



Rural Labor Migration and Poverty Reduction in China

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Abstract

Using various sources of data, this paper examines the contributions of rural labor migration to economic growth and poverty reduction in China. The results show that there is still a significant number of people living in poverty in rural areas, while the effectiveness of migration on poverty reduction has declined, implying an urgent need for new approaches to poverty reduction. China's experiences could also be valuable for the formulation of development strategies in other developing countries.

Key words: poverty reduction, rural labor migration, social protection

JEL codes: I32, R23

I. Introduction

China's sustained high-speed economic growth over the past 40 years has been remarkable, and has made it possible for China to improve the well-being of approximately one-fifth of the human population.

Since its reform and opening up in 1978, China has been in the process of correcting the old, distorted economic system. The old system, before 1978, featured traditional labor protection policies in favor of developing heavy industries. The old system also divided rural and urban labor markets, led to full urban employment, and was based on an urban-biased social security and welfare system. There were two major problems with the old system. First, the rural–urban separation led to low efficiency in resource allocation. Second, urban workers lacked incentive to work.

Rural labor migration plays a vital role in correcting the problems mentioned above. As argued by development economists, the process of transforming from a dual

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economy to a modern economy requires the transfer of the labor force from traditional sectors to modern sectors. The migration of China's rural laborers into urban areas and non-agricultural sectors since 1978 represents one of the biggest migrations in human history (Roberts, 2007). Several reasons are behind this large-scale migration. The first reason is a "compensation effect." As a direct consequence of the heavy-industry-oriented strategy adopted before 1978, the separation between the urban and rural systems created abnormal imbalances in the urban–rural population.¹ The massive rural labor migration after 1978, to a large extent, is a consequence of the shift away from the old distorted system, under which the rural population were largely restricted to living in the countryside. The second reason is a "development effect." The rural labor migration was an unavoidable result following the dramatic changes in rural–urban and agricultural–non-agricultural systems over the past several decades. The third reason is a "pushing effect." The low agricultural productivity under the traditional economy pushed rural surplus laborers to migrate out from the limited cultivated lands. Based on the reasons above, migration of China's rural laborers to urban areas and non-agricultural sectors will continue until China's economic system completes its transition.

Rural labor migration in China has been a constantly-changing social phenomenon with complex and varied characteristics. First, the overall size of the rural migrant population has been increasing. According to an annual survey of rural migrant workers conducted by the National Bureau of Statistics of China (NBS), a total of 169 million rural laborers went to cities seeking jobs in 2015 (NBS, 2016b). In fact, rural migrant workers have gradually become the primary source of non-agricultural economic growth. Second, the average age of rural migrant workers has been increasing, as the share of young adult migrants has continued to fall. Third, the destination for rural migrant workers has shifted from the eastern (e.g. Yangtze River Delta and Pearl River Delta) to the central and western provinces. Finally, institutional barriers are still restricting the flow of rural laborers.

Rural labor migration has a profound impact on poverty reduction. Rural poor areas tend to have a shortage of capital and are often situated in distant and isolated locations, where severe natural conditions impede economic development. Under such unfavorable conditions, labor becomes the most important productive element that rural low-income families have. Once rural laborers have the opportunity to join non-agricultural sectors, rural poverty could be reduced by making use of resources in developed areas.

Several papers have studied the relationship between labor migration and poverty

¹In 1978, approximately 82.08 percent of the total Chinese population lived in the countryside. This proportion dropped to 42.65 percent in 2016. See <http://www.stats.gov.cn> for more details.

reduction. Du et al. (2005) find that with a migrant in a family, a household's per capita income will increase by 8.5 to 13.1 percent, but that the overall impact on poverty is modest because most poor people do not migrate. The OECD (2005), the World Bank (2007) and Zhu and Luo (2010) also emphasize the importance of labor migration for poverty reduction. Besides summarizing the recent trends of labor migration in China, the present article also contributes to the existing literature by pointing out the challenges relating to labor migration and poverty reduction. China has vowed to alleviate all forms of poverty by the end of its 13th Five-year Plan (2016–2020) and discussions regarding these challenges is helpful for China in making appropriate policy decisions to help reduce poverty.

This paper is structured as follows. Section II analyzes the contributions of rural labor migration to economic growth and poverty reduction. Section III examines the challenges to labor migration and poverty reduction. In Section IV we summarize the 40-year process of rural labor migration and discuss its lessons, which could be valuable for other developing countries.

II. Contributions of Rural Labor Migration to China's Economic Development and Poverty Reduction

Rural labor migration has taken place alongside China's transition from a planned economy to a market economy. During this process, economic efficiency has improved as rural laborers have migrated from agricultural sectors with low marginal labor productivity to non-agricultural sectors with higher marginal labor productivity. This has become the primary driving force of China's economic growth over the past 40 years. At the same time, the well-being of rural laborers has also been improved through the primary distribution of income, which then indirectly reduces rural poverty.

