

in recent years. Her findings support some more general observations recently made by Chan and Buckingham.²⁸ In Chapter 12, she studies, based on the same survey data, the return to education for migrant workers and urban workers. The results are interesting and have very direct policy applicability.

Revolving around the theme of labor shortages, the last two chapters (13 and 14), examine more broadly China's industrialization strategies and the need to build a new path, especially in the wider context of expansion of trade and globalization. They argue for the need for developing an integrated rural and urban labor market, including more daring institutional reforms of the *hukou* system and more legislation to protect migrant workers. A shift in China's industrialization strategy, from one that is based on cheap labor to one that emphasizes increased labor productivity, is also recommended by the authors.

V. Discussion

The themes in the collection are China's lower population growth rates, aging demographics, decreasing supply of labor and, most importantly, shortages of rural labor supply for the urban sector. The last point means that after many years of low population growth, China has finally reached the beginning stage of the Lewis turning point: there is no longer rural labor surplus in the economy. This is a significant, perhaps bold, proposition, most prominently argued by Cai Fang.²⁹ It was widely reported and analyzed in this volume that that employers were forced to raise workers' wages in the face of a "*mingong huang*" (dearth of rural migrant labor) in Guangdong and other coastal provinces in 2004 and 2005.³⁰ This can be read as the triumph of the labor market in improving migrant labor's conditions, an important step in gradually integrating the rural-urban dual labor markets. The arrival of this turning point, if it were true, is of great significance to the Chinese economy and, more broadly, to China as a whole as it signifies the beginning of an

²⁸ Chan and Buckingham, "Abolishing *Hukou* System?"

²⁹ See, especially, Cai Fang, "A Turning Point for China and Challenges for Further Development and Reform" (in Chinese), *Zhongguo shehui kexue (Social Sciences in China)*, 2007, No. 3, pp. 4–12.

³⁰ Peter Goodman (*The Washington Post*), "Factory Labor Runs Short in China," printed in *Seattle Times*, September 26, 2004, A13.

important process to end the inefficient dual economy and infamous “dual society” premised on rural and urban segmentation. Both dualities have beleaguered the country for the last half century and are a major obstacle on China’s path to a single labor market, and finally, a single unified society (*yiyuan shehui*) of a first-world nation.³¹ This turning point, therefore, is a major signpost of social and economic progress, and it can indicate more balanced inter-sectoral growth in the years to come, following Ranis’ arguments.³² Given that China is the “world’s factory” because of its super-low labor cost,³³ such a turning point will surely have significant global repercussions: it may trigger momentous shifts in the different tiers of economies in the world, based mainly by comparative labor costs and productivities.³⁴

The proponents of the Lewis-turning-point hypothesis are credited for their bringing the attention to the forthcoming exhaustion of China’s cheap labor and the rise in the opportunity cost of migrant labor after a quarter century of rapid economic growth, and the need for China to shift the growth model from the extensive “wasteful” mode to a more intensive and sustainable one. The thesis is also controversial and has attracted a lot of attention and debates.³⁵ While this is not the place to systematically address this complex issue, I would like to contribute by drawing on my own recent research on the *hukou* system, and reviewing the latest developments in the Chinese economy in the midst of the current global economic crisis “made in the USA,” which, obviously, could not have been foreseen by other contributors in this volume. Seeing from the vantage point of early 2009, I will elucidate three points

³¹ Kam Wing Chan, “The Chinese *Hukou* System at 50,” *Eurasian Geography and Economics*, 50(2): 197–221, 2009.

³² Gustav Ranis, “Arthur Lewis’ Contribution to Development Thinking and Policy,” *Yale University Economic Growth Center Discussion Paper*, No. 891 (August), 2004.

³³ Anita Chan, “A ‘Race to the Bottom,’” *China Perspectives*, March–April 2003, at <http://chinaperspectives.revues.org/document259.html>, accessed on February 2, 2009.

³⁴ David Barboza, “Labor Shortages in China May Lead to Trade Shifts,” *New York Times*, April 3, 2006.

