**China Is On The Move**

The conventional view of China counts three basic threats to its economic boom: corruption and disrespect for the rule of law, environmental degradation and the tide of rural migrants who threaten to overwhelm its cities. It's no accident, however, that while Beijing is officially campaigning to end corruption, impose the rule of law and clean up the environment, it welcomes internal migration. Over the past few years, China has steadily loosened restrictions on the movement of its citizens--accelerating a trend begun in the late 1970s--most recently by extending welfare benefits to peasants looking for work in urban areas. Indeed, central authorities are pushing this plan over the objections of security forces and provincial officials, who fear that huge population shifts will stoke unrest and burden social services.

What this battle shows is that China's senior leaders are on the same side as a growing number of economists who believe that the benefits of a mobile labor force far outweigh the risks. By freeing its proletariat to move about the country, China has created a dynamic labor market that is closer in character to America's flexible work force than to the static societies of Europe or Japan. Increasingly, worker mobility is rated as important a factor in measuring economic health as productivity and money supply. A recent report on global employment by the Organization for Economic Cooperation and Development devotes an entire chapter to worker mobility and its potentially salutary impact on joblessness and income disparity.

In part, that's due to the boost internal migration has given the U.S. economy--led by the shift of the American population toward jobs in the Southwest--which has had its mirror in the shift of China's population to the southeast. Economists say it is no coincidence that the world's most powerful engines of growth, the United States and China, also have the highest rates of worker itinerancy, while Europe and Japan lag behind. ''In the global economy, two of the most important factors are mobility of capital and mobility of labor," says Mohamed El-Erian, the incoming president of Harvard's trust funds and a noted emerging-market bond expert. ''Capital trades internationally, but labor does not, which is why domestic migration is so important."

Beijing clearly understands this. Over the past few years, it has encouraged the efforts of private job-placement agencies and municipal officials to match job hunters with openings nationwide. Government representatives from central Sichuan province, for example, act as full-time brokers for the unemployed, finding jobs in other provinces, arranging transportation and even mediating disputes with employers. In southeastern Guizhou province, one of China's most impoverished areas, municipal officials have set up sister-city programs in which bright young Guizhounese are enrolled in urban training courses. ''If you're a cadre younger than 30 years old, you'll go to the city and come back with either a skill or an investor," says Daniel Wright, a director and China specialist at the National Bureau for Asian Research in Washington, D.C. ''It's a very fluid dynamic."

The flow of Chinese from rural villages to cities has swelled into a *mangliu* , or peasant flood, and it is perhaps natural that outsiders tend to dwell on the dangers. The estimated average annual movement of 200 million rural Chinese over the past six years is historically unprecedented, dwarfing the annual average of 40 million Americans who moved during the same period, though as a percentage of population the rates are about the same. The big difference is that in the United States, migration swells the number of McMansions in suburban Phoenix. In China it has carved a grimmer landscape, as peasants advertise their availability for work with hand-scrawled placards on Shenyang street corners, and sleep six to a room in Shanghai. But the economic effect is the same: far more rapid growth than in sit-at-home countries. ''One cannot underestimate the value of labor mobility in China," says Wright. ''China's skylines and export-driven economy were built with the sweat of rural labor."

Migrants are the key component of ''the China price," a corporate buzzword that implies the lowest possible amount of money buyers are prepared to pay for a given commodity and which developing countries, from Mexico to Pakistan, are struggling to beat. In Beijing, laborers from the southeastern coastal city of Wenzhou have established a garment district over the past decade that now competes head-on with the city's established clothiers. They are now major investors in Shanghai's booming real-estate market.

A universal yardstick for comparing worker mobility is hard to come by. The World Bank calculates that 18 percent of American laborers spend less than six months a year in their areas of primary residence, the highest such rate in the world. In China, the ratio is 14 percent, followed by the European Union at 11 percent. Those figures, however, reflect only temporary moves, not permanent shifts--which are more important for matching skills to job openings in a dynamic economy.

