Migrant Workers’ Remittances and Rural Development in China

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1. Introduction

China is the world’s most populous nation and also has the largest rural population, numbering 757 million in 2004 (NBS 2005, p. 93). During the last quarter of the twentieth century, China has experienced perhaps the most rapid urbanization in the history of the world: The urban population increased from 9 percent of the total in 1978 to 41.7 percent in 2004 (NBS 2005, 93), and rural–urban labor migrants (both seasonal and non-seasonal) numbered over 100 million. The enormous impact of this demographic transformation on China’s socio-economic development has yet to be fully appreciated.

The authors concur with many other scholars that the remittances sent by rural migrant workers play a significant role in rural development in China (Li Qiang 2001), but we go further in raising two additional questions. First, have remittances been put to effective and rational use in promoting rural development? Second, how are we to understand, and respond to, the seemingly contradictory situation whereby migrant workers make a huge contribution to rural communities through remittances while themselves living in relative poverty in cities?

A number of government policies, especially those on education, health care, taxation, financing, and so forth, have played a vital role in labor migration and rural development (Huang and Zhan 2005). In considering the questions above, the authors will examine the effects of these policies and consider how they shape the impact of remittances on rural development in China. In doing so, we draw both on our own recent research and on the relevant work of other scholars.
2. Rural Development and Labor Migration: A Profile

The initiation of rural reform in 1978 is widely regarded as a milestone in Chinese development policy, bringing as it did the abolition of the People’s Commune system and the adoption of the Household Responsibility System. Rural reform greatly increased rural household income and accelerated rural development. The per capita income of rural residents increased by 168.9 percent from 1978 to 1985 and the rate of yearly increase reached as much as 24.1 percent (NBS 2002a, 19). Another important result of the reform was the relaxation of rural laborers’ ties to the land and the transfer of growing numbers of rural laborers to non-agricultural sectors or off-farm activities. From the mid-1980s, rural residents started to open their own enterprises near or close to villages and townships: the now well-known Township and Village Enterprises (TVEs). By 1990 these businesses had absorbed about 92.7 million rural laborers, rising to 135.1 million by 1996 (NBS 2000, 119). However, there remains a large “surplus” of labor in rural areas. According to some researchers, only 150 million out of 500 million rural laborers (see Figure 1) are needed in agriculture, and the other 350 million rural laborers should be transferred to non-agricultural sectors. Rural–urban migration has been regarded as one of main ways to achieve this transfer of surplus rural labor.

Figure 1. Number of Rural Laborers in China: 1978–2003

![Number of Rural Laborers in China: 1978–2003](source: NBS 2004, 473.)

Large-scale rural labor migration was the result of several factors: the relaxation of institutional constraints (including the household registration or hukou system), unemployment in rural areas, sluggish rural development and rural laborers’ own agency (Huang et al., 1997). A remarkable increase
in labor migration emerged after, and to a great extent as a result of, Deng Xiaoping’s Tour of the South (nanxun) in 1992, which stimulated investment (Lu et al., 2002) and produced a high demand for laborers in coastal areas. The number of rural migrant workers reached 40 million in 1992, 60 million in 1994, and 72.2 million in 1996 (see Table 1). In the late 1990s, difficulties in rural development, the so-called “Three Rural Problems” of farmers, agriculture, and rural areas (sannongwenti), gave a remarkable impetus to rural labor migration and resulted in a continuous increase in the number of rural–urban migrants. In 2004, according to the Ministry of Agriculture, 126.0 million rural laborers worked away from their homes for more than three months (Beijing Youth Daily 2005). Mo Rong, an expert on labor markets, estimates that in the coming decade, 12–13 million rural residents will transfer to urban areas annually (Xinhuanet 2005).

Table 1. Data of Rural Labor Mobility: 1988–2002

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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Labour millions</td>
<td>26.0</td>
<td>40.0</td>
<td>60.0</td>
<td>72.2</td>
<td>82.0</td>
<td>88.0</td>
<td>89.6</td>
<td>94.0</td>
<td>111.9</td>
<td>126.0</td>
</tr>
</tbody>
</table>

3. Positive Effects of Migrant Workers’ Remittances

One of the most conspicuous effects of rural–urban labor migration is the huge flow of remittances from urban to rural areas, and from the coastal to the central and western regions. There are no accurate statistics on the total amount of migrant workers’ remittances in China, but a rough estimate can be made by multiplying the amount of individual remittances. On average, migrant workers may remit 3,000 to 4,000 RMB annually to their families in rural areas. According to one report in 2003 migrant workers’ remittances amounted to 340 billion RMB, about 18 percent of total rural income (GHK Ltd 2004). Another recent report estimated that the total amount was about 223 billion RMB (27.55 billion USD) in 2004, and 249 billion RMB (30.7 billion USD) in 2005 (Cheng and Zhong 2005).

