China Policy Institute Policy Paper 2014: No 2

The end of the *hukou* system? Not yet

Charlotte Goodburn

Significance

The July 2014 Chinese State Council circular on the "end of the *hukou* (household registration) system" has been greeted by a mixture of jubilation and scepticism in the press. The abolition of the distinction between rural and urban Chinese citizens, which has existed since the 1950s, is historic, and may be of symbolic importance, but much of the rest of the policy announcement is neither new nor likely to benefit most current and prospective rural-urban migrants. Real *hukou* reform will be difficult and costly, and remains a long way off.

What we need to know

In July 2014, China's State Council announced what some Chinese media have called "the end of the *hukou* system". A circular on reforms to China's system of household registration, which since the 1950s has allocated resources to citizens based on their type and location of registration, reported that *hukou* transfer limits in small cities will be removed, restrictions in medium-sized cities relaxed, and new qualifications set for big cities. According to Xinhua, this puts "an end to the system which has divided the nation into rural and urban populations since the 1950s" and will be a major boon to migrant workers.[1] However, though reform of the *hukou* system will be welcomed by many, not least for the symbolic value of removing the distinction between urban and rural residents, the changes fall short of the hopes expressed by international and Chinese experts, and by many rural-urban migrants themselves.

The reforms, which represent a modification of the system than its abolition, may remove the frequently criticised rural/urban *hukou* distinction, but do little to address the much-less-studied difference between local and non-local *hukou*, which affects the provision of state service including education, healthcare, housing and social welfare. Residence certificates will still be required for all Chinese citizens moving to new areas, and although it will be easier for migrants to settle in smaller cities, strict requirements
will continue to make it difficult to settle in China's megacities, including Beijing, Shanghai, Shenzhen and 11 other metropolises. These will still "strictly control the scale of the population," using a points-based system favouring the educated and wealthy.[2]

Furthermore, the reforms do not make clear how equal public services can be provided for urban and rural residents, given China's decentralised mechanisms of funding. Nor do they address the issue of land rights which, tied to rural *hukou*, make many keen to retain rural registrations. Although these reforms may pave the way for further incremental changes, the abolition of the *hukou* system – a costly, difficult and perhaps instability-inducing reform – is not on the horizon.

Analysis

Introduced by the new Communist government in the early 1950s, and formalised in 1958, the *hukou* system classified every Chinese resident as rural ("agricultural") or urban ("non-agricultural") and assigned them a location, depending on what type of work they did and where they lived. This classification was passed from mother to child. The original purpose of the *hukou* was to ensure public security, rather than prevent migration, but over the course of the 1950s it gained the additional function of ensuring sufficient rural labour for grain production, which was needed to support urban industrialisation. Rural people were essentially "grain producers", while urbanites were "grain consumers", and for much of the 1950s-70s it was extremely difficult for those with rural *hukou* to move to urban China. Urban neighbourhood committees reported newcomers to the authorities, and basic goods were allocated only to urban *hukou*-holders, since rural-dwellers were

expected to be self-sufficient. Peasants moving to the city would either be caught or unable to obtain food. The system was highly effective: by fixing each person into a geographic position, social status and social relations were effectively assigned by the state.

After the mid-1980s, however, large-scale rural-urban migration again became possible. A relaxation in implementation of *hukou* laws and the re-commodification of many goods allowed the growing urban private sector to absorb large numbers of low-paid rural labourers. Increased agricultural productivity and a decrease in per capita cultivated land created a huge surplus of peasants. Millions moved to cities, establishing networks of migrants and encouraging further migration. The estimated number of rural-urban migrants now stands at 260 million.[3]

Migrants are no longer prevented from entering urban areas, and the system of "custody and repatriation", used in the 1980s and 1990s to transfer rural migrants back to the countryside, ended in 2003. However, the core of the *hukou* system remains in place in 2014. This divides Chinese citizens into hereditary categories of "agricultural" and "non-agricultural" and assigns them a location, regardless of their current type of work or place of residence. Although grain rationing for non-agricultural *hukou*-holders ended in 1992, the services one receives from the state – including education, health insurance, housing and social welfare – are still dependent on one's type and place of *hukou*. Transferring one's *hukou* classification or registration place is very difficult, especially from agricultural to non-agricultural or from a smaller city to one of China's "megacities".

