

# Will Industrial Upgrading Policies Matter: Evidence from the Destination Choice of Chinese Rural-Urban Migrant Workers

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The industrial upgrading in China has been in practise for some years, and it is expected to substantially change the employment structure in the second industry in the future. For example, eastern regions tend to develop sectors that are capital-intensive or that requires high technology instead of previous labour-intensive type. The accompanying change in job opportunities available in each region, is one of the most important factors driving the flow of Chinese migrant workers. In order to analyse how the industrial upgrading will reshape the flow Chinese migrant workers, this study forecasts the impact of labour demand changes in the secondary industry on regional attractiveness from the perspective of Chinese migrant worker sorting behaviour.

Using a floating population dataset issued by National Health and Family Planning Commission of the PRC, we studied the past migration destination choices of migrant workers surveyed in year 2014. We adopt an equilibrium sorting model to analyse migrants' choice of destination on the basis of regional characteristics and individual characteristics. The estimation proceeds in two steps. In the first step, a multinomial logit model is used to estimate migrants' varying preferences for a list of regional characteristics, including job opportunities, public services, environmental quality, etc. In the second step, the average regional attractiveness of each province to potential migrants is then decomposed into contributions from those regional characteristics, where we especially look at the employment size in the second industry. To account for regional unobserved heterogeneity, our econometric analysis employs both geographical instrumental variables and artificial instrumental variables, as developed by Bayer et al., [2004a. An equilibrium model of sorting in an urban housing market. NBER no. 10865].

The main conclusions are as follows. First, migrant workers at older age and with lower educational level prefer moving to regions with large employment size in the secondary industry, while those at younger age and with higher educational level prefer moving to regions with large employment size in the tertiary industry. Second, Fujian, Guangdong, Jiangsu, and Zhejiang rank highest in regional attractiveness. The four provinces benefitted most from their employment size in the secondary industry. Third, employment size in the secondary industry has a positive impact on regional attractiveness on average, while the employment size in the tertiary industry does not. The inflow of migrants is still heavily driven by the job opportunities in the secondary industry. A foreseeable outcome is that the middle and western regions might absorb more migrant workers than before if the labour market demand in the eastern regions shrinks due to industrial upgrading. Fourth, the public health service

and teacher/student ratio increases regional attractiveness as well, and migrants who move at older age have higher preferences for all the public services.

To sum up, this study comprehensively investigates the pull and push factors of regions to potential migrant workers. It also allows the heterogeneity of individual characteristics in making destination choice. Local labour market, public services and environmental quality all play significant roles in regional attractiveness. The primary implication is that secondary industry has a strong attraction force for current migrant workers. The changes in the industrial employment structure will greatly reshape the migration flow in China due to industrial upgrading in the long run. The future impact of labour shift from the eastern to the middle and western areas deserves due attention.