RETURN RURAL MIGRATION IN CHINA: A SOURCE OF SOCIAL INSTABILITY OR A FORCE FOR RURAL TRANSFORMATION?

ZHAO Litao

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Executive Summary

1. The global financial crisis has hit China's export sector hard. Hundreds of thousands of migrant workers have been laid off and returning home, causing concerns about social instability in both the host cities and the labour-exporting areas.

2. The crisis can be turned into an opportunity, however. The Guangdong government has been talking about industrial upgrading for some time. This crisis provides a good opportunity to get rid of low value-added but highly polluting enterprises.

3. To the labour-exporting areas, reverse migration brings home the much needed human resources. Returned migrants can make two important contributions to the countryside. First, as they return to become traders and entrepreneurs, they diversify rural livelihoods and expand non-farm employment.

4. Second, returned migrants prefer to settle down in commercial towns instead of home villages. As they build houses and set up businesses, they play an important part in rural "townisation". Rural towns are important for ameliorating the sharp divide between the city and the village.

5. Policy support is crucial to attract returned migrants. Since the mid-1990s, some local governments have learned to direct migrant resources toward economic development. They have provided extensive support for returnee entrepreneurship in the form of credit, land access, and tax concession.

6. It is important that China continue such practices. Coincidentally, the Chinese Communist Party (CCP) redefined development priority in October 2008 to focus more on rural development just when the recent large wave of return migration began to emerge.

7. The CCP vows to expand policy support for agriculture and spend more on rural public services. The new measures, if effectively implemented, can make rural China a new engine of economic growth in the years to come.

8. For returned migrants, the CCP has decided to assist returnee entrepreneurship, and integrate "townisation" with the construction of a new socialist countryside, thereby creating favourable conditions for returned migrants to entrepreneurially deploy their savings, skills, and information.

9. While economic crisis is a temporary phenomenon, it can trigger changes that have long-lasting impacts. Massive return migration may threaten social stability in the short run, but if managed well, it can contribute to rural development. In the long run a larger question is whether China seizes the opportunity to modernise the countryside and narrow the rural-urban gap.

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ZHAO Litao*

Fast-Rising Return Migration in China

1.1 Hundreds of thousands of migrant workers are returning to their home villages, not for family reunion on Chinese New Year's eve, which is still weeks away, but because of fast-rising unemployment linked to the global financial crisis as well as industrial restructuring in the Pearl River Delta region.

1.2 With declining orders from the world market, a growing number of factories have been forced to shut down, many of which have been struggling for quite a while with a stronger yuan, lowered tax rebates, and higher costs associated with new labour and environmental standards. To varying extents, the construction sector and the service sector are also cutting jobs.

1.3 One immediate concern out of recent massive layoffs is social instability. The number of labour disputes—mainly due to unpaid wages—is on the rise, some of which have erupted into clashes with the police. What worries the Chinese government is whether social protests will spread to other parts of China with migrants returning to their home towns/villages in large numbers.[1]

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* Zhao Litao is a Research Fellow at the East Asian Institute, National University of Singapore. He would like to thank Professor John Wong for patiently going through the various drafts.

[1] The western media has been closely watching the situation. For example, see "China Fears Restive Migrants as Jobs Disappear in Cities," *The Wall Street Journal*, December 2, 2008. The Chinese government is also concerned about the destabilizing impact of the massive return migration: see "State Councilor Urges Beefing up Social Stability," http://news.xinhuanet.com/english/2008-11/23/content_10401863.htm, accessed December 9, 2008.

1.4 Another possibility that returned migrants can be a force for rural transformation has received much less attention. Return migration caused by layoffs and factory shut-downs is of course not in the best interest of rural migrants. But their return can help diffuse skills, ideas, information and entrepreneurship from urban to rural areas.

1.5 China has been talking about building a new socialist countryside for several years without making progress in narrowing the large rural-urban development gap. The massive return migration, although a bad news by itself, provides a rare opportunity for enriching human resources in the countryside. The issue is whether the Chinese government has the right policy to tap such human resources.

