The Global Financial Crisis and Rural-Urban Migration

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Since the second half of 2008, the global financial crisis (GFC) reduced export orders sharply and led to a decline in China’s economic growth. As China’s exporting industries are labour intensive and more likely to employ rural migrants, it is widely believed that the GFC has had significant negative impacts on the employment and/or wages of rural migrants. At the height of the GFC, laid-off Chinese migrant workers protested outside closed factories, millions lamented over lost jobs and embarked on journeys home much earlier than the usual Chinese New Year visit. Many were apprehensive, worrying that the worst was yet to come. At that time both policy makers and academics alike were quite convinced that there would be a significant, adverse labour market adjustment for rural migrants (Chen, 2009; NBS, 2009; and Kong, Meng, and Zhang, 2009). Using the panel surveys of rural-urban migrants and rural households of the Rural-Urban Migration in China and Indonesia (RUMiCI) Project, this paper compares the labour market outcomes of migrants in 2008 and 2009. Much to our surprise, we observe small employment effects and virtually no reduction in working hours or wages for migrants. In fact, earnings for wage/salary earners have increased. We try to understand the logic behind our findings. We find that the real adverse effect of the GFC is felt mainly by the rural sector, to where the unemployed migrant workers from cities returned, and the multiplier effect of the reduction in income of unemployed migrant workers suppressed the demand in rural sector, which, in turn, further suppressed rural off-farm jobs. This multiplier effect is very large and has not received attention in the literature before.