Although it is impossible to determine precisely the total value of remittances, there is no doubt that this huge influx of money to rural areas has had many positive effects on rural development, which are summarized below.

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1 This table is based on the materials from interviews with experts as well as statistics, also see Zhan, 2004.

2 Remittances include money remitted by post office and bank transfers as well as money brought back to rural area by migrants themselves.
3.1 Narrowing the Rural–Urban Income Gap and Reducing Regional Disparity

Remittances help to slow down the widening of the rural–urban income gap and regional disparity. The income gap between rural and urban areas has been widening continuously since the mid-1980s. In 2003, the ratio of the per capita income of rural residents (2622.2 yuan) to urban residents (8,472.2 yuan) had risen to 1:3.23 (NBS 2004, 357). If there were no inflow of remittances, the gap would be much wider.

Since reform and opening up began in the late 1970s, development in China has been characterized by imbalance between regions, with much higher economic growth and more rapid development in eastern and coastal areas than in central and western China. Labor migration from western and central to eastern China has resulted in remittances flowing back to the sending places, which is believed to have slowed the widening of regional disparity (UNDP 1998). For example, in the early 1990s, annual migrant workers’ remittances to one poor county in Sichuan Province were more than five times its yearly revenue (Lau and Huang 2003). A media article reports that in 2000 there were twenty-two counties in Guizhou Province (the least developed province in southwestern China) where migrant workers’ remittances outstripped the local yearly revenue (Xinhuanet 2002).

3.2 Reducing Rural Poverty

According to official statistics, the number of rural dwellers living in poverty plummeted from 250 million in 1978 to 30 million in 2000 and the incidence of rural poverty fell from 30.7 percent to about 3 percent.\(^3\) Despite the success of rural poverty reduction in China, many rural people’s incomes remain close to the official poverty line of 625 yuan per year per person. Furthermore, as Premier Wen Jiabao himself has pointed out, if the Poverty Line were increased by only 100 yuan, 30 million more people would be counted as poor, and if it were increased by 200 yuan, 60 million would fall below it (People’s Daily, 19 March 2003).

The remittances of migrant laborers play an important role in reducing rural poverty: if a migrant laborer remits 3,500 RMB to his or her family a year, the family (assuming there are fewer than five members) can move out of poverty. Coauthor Zhan Shaohua’s recent research supports this assumption. For example, he interviewed a family (eight members: mother,

husband and wife, four daughters and one son) in a village in Chifeng Municipality, Inner Mongolia, which belonged to a poverty household before 2000 and made a living entirely from agriculture. After 2000, three elder daughters left to work in Beijing and they remitted about 9,000 RMB back home in 2004. With these remittances the family can now cover living expenses, the educational fees of the younger sister and brother, and the medical expenses of the wife (who suffers from a lung problem and is not able to work any more). Actually, as early as the beginning of the 1990s, some local governments started to see rural labor migration as the primary means of reducing poverty and promoting local development. Since 2000, the central government has also adopted this approach and started to help laborers in poor households migrate and find jobs in cities4.

3.3 Paying for Basic Education and Health Care

In 1986, China promulgated a law that strengthened compulsory education, making primary school (six years) and junior middle school (three years) part of the so-called “Nine Years of Compulsory Education.” However, compulsory education is not entirely free for rural households, which must pay for their children’s tuition, textbooks, stationery, exam fees, etc. These expenses can be quite high. For example, in some poor counties in Gansu Province of northwestern China, the annual fee for primary school in 2000 was over 100 yuan, and for junior middle school almost 350 yuan, but the per capita annual income of local rural residents was only 700-900 yuan. (Bray et al. 2004). In some rural areas, school fees place a heavy burden on households, which have to rely on remittances to pay them if they cannot earn enough income from farming or working in TVEs, as is usually the case in sending areas in central and western China. In 2003, coauthor Zhan Shaohua conducted in-depth interviews with sixty-two young female migrants (most of them unmarried) who came from Chifeng, Inner Mongolia to Beijing. Thirteen of them (21.0 percent) said explicitly that they send remittances from their wages to pay for their siblings’ education (Table 2). It can therefore reasonably be assumed that there would be more dropouts from school if these rural households had no access to remittances.

