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**The Political Economy of Migration in China**

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By

Yutong Yang

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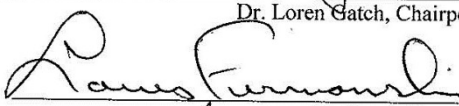
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July 25, 2012

By   
\_\_\_\_\_  
Dr. Loren Gatch, Chairperson

  
\_\_\_\_\_  
Dr. Louis Furmanski

  
\_\_\_\_\_  
Dr. Kenneth Kickham

## Abstract

Since opening up its economy to international trade and investment in the 1970s, China has undergone the largest transfer of rural populations to urban eras in modern history. In order to achieve these growth levels, massive migration was necessary in order to provide the armies of cheap labor that has been China's comparative economic advantage and the very core of its economic development strategy. This thesis examines the history of, and tensions within, China migration policy, and its implication for China's long-term position in the global economy. This thesis argues that China's migration policy is attempting to reconcile two conflicting goals of the ruling elite. On the one hand, migration flows are necessary to fulfill China's export-oriented industrial strategy, which requires vast amounts of cheap labor. On the other hand, the freedom of movement which migration requires poses a potential threat to social and political instability, especially if it sets the stage for independent civic mobilizations over the longer term. Maintaining the *Hukou* registration system as a form of residual control also encourages the existence of a large underclass of low wage workers who possess minimal rights in the areas to which they have migrated. The resulting income inequalities are themselves a source of social discontent that may well threaten the legitimacy of Communist governance.

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## I. Introduction

This thesis addresses the issue of China's experience with domestic migration, and the policy challenges this experience poses for the stability of China's political and economic systems.

Since opening up its economy to international trade and investment in the 1970s, China has undergone the largest transfer of rural populations to urban areas in modern history. Hundreds of millions of peasants have moved to the cities in order to participate in China's explosive, exported-oriented economic growth. In order to achieve these growth levels, massive migration was necessary in order to provide the armies of cheap labor that has been China's comparative economic advantage and the very core of its economic development strategy.

At the same time, these population movements pose a significant policy challenge to Chinese elites. While the government wishes to exploit the country's reservoirs of cheap labor, population movements on this scale bring with them the potential for political and social instability that could, if not properly managed, damage the government's legitimacy. Even while encouraging this rural-urban migration, the government has continued to maintain the older system of *Hukou*, or household registration system. Within this system, the Chinese citizens are tied to their place of residence. Under communism, the *Hukou* system assured that Chinese lived, worked, and received public benefits by being tied to place. With the transition to a Chinese version of capitalism since the late 1970s, the security of the "Iron Rice Bowl" has been removed, and labor mobility has been encouraged as a matter of official development policy. Nonetheless, the Chinese authorities have been reluctant to give its citizens full freedom of movement for fear that uncontrollable population shifts would prove disruptive both of Chinese society and the position of the ruling Chinese Communist Party.

As a result of this maintenance of the *Hukou* system, China has developed a dual labor market in which large numbers of temporary migrant workers from other parts of China take low-wage employment in the burgeoning manufacturing sector. In contrast, urban Chinese that do have registration rights enjoy far greater access to employment opportunities and government benefits.

This thesis examines the history of, and tensions within, China migration policy, and its implication for China's long-term position in the global economy. This thesis argues that China's migration policy is attempting to reconcile two conflicting goals of the ruling elite. On the one hand, migration flows are necessary to fulfill China's export-oriented industrial strategy, which requires vast amounts of cheap labor. On the other hand, the freedom of movement which migration requires poses a potential threat to social and political instability, especially if it sets the stage for independent civic mobilizations over the longer term. Maintaining the *Hukou* registration system as a form of residual control also encourages the existence of a large underclass of low wage workers who possess minimal rights in the areas to which they have migrated. The resulting income inequalities are themselves a source of social discontent that may well threaten the legitimacy of Communist governance.

How the Chinese government solves this dilemma has significant implications for the sustainability of China's export-led industrialization, and with that the health of the global economy. In particular, the longer-term goal of transitioning China's economy to a more demand-driven development path requires measures to narrow income inequalities that imply reforms to the current regime of population control.