1. Rural Labor Migration as an Important Engine of Economic Development

Before 1978, as the largest developing country, China was characterized by abundant human resources and a dual economy.² From a resource endowment perspective, capital shortage combined with an unlimited labor supply set up the fundamental conditions for China's economic development. Therefore, an intelligent strategy of economic development for China was to overcome the capital constraints by maximizing employment.

Over the past 40 years, China's national economy has been propelled by taking

²For a general discussion on dual economies, please refer to Boeke (1953).

advantage of abundant human resources and maximizing employment. The ongoing rural labor migration made it possible for the Chinese manufacturing industries to keep labor costs low. It then stimulated the prosperity of labor-intensive industries and strengthened the international competitiveness of China's manufacturing industries. Although labor costs in manufacturing industries have been increasing since 2008, there is still a comparative advantage for China when competing with other countries. For example, in 2013, the unit labor cost in Chinese manufacturing industries was only 29.7 percent of that in Germany, 36.7 percent of that in South Korea and 38.7 percent of that in the USA (Cai and Du, 2016). Therefore, China's manufacturing industries will maintain their international competitiveness if China can appropriately deal with the changing relationship between labor costs and labor productivity.

Although the number of urban local workers employed in manufacturing industries continues to decrease with reforms occurring in state-owned enterprises, the share of rural migrants in manufacturing industries has continued to increase. According to household surveys conducted by the NBS, the proportion of rural migrant workers in manufacturing industries rose from 25.2 percent in 2003 to 31.1 percent in 2015.³ In the same way, rural migrant workers have also been playing an important role in other non-agricultural sectors. Statistics from the NBS show that in 2015 there were approximately 75 million rural migrant workers in service industries in urban areas, accounting for 44.5 percent of total rural migrant workers in this year.⁴

In a dual economy, rural migrant workers create higher productivity, either in manufacturing or service industries. The reallocation of labor from low-productivity to high-productivity sectors implies an improvement in the allocation efficiency of production factors, which are crucial sources of China's economic growth. Previous studies show that rural labor migration accounted for approximately 16 to 20 percent of the GDP increase in the first 20 years after China's reform and opening up in 1978 (World Bank, 1997; Cai and Wang, 1999).

The 21st century has witnessed two significant changes in China's labor market so far. The first is that rural migrant workers have become an indispensable part of the urban labor market, with the total volume of rural migrant workers continuing to grow. Another is that marginal labor productivity in the agricultural sector is approaching that in non-agricultural sectors.

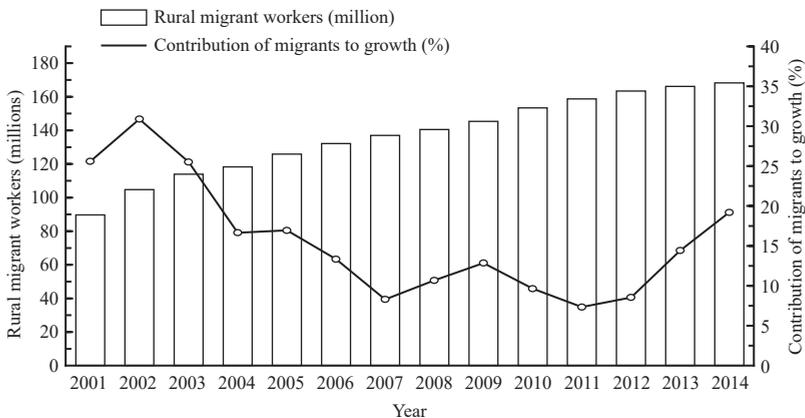
We can estimate the contributions of rural labor migration to economic growth

³The 2003 data is from the *Reports on China's Population and Labor No. 7*, available from <http://www.pishu.com.cn>. The 2015 data is from the website of the National Bureau of Statistics of China, available from <http://www.stats.gov.cn>.

⁴Please refer to http://www.stats.gov.cn/tjsj/zxfb/201604/t20160428_1349713.html for more information.

by comparing the differences in labor productivity between agricultural and non-agricultural sectors. To simplify the analysis, we use labor cost per day to proxy labor productivity in both rural and urban labor markets. From the *China Agricultural Production Costs and Returns Compilation*, produced by the National Development and Reform Commission of China (NDRC, 2002–2015), we can find the average wage of agricultural employees engaged in producing three major crops (rice, corn and wheat). The average salary of rural migrant workers can be obtained from the annual survey of migrant workers conducted by the NBS. As the population reaches the Lewis turning point, the labor productivity of agricultural sectors gradually converges with that of non-agricultural sectors.⁵ For instance, the average wage of agricultural employees was 61 percent of the average salary of rural migrant workers in 2001 (NBS, 2002; NDRC, 2002). This figure increased to 75 percent in 2015 (NBS, 2016b; NDRC, 2016), implying that the improvement in marginal productivity caused by labor migration has declined. To estimate the total productivity increase as a result of labor migration, we first calculate the product of the total number of rural migrant workers and the labor productivity differences between agricultural and non-agricultural sectors. We then multiply the results by days engaged in non-agricultural activities. Finally, we can calculate the share of the GDP increase that can be attributed to rural labor migration (Figure 1).