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4 Some research shows that the poorest households are less likely to migrate because of the cost of transportation, lack of skills, etc (Cai Fang and Du Yang 2003).
Table 2. “How Do You Use Your Wages?”

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Spend most by myself</td>
<td>13</td>
<td>21.0</td>
</tr>
<tr>
<td>2. Save up by myself</td>
<td>6</td>
<td>9.7</td>
</tr>
<tr>
<td>3. Remit money home and let parents keep it for me</td>
<td>11</td>
<td>17.7</td>
</tr>
<tr>
<td>4. Remit money home for living expenses</td>
<td>30</td>
<td>48.4</td>
</tr>
<tr>
<td>5. Remit money for siblings’ education</td>
<td>13</td>
<td>21.0</td>
</tr>
<tr>
<td>6. Other</td>
<td>5</td>
<td>8.1</td>
</tr>
</tbody>
</table>

Note: 62 migrants were interviewed in total and 16 persons gave two answers.

Since the system of Rural Cooperative Health Care, which was established in the 1950s–60s and was primarily responsible for promoting public health in rural areas, was dismantled in the 1980s, rural households have had to pay for their own medical care. With the market-oriented reform of the public health system, they are paying increasingly higher fees and the cost of health care has become a big burden for rural residents. To avoid the expense, many rural households simply choose not to see a doctor or go to the hospital. According to one study, 38.6 percent of rural residents had not seen a doctor when they became ill, and as many as 75.4 percent of patients had not been hospitalized when it was necessary (Wang, 2004: 80–104). Although there is no specific data on the proportion of remittances that is used for medical care, it is obvious that many households have to use remittances for this purpose. The authors’ research in Yunnan Province and Inner Mongolia revealed this to be the case as, for example, in the family mentioned above, in which the wife’s medical care is paid for by the daughters’ remittances.

3.4 Promoting Consumption and Investment

In the late 1990s, the rural problems became increasingly serious in China. Rural residents found that rural production was not profitable due to the high cost of agriculture (including seeds, pesticide, fertilizer, etc.) and the relatively low prices for agricultural products. Rural households had to find non-agricultural employment to meet daily expenses and even support their continued agricultural activities. More and more rural laborers, especially in central and western regions, left their farmland for cities or urban areas, regardless of whether they were “surplus laborers,” or not. Their remittances became the major source of cash income for rural residents. Per capita net income increased by 42.8 percent from 1995 (1,577.74 yuan) to 2000 (2,253.42 yuan). However, salary income increased by 98.6 percent during this period and the increases were much higher in the central and western regions: 153.3 percent and 165.0 percent, respectively.
(Table 3). In the central and western regions, a large part of salary income comes from the remittances of migrant workers. For example, in 2001, remittances accounted for 58.8 percent of salary income in Anhui Province in central China, and 37.2 percent in Guizhou Province in southwestern China (China Rural Household Survey Yearbook 2002, 257).

Table 3. Annual Rural Salary Income in China in 1995 and 2000 (Yuan Per Capita)

<table>
<thead>
<tr>
<th></th>
<th>National</th>
<th>East</th>
<th>Central</th>
<th>West</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>353.70</td>
<td>635.10</td>
<td>219.01</td>
<td>146.69</td>
</tr>
<tr>
<td>2000</td>
<td>702.30</td>
<td>1223.08</td>
<td>554.75</td>
<td>388.77</td>
</tr>
<tr>
<td>Increased rate (percent)</td>
<td>98.6</td>
<td>92.6</td>
<td>153.3</td>
<td>165.0</td>
</tr>
</tbody>
</table>


There is no overall data on how the remittances are used at the household level, but many researchers have observed that rural households spend a large proportion of remittances on consumption and basic or “public sector” expenditures, including house building, festivals, primary education, basic health care, etc. (Huang and Pieke 2004; Lu et al. 2002). A national survey shows that in 1995 and 2000, more than 50 percent of cash expenditures went on consumption (Table 4). Furthermore, of cash expenditures for family business, less than 20 percent were spent on businesses other than agriculture (this includes husbandry, fishery and forestry). Only 14.98 percent were spent in this way in 2000 (Figure 2). These findings indicate that migrant workers’ remittances, while a main source of cash income for rural households, are largely used for consumption and agricultural investment rather than for investment in non-agricultural activities.