1.6 The Chinese Communist Party probably did not foresee the large waves of return migration. Coincidentally, it made a major decision in October 2008 to redefine China's development priority. It has decided to shift priority to rural reform and development, introducing many measures that can create favourable conditions to attract returned migrants and transform the countryside.

1.7 The current economic crisis will be over sooner or later. If managed well, it can trigger positive changes that have enduring effects. While maintaining social stability is important, in the long run a larger question is whether China seizes the opportunity provided by the massive return migration to enrich human resources in the countryside and narrow the large rural-urban gap.

Restive Migrants as a Political Concern

2.1 The immediate concern of fast-rising unemployment is social instability. A much publicized event occurred in late November 2008 in Dongguan, an export hub near Hong Kong. About 1,000 migrant workers protested outside the toy maker Smart Union's factory after the company suddenly shut down

without paying workers wages.[2] Laid-off workers clashed with the police and overturned patrol cars.

2.2 What worries the Chinese government is whether such protests will spread to other parts of China. With the economy slowing down substantially in the third quarter, putting the country on track to record its first single-digit annual growth since 2002, the pain of job losses has spread beyond the export sector.

2.3 What is more worrisome is whether the protest in Dongguan represents a new type of challenge to the regime. The majority of social protests in the 1990s and the early 2000s were isolated in poor, remote villages and rust-belt regions.[3] In sharp contrast, the protest in Dongguan is located at one of China's leading export hubs. This type of protest has the potential of disrupting production and services that are the key growth engines of the Chinese economy.

2.4 A closer look at the situation, however, would downplay rural migrants as a serious problem. Migrant workers respond to job losses in a much different way from state enterprise workers. While state enterprise workers see employment as a taken-for-granted entitlement, rural migrants simply move on to search for another job in the case of layoff. It is more difficult to mobilize the mobile migrant workers.

2.5 Migrant workers are not as well organized as state enterprise workers. For migrant workers, their solidarity does not come from factory work—the high turnover rate in foreign invested enterprises undermines worker solidarity instead. In fact their cohesion is in native place associations and kinship ties, which form the basis of chain-migration out of their home villages, but at the same time divide migrant workers into smaller groups, making broad-based collective actions more difficult.

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[2] "Chinese Migrant Workers Struggle Amidst Global Economic Woes," *International Herald Tribune*, November 5, 2008.

[3] See Andrew G. Walder and Zhao Litao, 2007, "China's Social Protests: Political Threat or Growth Pains," *EAI Background Brief No. 357*.

2.6 The government's enriched coffer is another factor that helps contain "restive" migrants. City governments in the coastal regions are much richer than their counterparts in the rust-belt regions in the late 1990s. As a result, they are in a much better position to offer quick concessions. Likewise, the central government today has a much larger revenue and foreign reserve than in the late 1990s to tackle economic problems with tax breaks, interest rate cuts, and big spending projects.

2.7 Another concern that returned migrants can cause trouble in the countryside is not unfounded, but their significance as a political threat should not be exaggerated.[4] There have always been disputes and conflicts within and between villages. With family heads and young males moving out to work in the cities, some of these disputes and conflicts are postponed until the year end when migrants return for family reunion. In villages with a large number of migrants, Chinese New Year is not just a time for celebration, but also a time for settling disputes. Return migration is therefore associated with a rise in "mass incidents" (群体性事件), an official term that encompasses the full spectrum of group protests and conflicts.

2.8 The number of mass incidents involving returned migrants is likely to increase in the months to come. Return migration therefore can become a source of social instability in the countryside. Earlier reports have linked economic downturn and return migration to increased incidence of gambling, kidnapping, criminal gang activities and other disruptive activities.[5]

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[4] In recent years, the Chinese government has called for greater efforts to maintain social stability. One of the latest documents is the Opinion on Deepening and Expanding Peaceful Construction in the Countryside, issued in December 2006 by the Central Committee for the Comprehensive Management of Public Security. This document acknowledges land seizure and forced demolition as important causes of rural grievance. It also calls for greater efforts to protect the personal and property safety of children and older people left behind by family members who moved out to work in the cities. For the document, see http://www.legaldaily.com.cn/misc/2006-12/21/content_493257.htm, accessed December 9, 2008.