Figure 1. Contributions of Rural Labor Migration to Economic Growth, 2001–2014



Sources: NBS (2002–2015a,b), NDRC (2002–2015), Du (2010), Wang (2010), Wu and Zhang (2010) and authors' calculation.

⁵Cai and Du (2011) and Cai (2015) present detailed analyses on the Lewis turning point in China.

As is evident from Figure 1, rural labor migration remains a major source of economic growth, even though its contribution has begun to drop with the arrival of the Lewis turning point. Figure 1 shows that in 2012 approximately 8.6 percent of GDP growth was attributed to rural labor migration.⁶

2. Labor Migration Is a Basic Means to Reduce Interregional and Rural–Urban Income Inequality

Rural labor migration is affected mainly by price signals in the labor market, and rural laborers usually move from regions with lower wages to areas with higher wages. Therefore, migration narrows income gaps across regions. This effect would become more significant with the increased size of the migrant population and the salary increase for rural migrants. Using provincial-level data, the following analysis shows that rural labor migration has been a predominant factor in reducing income inequality across regions.

Figure 2 presents changes in Gini coefficients across provinces since 1978. In the 1980s, economic system reforms mainly focused on establishing incentive mechanisms in both rural and urban areas. As a result, the technical efficiency improvement had universal growth effects, which, in turn, helped reduce regional income gaps. In 1978, the Gini coefficient, based on provincial-level GDP per capita, was 0.343, and it dropped to 0.261 in 1990. If weighted by provincial-level populations, the Gini coefficient would be 0.228 in 1978 and 0.208 in 1990 (Figure 2).⁷ In the 1980s, rural labor migration had not become the dominating factor in reducing interregional income inequality, because of its small size.

In the late 1980s and early 1990s, China's economy experienced a short adjustment and then high growth again after 1992, as the market mechanism started playing an increasingly important role in resource allocation. In the same period, income gaps across provinces enlarged, and the Gini coefficient based on GDP per capita reached its peak of 0.32 in 2003 (Figure 2).

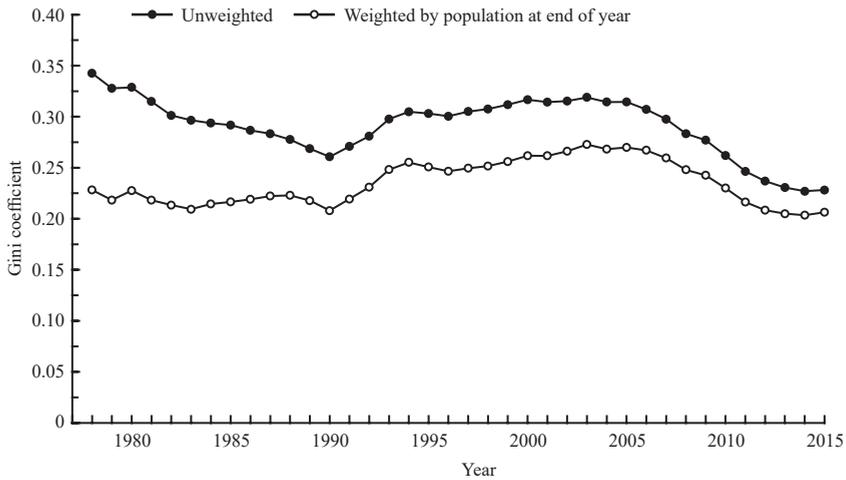
Since 2003, patterns of rural labor migration have undergone significant changes. These changes include a continuing increase of the total size of migration and a fast and steady rise of wages for rural migrant workers in urban markets. At the same time, the eastern provinces have started to upgrade their industrial structure, and some labor-intensive industries have been transferred to the central and western regions. Both

⁶The increase in labor migration's contribution to economic growth is mainly caused by the enlargement of wage differences between rural migrant workers and agricultural employees since 2012.

⁷The coastal provinces in China have higher population density. As a result, the Gini coefficient weighted by provincial-level populations is smaller.

changes in rural labor migration and industry transfers have helped to narrow regional income gaps. As shown in Figure 2, the Gini coefficient started to decline after reaching its peak in 2003. Although there are various factors that could lead to regional income gaps, the changes in the regional income gaps coinciding with the arrival of the Lewis turning point illustrates that rural labor migration has played a major role in reducing interregional inequality.

Figure 2. Interregional Income Inequality in China, 1978–2015



Sources: NBS (1979–2016) and authors' calculation.

The rural–urban income gap is the primary source of income inequality. Although the existence of the rural–urban income gap is an indisputable fact in China, there are sampling errors in the most current survey designs. These current survey designs fail to sufficiently cover rural migrant workers in both rural and urban income surveys (Park, 2008). The sampling errors could easily lead to an overestimation of rural–urban income gaps,⁸ and make it difficult to accurately measure the positive effect of labor migration on the income gap.