Table 4. Rural Households’ Cash Expenditure in 1995 and 2000 (Yuan Per Capita)

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Family business</th>
<th>Purchase of production equipments</th>
<th>Tax and fee</th>
<th>Consumption</th>
<th>Transfer and others</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>1545.81</td>
<td>454.74</td>
<td>62.33</td>
<td>76.96</td>
<td>859.43</td>
<td>92.35</td>
</tr>
<tr>
<td>2000</td>
<td>2140.37</td>
<td>544.49</td>
<td>63.91</td>
<td>89.81</td>
<td>1284.74</td>
<td>157.42</td>
</tr>
</tbody>
</table>

Source: NBS 2002b, 177, 207
These findings were something of a disappointment to those who assumed that migrant workers would return to start their own businesses in rural areas, drawing on the new ideas, skills and savings (from remittances) that they had accumulated over several years of working in urban areas. Contrary to these assumptions, research conducted in Anhui and Sichuan in 1999–2000 revealed that only a very small number of returned migrant workers successfully established their own businesses (Bai et al. 2002).

However, we will underestimate the significance of remittances for investment if we fail to recognize that, on the one hand, the troubling state of rural development in the late 1990s prevented households from investing remittances in industrial or non-agricultural activities, and, on the other hand, that investment in agriculture is just as important for rural development. The authors’ recent research on a village in Chifeng shows that some households have acquired and farm more land than before. In this case, they have used remittances from other family members to invest in the farmland and pay land rents to the owners. In other cases, investments in husbandry, fishery and forestry, which make up a significant portion of rural households’ income (see Table 5), may depend on remittances for the initial period.

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5 As more and more households move to urban areas, their farmland becomes available to those who stay behind. This phenomenon can be observed in many villages in other areas in rural China.
Table 5. Composition of Rural Households’ Net Income in 2003 (Yuan Per Capita)

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Salary</th>
<th>Income from family business</th>
<th>Income from property&amp; transfer</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Farming</td>
<td>Husbandry</td>
</tr>
<tr>
<td>Income</td>
<td>2622.24</td>
<td>918.38</td>
<td>885.70</td>
<td>245.68</td>
</tr>
<tr>
<td>Percentage</td>
<td>100</td>
<td>35.0</td>
<td>33.8</td>
<td>9.4</td>
</tr>
</tbody>
</table>

Source: NBS 2004b, 290.

4. Further Questions

The research discussed above leaves little doubt that remittances have had significant, positive effects on rural development in China. However, their role and relevance need to be examined further. In the following section we discuss this issue from two perspectives, focusing on the relationship between remittances and poverty among migrant workers.

Our first question is whether remittances have been put to effective and rational use in promoting rural development. The cases discussed above have already raised questions about this. For example, as an important source of income for rural households, remittances are often used to pay for primary education and basic health care, which should, as public services, be provided or at least supported by the government.

Our second question concerns the seemingly contradictory situation in which migrant workers send valuable remittances back to rural areas every year, but at the same time live in relative poverty in cities, at least partly because of the large proportion of their salaries that they send home. We seek to understand this issue better and consider how a more reasonable relationship can be established between rural development and migrant workers’ lives in cities.

To answer these questions, we need to examine government policies that shape the use of remittances and contribute to poverty among migrant workers. In the following section we reflect upon specific policies and show how they affect the use of remittances. Based on this analysis, we highlight some policy implications for rural development from the perspective of remittances.
4.1 The Use of Remittances

Undoubtedly, the reforms of the late 1970s and early 1980s stimulated rural economic growth and increased rural household income. But they also brought about change, and in some cases, the demise of some longstanding and effective rural institutions, placing a much heavier economic burden on rural households. Rural policies on basic education and health care are two important examples of this, and the rolling back of public provision of these services correlates closely with remittances. In addition, taxation and the rural finance policy have also had an impact on the effective use of remittances.

Basic Education

Current policies on basic education in rural areas were instituted in the mid-1980s, when the government clarified the respective responsibilities of the central and local governments and rural communities (Cai et al. 2004, 226). This institutional arrangement was intended to mobilize various different resources to support basic education. In fact, whether directly or indirectly, rural households have been forced to assume a large part of the cost, especially in rural parts of central and western China, where local industry is less developed than eastern China, and local taxation to support public expenditure (for such as teachers’ salaries, school infrastructure, etc.) must mainly depend on agricultural production. While the cost of basic education has gone up annually with the rising price of textbooks, stationary, equipment and teachers’ salaries, growth in rural household income from agriculture has been sluggish since the mid-1990s (see Figure 3). Clearly, rural households must seek other sources of income to cover the cost.

