



A tale of two cities: Chinese labor market performance in 2009 and reform priority in 2010

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At the beginning of 2009 the global financial crisis struck hard at the real economy of China. While the whole country suffered, not all regions suffered equally. Looking at two industrial cities on which the crisis had a very different impact helps to explain the reasons for the uneven effect of the crisis, and highlights opportunities for policy reform.

The city of Dongguan in Guangdong province provides a telling example of the severe shock experienced by migrant workers in the wake of the crisis. Dongguan is located in the Pearl River Delta Region which has a high concentration of export-oriented labor-intensive enterprises and migrant workers. As early as the second half of 2008 due to a sharp drop in export orders some enterprises in Dongguan, shut down while others substantially reduced production. As a result, a large proportion of migrant workers in the city lost their jobs. An official source indicated 20 million migrants returned home earlier than expected because of the fall in demand for exports.

If you drive several hundred miles up along the highway from Dongguan, you'll arrive in another coastal city, the city of Quanzhou, in Fujian province. There you'll find a completely different picture of labor market. Unlike what happened in Dongguan, there was actually a labor shortage in Quanzhou. Moreover, a 20 per cent increase in the wages of migrant workers was reported in 2008, despite the fact that the crisis had already hit the coastal regions of China in second half of the year. The coexistence of such contrasting phenomena when both cities faced the same crisis must indicate that something extraordinary was happening in the labor market. When one considers the labor shortages witnessed between 2004 and 2007, one cannot help but conclude that the 'Lewisian Turning Point' was present even during the financial crisis.

Not long after the Chinese New Year, an official survey showed that 95 per cent of migrant workers returned to industrial cities to work, and surprisingly 97 per cent of these returning workers found jobs. What is more, the total number of migrant workers in urban areas increased from 140 million in 2008 to 150 million in September 2009, the biggest jump in the past 6 years. This is outstanding considering that the growth in migrant workers had been slowing down since 2003 as a result of decline in the working-age population in rural areas. This was due partially to an expansion in the construction sector, and partially to the ease at which the economy can create new jobs.

The agricultural sector no longer stands as a pool of surplus labor for three reasons. Firstly, since agriculture has become much more mechanized, migrants returning to rural areas have found themselves unable to find work. This has encouraged massive numbers of rural laborers to permanently migrate to cities. Secondly, the majority of migrant workers now consist of second-generation migrants, who unlike their parents' generation, have never wanted to work in the agricultural sector. Thirdly, due to various changes in land distribution, such as expropriation, subcontracting, and the return of land to collective farms, some migrants who used to rely on farm work are now unable to do so. Given that migrant workers do not have any formal access to the safety net enjoyed by the urban population, they cannot afford to be unemployed, and they were bound to return to cities and be reemployed in sectors other than manufacturing. This is pretty much like what happened to Japan after the 1960s when it stepped into its Lewis Turning Point.

During this Lewis Turning Point period, the better functioning and more supply-dominant labor market has prevented both urban and migrant workers from suffering long duration unemployment. The two cities mentioned above reacted to the crisis differently because of institutional obstacles engendered by the hukou system. The hukou system discouraged both the labor market readjustment of migrant workers and the provision of social protection to migrant workers.

Some people think that reform of the hukou system is simply impossible. If one views hukou not as simply a declaration of the place of residence but as a guarantee of equal access to urban public service, however, it can be optimistically expected that in 2010 the hukou system can be reformed as part of the general progress of social security programs moving to better cover rural residents and migrants.

This is part of the special feature: [The 2009 in review and the year ahead](#)

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