³⁵ For example, Green, “On the World’s Factory Floor”; “Fangang: Rural Migrant Labor Shortage is a Short-term Temporary Problem” (in Chinese), Sino.com, September 10, 2005, at <http://news.beelink.com.cn/20050910/1928546.shtml>, accessed on January 4, 2009. Xu Jingyong, “Same Roots: Prospecting ‘Mingong Waves’ and ‘Mingong Shortages,’” *Diaoyan shijie*, undated, pp. 14–17, 33. Wu Xuean, “It’s Too Early to Claim ‘Rural Migrant Labor Shortages,’” *Zhongguo Qingnian Bao*, October 19, 2004, at <http://www.people.com.cn/GB/shizheng/1026/2929562.html>, accessed on March 4, 2009.

beyond the typical (neoclassical) economic and demographic analysis contextualize the Lewisian process, as it has been unfolded in China.³⁶ I am not disputing the emergence of the labor “shortages,” which is predetermined in China’s recent rapidly aging population, but I would like to go behind them and highlight or foreground some, perhaps more fundamental, distinctive Chinese structural settings.

1) We have now learned that the Chinese export industry in the coastal region was seriously hit by the latest global economic downturn. Based on recent surveys, Chinese government has estimated that as many as 20 million migrant workers, or about 15.3 percent of this group, have lost their jobs.³⁷ It appears that the labor shortages beginning in 2004 have now evaporated as the world demand for Chinese exports dropped precipitously beginning last year, especially in the past few months. It is clear that the current major preoccupation of the government is to create and protect jobs.³⁸ This is quite a change from 2004, when the rapid and sustained surges in net exports in the years immediately following China’s entry to the WTO in 2001³⁹ generated super-charged growth in some areas (such as Dongguan) and created immediate labor supply bottlenecks in those areas. Those shortages should also be understood in the context of the narrow labor demographics typically demanded by the export industry, and other factors (examined in the next section).

In the more extreme case of Dongguan, where the most acute shortages seemed to have been reported, its economy grew annually at an average of about 20 percent per year between 1990 and 2005. The city doubled its demand for “outside labor” about every five years. Its breakneck growth raised the employment of migrant labor almost by

³⁶ These points are also mentioned or implicit in some of the chapters in this volume.

³⁷ Keith Bradsher, “China’s Unemployment Swells as Exports Falter,” *The New York Times*, February 6, 2009. “Action to Aid Ten Million Rural Migrant Workers” (in Chinese), China.com, February 27, 2009, accessed at http://webcast.china.com.cn/webcast/created/3139/44_1_0101_desc.htm, February 27, 2009. The “registered unemployment rate” for urban population (with local *hukou*) was 4.2 percent in February, 2009, see “Urban New Employment Dropped by Large Amount” (in Chinese), March 10, 2009, at http://lianghui.china.com.cn/2009lianghui/2009-03/10/content_17413922.htm, accessed on March 10, 2009.

³⁸ “Action to Aid Ten Million Rural Migrant Workers.”

³⁹ See C. Fred Bergsten, Charles Freeman, Nicholas R. Lardy and Derek J. Mitchell, *China’s Rise: Challenges and Opportunities*, pp. 105–136 (2008).

fourfold from 1.3 million in 1995 to 4.7 million in 2004.⁴⁰ One can easily imagine that this would create an extremely tight labor market and short-run supply problem then. But such a phenomenon could also be quite ephemeral. In the wake of several well-publicized product-quality scandals (related to toys and canned foods, for example), combined with rapid escalation of world prices of materials and fuels in 2007 and early 2008, the world demand for China-made products ebbed. More seriously, the export sector has been further hit hard by the global financial crisis beginning in late 2008. The labor supply situation was quickly reversed to a “surplus” condition. Preliminary data have shown that even in the Pearl River Delta, the main area of labor shortages in 2004 and 2005, out of the 10.3 million migrant workers arrived in early February, 2009, some 20 percent already could not find jobs.⁴¹ Wages of migrant workers have also dropped by 10 percent.⁴²

The fact that employment of rural migrant labor can be so easily reversed within 3–4 years underscores the brevity of the labor shortages and, more fundamentally, the vulnerability of China’s existing growth model by relying heavily on exports. Export industries like textiles and toys are inherently subject to enormous instability out of China’s control, and there are significant upturns and downturns of labor demand from time to time.

2) More fundamentally, the root cause of China’s huge rural labor surplus, of course, is demography and history: the accumulation of a super-large population over recent centuries over limited land resources developed unfavorably high man/land ratios that prevented unskilled agricultural labor markets to clear,⁴³ as in Lewis’ original thesis. On top of the abundance of rural labor, however, there is an important contemporary institutional addition that has aggravated the labor surplus condition over the last half century. This I refer to the institutional setup centered on the *hukou* system erected more than 50 years ago, as

⁴⁰ Data from Dongguan Statistical Bureau, see <http://tjj.dg.gov.cn/website/web/zhctjnj/2005TJNJ/02/sheet004.htm> and <http://tjj.dg.gov.cn/website/web/zhctjnj/2006ZY/sheet066.htm>.

