



CHINA'S URBANIZATION: HUKOU REFORMS AND SOCIAL JUSTICE

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This paper explores the socio-economic impacts of the Household Registration System (Hukou) and the delicate interplay between migration policies and urban development in China. Despite several rounds of relaxation in recent years, the system has exacerbated socio-economic inequalities between the rural and urban population, generating a dual society that prevents the full integration of rural migrant workers in the cities. The legacy of this system poses major obstacles to Beijing's new development priorities, in particular achieving inclusive and sustainable urbanization. While current efforts to reform the Hukou have made some positive advances, policy changes aiming at restructuring other key administrative structures are necessary to achieve a real "citizenization" of Chinese migrant workers.

Introduction

For decades, China's household registration system (Hukou) has shaped the country's urbanization process, serving as an administrative tool to impose stringent limits on internal rural-to-urban migrations. While the system has been gradually relaxed since its implementation, rural migrants are still largely barred from acquiring local urban resident status and thus cannot access the same welfare benefits as their urban peers. A catalyst for sustained social stratification, the Hukou has consolidated inequalities and discrimination, turning rural migrants into second-class citizens in the cities.

The legacy of the Hukou system, which has locked rural migrants into low incomes and constrained labor mobility, presently poses major challenges to China, as it seeks to upgrade its economy and build a "moderately prosperous society".¹ It also weighs on the country's ambition to achieve a higher urbanization rate to fuel economic growth. Against this background, Hukou reforms have gained new momentum in recent years. Major policy objectives and targets were set for 2020, in line with the "National New Urbanization Plan" (NUP). This new approach emphasizes a more inclusive and sustainable "human-centred" urbanization, which would contribute to reducing inequalities. However, is this enough to break the rural-urban divide? Can

the reform truly advance the overall interests of rural migrants and achieve their complete urbanization?

In light of these questions, this paper assesses the impacts of recent reform efforts on the livelihood of rural migrants and evaluates whether they have contributed to their effective socio-economic integration within urban society.

The Hukou System and the Rural-Urban Divide

The Hukou system is a core institutional legacy of the socialist command economy.² Officially implemented in January 1958, it was designed as a tool to enforce strict migration control and prevent mass urbanization in the course of China's "big push" towards industrialization.³ The system divides urban and rural residents into two different categories; "agricultural Hukou" and "non-agricultural Hukou" holders, but also distinguishes local and non-local residents depending on the place of their Hukou registration.⁴ In the Mao era, conversion from rural to urban Hukou was seldom permitted.⁵

By denying migrants a permanent footing in the city, China's 'semi-urbanization' strategy, generated a massive pool of cheap and readily available labor.

Urban Hukou holders have traditionally benefited from privileges and access to a variety of entitlements provided by the state (e.g. healthcare, education, housing). Those same rights have, however, been denied to rural agricultural Hukou holders seeing that the state considered farmers as self-sufficient through their ability to live off their own land.⁶ By tying social benefits with one's Hukou place of registration, the system effectively constrained labor

mobility, forcing the rural population to remain in the countryside to fuel industrial development and secure the "iron rice bowl"⁷ of urban residents.

Following the 1978 reforms and opening up and the gradual dismantling of institutions of the centrally planned economy, including the agricultural communes and grain rationing systems,⁸ the government decided to relax residency requirements and facilitate a rural workers' exodus to the city in a bid to meet labor demands in the fast-growing industrial sectors.⁹ As a result, hundreds of millions of rural migrant workers drawn by the prospect of a better life flocked to the cities without official registration. According to data from China's National Bureau of Statistics, there were more than 290 million migrant workers in 2019, accounting for more than 20 percent of the total population of China.¹⁰

By denying migrants a permanent footing in the city, China's "semi-urbanization" strategy, generated a massive pool of cheap and readily available labor.¹¹ The country's spectacular economic growth and ascension to the status of global manufacturing hub came largely on the back of this massive floating workforce.

However, since rural migrants are barred from receiving a local urban Hukou, they cannot enjoy the same social rights and public services as urban residents. As such, Hukou restrictions have ultimately created a dual structure that cemented social inequalities, turning the so-called "peasant workers" (known in Chinese as nongmingong 农民工) into an urban underclass.¹² This duality is also reflected in statistical data. While the urbanization rate of the permanent population in China reached 60.6 percent in 2019, the urbanization rate of the registered population was only 44.3 percent.¹³

Nowadays, rural migrant workers remain marginalized and subject to institutionalized discrimination. In addition to having limited access to healthcare or housing, they face occupational segregation and sharp income inequality when

working in cities.¹⁴ Due to their weak competitive position on the job market, they tend to be over-represented in low-end “dirty, dangerous, and demeaning” jobs.¹⁵ Because children inherit the Hukou status and residency of one of their parents at the time of birth, this cycle of inequality tends to be perpetuated over several generations for rural Hukou holders, even when said children were born in the city.¹⁶ Under these circumstances, parent migrants are often forced to leave behind children in the countryside with their elderly relatives. The 2015 population census revealed an estimate of 34.3 million migrant workers’ children and 68.8 million children who remained in their hometown, both in rural and urban areas.¹⁷

New Urbanization Drive and the Call for Hukou Reforms

In many respects, the Hukou system has supported China’s economic boom over the past decades. However, its legacy of inequality, characterized by an entrenched rural-urban chasm and social stratification, has come to pose challenges to Beijing’s new development ambitions.