It's hard to find precise comparative data on permanent moves for China, but the OECD report makes clear that the rate of gross internal migration in Europe lags behind that of the United States and Asia generally. According to the report, while 3 percent of working-age Americans move within their home country each year, only 1.5 percent of Germans and just over 2 percent of the French do (and the French tend to move for reasons unrelated to work--family or retirement, for instance). Among the factors that keep Europeans from moving, says the OECD, are generous unemployment insurance and high relocation costs. ''When an American citizen loses his job in Detroit and he is offered a job in Denver, he takes his wife and children and travels across the United States to take that new position," says former French Finance minister Dominique Strauss-Kahn. ''When this sort of situation arises in France and you offer jobs 100 kilometers down the road, people say, 'Forget about it'."

China's leaders have shown a clear understanding of the upside of internal migration since Deng Xiaoping first launched economic reform back in the late 1970s. Deng replaced communal work units in the countryside with a Household Responsibility System, which effectively gave farmers control over their own land and output and allowed them to generate profit. Travel restrictions were eased to allow farmers to transport their goods to markets in town, creating a demand for hostels where visitors could spend the night. By the mid-1980s, Deng was further easing the rules that had defined where farmers lived and went to market. All of this encouraged more movement between towns and cities. ''No one in the central government declared, 'You are now allowed to do these things'," says Zai Liang, a professor of sociology at the State University of New York at Albany. ''It just evolved on its own as a way to meet demand and the party cadres let it happen."

The reforms made China's farms more efficient, creating a surplus of rural labor just as Deng was spreading his free-market policy to the coastal cities. After his historic ''southern tour" of booming Guangdong province in spring 1992, the migration pattern changed. Instead of just commuting to market towns, peasants began journeying cross-country for urban work on a permanent or semipermanent basis. And far from converging exclusively on China's coastal cities, as is often presumed, the trail of labor migration crisscrosses the entire country. Migrant farmers are heading west to Xinjiang province to stake out their own plots of land, for example, while itinerant carpenters, masons and traders are participating in the construction boom there. "In general," says Kam Wing Chan, a geography professor at the University of Washington who has studied itinerant labor in China, "craftsmen and traders head west, where their skills are in short supply, while those who head for the coastal regions tend to be among the unskilled."

Of course, outsiders are not the only ones who worry about the risks of mass migrations inside China. Family-planning agencies say it makes policing the country's one-child policy all but impossible. Security officials say it fuels rising social unrest and urban crime. (An epidemic of bicycle theft in the southern coastal city of Shenzhen, for example, is blamed largely on migrant workers.) Last month leaders at the Communist Party's Central Planning Committee meeting declared the objective of China's new five-year plan to be a ''harmonious society," implicitly acknowledging the fine line between an itinerant work force and a restive one.

Nevertheless, Beijing has consistently defended the migrants' right to move. Early this year the government announced it would loosen Mao-era rules that restrict rural migrants from receiving education and health-care services in urban areas. Last year Prime Minister Wen Jiabao warned employers against exploiting migrants after a woman petitioned him on behalf of her husband, who had gone months without pay.

For China's leaders, encouraging worker mobility is as radical as it is underappreciated. Beijing has been widely praised for assuming the risks of opening its markets rapidly to the outside world, particularly in the 1999 deal that made China a member of the World Trade Organization. But opening national borders to multinationals like HSBC or Microsoft is no more threatening to stability than opening internal borders to mass worker migration. The payoff for both gambles has been huge, measured by the tens of billions in new foreign investment and factory orders flooding into China. ''China and the U.S. are true capitalists at heart," says Tim Cook, president of Kailas Capital, who has spent much of his career living and working in East Asia. ''While much of Europe is still locked in a socialist mind-set, the Chinese have gotten over this speed bump called communism and they're simply returning to their true instincts." For all the dire warnings about migrant-worker unrest, Beijing now seems very comfortable with the risks.