

The Role of the *Hukou* System in Exacerbating Urban-Rural Inequality

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Introduction

The market-based economic reforms implemented by the People's Republic of China beginning in 1978 have been a remarkable success by nearly any measure. GDP grew by an average of 9.6% each year between 1979 and 2004 ("China revises GDP" 2006), and China's human development index (HDI) has likewise made great progress, rising from 0.533 in 1980 to 0.772 in 2009, a 45% increase (UNDP 2009). Yet, despite this growth, and indeed, even because of it, income inequality in China remains a major issue. According to the most recent statistics made available in the 2009 United Nations Human Development Report, China has a Gini coefficient of 0.415 (UNDP 2009), up from 0.33 in 1980 (Chang 2002), indicating a substantial, increasing, and troubling degree of income inequality. The source of much of this inequality is the stark contrast between urban and rural incomes, with data collected by China's Economic Research Institute showing that by 2002, urban residents were earning on average more than 3.1 times as much as rural residents (People's Daily 2004). This paper seeks to demonstrate that one of the major underlying causes of the high degree of urban-rural inequality in the PRC is the country's household registration, or *hukou* 户口, system.

Background

Beginning in the early years of the PRC, the country's economic planners made a conscious decision to prioritise the development of the heavy industrial sector (Naughton 2007). In order to fund such a massive scale of industrial investment, the government extracted large amounts of resources and income from rural regions through the use of a communal agriculture system with strict quotas and strong price controls, leaving peasants with little more than the minimum level of resources needed for subsistence (Naughton 2007). Meanwhile, to facilitate rapid industrialisation, urban employees of state-owned enterprises (SOEs) were provided with an impressive array of benefits, including among others guaranteed lifetime employment, free housing, health care, education, and food rations (Cheng and Selden 1994). This sharp contrast between the treatment of urban and rural Chinese has led many to note that "farmers have had a raw deal" since the formation of the PRC in 1949 ("Country cousins" 2000).

In order to ensure the state's continued ability to exploit rural agricultural regions to the benefit of heavy industrial development, the formation of a system preventing a mass exodus of rural residents to urban areas became necessary. Thus, in 1954, the Ministry of Labour and the Ministry of the Interior issued the "Joint Directive to Control the Blind Influx of Peasants into Cities," effectively initiating the use of the *hukou* as a means of restricting individual mobility (Cheng and Selden 1994). By the early 1960s and the end of the disastrous policies of the Great Leap Forward, a further strengthening of *hukou*-based restrictions had made rural to urban migration essentially impossible (Cheng and Selden 1994).

In its most basic form, the *hukou* system is little more than a comprehensive household and individual registration system, recording personal data in a fashion similar to that found in several other Asian countries, including Japan (the *koseki* 戸籍 system), Vietnam (the *hộ khẩu* scheme), and, until recently, South Korea (the *hoju* 호주 system). The implementation of the Chinese *hukou*, however, is unique in creating what amounts to a two-tiered societal structure, with rural residents and migrants being officially classified as “second-class citizens” within their own country (Mackenzie 2002). While the Japanese and South Korean systems allow citizens to freely and easily transfer their household registration to another city or region, doing so in China remains extremely difficult for the majority of residents and particularly for those from poorer, rural areas.

Prior to the 1980s and the implementation of market-based reforms, a combination of several important characteristics of the Chinese economy meant that rural residents were effectively entirely unable to move to urban areas. During the pre-reform period, within urban areas, basic subsistence goods such as grain, textiles, cooking oil, and meat could only be purchased by presenting a ration coupon that was unavailable to citizens not possessing an urban *hukou* (Li 1996). In addition, few opportunities for employment within urban areas existed for rural migrants; the vast majority of jobs were assigned directly by the state labour bureau and were thus out of reach for those without the proper official documentation (Feng 1997). The provision of urban housing and public services almost exclusively through an individual’s *danwei* 单

位, or work unit, served to make unauthorised rural-urban migration still more impossible. Though official enforcement of the system has weakened in recent years, and rural migrants can now easily purchase their daily necessities on the free market, those living in cities without the proper urban *hukou* continue to be plagued by a lack of access to education, health care, property, and some jobs (Mackenzie 2002).