Two of the overarching priorities of the Chinese leadership are to sustain the country’s economic growth and turn China into a high-value innovation-driven powerhouse. Nevertheless, demographic and socio-economic challenges are putting pressure on these goals. Firstly, China has reached the end of the demographic dividend that had contributed to its economic miracle and faces the threat of a dwindling workforce.¹⁸ Further, the Chinese economy is attempting a difficult rebalancing away from export-led growth, which has been accompanied by a stark economic slowdown.¹⁹ In 2018, China’s GDP grew at its lowest rate in 28 years.²⁰

Given the role it has hitherto played as a driver of economic growth, urbanization has been identified as a way to overcome these hurdles and avoid falling in the middle-income trap.²¹ Nevertheless, the institutional framework of the Hukou system, although it did support the old urbanization strategy,

is no longer sustainable or adequate to China’s future development needs. Hukou restrictions have generated an incomplete urbanization, constraining labor mobility and effectively circumscribing the peasantry’s socio-economic opportunities and rights. For these reasons, Hukou reforms are needed and constitute an essential component of China’s urbanization strategy.²²

By stepping up efforts to disjoint the dual rural-urban structure, China hoped to reduce inequalities and therefore contain social tensions.

In addition to promoting urbanization, relaxing the household registration policy is also seen as conducive to stimulating domestic consumption. By allowing the rural population to obtain a permanent urban Hukou registration and associated social benefits, the leadership hopes to reduce migrant workers’ propensity to save and thus stimulate untapped consumption potential.²³ The strategy, if it succeeds, will essentially turn the current urban underclass into a new middle class. According to Cai Fang, vice president of the China Academy of Social Sciences (CASS), it could potentially lead an increase of up to 27 percent in domestic consumption without having to raise wages.²⁴ The shift would also boost the slowing economy by reducing losses from the rebalancing away from export-led growth.

Against this background, in 2014, the government articulated an ambitious blueprint for reforms in the National “New-Style Urbanization” Plan (NUP),²⁵ pledging to develop “human-centered” urban planning policies, which would deliver more equitable access to social benefits and public services. The plan essentially set out to “promote the conversion of rural migrants into urban residents” and “urban-rural integration”,²⁶ paving the way to reduce the size

of the floating population which constitutes such a major roadblock to China's urbanization process. By stepping up efforts to disjoin the dual rural-urban structure, China hoped to reduce inequalities and therefore contain social tensions; improve the efficiency of the labor market and overall economic dividends.

Because individual rights remain attached to one's Hukou location, only local urban Hukou holders will benefit.

Specifically, the NUP called for the settlement of 100 million rural Chinese into towns by 2020.²⁷ More recently, the National Development and Reform Commission (NDRC) also issued the "Key Tasks for New Urbanization Construction", which pledged to completely remove restrictions on settlement in cities with a permanent population of less than 3 million in urban areas, and comprehensively relax the conditions for settlement in large cities with a permanent population of 3-5 million.²⁸ In a positive development, the measures formally abolished the distinction between agricultural and non-agricultural Hukou categories, favoring a unified resident permit system (居住证制度).²⁹ The system was also redesigned to accommodate a family or collective household registration.³⁰ This constituted an important step forward, because it now facilitates migrants moving with their families.

Impacts of the Reform Efforts

While the reform can be considered as a step forward to institutionally bridge the rural-urban gap in China, it still has fundamental flaws that need to be addressed. Notwithstanding the removal of the agricultural/non-agricultural distinction, the impact of this change will remain residual as long as the difference between local/non-local populations persists. Because individual rights remain attached

to one's Hukou location, only local urban Hukou holders will benefit.

Second, under the largely decentralized reform process, the provincial and municipal level governments decide how and when to implement national guidelines. Given the difference in public resources, the quality of social welfare provisions tends to vary greatly from one locality to another. Local level governments are often disincentivized to deepen reforms because they are forced to assume the financial burden of the new urbanization strategy. The cost of the urbanization of each migrant worker has been estimated to at least 300 000 yuan, which would amount to several trillion yuan to meet the government's targets.³¹ Local government debt had already soared to 16.61 trillion yuan in 2018.³² The central government thus needs to take a bigger share of financial responsibilities to alleviate pressures at the local level and allow for a uniformed implementation of reform efforts.

