# Is China's Policy towards Migration Consistent?
# The Role of Policy and Unfinished Reform

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# Transcript – Is China's Policy towards Migration Consistent? The Role of Policy and Unfinished Reform

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Good morning, everyone. First of all, I'd like to express my gratitude for having this opportunity to discuss migration policy reform and China's development experience. In fact, if were really able to discuss the shock that migrant workers have suffered this year and how they will get through the New Year, that would be even more interesting. But the topic we are going to discuss was set a long time ago. Of the three issues raised by Jennifer, the first two, one regarding the impact of migration on development, and the second, regarding the role of policy, are topics that we have discussed quite a bit in the past, and I personally have also worked on these issues quite extensively. But I think the third issue, which refers to the international implications, and what lessons we can draw from that, is rather challenging.

I have been thinking about this issue, but I feel it is quite difficult to give a clear answer to the question. If we consider the impact of migration on development, we can see it clearly from a lot of our research from a lot of different perspectives. And in terms of the role of policy, if we look back we can see the process of introducing various policies at each period of time, and their effects and the reaction to them. We can see the whole process clearly.

This is our experience, but in the end, we still do not understand the exact difference between our experience and that of other countries. If they want to learn from us, I am not sure what they can learn. But I think perhaps it may be more important to understand policy adjustments in the context of the process of the policy reform, the nature of reform and the steps that were taken. So it's not a question of whether we introduced a specific policy at a certain point in time. This is also very important, of course, but when you decide to introduce a new policy, it depends on past experience.

So what I want to look at is the overall consistency of China's migration policy. In other words, we can't say that the today's policy is good and yesterday's policy was not good. Instead, we should say that policy in each period is targeted at resolving the problems of that time and is suited to the circumstances of that time. At the same time, even though reform is not yet complete, I am also inclined to consider this to be a necessary part of the logic of reform. That is to say, we need to leave the problems that need to be solved today for today, rather than putting them on the agenda ahead of time.

If we look at labor migration in China, it is indeed a win-win migration. That means that, from the macro point of view, it has solved the problem of resource reallocation and this was the problem it was intended to solve. In other words, allowing the labor force to shift gradually from less productive sectors to more productive sectors. This reallocation of resources will naturally generate benefits.

(PPT1) This is the article I wrote together with Wang Tianwen in 1999. We did some analysis which indicated that during the preceding 20-year period of economic reform, labor mobility accounted for 21% of GDP growth. This is a reallocation of resources. At the same time, we may also see that, as individuals, farming families and the rural labor force also benefited. We used to be very critical, saying that migrant-workers were being exploited, that their wages did not increase for a long time, and that they work in bad conditions. But in fact, we all understand that human beings are rational and they make choices, and we know that these farmers were willing to migrate.

We saw an article recently about a survey of farmers. Farmers said that the most important benefit they have received is that they are allowed to work in urban areas. From this survey we can see that, even before 2002, the total wages paid to migrants working in manufacturing gradually increased, even though their wage levels remained almost unchanged, because of the increasing number of farmers migrating for work. This was just because they were allowed to migrate for work. Of course, with the shortage of migrant workers after 2003, there has been an increase in wages, and the actual pace of the wage increase has also been relatively fast. At the same time, the scale of migration has expanded, resulting in a large increase in the total amount of income due to migration. I think that this analysis shows both the macro-level benefits of resource reallocation, and the micro-level benefits for farmers' families.

The combination of these two factors may, in fact, help us to understand why we introduced the appropriate policies at a specific point in time in order to adjust the situation of migrant workers.