The continuing inequities of the *hukou* system are a source of deep discontent in China, and the system's overhaul was one of the main planks of reform outlined by new President Xi Jinping in late 2013. The July 2014 reform announcement has therefore been greeted warmly by the Chinese press and much international media. According to the State Council circular, the new policy will establish a uniform household registration system that does not distinguish between "agricultural" and "non-agricultural". Instead, every Chinese citizen will have a "resident's" *hukou*, registered to their place of origin. Migrants who move to an area other than that of their *hukou* registration will apply for a temporary residence

permit in their destination area, giving them equal rights with locals in basic healthcare, education and employment. Depending on how long they have held the temporary residence permit, migrants will be able to apply for a local *hukou*. In towns and smaller cities, all limits on *hukou* registration will be removed and restrictions in medium-sized cities will be relaxed, although the largest cities will retain strict controls.

The reform is expected to help an additional 100 million rural migrants settle in towns and cities by 2020, by which point 60% of the Chinese population should be urban.[4] In particular, it should open up small cities to former rural residents, providing a boost to the economy in these areas. This may be especially beneficial in western and central China, since smaller cities are concentrated in less-developed provinces. The reform is also expected to provide a significant boost to national-level consumption, with research indicating that the addition of 100 million to the urban population would provide a 14% net gain in total consumption.[5]

Hukou reform: a local matter

However, the varying guidelines for different sizes of city mean that it will remain extremely difficult for migrants to settle in the more attractive migration destinations. While small cities (with a population of less than 500,000) will have completely open *hukou* applications, medium to extra-large cities (population 500,000-5 million) will apply various conditions. These become increasingly strict with size, and include type and seniority of employment, type of housing, payment into urban social insurance schemes and length of residence. China's "megacities" (population over 5 million) will continue to operate strict points systems for *hukou* transfer, and, unlike in other cities where local authorities will be prevented from imposing excessive demands, the criteria for points will be determined by local governments "on the basis of the overall load-bearing capacity and the needs of economic and social development".

This is likely to prevent the vast majority of rural migrants from gaining local *hukou* in China's 14 most important cities. The new points systems are clearly based on

existing points-based *hukou* transfer requirements already in effect in Guangdong province and elsewhere. In Guangdong's decentralised system, in which different cities impose different regulations, intra-provincial migrants are prioritised for *hukou* transfer, while inter-provincial migrants, as well as all those without urban social insurance, formal housing documents and formal sector employment, have little hope of gaining a local *hukou*.[6]

The use of the terms "rural" and "urban" to describe "agricultural" and "non-agricultural" *hukou* in much international literature on the *hukou* system obscures the fact that many urban state services are provided in virtue of a local, rather than an urban, *hukou*. Most urban-urban migrants are therefore excluded from these services in the same way as rural-urban migrants, while local "agricultural" *hukou*-holders can access most of the same services within a city as local "non-agricultural" people.[7] Eliminating the agricultural/non-agricultural distinction in *hukou* will therefore have very little effect on migrants in China's cities if they still cannot gain a local *hukou*. The reform may be beneficial for local "agricultural" people in urban China, as the grounds for distinguishing between "agricultural" and "non-agricultural" residents within one jurisdiction will be removed. This means that, for example, natives of Shanghai who hold agricultural *hukou* and who typically live on the periphery of the city should gain access to urban levels of health insurance and social security benefits. However, it will do little to improve the access to state services of migrants in larger Chinese cities, and little to improve inter-regional inequality.

Furthermore, the decentralised nature of *hukou* reform creates problems in enforcing central guidelines. The State Council circular stipulates that city governments should implement a temporary residence permit system, guaranteeing permit-holders equal rights with locals in employment, basic education and basic healthcare. Those who have held the permit for a set period of time, and have paid into urban social insurance schemes, will also "gradually" gain equal rights to secondary vocational education, housing security and social welfare. However,

urban authorities, and in many cases urban populations, are reluctant to allow large influxes of migrant workers the same rights as local residents, because of the

limited funding available to support the expansion of state services. In theory, migrants already have the right to basic education and healthcare in most urban areas, but in practice bureaucratic obstacles prevent many from accessing these services. It is unclear how successfully the new regulations can be implemented locally, especially since compliance will be encouraged (through the linking of land use plans and financial transfers to *hukou* allocations) rather than rigidly enforced.

No end to the *hukou* system, no land rights reform

It is clear, then, that the July 2014 policy is far from the sweeping reform of the *hukou* system that has been announced. The removal of the agricultural/non-agricultural classification is to be welcomed, not least for the symbolic importance of formally equalising rural and urban citizens, which may serve to reduce popular discrimination against rural residents and migrants. It may also improve the access to state services of those locals in China's cities who currently have agricultural *hukou*. Meanwhile, the guidelines for the transfer of *hukou* registration place should make it easier for migrants to settle in small cities and towns, and prevent governments of medium-sized cities from imposing too-strict conditions for *hukou* transfer. However, for the bulk of rural migrants wishing to settle in China's megacities like Beijing, Shanghai and Shenzhen, where investment and migrant employment are concentrated, the reforms will not change much.