This thesis first provides historical background to the development of China's household registration policies. Next, it surveys recent scholarship on the significance and effects of these

policies. Using this scholarship and other materials, the thesis then advances an argument regarding the unsustainable tensions arising out of the unanticipated and even contradictory effects of China's present-day *Hukou* system. Finally, the thesis concludes with a set of recommendations that seek to preserve the benefits of *Hukou* with regard for the realities of China's political and economic circumstances.

## II. Historical Background to the Modern *Hukou* System

The *Hukou* (household registration) system was put into place in urban areas in 1951, and extended to the countryside four years later. By 1958, the arrangement was given a more permanent legal basis, and despite increasingly significant changes after the 1980s persists in its essentials in the present day. What is more, the Chinese *Hukou* system is different from other countries' population registration. Not only does it collect population data, but it has also fundamentally structured the ability of citizens to move about and relocate their residences. The *Hukou* system has served as an integral component of the government's ongoing efforts to monitor and otherwise control the country's population..

Understanding how the *Hukou* system works requires some knowledge of its details. First and foremost are the system's classification categories. There are two kinds of classifications of Chinese *Hukou* status. The first classification of citizens' *Hukou* registration is based on the *Hukou suozaidi* (where the citizen is registered). This depends on the location of citizens' permanent residences. Under the *Hukou* system, each person must register in one unique residence, typically located in an urban or rural area. Urban areas consist of both cities and towns of various sizes, while rural areas include villages as well as state-run farms (Chan and Zhang 1999).

In the period prior to China's economic liberalization and even today, the local regular *Hukou* registration defined citizens' abilities to undertake certain economic and social activities in a given place and to gain access to supplies of food, clothes and other daily essentials, for example, some job opportunities are limited to local *Hukou* registrants. When people want to find jobs (usually peasants seeking jobs in cities) in areas other than where their *Hukou* registration authorizes them to, they are often required to undertake a substantial process



whereby permission to relocate is petitioned from the public authorities in the jurisdiction of their existing *Hukou* registration.

The second way of classifying household registration is the *Hukou leibie*, referring to the status, as opposed to the location, of the registration. These different statuses are commonly referred to as the "agricultural" and "non-agricultural" *Hukou*. Up to 1979, this distinction was crucial for deciding who had access to certain food supplies and other state-conferred benefits. What must be understood about *Hukou leibie* is that its distinctions are not grounded in geographical location. Indeed they are more important than where a citizen is actually located. In the very beginning the "agricultural"/"nonagricultural" distinction was indeed related to where citizens resided. However, as both the system and the economy changed, *Hukou leibie* became disconnected from what registrants actually did, in an economically relevant sense. Instead, it became a marker for citizens' differential access to state resources and opportunities that have prevailed at any given time (Chan and Zhang 1999).

These two classifications of household registration have been critical for the Chinese government's management of rural-urban migration. Essentially, *Hukou* registration places two obstacles in the way of population movements from rural to urban areas. Thanks to its control over where people reside, the government can limit their activities to those locations. Thanks to the distinction between agricultural and non-agricultural, the government creates a bifurcated society that makes it hugely difficult for people with agricultural *Hukou* to change to a nonagricultural one. Status conversions hardly occur at the discretion of individuals. The process of conversion is bureaucratically involved. Almost like a form of internal citizenship, a person's *Hukuo* place and status is derived from his or her parents. Changes in *Hukou* registration, either of place or status, require the permission of local authorities, which may not be a routine matter.

(Chan and Zhang 1999).

Within the framework of these residency distinctions, population movements from rural to urban areas must be countenanced by official approval of any migrations that imply a different *Hukou* location or a different *Hukou* status. In particular, the change in status is termed *nongzhuanfei*. In effect, for migratory movements to gain official recognition, permission must be granted for both a locational change in where people's residences are recorded, and a status change which determines the benefits to which people are entitled. Official recognition of population shifts entails permit approvals and other relevant documents. Only with the successful completion of the bureaucratic process of *nongzhuanfei* will a given instance of migration result in the acquisition of formal status as an urban resident (Chan and Zhang 1999).