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6 The responsibilities are as follows: The central government issues the policies and helps poor areas improve their basic education; provincial governments manage and monitor the implementation of the policies; county governments are responsible for programming and financing all the county’s basic education; township governments must establish a department to raise and manage funds for education; villages have the responsibility to build up and maintain their schoolhouses, pay for informal teachers, manage school assets, mobilize children to enroll, and participate in administration of schools.
One of most important income sources is remittances from rural labor migration. As mentioned above, some family members go to cities to earn cash income to support the basic education of their sons and daughters or brothers and sisters. The use of remittances for this purpose is very important to rural households, which otherwise might have to let their children drop out of the school. As education is important for rural development, this is also an important contribution to the future well-being of rural communities. The problem is that remittances that are spent on basic education cannot be used for other purposes such as investment. At the same time, basic education is an important public good that should be financed by the central government, which can help to balance regional disparities in public revenue and expenditures.\footnote{Generally, western and central China lag far behind eastern China and coastal areas in terms of economic development, especially since the reform and opening up.}

A turning point was recently reached when Chinese Premier Wen Jiabao announced in his Government Work Report in March 2005 that students in compulsory education in counties identified as poor since 2005 did not need to pay for their textbooks or fees. The policy will be implemented across the whole country from 2007. In his Government Work Report in March 2006, Wen Jiabao reiterated this policy and said that tuition fees would be eliminated in the western region in 2006 and in the central and eastern regions in 2007.

This significant policy change is one component of a larger policy shift made by the central government, as are the other policy changes discussed below.
This reorientation was signaled by the “New Paradigm for Development” initiated by the central government in 2003, which emphasized more balanced, more comprehensive, and more sustainable development. Under the New Paradigm, five relationships\(^8\) must be balanced in future development, and in particular the gaps between rural and urban areas, and between the western and eastern regions, must be addressed. In the beginning of 2005, the central authorities prioritized the significance of establishing a harmonious society, and attached much more importance to social justice and social inclusion for different social groups. Under these general principles, specific policies have been established to address rural development\(^9\) and rural labor migration.

The new policy on basic education has dispelled some of the anxiety that remittances are being diverted to this use and indicates that rural households should be able to save at least some remittances for other purposes.

**Rural Health Care**

Health care is another important expense for which many rural households must rely on remittances. As we mentioned above, since the cooperative system of rural healthcare was dismantled, rural residents have had to pay for their own medical care, which is often unaffordable due to the high cost of medicine and seeing a doctor. National statistics show that rural households are spending more and more on medical care (Figure 3). One of the negative consequences of this is that many rural households choose not to see doctors or go to hospitals (see Table 6), and many households even lapse into poverty due to medical bills.\(^{10}\) Government support for public health in rural areas has been very limited: in 2003, rural households contributed 90.15 percent of financing for rural health care, while the government contributed only 6.59 percent. (Rural Development Institute, CASS 2004, 227). This has made many households vulnerable to disease, especially infectious diseases such as tuberculosis, hepatitis,

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\(^8\) The five relationships are identified as those between rural and urban areas, between economic and social development, between western and eastern regions, between humans and nature, and between domestic development and opening to the rest of the world.

\(^9\) CPC and State Council 2004 No. 1 Document gave top priority to rural development and increasing the income of rural residents. Again, the 2005 No. 1 Document focused on improving agricultural production and promoting of rural development. A series of concrete measures have followed up on these priorities. The 5th session of 16th CPC Central Committee, which was held in October 2005, again emphasized the importance of rural development and further set a strategy to build up “a new socialist countryside” within the 11th Five-year Plan (2006–2010), including measures to increase rural residents’ income and improve rural public services and infrastructure.

\(^{10}\) There is a popular saying in rural areas: “Neglect small diseases, grit your teeth over big diseases, and at last go to heaven.”
schistosomiasis, etc. This decline in the provision of rural health care has a negative effect on rural development.