Further, the plan prioritizes the conversion of rural Hukou into permanent urban Hukou. Yet, this measure neglects the fact that rural migrants have low willingness to abandon their agricultural Hukou status, as it means renouncing their homestead land rights, collective property income and agricultural subsidies.³³

In the more developed provinces of China, the value of rural land has today become quite high. It provides rural migrants with a form of long-term security and a fallback option should opportunities of employment in the city subside. Arguably, the new reform guidelines, which encourage the transfer of rural rights, have in some cases had adverse impacts on rural dwellers because it has facilitated the expansion of agrarian capitalism. The measures supported by local governments essentially align with the interests of agribusinesses (agrarian capital) and such enterprises are the ones operating in the real estate, construction, or industrial sectors (urban capital).³⁴ By actively advocating the conversion of farmers' Hukou status and their relocation to urban areas, they can therefore more easily legitimize land

expropriation. When confronted with resistance to these measures, local governments tend to forcibly seize lands and demolish village houses.³⁵

Finally, there are major contradictions between governmental policy objectives and the real patterns of migration. The relaxation of measures has only made it easier for rural dwellers to obtain permanent residency in small cities and towns. Yet, rural migrants view this option as a less attractive alternative because the provision of social services in small cities is often low and the higher cost of education or housing in the city still make their lives precarious. Paradoxically, the threshold for obtaining an urban Hukou in top-tier cities, where employment opportunities are concentrated, has remained extremely high, if not increased.³⁶ For instance, megacities such as Beijing, Shanghai, or Guangzhou have implemented point-based residency systems featuring stringent requirements in terms of income, type of housing and employment, payment into urban social insurance schemes and length of legal residency.³⁷ This tiered approach only benefits the wealthier and better skilled migrants, while leaving out the bulk of rural Hukou applicants. There is a need to better distribute resource allocation between top-tiers and medium-sized/small cities to correct the imbalance in migration patterns.

The Way Ahead: Achieving a Real “Citizenization” of Rural Migrants in the Cities

The Hukou reform has essentially set out to remove the institutional barriers to rural migrants’ settlement in the cities. However, this endeavor alone is insufficient to ensure their real socio-economic integration. It is only by gradually unraveling the various “knots” that are entangled with the household registration status that inclusive urbanization can truly be achieved. The “citizenization” of rural migrants into urban areas thus needs to be carried out alongside a major restructuring of other interconnected systems.

Future efforts should, first and foremost, concentrate on decoupling the provision of social welfare benefits and public services from the Hukou system. These

should, for a more equitable access, be delivered on the basis of employment instead of residential status. Rapidly eliminating the gap in public goods and services between new and old residents is the key to improving the quality of urbanization in the future. Ensuring that the expatriate population can enjoy the same treatment as urban residents will not only solve the inequity problem, but also increase the spending power of new urban residents, thereby driving economic growth. The Chinese leadership should thus strive to achieve an inclusive welfare system, featuring a national pension plan and medical insurance scheme. Improving access to social housing would also contribute to curbing the construction of migrant enclaves or “urban villages” within cities and therefore reduce residential segregation.³⁸

“The Hukou has become a major barrier to China’s sustainable development and urbanization process.”

The reform to the Hukou system also needs to be accompanied by complementary reforms of the land tenure system. Consolidating farmers’ land contracting and homestead-use rights would help break the vested interests of local governments, which have hindered progresses towards reducing inequalities. Current compensation standards for land acquisition should be raised to provide a decent livelihood to farmers, enabling them to cover the cost of relocating and integrating urban society. Those changes would increase farmers’ motivation to enter cities, thus lowering barriers to labor mobility.

Finally, efforts need to encompass changes to the taxation and fiscal systems. Under the current structure - which favors a decentralization of fiscal responsibilities - there is an important mismatch between the proportion of fiscal revenues received by local governments and the financial responsibilities they are expected to assume. Correcting this imbalance would considerably help overcome

local resistance to Hukou reforms by boosting the overall capacity to provide basic services and social protection to migrants.

Conclusion

China's Hukou system allowed the country a rapid industrialization supported by rural labor surplus in the farmlands. Yet, the dual structure born out of this system has fostered deep inequalities by hindering the welfare and socio-economic rights of rural migrants and preventing their integration into urban areas. The Hukou has therefore become a major barrier to China's sustainable development and urbanization process. Although reform efforts have made positive steps towards narrowing the rural-urban divide at the institutional level, they have neglected fundamental aspects that remain to be addressed.

As China is bound to have over 70 percent of its population living in urban areas by 2030, the question of how to ensure the effective socio-economic integration of rural populations within the urban society will remain a pressing challenge for the leadership. Ultimately, the success of the reform will, in many ways, rest on the ability to match efforts with a major restructuring of other core institutional systems. ■

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