⁴¹ “Firms Recruiting Dropped by 10–30%; Wages Decreased by 10%,” *Caijing*, February 9, 2009, at <http://www.caijing.com.cn/2009-02-09/110054227.html>, accessed February 11, 2009. “Two Million Rural Migrant Workers Blindly Flowed to Guangdong after Spring Festival,” *Nanfang Dushibao*, February 4, 2009, accessed at http://epaper.nddaily.com/A/html/2009-02/04/content_696961.htm.

⁴² *Ibid.*

⁴³ Kang Chao, *Man and Land in Chinese History*, Stanford University Press (1986).

part of the newly established command economy and rapid state-led industrialization strategy. Typical of the Soviet-type industrialization model, China's strategy was premised on the extraction of agriculture and concomitant immobilization of the rural labor.⁴⁴ The rural surplus population and labor built up over centuries were bottled up in the countryside; with rapid natural population growth, the demographic pressure on land had risen noticeably in first the three decades of the People's Republic. Such an institutional setup served to keep the opportunity costs of peasants (including their labor and land) very low.⁴⁵

In the reform era since 1979, the *hukou* system has functioned more as an instrument of discrimination against and exclusion of the rural labor than stopping it from going to the city.⁴⁶ The "cheap" peasant labor has been "freed," which has definitely helped relieve population pressure on land, but the labor is transferred to cities and export-processing zones under the condition of without local *hukou*—i.e. citizenship—in the destination. This prevents migrant laborers from moving upward socially or assimilating into the destination (urban) population; the institution confines them into a huge underclass of super-exploitable and low-cost labor, yet highly mobile or flexible (and expendable) industrial workers for China's new economy geared to global demands.⁴⁷ The "China price," mainly due to its ultra-low labor costs, was the lowest among major developing countries.⁴⁸ Many of these workers are vulnerable to exploitation and labor abuses. In other words, this state-created institution, the *hukou* system, also helps to sustain the ultra-low labor costs and effectively prolong the supply of low-cost "rural surplus labor." The system helps defer the arrival of

⁴⁴ Kam Wing Chan, "Economic Growth Strategy and Urbanization Policies in China, 1949–82," *International Journal of Urban and Regional Research*, 16, 2:275–305, 1992. Chan, "The Chinese *Hukou* System at 50.," Justin Yifu Lin, Fang Cai, Zhou Li, *The China miracle: development strategy and economic reform*, Hong Kong : Chinese University Press, 1996.

⁴⁵ David Kelly, "Reincorporating the Mingong: Dilemmas of Citizen Status," in Ingrid Nielsen and Russell Smyth (eds.), *Migration and Social Protection in China*, Singapore: World Scientific Publishing Co., pp. 17–30 (2008).

⁴⁶ Fei-ling Wang, *Organizing through Division and Exclusion: China's Hukou System*. Stanford, CA: Stanford University Press, 2005.

⁴⁷ Dorothy Solinger, "The creation of a new underclass in China and its implications," *Environment & Urbanization*, 18(1): 177–193 (2006). Ching Kwan Lee, *Gender and the South China Miracle*, Berkeley, CA: University of California Press, 1998. Peter Alexander and Anita Chan, "Does China Have an Apartheid Pass System?" *Journal of Ethnic and Migration Studies*, 30 (4):609–629, 2004.

⁴⁸ Chan, "A 'Race to the Bottom.'" Green, "On the World's Factory Floor."

the critical Lewis turning point⁴⁹ so that cities and export-process zones like Shenzhen and Dongguan can draw on a very large pool of labor for a long time, basically at rural-subsistence wage rates. Li Desheng, a former chief of China's Bureau of National Statistics, remarked in 2005 that for the two decades since 1980, there had not been any real increase in the wages of rural migrant workers in the coastal areas, despite rapid economic growth of the region and China as a whole.⁵⁰ While seemingly obvious, one of the amazing things of post-Mao China is that wages of rural migrant labor remained basically flat until very recently even though the economy grew annually at double-digit rates in the last three decades.⁵¹

In other words, besides the demographic pressures built up over centuries, the *hukou* system and its related components (such as the rural land tenure system) have also served to depress the real wages of migrant laborers and bound them into a basically hereditary underclass of cheap labor.⁵² As long as the system is still alive and potent in discriminating low-skilled rural migrant labor—and most signs appear to be indicating so⁵³—the supply of very low-cost rural labor will remain large. (Ironically, the *hukou* system also limits the supply of rural labor to the urban sector, see below).