Table 6. Percentage Who Choose Not to See a Doctor or Enter Hospital When it is Necessary in Rural and Urban Areas

<table>
<thead>
<tr>
<th>Year</th>
<th>Year</th>
<th>Year</th>
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</thead>
<tbody>
<tr>
<td>1993</td>
<td>1998</td>
<td>2003</td>
</tr>
<tr>
<td>Not see a doctor</td>
<td>Urban area</td>
<td>4.3</td>
</tr>
<tr>
<td>Rural area</td>
<td>19.9</td>
<td>36.7</td>
</tr>
<tr>
<td>Not hospitalize</td>
<td>Urban area</td>
<td>41.0</td>
</tr>
<tr>
<td>Rural area</td>
<td>60.6</td>
<td>64.0</td>
</tr>
</tbody>
</table>


Medical bills, which must usually be paid in cash, force rural households to find other sources of income, and remittances have filled this gap, especially in central and western areas where Town and Village Enterprises have not as yet developed on a large scale and rural households do not have other ways of earning money. As with education, the use of remittances to pay for medical care prevents families investing them in agriculture (including raising crops, livestock, fishery and forestry) or in non-agriculture sectors. Because medical care (like basic education) is a primary need, it should generally receive priority. It is therefore very important that the government should enlarge and improve its contribution to the provision of health care in rural areas so that remittances can be “liberated” and play a bigger role in rural development.

There have been some positive changes in this domain as well. The Severe Acute Respiratory Syndrome (SARS) crisis in 2003 made the Chinese government realize the fragility of the current rural health care system, as well as its significance in maintaining public health. In the same year, the central government launched an experimental project to build up a New Cooperative System for Rural Medical Care in some rural areas. In a national working meeting of the project, held in September 2005, the Minister of Health announced that the government will increase expenditure for rural medical care and extend the new system to more areas. The new system aims at treating serious diseases and preventing rural households from slipping into poverty due to illness. Despite current disputes over how to establish and strengthen the system, it is evident that the central government has the political will to improve health care in rural areas. This is also reflected in Wen Jiabao’s Government Work Report in March 2006.

\[\text{\textsuperscript{11}}\] The effects of the project remain unclear as yet. The key point here is whether the system can reduce rural households’ expenditure on health care as well as improve overall health conditions in rural areas. That is the reason why some researchers have argued that the prevention of diseases would be more effective than focusing on serious diseases (Yang 2005).
As with the abolition of tuition fees for basic education, increasing government expenditure on rural health care creates a scenario in which rural households can reduce their dependency on remittances for basic needs and channel them more effectively into rural development.

Taxation and the Rural Fiscal System

Aside from the cost of education and health care, rural households have also had to shoulder a growing burden of taxes and fees. Without adequate revenue, local governments (at the township and county levels in particular) must resort to extracting more taxes and fees from rural households, mainly to pay the salaries of officials and teachers, and for administrative costs. According to statistics, the agricultural tax reached almost 100 yuan per person in late 1990s (NBS 2002b, 34), which was undoubtedly an economic burden for poor households. As a result, tension between local officials and rural residents has increased to such a high degree that in some areas the Three Rural Problems have become a topic of public debate. High agricultural taxes have had the same effect as rising costs for basic education and health care, and some rural households have had to rely on remittances to pay them. Clearly this is not an appropriate role for remittances to play in rural development.

To reduce the burden of rural households, which has been a public issue since the late 1990s, Chinese Premier Wen Jiabao announced in his Government Work Report in March 2005, and again in March 2006, that the agricultural tax, which totaled 33.6 billion yuan (about 8.2 billion USD), would be waived completely starting in 2006.

However, it would be naïve to believe that the problems facing rural development in China can be solved merely by reducing these burdens and increasing government expenditure. For example, by 2003 the total debt owed by township governments in China had reached more than 230 billion yuan (about 29 billion USD). According to one estimate, each township owed an average of almost 5 million or about $500,000 USD (Financial and Economic Daily, April 2, 2004). And, with the waiving of agricultural taxes and fees, township governments will face even greater financial pressure to which policy will need to respond.

Another issue is the problem of rural finance, which is also closely related to the use of remittances. When rural households receive remittances, most

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12 Township governments usually borrow money from banks for staff salaries, teachers’ wages, development programs, and so on when they cannot acquire enough revenues from taxes and fees.
of them deposit the money in a bank rather than spending it immediately. Theoretically, these savings should be loaned to rural households who need capital to start businesses, or be lent out for other uses that would promote rural development. But in fact most banks in rural areas refuse to provide loans to rural households because most of them are not able to provide guarantees and, at the same time, the administration of small loans is costly and the profits are small. Instead, the savings deposited by rural households are loaned to enterprises in cities and coastal areas. As a result, a bizarre situation has developed in which migrant workers remit money to rural areas and the banks then transfer the money back to urban areas in the form of loans. According to one survey, in 1997 the amount deposited in four commercial banks was 735.79 billion yuan (about 91 billion USD) more than the loans they made in rural areas. In 2001 the difference had increased to 940.37 billion yuan (about 117 billion USD). The Postal System also accepts deposits in rural areas but never makes loans there. In 2002, deposits amounted to 171.06 billion yuan (about 21 billion USD), rising to 442.14 billion yuan (about 55 billion USD) in 2002 (Standing Committee of the National People’s Congress 2004). These problems with finance in rural areas have also prevented the use of remittances for rural development, and consequently made the gap between rural and urban areas wider.