Using labor income data from the 2005 China National One-percent Population Survey, which contains income data for rural migrant workers, we can calculate rural–urban income gaps (Table 1). Column 2 in Table 1 shows the rural–urban income gaps calculated using a conventional method by including only *de jure* rural workers and urban workers. Column 3 in Table 1 lists the results from a revised estimation by taking

⁸In 2013, the NBS started to implement an integrated urban–rural household income survey system, aiming to increase the coverage of migrant workers and those in rural–urban fringe areas.

rural migrant workers into account. From column 4 in Table 1, it is evident that for almost all measures of rural–urban income gaps, the values in column 3 are lower than those in column 2, indicating the need to cover rural migrant workers.

Table 1. Biased and Unbiased Estimates of Rural–Urban Income Gaps

Indicator	Rural workers and urban workers	Rural workers, urban workers and rural migrant workers	Change (%)
p90/p10	10.642	10.145	−4.67
p75/p25	3.604	3.694	2.50
GE (−1)	0.668	0.657	−1.65
GE (0)	0.422	0.408	−3.32
GE (1)	0.425	0.407	−4.24
GE (2)	0.740	0.705	−4.73
Gini	0.484	0.474	−2.07
A (0.5)	0.190	0.183	−3.68
A (1)	0.344	0.335	−2.62
A (2)	0.572	0.568	−0.70

Source: Authors' calculation based on data from the 2005 China National One-percent Population Survey.

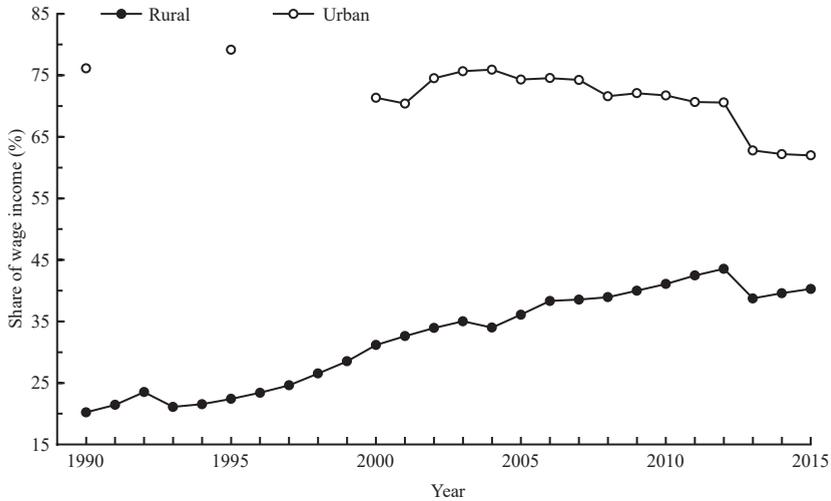
Therefore, we could expect the effect of rural labor migration on rural–urban income gaps to become increasingly significant, accompanied with an increased number of rural migrant workers and increases in their wages. According to the NBS, in 2005, the total number of rural migrant workers was 126 million, with an average monthly salary of 821 yuan (in 2001 prices). By 2015, the total number of rural migrants had increased by 34.1 percent, and the average wage had increased 196.2 percent.⁹

3. Rural Labor Migration Is an Important Way to Reduce Poverty

In both rural and urban areas, wage income from the labor market has been the primary source of a family's income. As depicted in Figure 3, in 2015, on average, 60 percent of urban families' disposable income came from wage income, while for rural households, approximately 40 percent of disposable income was wage income. Another significant observation from Figure 3 is that, compared with their urban counterparts, rural households have an increasing reliance on wage income from non-agricultural work. For instance, in 1990, wage income accounted for only 20 percent of disposable income for rural families, with the share almost doubling by 2015 (Figure 3).

⁹Please refer to <http://www.stats.gov.cn> for more information.

Figure 3. Share of Wage Income in Total Family Income, 1990–2015



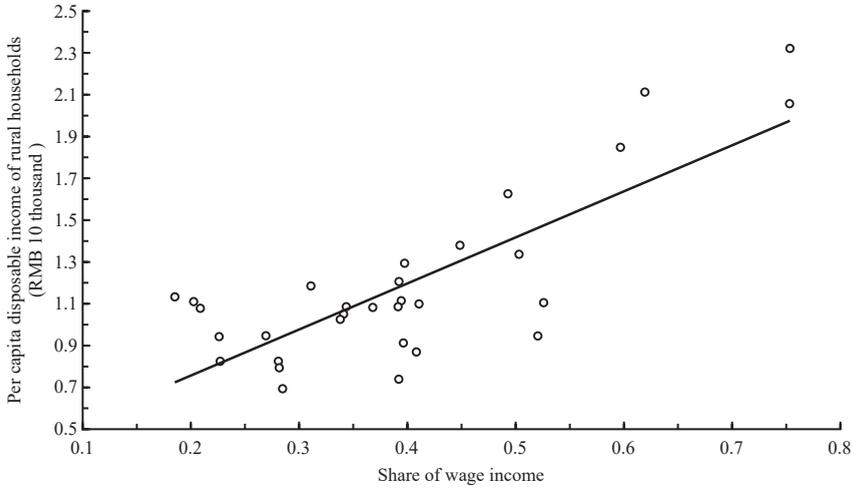
Source: NBS (1991–2016).