Citizens can and do work outside of their *Hukou* residences, with or without official permission. *Liudong renkou* are migrants working outside their *Hukou* residences. To do so legally requires that migrants register with the police after more than a three-day stay and acquire a *zanzhuzheng*, or temporary residential permit, after three months. *Mangliu* are illegal *liudong renkou* –migrants who have no authorization to relocate and are not properly registered as a qualified temporary resident after three-day stay or have no temporary resident permit after three-month stay outside their permanent *Hukou* residence. Such illegal migrants are not actively pursued or punished by the police. However, they live in at the margins of urban life without any legal status and are subject to forced repatriation to their *Hukou* residence if for whatever reason their presence comes to the attention of the authorities.

A migrant may live and work in one place for many years but still be considered a temporary *Hukou*-holding *liudong renkou* if he or she cannot get permission to convert his or her *Hukou* registration. *Qianyi renkou* are people who, by undergoing the process of *nongzhuanfei*,

do gain authorization to migrate to a new place and change the location (and sometimes also the type) of their permanent *Hukou* status. It is a one-time and legally permanent internal migration. The criteria for eligibility for this conversion of status vary from city to city. However, in general the prevalence of these *Hukou* conversion barriers in China represent a powerful shaper of the country's internal migration patterns. From the point of view of public authorities, the *Hukou* system also serves as an economic development tool. Positive sanctions such as monetary rewards, promotions, and new jobs have been used to encourage people to resettle in certain designated places (e.g. autonomous regions) for policy purposes.

Finally, population control motivated by domestic security concerns focuses on, *zhongdian renkou* –“targeted populations” of ethnic minorities (Tibetans, Uighurs, etc.) which the government desires to monitor and control for the purposes of social control and combatting criminal activities (Wang 2005).

Since 1949, China has experienced three periods of population control. The first one, between 1949 and 1958 was the period of free migration. The second, from 1958 to 1978, was a period of strict control. The third period, from 1978 to the present, has seen a progressive, if uneven, loosening of *Hukou* controls.

In the first period, there was no strict management of population registration, and people could migrate to anywhere as they wish. However, in that period, few people chose to leave their home to a strange city since wage rates, job opportunities and levels of urban development were almost the same everywhere. Farmers chose to work on their own fields rather than find employment in the cities. Conversely, urban workers had little incentive to leave their factory jobs. While living standards were generally low, people did not worry about their food, housing, children's education and pension since the government took responsibility for their provision

within a planned economy.

In 1954, Chinese government put into effect its first constitution, which granted citizens the right to migrate and live where they wanted. However, in June 1955, the Chinese State Council promulgated rules that directed cities, towns and villages to build their own household registration system in order to calculate the number of population and distribute resources. From 1956 to 1957, Chinese government implemented policies to limit and control the tendency of peasants to move to the cities.

In January 1958, Mao Zedong signed an order establishing the first household registration system (*Zhonghua Renmin Gongheguo Hukou Dengji Tiaoli*). This provided for seven regulatory aspects of household registration: permanent residence, temporary residence, birth, death, domestic emigration, domestic immigration and modification. As a legal form, this regulation placed tight restrictions on migration from countryside to city and from city to city. This regulation was the first time to distinguish household registration as agricultural *Hukou* and non-agricultural *Hukou*, effectively abolishing the freedom of movement provided under in 1954 constitution. By 1975, further constitutional reform canceled such regulation officially.

With China's adoption of capitalist economic reforms after 1979, the fundamental rationale behind the *Hukou* system changed. Instead of serving to allocate resources in a planned economic system committed to egalitarian and communist values, *Hukou* became a tool for controlling the wave of rural to urban migration generated by China's rapid development as a capitalist economy.