[5] See Chen Hao, 1996, "Zhongguo nongcun laodongli wailiu yu nongcun fazhan" [The outflow of China's rural labour and rural development], *Renkou yanjiu* 20(4): 1-11.

2.9 It is important, however, not to confuse the number of mass incidents with the scope and extent of political challenge. The upcoming protests and conflicts, if they are to occur, are most likely to be localised and issue specific, without spilling over to become translocal, broad-based and lasting social movements. The Chinese government should be able to handle the problem as it did in the past.

Returned Migrants as a Force for Rural Transformation

3.1 The massive return migration, while a bad news by itself, can produce positive outcomes, if managed well. One obstacle to China's rural development is the lack of human resources, which has dampened the government's effort in industrialising and modernising the countryside.[6] Rural-to-urban migration has exacerbated the problem because the young and the better educated are the ones more likely to migrate. Against this backdrop, return migration provides a remedy to the problem. Years of working in the urban environment have transformed rural migrants, making them an agent in diffusing skills, ideas, information and entrepreneurship to rural areas.

3.2 There are doubts about whether returned migrants can play the transformative role as expected. Returnees may fail to develop and modernise their home villages because they learn little from low-paying and unskilled jobs in the cities, because only failed migrants — those who are unemployed, sick or injured — return, and/or because the gap between urban production processes and the rural setting is too big to diffuse skills and innovation to rural areas.

3.3 There is some truth to this pessimistic view, but it fundamentally underestimates the scale and varied motivations of return migration in China. For various reasons, rural migrants, particularly the first generation, believe

[6] William A. Bird and Lin Qingsong, 1990, *China's Rural Industry*. Oxford University Press.

that a permanent return to their home towns/villages is inevitable.[7] It is wrong to argue that only failed migrants return.

3.4 In the mid-1990s, the first wave of return migration began to emerge in China. It is estimated that since 1995, about one third of rural migrants from inland provinces have been returning from cities to resettle in their native homes.[8] Given the tremendous size of reverse migration, returned migrants have immense potential to transform the countryside.

3.5 Wherever local conditions permit, returned migrants tend to stay away from agriculture. They are more likely to engage in non-farm activities in the manufacturing and service sectors. The importance of out-migration is revealed by the fact that many returnees set up businesses by replicating the urban ventures in which they previously worked.[9]

3.6 Some returnees set up a business — often small in scale — with savings from urban jobs as the start-up capital. The more successful ones establish larger enterprises, using knowledge, skills and contacts acquired when working in the cities. Migration has not only shaped their life goals by inspiring them to become entrepreneurs, but also provided resources — skill, knowledge, information, and contacts — for pursuing such life goals.

3.7 In a broad sense, returned migrants have transformed the countryside in one of two ways. First, they help to diversify livelihood in rural China and expand employment opportunities in the non-agricultural sector. Migrant workers do not return to become farmers, but instead become traders and entrepreneurs.

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[7] They feel obliged to return home and contribute to the material well-being and social standing of their families. Traditional values that associate home with ancestors, immediate family and future descendants work to bring some of the more successful migrants to establish business in the origin communities.

[8] Rachel Murphy, 2002, *How Migrant Labor Is Changing Rural China*, p.2. Cambridge, UK: Cambridge University Press.

[9] *Ibid*, pp.144-176.

Collectively they expand non-farm employment and promote local economic development.

3.8 Second, many returned migrants choose not to settle down in their home villages, but instead in the nearby towns or the county seats. Commercial towns and county seats provide better opportunities and facilities for business as well as living. As they set up businesses and build houses in market towns and county seats, returned migrants change the landscape of the countryside.[10]

3.9 In short, since the mid-1990s, returned migrants have played an important role in rural industrialisation and "townisation". While rural-to-urban migration establishes linkages between the rural and urban areas, it is return migration that provides a mechanism to ameliorate the sharp divide between the village and the city, economically, socially and culturally.

Accommodating Returned Migrants

4.1 The massive layoffs in 2008 send an even larger wave of migrants back home in a much shorter span of time. It may "shock" the countryside in the short run, but it is important to view returnees as human resources rather than failed migrants. They lost urban jobs not because they are unqualified workers, but because of macro economic factors beyond their reach. In normal times, many of them would not plan for an immediate return.