3) In addition to the super-low wage conditions, rural migrant labor hired in export sector fall overwhelmingly in a highly select age group, namely, the younger (generally also more educated) cohort roughly between age 16 and 34. This appears to be mostly a demand-side factor dictated by industrialists: young migrant labor possess certain kind of

⁴⁹ Wang has stated that the *hukou* system enabled China to bypass the Lewis turning point (Wang, *Organizing through Division and Exclusion*).

⁵⁰ "Wages Unchanged for Two Decades, Li Desheng Explains Reasons for Labor Shortages," *Beijing Chenbao*, January 27, 2005, at <http://politics.people.com.cn/GB/1027/3149315.html>, accessed January 5, 2009. The stagnation of real wages of rural migrant labor was more serious in the early 2000s, considering that migrants then were more educated and more productive than those who came in the late 1980s.

⁵¹ According to Cai Fang, even in 2004, the wage level of migrant labor was only about 1/4 of the marginal productivity of labor, which means that, in addition to the fact the rise of labor costs was backed by increase in labor productivity, the former had not even caught up with the latter (English transcript of an interview of Cai Fang by *Caijing* Magazine, posted on Chinapol on September 5, 2008.) Thanks to Dorothy Solinger for sharing that information.

⁵² Kelly, "Reincorporating the Mingong."

⁵³ Chan and Buckingham, "Is China Abolishing the *Hukou* System?" Cai Fang, "Solving the Rural Surplus Labor Puzzle" (in Chinese), *Zhongguo renkou kexue*, 2007, No. 2, p. 6. See also Chapter 9 by Wang in this volume.

“qualities” expected by employers. They range from the physical abilities of young women, such as high dexterity to handle complicated and fast-paced repetitive assembly work (especially in electronic industry), to “work attitudes” such as endurance and tolerance for long hours of work, often for 28–29 days a month.⁵⁴ These qualities are mainly found in the young and often unmarried workers; they of course are also more likely to cope with living in dormitories or barrack-type shelters.

This set of employers’ “preferences,” in part reflecting a more consumptive way of using rural labor, obviously severely reduces the pool of available labor. At the same time, rural migrant workers are treated only as “temporary” in the destination by the *hukou* system. They lack legal permanent residency status in the cities where they work, which also precludes them from accessing the urban social safety net and most of other urban services and benefits available to any permanent resident. Such conditions make sustenance in the city extremely hard, if not impossible, for the great majority of older rural migrant workers who are married and have children. The double lack of required labor “qualities” and access to an urban social safety net, combined with high and rising urban living costs,⁵⁵ often forces many of them to choose to return to rural areas when they get older.⁵⁶ In the case of the 2004–06 labor shortages, some of the government measures aiming at raising incomes in the countryside also helped to cut some of the rural labor supply.⁵⁷

In other words, the depletion of rural surplus labor is not really the exhaustion of *all* surplus labor in the rural sector. Instead, the shortages have occurred mainly in a particular age cohort of labor; survey data in Chapter 8 by Han Jun *et al.* clearly reveal that there is still a huge rural labor surplus (mainly in age 35 and above), the size of which is estimated to be about 100 million.⁵⁸ This is far from the full employment

⁵⁴ Green, “On the World’s Factory Floor.”

⁵⁵ Rural migrant laborers are not eligible for low-cost public housing, which has been expanded rapidly in the last ten years in almost all major cities in the face of escalating urban housing prices and rents.

⁵⁶ “Labor Shortages Caused by Inability of Rural Labor to Settle in Cities” (in Chinese), *Zhongguo Jingji Shebao*, April 15, 2005, at <http://news.beelink.com.cn/20050415/1827521.shtml>, accessed on December 22, 2008.

⁵⁷ Such as the elimination of agricultural tax in 2006 and the “new socialist town” policy (see Green, “On the World’s Factory Floor,” Part VII.)

