



# Impacts of Migration and Remittances on Ethnic Income Inequality in Rural China

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**Summary.** — Migration is often viewed as the best option for poor rural households to exit out of poverty, although the distributional effects of migrants' remittances tend to be ambiguous in the literature. Given that increasing income inequality is a major concern and policy issue, this paper examines the impacts of migration and migrants' remittances on income inequality in China's rural minority areas using recent proprietary household data. Treating migrants' remittances as a potential substitute for income, the results reveal that migration significantly boosts income for all ethnic groups, although the returns to ethnic minority households tend to be less than for Han households. Decomposition analyses further reveal that migration increases inequality between ethnic groups despite reducing spatial inequality. These countervailing effects imply that the continual transfer of rural–urban migrants will likely lead to spatial convergence despite reinforcing ethnic inequalities in rural minority areas. Importantly, the percentage contribution of ethnic inequality to total inequality is larger than that of spatial inequality across sampled rural locations, thus highlighting the fact that the ethnic dimension is an important, yet often overlooked component of inequality in China.

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## 1. INTRODUCTION

The issue of increasing income inequality is one of the major social and policy issues that threatens social stability in China. According to official estimates, China's Gini coefficient increased from about 0.4 in the mid-1990s to nearly 0.5 in 2008, and declined slightly thereafter to 0.47 by 2012 (Li & Sicular, 2014). In response to increasing inequality, the Chinese government has emphasized since the turn of the century the importance of building a “harmonious society” that promotes balanced economic and social development. Specifically, the central government started to introduce more profound and effective redistribution policies to narrow the income gap within and between urban and rural areas, and among different population groups.<sup>1</sup>

At the sub-national level, local policies are widespread in China to spur out-migration and have become an integral part of a strategy for “rural livelihood diversification” and poverty alleviation in rural China (Murphy, 1999). Existing studies show that migration leads to substantial increases in rural incomes and decreases poverty rates in rural China (Rozelle, Taylor, & DeBrauw, 1999; Taylor, Rozelle, & De Brauw, 2003; Zhu & Luo, 2010). In particular, migrants' remittances are the most important contributor to rural household income growth (De Brauw, Huang, Rozelle, Zhang, & Zhang, 2002).

In general, however, the internal migration literature both within China and elsewhere does not really address how ethnicity explains differences in remittance behaviors and their effect on the living standards of households (Duval & Wolff, 2015). The exclusion of the ethnic dimension is problematic because existing research shows that migration can increase income inequality in rural areas despite reducing poverty rates (Adams, Cuecuecha, & Page, 2008; Barham & Boucher, 1998). Ethnic-based inequality will increase if certain households disproportionately benefit from migration along the lines of ethnicity, which is undesirable since widening ethnic inequality is linked to social instability.

In China, the exclusion of the ethnic dimension from migration studies reflects their exclusion from the economic literature more broadly. Empirical research related to ethnic-based economic disparities is limited in China due to political sensitivities, small sample size problems, and the exclusion of detailed information on workers' earnings in national survey data (Howell & Fan, 2011). The empirical literature that does exist tends to be restricted to small case studies or rely on mezzo-level data that use aggregate measures at the village or county level on a per capita basis.

Despite these limitations, a small but growing number of studies exist that debate the state of ethnic minorities' well-being in relation to the Han majority. On the one hand, some studies show that ethnic minorities experience higher poverty rates, are less likely to participate in the labor market, and more likely to experience wage discrimination (Hannum & Xie, 1998; Howell, 2013, 2016; Zang, 2008). In other case studies, however, minorities are not found to be at a disadvantage relative to the Han majority (Gustafsson & Sai, 2009); rather location factors and differences in human capital explain variations in their well-being rather than discrimination (Gustafsson & Shi, 2003; Gustafsson & Ding, 2009).

Given the uncertainties around ethnic minorities' well-being, it is important to study the effects of migration on ethnic inequality for the following reasons. First, coinciding with the exponential increase in the number of Chinese migrants over time, ethnic-based income inequality is also thought to be on the rise (Gustafsson & Shi, 2003), thus suggesting a positive correlation between the two. Relatedly, along with other factors, ethnic inequality is considered to be a major driver of ethnic unrest in some of China's ethnic minority regions

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(Howell, 2011). Therefore, how migration influences the distribution of income between Han and minority households has important implications for promoting social cohesion within China's ethnic minority regions.

In this paper, counterfactual analysis is employed using recent proprietary micro-data to explore the effects of rural-urban migration and migrants' remittances on household income in China's rural minority regions. Existing counterfactual studies only examine the average effect of migration on rural income (Adams, 1989; Rodriguez, 1998; Taylor *et al.*, 2003; Zhu & Luo, 2010), but not how that effect may vary across different subpopulations. By focusing on ethnic-based heterogeneity in the current paper, the conventional counterfactual analysis is extended in two important ways. First, controlling for unobserved heterogeneity, a difference-in-differences (DID) strategy is used to determine whether ethnic minority groups benefit as much from migration as Han households. Second, decomposition analyses are employed to explore how rural-urban migration influences ethnic income inequality in the rural origins.