Recent changes in policy on basic education, rural health care, and taxation have the potential to “liberate” remittances from being used to pay for basic public services, taxes, and fees, and allow them to play a more effective role in rural development and in reducing the gap between rural and urban areas. However, some complicated problems remain, including the question of rural financing. These problems, which have deep historical roots, continue to limit the impact of remittances on rural development.

4.2 Poverty among Migrant Workers

Migrant workers’ remittances have made a great contribution to rural development in China. But the huge amount of money they have been able to remit is made possible partly by the poor working and living conditions that they endure in cities. Most migrant workers are employed in the so-called “3-D” jobs (dirty, dangerous, and difficult), earn low salaries (mostly 500-800 yuan per month), curtail their living expenditure by all possible means, and save and remit the major part of their wages back home. Their living conditions are typically characterized by cramped

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13 The four commercial banks are: the Agricultural Bank, the Construction Bank, the Bank of Industry and Commerce, and the Bank of China.
housing, low expenditures, lack of health care, etc. Many studies have shown that a great number of migrant workers actually live in poverty in cities, especially in large cities and coastal areas, in stark contrast to the general prosperity of these places (Wang and Li 2001). Our research shows that poverty among migrant workers not only presents itself in the economic or material domain but also in the social sphere, where migrant workers have to endure inequality and social exclusion from urban society (Zhan Shaohua 2004).

The existence of poverty among migrant workers, which can be attributed to the rural–urban gap, regional disparity, or family strategy,\(^{14}\) means that migrant workers or rural households have to bear a great part of social and economic costs of migration in order to obtain the benefits, which include remittances. If the costs are too high, they will threaten and even harm rural development. For example, if migrant workers’ physical or mental health is damaged by overwork, work injuries, poor living conditions, social exclusion, etc. – problems revealed by many studies (Meng ed. 2004, 87-108) – their human capital will greatly decrease. If this happens, migration will not contribute to rural development and, in fact, rural communities will have to bear the cost of providing social security and relief for them when they return from the city. In seeking to ensure that migration contributes to rural development, it is therefore also important to find effective ways to reduce the social and economic costs of labor migration, and reduce poverty among migrant workers.

**Policies toward Poverty among Migrant Workers**

With the central government’s shift toward seeing migration as an integral part of its development strategy, more and more policies have been issued that are designed to improve the living and working conditions of migrant workers. Some of these initiatives can, at least in theory, reduce poverty among rural–urban migrants. For example, in September 2003, the State Council promulgated *The National Plan for Training Rural Migrants in 2003-2010*, which was jointly drafted by six ministries\(^{15}\) and aimed to provide hundreds of millions of migrant workers with orientation classes (in law, health, and job-seeking skills), as well as vocational training and basic-skills programs. In March 2004, the State Council launched the “Sunshine Project,” which is implemented by the Ministry of Agriculture, Warehousing, and Supply Chain Management.\(^{16}\)

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\(^{14}\) A comparative study showed that migrant workers in China are likely to remit a larger proportion of their income to their place of origin than migrants in other developing countries (Li Qiang 2001).

\(^{15}\) They are: Ministry of Agriculture, Ministry of Labor and Social Security, Ministry of Education, Ministry of Science and Technology, Ministry of Construction, and Ministry of Finance.
to train new rural migrants in the sending areas, especially those which have been identified as poor. Part of the national plan, this training program is designed to improve migrant workers’ skills and teach them knowledge required for urban life. The goal is to make it easier for rural laborers to find non-agricultural jobs and for migrant workers to improve their life in cities. Another important policy designed to reduce poverty among migrant workers is social security for migrant workers. The 5th session of 16th CPC Central Committee, which was held in October 2005, pointed out in its report that during the 11th Five-year Plan the government would make efforts to deal with the issue of social security for migrant workers in cities. A recent document issued by the State Council specifically focusing on migrant workers reiterated the significance of this issue.