(PPT2) So I think China's experience may not be relevant to other countries, because the circumstances differ from one country to another. Recently, the World Bank has conducted some research on this issue. The reform and development of a country is a process of learning, and so we can say the process itself is most important. And in this sense, the nature of the process is key. So I think when we're choosing a policy or making an adjustment to the system, we usually understand what problems we have in the current system, and it is also easy for us to understand where the strong points of the better system we hope to achieve lie. This is not difficult for researchers or for

officials to understand. These two things are pretty easy to understand. But the most difficult thing is getting from here to there – getting to the other side of the river. This is what the Chinese call "crossing the river by feeling for the stones". But where are the stones? And do we get to the other side of the river? These are perhaps more important core questions.

In particular, it is important to stress that the problem of how to get across the river is not a technical issue. Getting across the river is a process of policy adjustment which involves various interest groups. And interest groups may use their power to influence the whole policy adjustment process. So I want to say that this may be a more important factor when talking about China's experience.

I think one needs to understand several aspects of migration policy in China in order to have a general understanding of it. One aspect is how to solve the problem of interest groups in the whole reform process. This is an issue of great concern for researchers working on transition economies, especially the economists. That is to say that while reform in general brings benefits, this does not mean that it is neutral to all parties. Some will benefit, and others will inevitably suffer losses. In other words, the transition economists mostly want to solve the problem of compensation for those who suffer losses and in this way to reduce the political costs of reform, and the risks of reform, and make it possible to realize reform.

First of all, we see that there is very important aspect to China's reform which is that we have indeed taken care of certain interest groups. We hope that every step we take will result in a Pareto Improvement, that is to say, it will do no harm to vested interests. In China this desire to cause no harm to vested interests has a quite different meaning from the meaning it would have in other countries. Because when we talk about vested interests, we do not mean interest groups that have used their privileged status to gain control of resources, but also ordinary working people. It is clear that those who have a direct conflict of interest with migrant workers are very often urban residents and employees of state-owned enterprises in urban areas. These people actually also belong to the low-income strata, and so they are a group whose income we are trying to raise as part of the reform process. This is the first point to note in understanding policy reform, and it is also why we have to make so many policy compromises from time to time and take interest groups into consideration.

(PPT3)There is another point to understand with regard to the reform of migration policy, which a lot of people have talked about, and that is that there is no blueprint for China's reform. It seems that all of us understand that we are "crossing the river by feeling for the stones." as Deng Xiaoping

referred to it. And so people have been led to see China's reform as partial and fragmented. And so [they say that,] inevitably, reform in certain sectors may be ahead of others and some sectors may lag behind a bit. We often see quite a lot analysis of reform which claims that reform in some sectors in China, such as reform in commodity markets, is relatively far ahead, while reform of factor markets has lagged severely behind, particularly capital and labor markets. But, in fact, the economic system of a country is a complete system. It operates as a complete system. And the system will only function well as a whole when the parts fit together and are coordinated. If there is one part that doesn't fit, it won't play its proper role in the system as a whole. So, no matter whether you look at the economic system as a whole, or whether you look at the individual pieces of reform or the relationship among them, we can see that in fact the logic of reform is complete and not fragmented. Therefore, generally speaking, one cannot talk about certain aspects of reform going ahead, or others lagging behind. This point may also be important in understanding the process of migration policy reform.

The third point in understanding migration policy reform is that we do not have any overall blueprint. Some people may say that this is a limitation of reform and that we had no idea what direction we wanted to take reform in. But in fact, I think this was the right approach. Because, we see that many countries do have blueprints when they start reform, and they understand what they want to do and what objectives they want to achieve. But in the end, we see that they often get stuck in rigid dogmas. Take the Washington Consensus for example, or some other consensus, for example. We do not know much about these and we won't follow them. Because every step we take is for only one goal - improving people's incomes and livelihoods. So with this premise, we do not have a blueprint. That is the first point. Second, we do not care what means we use. Those who are in favor of radical or big bang reforms might say that China has adopted a gradual, step by step approach. But in fact this is not entirely the case. For example, the family-based contracting system was a fundamental reform that within a very short period of time led to the fundamental abandoning of the collective-owned economic system and its transformation into a household-based contracting system.

