 per cent, the private and individual sector for 30.6 per cent, and the share-holding companies for 24.7 per cent (Cai et al., 2001). As a result, in those regions where the industrial structure is consonant with their comparative advantages and the non-state sector takes a larger share in their economies, the employment situation has been improving. In contrast, those regions where heavy industry and state-owned enterprises dominate, their regional economies have still been suffering employment dislocation and economic downturn. For example, of the total fall in urban employment in China in the year 2000, a fifth can be attributed to the three Northeastern provinces – Liaoning, Jilin and Heilongjiang, all known for their heavy industry-dominated economic structure and large share of state-owned enterprises in total output.

Second, both the scale and coverage of unemployment insurance and laid-off subsidies has increased and the wages of incumbent workers have improved in the past two years, something that has insured a stable urban standard of living. In addition, the establishment of society-based pension provisions and an unemployment insurance system is speeding up, changing urban residents' expectations of the social security system. Under the conventional system, hiring a worker implies that the firm concerned has to prepare to shoulder various policy-imposed burdens from employment security, medical care and pension provision. Therefore, should reform deepen in these areas, this will cut the enterprises' costs of hiring, and will create more employment opportunities at the enterprise level and, in turn, will help to stimulate the labour demand of the macro economy. If a compensation for those who lose out in transition to a unified labour market is needed, this current progress is really good news since it has been building up the

conditions in developing a more consolidated labour market, while safeguarding the vested interests.

Finally, it is apparent that the labour market policy will jeopardize the economy as China enters WTO. One of the great challenges from China's accession to WTO is that China has to rethink its comparative advantage in the international market. In a market-based economy, all policies utilized to distort the labour market and to maintain the old system have to be abolished in order to get the price of production factors right and, therefore, to realize the economy's comparative advantage. At the present stage of economic development, China's comparative advantage still embodies its abundant labour force, and structural adjustment should involve the substitution of labour for capital. Through the functioning of markets of labour and capital that reveal a comparative advantage of the Chinese economy, the newly created employment opportunities will compensate (if not exceed) the loss of employment in the traditional industrial structure, which might not survive under the WTO framework.

As China's economic growth and structural change continue, enterprises, individuals, and even local governments will realize it is beneficial to let labour be mobilized, then any distortionary institutions may have no effect. Thus, should reforms continue at a rapid pace, the institutional barriers faced by migrants today would eventually end. For instance, a bottom-up process can characterize the gradual reform of *hukou* - that is, relaxation of *hukou* control starts from small towns and gradually extends to medium-sized and big cities. If the *hukou* system was a universal national policy under central planning, it has become very much a local government matter to decide when and how the *hukou* control is relaxed and eventually abolished. According to *hukou* reforms announced and implemented approaches and effects of *hukou* reform differ from region to region. In reality, measures and paces of the reform by individual province or even individual city range from relatively complete to minor changes of the system, which is worth analyzing. We divide them into three models.

Model one reflects the *hukou* reform in over 20,000 small towns characterized by "minimum conditions and complete opening-up". After years of experiment in some regions, in 2001, the Ministry of Public Security initiated action to reform the *hukou* system in small towns. In most small towns the minimum requisition for receiving local *hukou* is that the applicants have a regular source of living and legal housing in the locality. This is considered the biggest step in *hukou* reform since the system was formed in 1958.

Model two reflects *hukou* relaxation in some medium-sized (even some large and provincial capital) cities, characterized by "abolishing quota and conditioned entry". Thresholds for settling in those cities with *hukou* status has been lowered. For example, the easiest requisition in Shijiazhuang, capital city of Hebei province, is to have a work contract with a term of more than two years. Cities implementing the reform include many in both coastal and inland regions. This approach to reform *hukou* system meets the needs of maturing labour markets and corresponds to gradualism.

Model three reflects *hukou* relaxation in super large cities like Beijing and Shanghai, characterized by "lifting up the doorsill and opening the gate". Those cities have turned on green lights for inviting intellectuals and professionals, while imposing stricter conditions for ordinary migrant workers. Shanghai, e.g., even stops executing its system of blue stamp *hukou* that is strict already. Comparatively, *hukou* reform in those cities has not made any progress.

8. Concluding remarks

Unlike most other developing countries experiencing rural-urban migration, China's migration is largely dependent on institutional reform. The reform has gone so far that remaining barriers block further labour mobility by deterring migration, but because of the changing economic environment, reform must continue. If this trend continues, labour mobility will not be deterred.

Although present policies delay the development of a labour market and give rise to allocative inefficiency, it is inevitable that the government will slow the pace of reform in order to insure political stability critical to the eventual success of the institutional transition. Current government policies are double-edged: while they have impeded the development of a functioning labour market, they have succeeded stimulating the economy and, by implication, increased employment, which is a necessary condition for further reform. It is more and constructive to understand the importance of gradual reform, mainly keeping political stability during the course of transition and helping rural and urban people to know the laws, as the economy changes, rather than just criticizing the injustice of these policies.

Hukou reform is essential for labour mobility and urbanization. In the past two decades, labour mobility has produced significant reallocation of labour in rural and urban areas, contributing to economic growth. The strength and depth in reforming *hukou* system, however, differs from region to region. The willingness to deregulate migration policies and efforts a local government wants to put to continue the process rest with the benefits brought about by this deregulation. The *hukou* system, which has persisted for 44 years, is expected to undergo further reform as the market system matures, and its gradual reform will follow the same logic as that of the overall reform of China.

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