However, it is important to point out that the number of migrant workers has now reached almost 120 million, and in this context government investment in addressing these problems is actually very small when considered on a per capita basis. For example, only 35 million, or about 10 percent of almost 300 million “redundant” rural laborers, can directly benefit from the Sunshine Project, and each migrant worker can receive a subsidy of only around 150 yuan (about 20 USD), less than a quarter of most migrant workers’ monthly income. Furthermore, few concrete policies or measures have so far been taken to provide comprehensive social security for migrant workers. Premier Wen’s Government Work Report, released in March 2006, stressed that a specific social security system for migrant workers should be seriously considered but it is clear that there is a long way to go in solving migrant workers’ problems and reducing their poverty.

Fortunately, however, many initiatives have been taken at the local level (of the county, prefecture, or province) to address specific problems regarding migrant workers. Some of these have significant policy implications and can be taken into consideration in future policymaking.

**Local Initiatives**

In the course of their research and fieldwork, the authors have identified two kinds of local initiative, network building and integrated rural–urban development, which can effectively contribute to poverty reduction among migrant workers, and increase the potential for remittances to play a positive role. These two initiatives are found in the pilot sites of the project of “Together With Migrants,” jointly organized by the CASS and the Beijing

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16 This refers to rural laborers who must be transferred to non-agricultural sectors, but not including those employed in Town and Village Enterprises (about 100 million).
Network building refers to i) building and enhancing social networks among migrant workers in order to prevent the social exclusion they encounter in cities, and promote mechanisms of mutual support and experience/knowledge sharing; ii) building networks of cooperation between sending and receiving places in order to provide an effective institutional framework for labor migration. The idea of network building sees the migrant workers as actors who are able to solve their own problems if provided with an enabling environment. For example, the authors found in the pilot sites that strong social networks made it easier for migrant workers to get assistance with housing, job information, etc., which helped to improve their living conditions and reduce the risks and uncertainties they face in cities.

Integrated rural–urban development can be defined as a type of development strategy in which rural and urban development rely on and reinforce one another. As far as migrant workers’ remittances are concerned, this approach to development indicates that remittances can promote rural development while at the same time migrant workers secure a better life in urban areas. One example of this kind of development is when rural labor migration within the township, county or prefecture makes it possible for migrant workers to assume much lower social and economic costs (Huang and Zhan 2005a), partly because they can integrate more easily into the local society of destination, and also because the cost of living in these urban areas is lower than in large cities. Interestingly, statistics also show that migrant workers who work closer to their home villages or townships send more remittances back (see Figure 4). Of course this type of development strategy requires that there are employment opportunities in nearby areas for migrant workers, and means that it is important for local governments to create more job opportunities in counties or prefectures. After the migrant workers are employed and remittances are sent back, they can also be used to stimulate development in these urban areas. As a result, a positive, dynamic, and balanced rural–urban development can be generated.
5. Conclusions

Undoubtedly, as many studies have indicated, migrant workers’ remittances play a positive role in the development of their area of origin. In China, the huge flow of remittances has had a positive impact on rural development by narrowing the rural–urban income gap and regional disparity, reducing rural poverty, paying for basic education and health care, and, to a certain extent, promoting consumption and investment. However, the scale of remittances is also in itself a reflection of the remarkable gap between rural and urban areas in China, and particularly between central and western regions and the coast. After reform and opening up, pro-urban and pro-eastern policies have widened this gap, increased the burden of rural households, and worsened the already difficult situation in rural areas. As a consequence, remittances sent by migrant workers have had to be used to pay for public services, such as basic education and health care and even to pay agricultural taxes and fees. This is not an effective or rational use of these funds. Meanwhile, lagging rural development has also prevented rural households from using remittances for socio-economic activities that promote future development.

Policy shifts at the central level have improved this situation somewhat. However, the so-called “Three Rural Problems” have deep historical roots and cannot easily be solved. Many structural and institutional constraints, such as the problem of rural finance, still hamper rural development. As a result it is necessary to reflect upon the role of government in rural development in China. It is not enough (nor is it a sustainable policy) for government merely to increase expenditures or reduce the burdens of rural households that result from the structural constraints facing China.
(population pressure, limited resources, the shortage of employment opportunities, uneven development, etc.). More importantly and realistically, government at different levels must explore new initiatives or improve existing institutional arrangements in terms of rural economy, basic education, health care, and strategies for local development and poverty reduction among migrant workers.

Poverty among migrant workers, which is neglected by many researchers, can be seen as the negative outcome of remittances, and also one of the challenges to both rural and urban development in the future. In recent years, the Chinese central government has initiated many positive policies such as training programs and social security, but poverty reduction among migrant workers still faces many challenges. As our research has shown, local initiatives can be of significant importance in this respect and should be seriously considered in future policymaking.
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