Notes: Data for 2012 and before are disposable incomes for urban families and net incomes for rural households. Data after 2012 are disposable incomes for both urban and rural households. Official data on disposable incomes for urban families in the 1990s are only available for 1990 and 1995.

In Figure 4, we further examine the effect of wage income on disposable income for rural households. Each dot in Figure 4 represents a provincial average in 2015. The result from a bivariate regression suggests that the higher the share of wage income in disposable income, the higher the disposable income for rural families (R^2 is 0.63). Figure 4 also implies that because the non-agricultural labor market in the richer provinces could provide more employment opportunities, rural migrant workers and their families could become increasingly reliant on non-agricultural income (wage income). In the rich provinces, wage income is the primary source of income for rural households. If the central and western provinces could follow the path of eastern provinces in the process of economic development, then a rising share of wage income for rural families in the central and western regions could be expected.

Another important finding from Figure 4 is that there are significant differences in the share of wage income among rich and poor provinces. For instance, in 2015, Zhejiang Province had the highest share of wage income in disposable income for rural families (by excluding four state municipalities), which was 62.0 percent. The lowest percentage, 18.5, was in Xinjiang Autonomous Region. These differences imply that creating more non-agricultural jobs in the poor provinces would be an effective way to increase rural income.

Figure 4. Per Capita Disposable Income of Rural Households and Share of Wage Income in 2015



Source: NBS (2016a).

For the rural population in less developed provinces, there are much fewer economic opportunities compared with more developed areas, because of their limited resource endowment. Therefore, labor becomes their most valuable resource. Once barriers to free movement within the labor market are removed from these provinces, rural families can input their labor into the non-agricultural market within or outside their home provinces. Then, through internal income transfers within families, they can also enjoy the benefits of poverty reduction.

From a policy perspective, policy on poverty alleviation that focuses on encouraging rural laborers to move out of poor areas can facilitate rural families' migration decisions according to price signals in the labor market. These reactions could spontaneously improve the efficiency of labor allocation through internal decision-making on redistributing labor within families. Compared with other policies targeted at reducing poverty, this policy costs little to implement (Cai et al., 2003).

III. Challenges to Labor Migration and Poverty Reduction

It should be noted that not every rural low-income family can be lifted out of poverty through labor migration, even though labor migration does help reduce poverty by making use of the urban labor market. New approaches are needed to improve the quality of life of some rural families under the poverty line. Rural migrant workers also face the risk of becoming a “new poor class” in urban areas, because the social

protection networks have not been unified between rural and urban areas.¹⁰ These issues present new challenges to poverty reduction in the future.

1. Limits of Poverty Reduction through the Labor Market

Our analysis in Section II suggests that once rural families have transferred their surplus labor to the urban labor market, their risk of falling into poverty is significantly reduced. However, most of the rural laborers who have not been transferred do not possess the skills required by the non-agricultural sectors, and cannot be absorbed by the urban labor market. Therefore, further substantial changes to the situation of the rural poor population require adjustment to poverty reduction policies.

The process of poverty reduction in rural China can be divided into four periods. The first period was between 1978 and 1985, during which the economic reform was the major driving force for poverty reduction. In this period, the old economic system (planned economy) was the primary barrier to productivity growth, and nearly all rural areas were poverty-stricken. With the economic reform, the household contract responsibility system was introduced, the prices of agricultural products were allowed to float more freely, and private and township and village enterprises were encouraged. All these policies paved the way for the reduction in rural poverty.

The second period was between 1986 and 2000, in which large-scale development-oriented poverty reduction programs were introduced. During this period, rural poverty showed different characteristics in various regions. Some areas could not reduce poverty through internal economic development because of the restrictions due to natural conditions. Government at different levels issued policies on poverty reduction, set up funds to support the poor and stimulated economic growth in the poor areas. The document *Seven-year Priority Poverty Reduction Program (1994–2000)* issued in March 1994 marked a new stage of the government's effort in poverty reduction.

The third period was from 2001 to 2010, during which poverty alleviation through development-oriented programs continued. Following over two decades of reductions in poverty, basic living needs had been met for most of the rural poor population, except in some extremely deprived areas or for those with physical disabilities. Although the basic living standards were still low, accessing adequate food and clothing were no longer a problem in the countryside. During this period, the purpose of poverty reduction was: to help the rural population who still lacked food and clothing; to further improve living and working conditions in poor areas; to maintain the achievements already made in

¹⁰Wang (2014) finds that in the process of urbanization, rural migrant workers become part of the urban poor population in terms of income, consumption, housing and social insurance.

poverty reduction; and to improve living conditions and the overall quality of life of the poor population.

The fourth period started in 2011. Since this time, poverty reduction programs in poor areas have been effectively integrated with social security networks. In some central and western provinces, the overall size of the poor population has remained large. Therefore, in this period, the poverty reduction strategies focus on the precision of support. The Chinese Government's detailed plans include: combining development-oriented support relating to poverty alleviation with economic development; provision of assistance to individual families and collective support to poor villages; combining development-oriented support with environmental protection; and connecting poverty reduction with the social security network.