The organization of the paper is as follows. The following section provides a brief review of the relevant literature. Section 3 introduces the data and summary statistics. Section 4 discusses estimation issues and describes the counterfactual approach. Section 5 presents the main results from the counterfactual analysis, while Section 6 gives the results from the decomposition analyses. Section 7 concludes.

## 2. LITERATURE REVIEW

One of the main benefits from migration is the economic remittances that are sent or brought back by the migrant to their communities of origin. Migrants' remittances play a critical role in the development path of the receiving economies drawing considerable attention from both policy makers and academics. Despite the proliferation of research, empirical findings remain ambiguous and sometimes contrasting, finding that migration (internal or international) and remittances can generate both positive and negative outcomes (Acosta, 2008; Adams & Cuecuecha, 2010; Garip, 2014).<sup>2</sup>

From a pro-migration perspective, households that send migrants and receive remittances diversify their off-farm activities and generate new forms of income, insurance, and savings. Consequently, migrant households tend to be less vulnerable to negative shocks (Giles & Yoo, 2007). By contrast, migration and remittances may also increase income inequality in the sending regions (Stark, Taylor, & Yitzhaki, 1986).

Since participation in non-farm activities is highly selective, non-farm income tends to be more unequal than that of farm income. As a result, the continuing transfer of rural workers to non-farm sectors will continue to increase inequality, especially in poorer rural areas. After a certain point, however, some studies suggest that non-farm income may begin to disproportionately accrue to poorer households, especially in more developed rural areas (Taylor & Wyatt, 1996).

Findings from the empirical literature in both China and abroad are contrasting and reflect the theoretical ambiguities. In the international context, Adams *et al.* (2008) employ a counterfactual strategy and find that both internal and international remittances lead to an increase in income inequality in rural sending regions in Ghana. By contrast, Bang, Mitra, and Wunnava (2016) find that remittances within Kenya lead to larger positive income gains for poorer households versus richer ones, thereby reducing rural income inequality.

Similarly in China, Hua (2014) find that rural inequality in northwestern China increased as a result out-migration, while Zhu and Luo (2010) find the opposite outcome using survey data from Hubei province.

### (a) *Linking ethnicity, migrants' remittances and income inequality*

A natural question that emerges from the existing literature is whether migration influences income inequality in the sending regions along the lines of ethnicity. Empirical evidence on this topic is scant. One important exception is a recent study by Duval and Wolff (2015), who find that international remittances increase ethnic-based inequality in post-war Kosovo. Specifically, the authors find that international remittances help to improve the per capita consumption levels for all ethnic groups, although the positive effect is larger for Albanians due to their higher likelihood of receiving remittances from abroad.

Empirical work on China provides some evidence, albeit only indirectly, that suggests that migration may also increase ethnic inequality in the rural sending regions. Howell, Gustafsson, and Ding (2016), for instance, rely on the CHES data and find that most ethnic minorities tend to be less likely to migrate, and migrate for shorter time periods, compared to the Han majority. Moreover, ethnic minorities have been found to face labor market discrimination in the urban destination areas even after controlling for differences in human capital (Hannum & Xie, 1998; Howell, 2011). The lower mobility rates and lower potential earnings in the destination may constrain ethnic minorities' remittances, which in turn, would increase ethnic-based inequality.

By contrast, some evidence suggests that migration may reduce ethnic-based inequality. Gustafsson and Ding (2014), for instance, rely on household survey data from rural Ningxia and study the income and wealth profiles of Han and Hui households. Their results find that there is no difference in disposable incomes between rural Hui and Han, despite the former reporting nearly 30% less wealth than the latter. The reason for this paradox is explained by the higher rates of participation in migration and off-farm income, including remittances, by Hui households from lesser developed villages.

## 3. DATA AND SUMMARY STATISTICS

The China Household Ethnic Survey (CHES) project represents the first large-scale attempt to collect nationally representative data for China's ethnic minority groups. However, because Chinese minorities tend to be concentrated in poor rural and remote areas, it is important to emphasize that the survey areas are not representative of China as a whole. The CHES project was implemented under the auspices of the local bureaus of statistics and was carried out over a four-month period in mid-2012. Within each sampled region, the official rural household registries were used to select CHES households. Based on these registries, households were systematically selected to ensure a statistically representative sample of minority households at the national level.

Survey questionnaires include a wide range of detailed socio-economic information related to income, productivity, and employment information collected at the individual, household and village levels. In total, more than 7,000 households were surveyed, spanning 300 villages and seven sampled areas located in three provinces (Hunan, Guizhou and Qinghai) and four autonomous regions (Inner Mongolia, Ningxia,

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