We also know that in terms of labor market reform, we originally stuck to incremental and non-radical reform. But after 1997, we made an extremely radical reform, which could even be called shock therapy. But all these radical, non-radical, incremental and fundamental approaches were in fact all part of the same thing. In the face of different circumstances and opportunities, the approach we adopt may be the same or it may be different. When to introduce a particular policy, and in what manner to do so, is actually related to the conditions of a specific period of time and to what is socially acceptable. That is to say, reform is not confined to one approach.

(PPT4) Based on these observations, we can understand migration policy reform in China and see that it is in fact consistent. This has certain implications. First, there have been some ups and downs and repetition in our policy at different periods of time. At one point, there may be more policy reform initiatives and at other times, reforms may be rolled back or become conservative. For example, in a study conducted by my colleagues and myself we compared the situation in urban labor markets, the extent of their tolerance, and the strength of migration policy reform and whether it was progressing or retreating. The results showed that one of the important variables affecting migration policy reform was whether there was significant employment pressure on urban residents. If people were facing severe employment pressure, then they would use whatever means available to solve this problem. For example, they might use the influence of the media, or work through the People's Congress to reflect their demands and finally influence policy. In this case, policy might tend to restrict rural-urban migration. On the contrary, when there is faster development in urban areas and a relaxed employment situation, there will be a large demand for labor, and migration policy will be relatively open and relaxed. At the same time, when examining the issue from a broader perspective, once the relationship between supply and demand in China's labor market changes from infinite supply to shortage, once it reaches this turning point, our policy environment will obviously become more and more relaxed.

So although there are these kinds of relationship, and there have been some ups and downs and repetition, when we look at the results of each stage, there has actually been no change in the direction of labor mobility as we have introduced market-oriented practices, but only some compromises to specific interest groups at different points in time. And these interest groups, as I mentioned earlier, are not a force opposed to reform, but a problem that needs to be solved by reform. In other words, ordinary urban people and employees must also benefit from reform. They are also the object of our concern. So we should not force migration policy on them at a specific moment just because their conditions have deteriorated. Although our research may prove that the relationship between the two is not like that, there is a term we use in reform called political economy. So to understand this from the political economy point of view, there may in fact be winners and losers. But perhaps this is not the case.

Therefore, we can say that, overall, reform has been moving forward.

There is another aspect to understanding the consistency of migration policy, which is that these gradual policy adjustments have taken place under the control of government. Their rhythm and pace are all controlled by the

government. In this way, the government plays a role in guaranteeing the implementation of reform and provides incentives to different groups. In other words, the momentum to drive reform forward depends on the support of the whole society. If the direction and manner of reform will benefit various interest groups, or their interests are in accord, then reform can move forward much more easily. For example, we have continually been balancing the relationship between the migrant labor force and urban employees. We have not just been concerned about migrant workers, or only taken care of the interests of urban employees. Since the 1980's, we gradually started to allow migrant workers to move within rural areas, then to small cities and towns, then to middle-sized and large cities, and then to large cities and across regions. The appearance of the migrant worker boom is actually related to the availability of employment opportunities in urban areas. When employment opportunities were only available with state-owned and collective-owned enterprises, it was not possible to disrupt these people's livelihoods. If you did, you might say you have taken care of one group, but at the same time you have harmed another. But as more forms of ownership and employment opportunities were generated through progressive reform, suitable employment channels opened up into which migrant workers could be integrated. Meanwhile, as they came into competition with urban workers, urban employees also began to have other channels open to them. This is one aspect of the relationship.