How different approaches to poverty alleviation should be combined to reduce rural poverty has been the subject of much discussion among policy-makers and researchers. Development-oriented poverty reduction programs and the rural *Dibao* system (the subsistence allowances system) have become two important means of rural poverty alleviation. It is also necessary to establish a more efficient mechanism for identifying people who live in poverty to ensure that they can benefit from those supporting measures.

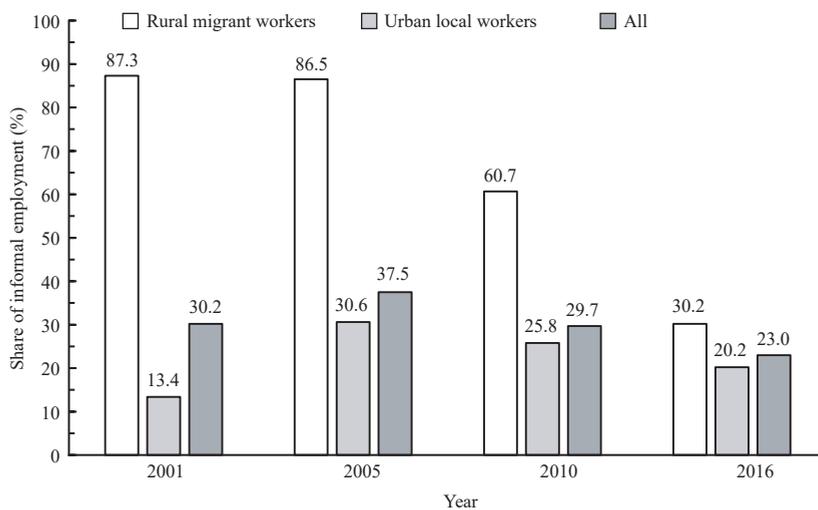
2. Covering Migration Poverty under Poverty Reduction System

As the number of migrants increases, the living status of migrant workers in urban areas is also receiving increasing attention from policy-makers and researchers. Poverty among rural migrant workers in the cities differs from the absolute poverty in the countryside, because they face many risks and uncertainties as a result of fluctuations in the urban labor market. In general, more rural migrant workers engage in temporary or seasonal jobs (informal jobs). Statistics from the China Urban Labor Survey (2001–2016) show that rural migrant workers are more likely to engage in informal and temporary jobs than their urban counterparts (Figure 5).

Informal and temporary jobs in cities tend to be labor-intensive and low-paying. Working conditions are poor and social protection is generally inadequate. As a result, rural migrant workers taking these jobs are vulnerable to poverty. The China Urban Labor Survey (CULS, 2001–2016) reveals there are significant differences in average wages and social security coverage for rural migrant workers and urban local workers (Table 2). If we only look at monthly income, there are no significant earning gaps between local workers and rural migrant workers. However, rural migrant workers have to work more hours so that they can earn the same as local workers. The average number of hours worked by rural migrants in the cities was 25.7 percent higher than urban local workers in 2016 (Table 2). As a result, differences in hourly income are more significant.

The 2016 CULS suggests that urban local workers had an average monthly income only 7.6 percent higher than migrant workers, but their average hourly income was 36.9 percent greater than that of migrant workers.

Figure 5. Share of Informal Jobs among Rural and Urban Workers, 2001–2016



Source: Authors' calculation based on the China Urban Labor Survey, available from: <https://www.culs.org.cn>.

Table 2. Vulnerability of Rural Migrant Workers in Urban Labor Market

Indicator	2001		2005		2010		2016	
	RM	UL	RM	UL	RM	UL	RM	UL
Working hours per week	68.9	45.0	69.9	44.7	57.0	43.7	55.2	43.9
Income per month (yuan)	1083	1265	1124	1527	2158	2368	4839	5206
Income per hour (yuan)	4.02	6.93	4.17	8.55	9.75	13.50	24.1	33.0
Coverage of pension (%)	6.27	37.45	12.36	72.61	26.42	77.85	32.60	80.82
Coverage of unemployment insurance (%)	NA	NA	6.84	32.80	10.40	51.82	31.57	71.11
Coverage of medical insurance (%)	6.63	37.34	12.28	62.87	26.31	74.12	37.54	82.59

Source: Authors' calculation based on the China Urban Labor Survey, available from: <https://www.culs.org.cn>.

Notes: NA, not available; RM, rural migrant workers; UL, urban local workers.

In addition, rural migrant workers are more likely to suffer from worsening health conditions and to fall into poverty because of heavy working intensity and poor working environments (Du et al., 2006). Du et al. (2006) found that with a 1-hour increase in monthly working hours, there would be a 0.02-percent decrease in self-rated health status for rural migrant workers. In other words, to maintain similar health status as urban workers through reducing working intensity, rural migrant workers face a greater risk of falling into poverty. Data simulation by Du et al. (2006) based on hourly wages

shows that if working the same monthly hours as urban workers, the risk of falling into poverty for rural migrant workers increases by 15 to 35 percent.

