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THE EFFECT OF MIGRATION POLICY ON GROWTH, STRUCTURAL CHANGE, AND REGIONAL INEQUALITY IN CHINA

ABSTRACT

Between 2000 and 2015, China's aggregate income quadrupled, its provincial income inequality fell by a third, and its share of employment in agriculture fell by a half. Internal migration is central to this transformation, with the number of internal migrant workers reaching 300 million by 2015. Combining rich data on migration with a spatial general equilibrium model of China's economy, we quantify the size and the impact of internal migration cost reductions in China between 2000 and 2015. During the 15-year period, China's internal migration costs fell by forty-five percent. In addition to contributing substantially to growth, these migration cost changes account for the majority of the reallocation of workers out of agriculture and the drop in regional inequality. We compare the effect of migration policy changes with other important economic changes, including changes in trade costs, capital market distortions, average cost of capital, and productivity. While each contributes meaningfully to growth, migration policy changes are central to China's structural change and regional income convergence. We also find that the recent slow-down in aggregate economic growth between 2010 and 2015 is associated with smaller reduction in inter-provincial migration costs and a larger role of capital accumulation. (c) 2020 Elsevier B.V. All rights reserved.

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