These characteristics have led the *hukou* system to be described by some scholars as, among other things, “apartheid-like” (Chan and Senses 1997), “an inherited caste system” (Lawrence 2007), and “an offence against human rights on a much bigger scale than the treatment of the tiny handful of dissidents dogged enough to speak up against the state” (“Country cousins” 2000). Many both inside and outside of China have called for its abolishment as a means of mobility control, a sentiment which has been steadily gaining official policy momentum. According to a report published in *China Daily*, the state-run newspaper that is frequently regarded as the official English-language mouthpiece of the Chinese Communist Party, “urban-rural integration ... has been identified as the key rural reform in the coming 12th Five-Year Plan Period (2011-2015)” (Li 2010). Zhou Yongkang, a member of the Politburo Standing Committee, called for an “urgent” reform of the *hukou* system in a 2010 editorial in *Qiushi* 求是 (Lu 2010). A high-profile 2010 forum on the topic hosted by the China Institute for Reform and Development in Haikou concluded that “making the migrant worker status history is a breaking point in dismantling the dual urban-rural system” and that “enabling migrant workers to become full urban residents should become a public duty of the

government” (Li 2010). There is also widespread popular support for reform, with informal polls suggesting that over 90% of the Chinese public believes that the system should be changed to facilitate a reduction in the country’s urban-rural divide (Zhu 2007).

Major impacts of the *hukou* system

While many contemporary criticisms of the *hukou* system have focused largely on the troubling political and human rights implications of the two-tiered society it creates, the system also has important implications for economic development and equality. A 2004 National Bureau of Economic Research working paper attempted to quantitatively model the impact that a removal of the *hukou* system would have on urban-rural income inequality. The authors estimate that the abandonment of *hukou*-based restrictions would reduce China’s urban-rural Gini coefficient from 0.460 to 0.294 (Whalley and Zhang 2004). Likewise, regional inequality between the eastern coastal, central, and western provinces could be reduced from 0.460 to 0.200 with the abolishment of the *hukou* system (Whalley and Zhang 2004). Zhai and Hertel (2009) also analysed the effect of *hukou* reform on the overall national Gini coefficient, concluding that reform would lead this statistic to decline by 0.021, a “substantial movement in an index which is generally quite robust to policy reforms.”

In addition to contributing to the creation of significant levels of urban-rural and regional inequality, the present implementation of the *hukou* system has also been demonstrated to increase poverty rates. Much of this effect is a consequence of the

significant wage differential between resident and migrant workers. Data from the China Urban Labour Survey shows that migrants without a local *hukou* were paid an hourly wage 28.9% lower than similarly-skilled workers with an urban residency permit (Cai 2006). This statistic suggests that *hukou* reform could significantly reduce overall poverty, a conclusion that is supported by a more detailed analysis of its impact on poverty rates. Using a RMB3520/person poverty line for urban residents and a RMB2591/person poverty line for rural residents, Zhai and Hertel (2009) estimate that *hukou* reform would lead to a significant decrease in the number of Chinese living in poverty, from 36.4% pre-reform to 32.3% after reform.

In addition to directly leading to the development of a disturbing degree of urban-rural income inequality, the lack of legitimacy in the status of rural migrants has created a system in which they are routinely abused by factory owners, local government authorities, and official, urban *hukou*-toting residents with little recourse. Factory owners regularly violate labour laws, while local officials, often closely tied to and benefitting financially from the firms in question, turn a blind eye. Tan (2000) found that migrant labourers were routinely forced to work twelve hour shifts, seven days a week, for wages well below the mandatory levels. In addition, Tan (2000) found that more than half of the factories surveyed did not pay the legally required social security premiums for their employees and that more than 80% did not offer maternity leave.

Furthermore, migrant workers' wages are often severely docked for even minor infractions; as just one example, in one factory in southern China, "anyone using the

toilet more than twice in a working day forfeits nearly a fifth of her monthly wage” (Chan and Sense 1997). In some factories, there is even a threat of physical punishment for running afoul of rules, with “beatings inflicted by supervisors or private guards, some carrying electric batons” (Chan and Senser 1997). Migrant workers are also often forced to work under highly hazardous conditions, with one report by the Shanghai Academy of Social Sciences finding that, in the Pearl River Delta region alone, factory workers “lose or break about 40,000 fingers on the job each year” (Barboza 2008). Due to significant pressure from their customers, many foreign firms have threatened to cease operations in China as a result of such inhumane treatment of migrant labourers, posing a large potential threat to the country’s largely export-driven economy (Moore 2010).