3. Integrating Poverty Reduction Programs and Public Service System

Rural labor migration to urban areas creates a linkage between rural and urban poverty, which was not connected in the past when the size of labor migration was small. This is a common trend experienced by economies in the early stages of economic development. Currently, it is also a prevalent problem in many developing countries. Some economists refer to this phenomenon as the “urbanization of poverty” (Psacharopoulos et al., 1995).

Under the system of rural–urban separation before the reform and opening up in 1978, it was hard for the rural poor to enter urban areas. Therefore, it was rare to find migration poverty in urban areas in the earlier period of economic reform, because only a small portion of rural laborers who received more education could find jobs in urban areas.

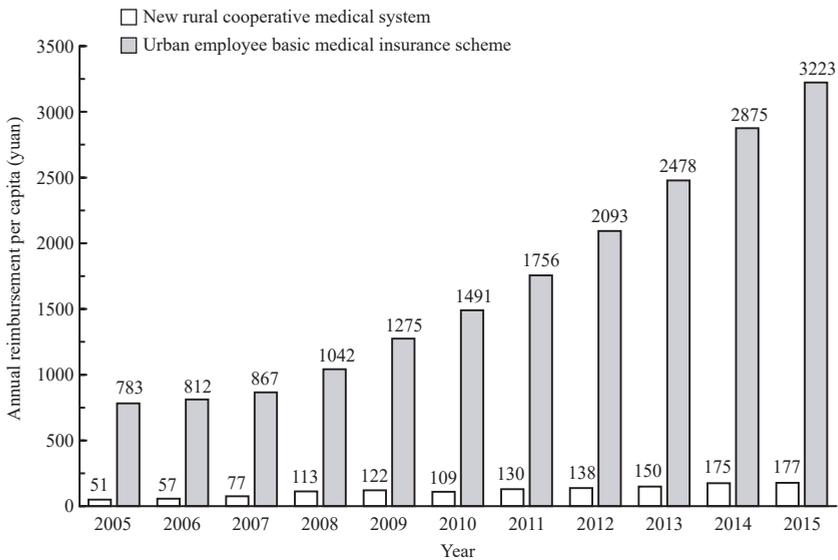
With insufficient flow in the labor market, the distribution of poverty would be more likely to aggregate in certain regions. In this scenario, an effective way to reduce poverty is to target efforts in certain areas. China’s success in poverty alleviation over the past several decades has been a good example. In recent years, the demographic composition of the migrant population has become more diversified. Among migrants, there are not only people of working age but also children and the elderly. Rural migrants have contributed to approximately 60 percent of the urban population increase in China (Chan and Hu, 2003), and a new round of reform is necessary to deal with the changing size, level and composition of the poor population to prevent poverty.

The current measures adopted to reduce poverty are not sufficient. In particular, no adjustments have been made in relation to the emergence of the rural–urban poverty linkage. Therefore, the poverty resulting from the rural labor flow into urban areas is not being addressed. More importantly, because migration poverty is mainly a result of insufficient social protection, any anti-poverty measures that only target income poverty will not have any effect on migration poverty.

To avoid migration poverty, it is important to integrate rural and urban social protection systems. As in many other countries, the social protection systems in China are quite different for rural and urban populations. The population protected by one of the systems can not seek help through the other system. As a result, the two different social protection systems could easily lead to a protection void for migrant workers when they enter urban areas. It is evident from Table 2 that there are significant

differences in social security coverage for rural migrant workers and urban local workers. There are also significant differences in the levels of benefits that they are able to receive from the social protection system. Take the medical systems as an example. The average level of benefits for those under the new rural cooperative medical system is significantly lower than that for those with medical insurance in urban areas. In 2015, rural residents received 177 yuan on average in compensation for medical expenses, while urban workers received 3223 yuan (Figure 6).

Figure 6. Differences in Benefits between Two Medical Insurance Systems, 2005–2015



Sources: NBS (2006–2016), MHRSS (2006–2016), NHFPC (2006–2016) and authors' calculation.

To sum up, only after integrating the two social protection systems would rural migrant workers be able to fight against different forms of risk in the urban labor market. To achieve this goal, a unified institutional design is required to narrow the differences in benefits from social protection systems for rural and urban laborers.

IV. Implications for Other Developing Countries

After 40 years of high-speed economic growth, China's labor market has witnessed significant changes. Its experience of labor migration and poverty reduction could be shared with other developing countries.

1. What Makes China's Rural Labor Migration Successful?

Several reasons are behind China's success in rural labor migration. First, peasants were given the freedom to choose their jobs. Implementation of the household contract responsibility system allowed rural residents' autonomy in deciding their own business and work choices. This system allowed rural residents to choose their occupations and to change residence freely. It paved the institutional foundation for the large-scale labor migration from rural to urban areas.

Second, full use of the market mechanism was made in directing rural labor migration. The large-scale migration is not a result of government planning, but, rather, a result of the market mechanism.