Furthermore, the related matter of land rights is also not fully addressed by the State Council document. Several Chinese cities, including Chongqing, Chengdu, Zhengzhou and others, have already experimented with *hukou* reform, but have encountered difficulties in persuading agricultural *hukou*-holders to adopt a non-agricultural *hukou*. Although *hukou* transfer would bring greater entitlement to state resources, it also means relinquishing all rights to rural land, which are tied to agricultural *hukou*, and which many regard as an important form of long-term security. In Chongqing province, where *hukou* reforms began in 2010 under now-disgraced former leader Bo Xilai, an innovative "rural land exchange" programme aimed to convince reluctant local farmers to give up their land by allowing them to sell land credits (*dipiao*) to urban developers for cash, rather than relying on small

compensation packages from local governments. The programme, which is still in operation, provides credits to villages which convert residential land into new farmland. These credits are sold to developers who can then build on equivalent areas of farmland, typically on the edge of Chongqing city. The aim is to ensure no net loss of tillable fields, while transforming 10 million local farmers into urban residents by the year 2020.[8] However, even the *dipiao* system has failed to convince many local rural people to relinquish their agricultural *hukou* and land, because of the higher cost of living and stricter family planning policies in the city. Meanwhile, inter-provincial migrants from China's poorer areas, who may be more willing to transfer their *hukou*, are not eligible for the scheme.

The 2014 national *hukou* reform announcement indicates that, in the short term, rural residents may be allowed to retain some land use rights. However, it also calls for the establishment of a land transfer market to encourage farmers to relinquish their land, raising questions about how land use rights will be determined in the future. Earlier reforms of the *hukou* system have focused on the transfer of *hukou* of "agricultural" urban residents, rather than migrants, because the land that these former farmers relinquish is in high demand for urban expansion. Now many rural residents fear forced land expropriation without adequate compensation if they transfer their *hukou* from agricultural to non-agricultural or from a rural to an urban location. This is particularly an issue in more developed regions, including the periphery of large cities and many areas in eastern and coastal China, where rural *hukou* have become valuable because of sharp rises in land prices.

Ultimately, the July 2014 *hukou* reform announcement can be seen the latest in a series of cautious measures which aim at boosting urbanisation and consumption while minimising pressure on the largest cities – an important and ongoing concern for the Chinese government. China is far from ending the *hukou* system: megacities have exemptions from the new rules, most cities can shape the reforms based on their own situations, and the rules regarding land rights are not adequately addressed. Instead, the state is focusing on moving peasants and remaining "agricultural" population from the villages to the townships and cities closest to them. This is by no means a new policy, but a continuation of a decade of rural relocation policies, including "ecological migration," "building a new socialist

countryside" and "convert farmland to forest". The key change now is the move away from distinguishing "agricultural" from "non-agricultural" people, to distinguishing people based on location. Beyond that, the promised "end of the *hukou*" offers most rural dwellers and rural migrants little that is genuinely new. Real *hukou* reform would require fundamental changes to the provision of public services, and the funding to support them, as well as an overhaul of China's land rights. It would also bring the much-feared possibility of social upheaval. This level of systemic reform is therefore not yet on the horizon.

Charlotte Goodburn is Lecturer in Chinese Politics and Development at the Lau China Institute, King's College London.

Endnotes

[1] Xinhua News, 30 July 2014. Available at http://news.xinhuanet.com/english/china/2014-07/30/c_133520576.htm?_ga=1.248236999.1905717420.1407510463

[2] Full text of the State Council circular is available in Chinese here http://www.gov.cn/zhengce/content/2014-07/30/content_8944.htm. An English translation is here: http://chinalawtranslate.com/en/state-council-opinion-of-hukou-reform

[3] Xinhua News, 27 May 2013. Available at: http://news.xinhuanet.com/english/china/2013-05/27/c_132411765.htm

[4] Xinhua News, 30 July 2014. Available at http://news.xinhuanet.com/english/china/2014-07/30/c_133520576.htm?_ga=1.248236999.1905717420.1407510463

[5] Dominion Funds, 2014. Available at: http://www.dominion-funds.com/en/News/Comments/Newsletters/GT_Newsletter_ChinaUrbanisation

[6] Zhao, L., & Fu, C. R. (2010). *China's Hukou Reform: The Guangdong and Shanghai Cases*. East Asian Institute, National University of Singapore.

[7] The exception here is medical insurance, which is administered through different systems to agricultural and non-agricultural *hukou*-holders, and minimum living assistance, which is typically paid at a lower rate to those with an agricultural *hukou*.

[8] China Daily, 29 July 2010. Available at: http://www.chinadaily.com.cn/china/2010-07/29/content_11067678.htm