Finally, second-class citizenship is passed on to the children of rural migrants, who are frequently unable to enrol in schools in urban areas (Mackenzie 2002). This puts migrants’ children at a significant disadvantage in an economic climate that is rapidly evolving to rely more heavily on well-educated, skilled labour. Between 1990 and 2004, for instance, the service sector grew from 31% of GDP to 41% of GDP, and even manufacturing firms are increasingly relying on a more educated workforce (Blanchard and Giavazzi 2006). Thus, the creation of an entire generation of relatively uneducated children as a result of access restrictions imposed by the *hukou* regime raises troubling implications for future Chinese economic development.

This combination of factors resulting from the *hukou* system can be viewed in economic terms as imposing extremely high transaction costs on rural workers.

Indeed, Zhai and Hertel (2009) calculate that these transaction costs are equivalent to an 81% ad valorem tax on China's rural citizens. Assuming current migration levels, they further estimate that this implicit tax could be reduced by 47 percentage points to 34% with the elimination of *hukou*-based restrictions (Zhai and Hertel 2009).

Challenges to reform

While the above analysis clearly demonstrates a strong justification for the removal of *hukou*-based mobility restrictions and a consensus among both Chinese and foreign scholars and officials in favour of reform, there are significant obstacles and challenges which must be considered.

A relaxation of the *hukou* system is generally forecasted to lead to a further uptick in rural-urban migration rates. Zhai and Hertel (2009), for instance, estimate that reform would increase rural-urban migration by 35.7 million additional workers. Some scholars, such as Han (1999), have credited the *hukou* system with preventing the development of the type of massive slums that often characterise urban areas in other developing countries. With most urban housing priced well out of reach of recent migrants, and a real estate bubble continuing to inflate, there is real reason for concern that a sudden influx of additional migrants could lead to the formation of shantytowns and a substantial increase in homelessness. In addition, such a large increase in migration could hurt some existing urban residents who benefit from the artificial mobility restrictions imposed by the *hukou* regime (Zhai and Hertel 2009).

In addition, there is significant concern that existing urban social support programmes and public services would be unable to function under the burden of, in many cases, millions of additional qualified residents. Many Chinese cities provide significant subsidies from the local government budget for the support of local social welfare initiatives (Cai, Du, and Yang 2002). This has led to vocal opposition to a relaxation of the *hukou* regime by some urban officials concerned about the impact of reform on their local budgets (Cai, Du, and Yang 2002).

Finally, many government leaders have expressed concern over the broader social consequences of relaxing the *hukou* restrictions. One set of internal government memorandums obtained by the Australian Centre for Independent Studies indicates an anxiety that “the prospect of urban unrest grows exponentially when tens of millions of unemployed rural Chinese roam the cities with unfulfilled and frustrated expectations of a better life” (Lee 2009). Under the current system, there is no implied guarantee that those without a local *hukou* will be able to find a job in urban areas, and some government officials believe that an official change in *hukou* policy could lead to potentially destabilising dissatisfaction among migrants (Lee 2009).

Current reforms

Realising the urgent need for reform to the existing *hukou* system, some cities have elected not to wait for the central government to act and have taken matters into

their own hands. Indeed, since 2003, thirteen municipalities and provinces have implemented at least some independent reforms (Cheng 2009). Among the most prominent of these are the Shanghai and Guangzhou municipalities. From 2009, the Shanghai municipal government implemented a set of criteria under which migrants could be granted a full Shanghai *hukou*; the urban residency permits will be available to migrants who have lived in the city and paid into its social insurance scheme for at least seven years, have no criminal record, and have medium to high levels of education (“Shanghai details new *hukou* policy” 2009). Furthermore, the city announced that the children of migrant workers would begin receiving free compulsory education, resolving one of the major inequalities engendered by the *hukou* system (“在沪农民工同住子女明年将全部免费接受义务教育” 2009).

The Guangzhou municipal government has implemented a similar but somewhat more limited set of reforms aimed at providing workers without a local *hukou* with better access to city services. In March 2009, it began to grant rural migrants the same access to the local social insurance scheme, educational opportunities, and legal aid services as it does to those with Guangzhou *hukou* registrations (Human Rights Watch 2010).

Conclusion

The *hukou* system is in clear need of reform. It can be demonstrated to decrease rural-urban equity, increase overall poverty rates, contribute to dangerous and illegal

working conditions, and foster discrimination against hundreds of millions of rural Chinese. Though reform poses its own challenges, maintaining the status quo only delays the inevitable need to confront the dark side of urbanisation and prevents the nation from moving forward. With widespread acknowledgment of the system's problems and strong support for fundamental reform of the *hukou* regime among both PRC leadership and the general public, it seems likely that China is poised to finally eliminate this already decaying remnant of the Maoist era planned economy.

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