Another reason for China's success in rural labor migration has been the investment in human capital. Human capital investment has been given a priority over the past 40 years. Both the Chinese Government and rural families have invested a lot in primary school education. The average years of schooling attained by those in rural areas has increased steadily, so that rural migrant workers are now more readily accepted into labor-intensive industries (Song, 2012).

However, average labor costs have risen since 2008. Even in labor-intensive industries, capital has gradually started to substitute labor. With the increasing input of capital into industries, there will be much higher skill requirements for industrial workers. The generally low level of education attained and the inadequate skills among current rural migrant workers make it difficult for China to upgrade its manufacturing industries. To spur economic growth, the Chinese Government should further invest in human capital and improve investment efficiency.

2. Similarities and Differences with Other Developing Countries

(1) General Path of Development

From the perspective of gross national income (GNI), China has become the second largest economy in the world since 2010. However, from the viewpoint of GNI per capita, China is still a developing country (US\$8260 in 2016).¹¹ China has been a good example in regards to economic development and poverty reduction over the past 40 years and can share its experiences with other developing countries.

First, China has a similar endowment structure to most other developing countries. Before economic takeoff, developing countries are generally characterized by a

¹¹The figure is calculated using the World Bank Atlas method. See <https://data.worldbank.org> for more information.

high birth rate, a high death rate and a high population growth rate, which set the preconditions for their development: they are abundant in labor but lack capital. Under these conditions, developing heavy industries or capital-intensive industries, which use more capital and less labor, could not achieve long-term and sustainable economic growth. Therefore, developing labor-intensive industries could help to enlarge non-agricultural sectors and create more employment opportunities, in turn making it possible to break the obstacle of the dual economy and achieve economic takeoff. China's past 40 years of success have proved the effectiveness of this development strategy.

It should also be noted that China's labor-intensive manufacturing industry development is closely associated with its particular resource endowment. China's huge population base has created a big internal market for its manufacturing products. Many developing countries do not have the same advantage. Therefore, they need to choose their development plans based on their own advantages.

Second, the most efficient way to reduce poverty is to make use of the labor market in the early stages of economic development. If developing countries choose to focus on capital-intensive industries, ignoring their own resource endowment, then the distribution of income would be biased towards capital. Such an income distribution mechanism would inevitably enlarge income gaps between poor families and capital owners. In contrast, developing labor-intensive industries and making use of the labor market would help poor people to increase their income through primary distribution and improve the efficiency of poverty reduction.

Finally, like many developing countries, China's economic development was also constrained by underdevelopment of the market mechanism in the early stages of development. Especially for the labor market, there were many institutional barriers. Regardless of the complexity of labor market institutions and differences in labor market regulations across countries, many developing countries have an institutional barrier to free labor flow. As we discussed above, having free labor flow across occupations and regions is one of the most efficient ways to improve resource allocation efficiency under a dual economy. Therefore, gradually reducing and eventually removing the institutional barriers to labor flow is a necessary precondition for poverty reduction in developing countries.

(2) Special Characters of the Chinese Success

China's development trajectory has its own characteristics compared with many other developing countries. A very significant feature is that China's economic growth faced many restrictions during the institutional transition. Taking rural labor migration as an

example, in the early stages of economic development, China experienced a process of rural industrialization, where rural laborers left agriculture production but still lived in villages. Although rural surplus laborers were willing to work in non-agricultural sectors, they could not circumvent the rural–urban divide. In these circumstances, township and village enterprises, especially those in the eastern provinces, played a major role in the process of industrialization. Although China has been successful in poverty reduction during this development process, whether other developing countries will be able to follow this approach should be considered carefully.

One reason is that rural industrialization would eventually be replaced by urban industrialization because it cannot compete with the economic efficiency of large-scale economic production and the industrial clusters associated with urbanization. The other reason is that rural industrialization has its limitations for promoting labor migration and for poverty reduction. Even in the last century when township and village enterprises experienced fast growth, rural labor migration still could not be realized in most poor and underdeveloped provinces. The development of rural industrialization was related to many factors, including the scale and maturity of regional markets, local economic development and local market mechanisms. While other developing countries may not follow the Chinese path of rural industrialization, they can learn from the experience of China's development process.

(3) Experiences, Lessons and Prospects

There are some lessons from the Chinese experience that could be shared with other developing countries.

First, economic development and poverty reduction would be impossible without a favorable institutional environment. The immature markets in developing countries are mainly associated with the underdevelopment of market mechanisms. Therefore, building a sound market requires the removal of institutional barriers to production and factor markets and maintaining consistent policy.

Second, developing countries must take a gradual approach to economic development. Therefore, maintaining a stable social environment and avoiding taking radical actions are very important for all developing countries.

Third, taking advantage of the labor market is an efficient way to reduce poverty. However, relying only on the labor market is not sufficient, and a sound social protection system that covers the whole population should be established.

Finally, developing countries need to be careful that rapid urbanization should not lead to excessive congestion, pollution and social disorder so that urbanization is conducive to the well-being of rural migrants.

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