4.2 National statistics on how many of China's 130 million migrant workers have been laid off and returned home are not available, but regional numbers are significant. Yin Weimin, Minister of Human Resources and Social Security, estimated at a press conference that about 300,000 of the 6.8 million from Jiangxi province had returned home by mid-November. The situation is

[10] Chen Xiwen, 2004, "Preface II", pp.8-14 in Cui Chuanyi, 2004, *Zhongguo nongmin liudong guancha* [Observation of Chinese rural migrants], Shanxi, China: Shanxi jingji chubanshe.

similar in Hubei province, where about 300,000 of its 7 million migrants have returned from cities.[11]

4.3 Many more migrants are expected to return in the coming months. Of course many of them have the intention of re-migrating as soon as the labour markets improve in the cities and the coastal regions. Nonetheless many of them would end up in the countryside, willingly or not. To a large extent whether the villages and townships can maximise the benefits of return migration depends on how local governments direct migrant resources toward local economic development.

4.4 Since the first large wave of migration occurred in 1989, it took the Chinese government more than a decade to change from strict management to a more favourable policy of "fair treatment, rational guidance, improved management and better services".[12] In the 1990s, fearing the destabilising effect of rural-urban migration, the central government encouraged return migration as a way to protect urban jobs for urbanites, and to defuse the frustrations of young migrants by redirecting their aspirations toward home towns/villages.

4.5 Some local governments in the labour-exporting areas also encouraged return migration, not from the management/social stability perspective, but from the human resources perspective. From the mid-1990s, local officials realised that returned migrants can assist in poverty alleviation and promote local economic development.

4.6 Priority has been given to encouraging returnee entrepreneurship and building rural towns, and the policy of integrating rural enterprise creation with town construction has been promoted. These rural enterprises and towns form part of a national modernisation agenda to absorb surplus rural labour, and bridge the gap between the village and the city.

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[11] "Migrant Workers Bear Brunt of Crisis," *China Daily*, 21 November 2008. See http://www.chinadaily.com.cn/china/2008-11/21/content_7225684.htm, accessed 10 December 2008.

[12] The new policy was announced in 2002, which replaced the restrictive policies in the 1990s that emphasised the need to manage rural migrants.

4.7 Favourable local practices are likely to continue in the second term of the Hu-Wen administration. The Chinese Communist Party Central Committee approved the Decision on Major Issues Concerning Rural Reform and Development in October 2008, nearly thirty years after it decided to shift from class struggle to economic reform in late 1978.

4.8 In a nutshell, China will expand policy support for agriculture, establish a modern rural financial network, and spend more on public services in rural areas in an effort to balance the development between rural and urban areas.[13] The focus is on rural education, healthcare, social safety net and local infrastructure. Government expenditures in such areas will increase substantially from 2009.

4.9 Insofar as migration is concerned, the new document reiterates the policy of "guiding farmers to migrate orderly, encouraging them to take up *local* non-farm employment first, and assisting returned migrants to set up business".[14] It gives the county-level government greater autonomy in managing local development, and integrating "townisation" with the ongoing socialist new countryside construction, an approach that has proved effective in attracting returned migrants.

4.10 Obviously the CCP's new decision is not directly linked to the global financial crisis and its repercussions. Its purpose is to promote rural development, reduce rural-urban gap, and make rural China a new engine of economic growth in the years to come. With or without return migration, it can have profound impacts on China's rural development.

4.11 Nonetheless, the new measures, if effectively implemented, can create favourable conditions for returned migrants to entrepreneurially deploy their savings, skills, and information. With a favourable policy environment in

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[13] See http://www.chinadaily.com.cn/china/2008-10/12/content_7097786.htm, accessed 10 December 2008.

[14] This policy—引导农民有序外出就业，鼓励农民就近转移就业，扶持农民工返乡创业—balances the need to manage migrants and to tap such human resources.

place, returned migrants can be a modernising force in the countryside. While maintaining social stability is important, a larger question is whether China seizes the opportunity to promote returnee entrepreneurship and reduce the rural-urban gap. What is lost in the short term can be gained in another form in the long run, if the crisis is managed well enough.