⁵⁸ This figure seems to square well with my rough estimate of rural labor surplus of 2006: Total rural labor: 470 million; Already transferred labor: 226 million; Labor needed for agriculture: 150 million; Implied surplus: 94 million. The estimate of “surplus,”

scenario assumed in the Lewis model when the “turning point” is reached. The co-existence of labor shortages and large surpluses in the rural sector is really quite unique to China’s industrialization experience, because of the prolonged and continuing rural and urban segmentation. It speaks perhaps to the much more serious wage depression of rural labor in China because of the double burden of the demography and institution, as elucidated above. Shortages in only a specific age labor segment, even permanent, are a far less significant sign of progression to the ultimate demolition of the socioeconomic duality in China than one that is based on full employment of rural labor at large.

For the coming several years, the rural working-age population is still growing at least 7–8 million a year, far exceeding the average annual actual net increase of rural migrant labor of about 4.4 million in the last 15 years, as calculated earlier. If we consider the labor depletion in the broader sense (which is more significant), it appears that there is still substantial room to go. However, if we limit our consideration only to the rural labor aged 16–34, the annual supply in the coming few years will be about 3–4 million per year,⁵⁹ about one million short of the annual average demand in the last 15 years. Depending on the length of the current global financial crisis, once China’s export growth gets back to the pre-crisis level, the supply of this young cohort is going to be limited in about a few more years’ time after that.

From a policy standpoint, there are definitely broader economic and social benefits than the narrow short-term calculus of the industrialists to argue for extending industrial and other urban employment to the older rural surplus labor. Gainful employment of the older rural migrant labor will greatly relieve the serious burden of financing retirement in old age and address partly the issue of “getting old before getting rich” as identified in Chapter 3 in this volume. Experience in Hong Kong in the 1980s and 1990s and China more generally (in state-owned enterprises) shows that manufacturing and low-end service jobs can be great absorbers of low-skilled labor aged 35 and above. The low-end service sector, such as jobs in cleaning and domestic services, is still largely underdeveloped in China.

of course, critically depends on the assumption of labor needed for agriculture. A set of higher figures (178–228 million) is used by Cai Fang and Wang Meiyang, see Table 7.2 in Chapter 7. See also Green, “On the World’s Factory Floor,” Table 7 for more details and different estimates.

⁵⁹ Author’s estimates based on data from 2005 1% Population Survey.

It is evident that the labor “dearth” in 2004–06 was a sign indicating the rise of opportunity cost of young rural labor. However, it now appears that wage gains of rural migrant labor in those years through the market were short-lived and have now largely dissipated by the unpredicted global financial downturn. The gains were also localized in specific age segments and mostly in coastal regions. By and large, the economic (and political) power of the whole rural labor (including migrants) remains weak. In policy terms, I concur with Cai Fang and many others in this volume who advocate for greater reduction of barriers to creating a truly functional single rural-urban labor market. This will involve especially the reforms of the *hukou* system to allow migrant laborers to settle in cities, and developing, for example, social safety net (such as potable pension) system for them and their family. This will help reduce the cost of living in cities and induce labor supply to the city. The rights of the rural labor and their interests (including their farmland, especially against unscrupulous expropriation without adequate compensation) need to be protected; some important measures have been taken especially by the central government in the last few years.⁶⁰ Of course, the short-term task is to create jobs for migrant workers and provide some assistance for the unemployed. These tasks are now made more obvious and urgent by the possible significant impoverishment of the rural population because of the huge unemployment of the rural migrant labor induced by the global economic crisis.⁶¹

In summary, the Chinese story of rural-urban transfer and industrialization in post-1949 era is a complicated yet very interesting one because of the various intersecting factors consisting of both the general ones (such as those identified by Lewis) and the more China-specific ones (some of which are highlighted above). China calls upon students of development to engage in careful work to come up with sophisticated analysis and frameworks which are China-appropriate. Hopefully this introduction has furnished a more nuanced tale to help readers understand the Lewis turning point in China’s more distinct institutional context. With that, I invite all of you to peruse the very rich research and analysis contained in this volume to truly comprehend the story of China’s rural-urban transformation—which is of epic-scale—and its problems and continuing enormous challenges.

⁶⁰ See Chan and Buckingham, “Abolishing the *Hukou* System?” and also Chapter 11.

⁶¹ Income generated by rural migrant labor now contributes to about 40 percent of the total net rural income. See “Nongmingong shiye diaocha.”