Another aspect is the rural-urban relationship. The adjustment in migration policy is actually related to the rural-urban relationship. Because, as we know, the first step of rural reform mobilized the enthusiasm of farmers and implemented the family-based contracting system, which greatly increased the income of farmers. At that time, we saw the direct narrowing of the rural-urban income gap. But after that came the start of urban reform in a context where there was no major breakthrough in rural reform. This increased the income of urban employees and we again saw a relative expansion of the rural-urban income gap. But the process in itself was not an obstacle to reform. In fact, this gap between urban and rural incomes fueled labor mobility. In other words, it generated a draw on the labor force. And at this moment, the government continuously relaxed policies restricting labor mobility. With this combination, the scale of labor migration became increasingly larger and larger.

In this large scale process, we knew that the result would inevitably be the narrowing of the income gap between urban and rural areas. If Li Shi does not agree that the income gap between urban and rural areas has narrowed, at least we may say that it constrained the continued expansion of that gap. In fact, today we can try to understand whether it has narrowed the rural-urban income gap or narrowed the income gap in the country as a whole. We

know that when Professor Li Shi calculated GDP they analyzed the Gini coefficient, and their analysis included the Gini coefficient for inequality within the urban population, the Gini coefficient for inequality within the rural population, and also the Gini coefficient for inequality between rural and urban areas. It has been shown in quite a lot of studies that the rural-urban inequality accounts for about 50% of the total Gini coefficient. In another study, Wan Baohua found that the rural-urban gap explains about two thirds of the whole Gini coefficient. So this means that if the urban and rural gap narrows, the Gini coefficient will definitely decrease. If that is the case, what can we say is the problem with urban and rural gap that we see at the moment? Of course, many studies say that there are quite a number of gaps that have not yet been identified. But it's also true that there may be a lot of factors that might narrow the gap that have not been recognized either. But in the end this goes to show that, in any country, the narrowing of the rural-urban gap will eventually depend not on preferential policies from the government but on population migration.

China is experiencing the largest population migration in the history of the world and of mankind, but the aggregate benefits of this migration in terms of improved income have not been captured by the statistics. So we can't see it. That is to say, we do not include migrant worker households in our urban household population survey, because we cannot solve the practical problems involved. Even if migrants are identified for the sample, they will say that these people will not live here long so we won't be able to find them again, and as soon as you record them they are recorded for the whole year, so you naturally drop them from the sample. Then in rural areas we only sample long-term residents. Those who are away for over half a year are not counted. So clearly, we have left out a lot of data about the improvement in earnings brought about by migration.

But we did consider this situation in making policy reforms. This has resulted in a situation where at every step of reform, proper consideration was given to the interests of all the groups concerned, and new benefits have been realized without anyone being hurt. It may be that the next step of reform might hurt a certain interest group, but we still tried to make an overall arrangement such that we can use the benefits of reform to compensate people who may possibly suffer. This is called a Kaldor-Hicks Improvement in economics, in other words, you cannot avoid some costs to reform, but as long we have benefits from reform, we can use them benefits to compensate those who suffer.

But in fact, although we can see the consistency of migration policy, in real life what we see may appear to be inconsistent. In other words, when we consider migration policy reform, we may notice that the central government

and local governments sometimes have different opinions about policy. The central government wants to increase the income of farmers and reallocate resources in order to achieve greater efficiency. So In most cases, the central government is inclined to favor encouraging migration. But local governments, for example, in migration-receiving areas, may believe that migrants will be a threat to social order and affect the employment situation of local workers. Therefore, they often introduce some policies to discourage migration. In the worst situation, some major cities have set up certain barriers to employment. At same time, the governments of certain areas in the central and western regions have introduced various policies to send out labor migrants. So it seems that there are differences of opinion about policy across various governments and these differences often translate into specific policies and have an effect. But in fact, these policies do not constitute obstacles to reform, but actually help reform to integrate the interests of various parties as far as possible. In this way, we can say that they make reform politically feasible. Another important point, as I mentioned before, is that the vested interests I am talking about - the winners, and the losers, or the potential losers - are not people with special social status or privileges to rely on. They are just different groups of ordinary working people. So it is extremely important that these different interests can be represented in order to achieve a balanced and stable reform..

The fourth point in understanding the consistency of migration policy relates to the ways in which it is connected with different stages of overall reform and economic development. To give a big example, as I have saying recently, China's economy has reached a Lewis Turning-Point. That is to say that the unlimited labor supply which was a characteristic of the economic structure for a long time, has gradually disappeared, and to a certain extent a labor force shortage has emerged. This is a fundamental turning point. It's very clear that until this happened, the whole policy orientation, public opinion and the actual bargaining and negotiating positions in real life, were not favorable to ordinary workers. But after this turning point, we find migrant workers have more bargaining power. And we find that at the same time society has started to be more tolerant of them and that it needs them more. Therefore, we can say that the former gradual and incremental reform that we pursued, which took care of various interests, and had advances and reversals and repetitions, has brought about this result. And we can see that since the beginning of the century migration policy has become more and more consistent, and policy differences between the central and local governments are gradually disappearing, as are differences between the governments of labor sending and receiving areas. Reform has entered a new period in which it is relatively unified in its direction and relatively fast-paced. So we see that because of the Sun Zhigang incident in 2004, within a short period of only two months, we were able to solve a policy problem that

has existed for more than ten years. And other symbolic events, such as the Premier and General Secretary helping migrant workers to get their back wages paid, have to a great extent helped solve problems that could not be solved for a long time.

At the same time, the fact that reform has not yet been completed is also in line with its overall logic. The gradualist mode of reform, which took the interests of various groups into consideration, took advantage to a certain extent of particular aspects of our historical heritage, such as the household registration system. And for a period of time this was helpful and the registration system played the role of a pressure valve. But now we have reached a stage in the process of reform where we find that the labor force is now sufficiently mobile but that China is experiencing a kind of "atypical urbanization." So we found in the 2005 census, that 46% of the urban population – the long-term urban population - have an agricultural residence registration. This means that the migration of labor is playing a major role and that migrants are tending to stay for relatively long periods of time. There have also been changes in the boundaries (between urban and rural areas). So we can say that this is a form of urbanization that involves changing certain definitions. But it is still logical that this part of the process of reform should be left until now.

From this we may see that we now have three types of population, and one type is people who live in urban areas, but who don't have urban registration status. We may also see another trend, which is that from 1990 to 2006, the number of townships grew considerably, while the number of villages shrank. The number of streets also decreased, and the number of counties decreased, while the number of cities grew, along with the growth of downtown areas in cities. All these changes have contributed to changes in definitions. And the overall result is an increase in the level of urbanization. This situation has also resulted in some problems. Of course, it has distorted the structure of the rural population and information about the labor market. In fact, the phenomenon we are seeing now, the wave of migrant workers returning home to the countryside, is related to this. And of course it has prevented migrant workers from enjoying normal access to public services in urban areas.

But we can also see that the local governments have also recognized these problems as they have arisen. That is to say, we used to make use of the household registration system to ensure that migration policy reform could proceed gradually and in a stable way. Now local governments have started to initiate reforms to the household registration system themselves. We also know that quite a lot of places eliminated the differences between urban and rural household registrations. But in the process of doing this, they soon discovered that the household registration system is not just a form of

registration or a piece of paper. The core of the household registration system is the hidden value of differences in rights to public service and social security and various others things that go with it. When this became clear, we can actually see that at the level of the central government, we have been introducing reforms that cover both rural and urban areas and that will reduce the gap between the urban and rural areas in terms of access to public services and social security. And at the level of local government, many places have tried to directly set up a social security system for rural residents. And now we see a lot of discussion about reforms to enable the continuation, connection and transfer of social security rights.

So this is why we can say that China's reforms are unique and distinctive. And it's important to stress the relationship between reform, development and stability. At the same time, there is a logic to the reform process, and that means that even if there are tasks that we have not been able to complete yet, this is also a natural element of this logic.

Thank you.