After Mao's death, Deng Xiaoping canceled some regulations which restricted population mobility, ushering in a more relaxed period of population control. These looser regulations were a necessary aspect of the introduction of market-oriented economic reforms. In October 1984,

the Chinese State Council issued a policy allowing peasants to settle in towns if they could make a living there. The following year, the Ministry of Public Security promulgated rules specifying the annual rate at which *nongzhuanfei* conversions (i.e. from agricultural to non-agricultural status) could take place. In September 1985 a resident identification card was introduced nationally, which specified each citizen's *Hukou* status as part of their identity information (He 2005).

In June 1997, the Chinese State Council and the Ministry of Public Security expanded the grounds for *Hukou* status conversions, ruling that peasants who set up small manufacturing or service businesses; migrant rural workers employed in small towns; administrative staff employed by public and private organizations (including private corporations); workers with certain technical skills; and citizens and their families who bought houses or built their own house legally all could apply for permanent residence *Hukou* of that town.

These changes in registration policy took place against the backdrop of a dramatic transformation in China's economic landscape. With the development of China's overall industrialization, more and more people have moved from countryside to city and from city to city. In 1997, the number of population of migration in China was about 110 million. Domestic migration is becoming an irresistible tendency.

In 1998, the State Council made four reform regulations about the household registration system. The first regulation concerned children's options to live with father or mother. The second loosened policies governing couples who have different places of *Hukou* registration. Thirdly, men who are older than 60 and women who are older than 55, if they are live alone and want to live with their children, they can settle in their children's city. Finally, investors and citizens who buy a big enough house in one city, citizens who have a house and stable income,

live in that city more than one year and are law-abiding can settle in that city.

In addition, five enterprising cities—Shanghai, Shenzhen, Guangzhou, Xiamen and Hainan—have put into effect yet another *Hukou* reform policy called “blue-stamp *Hukou*” which predates some national reforms. In February 1994, Shanghai decreed that citizens who invested one million Yuan or more, or bought a big enough house, or have permanent residence and legal stable income can apply for Shanghai “blue-stamp *Hukou*”. Citizens who have “blue-stamp *Hukou*” and reach the category’s limit can transfer it to permanent residence *Hukou*. In January 1996, Shenzhen adopted a similar policy in 1996, followed by Guangzhou in 1998. Because of the city’s special status, Beijing’s reform was cautious. In June 1999, Beijing municipal government implemented a policy called “work residence certification”. This policy is just restricted to outsiders who work with high technology industries, and this certification must be applied for by companies on their employees’ behalf. Outsiders who have such certification will enjoy the same treatment as Beijing residents when it comes to buying homes, educating children, and so on. After three years their companies can apply for their formal Beijing *Hukou*.

In 2005, Chinese government began moves to abolish the distinction between agricultural *Hukou* and non-agricultural *Hukou*. Meanwhile, some provinces had already undertaken their own reforms. Starting in 2001, 15 provinces undertook to unify the registration function of *Hukou* by 2009. However, in most places, due to the absence of supporting entitlement reforms, people have continued to enjoy different rights depending on the place of their original *Hukou*, so the reform has been largely symbolic to date. In practice, most medium and large cities have gradually lowered the criteria for migrants to change *Hukou* identities with accompanying entitlements.

Another reform has been the establishment of a parallel residence permit system, which is

intended to delink access to basic services for migrants from *Hukou* status itself. A number of large cities and provinces such as Shanghai, Shenzhen, Zhejiang, Guangdong, Jiangsu, Chongqing, and Chengdu have adopted the residence permit system. The approach differs across cities, with some offering easier access to permits but with more limited rights; others offering a better package of entitlements but with stricter criteria to obtain the residence permit (e.g., Shanghai); and others mixing the two approaches for those with temporary residence permits and those with permanent and fuller entitlements (e.g., Zhejiang).

Local *Hukou* reforms are diverse and offer lessons for national efforts to deepen reform. They include, for example, a score system for *Hukou* conversion. In 2009, Guangdong introduced a cumulative points system to manage *Hukou* conversion. This is focused primarily on intra-Guangdong migrants, while the residence permit system regulates the entitlements of other migrants. Points are calculated based on education, vocational certificates and professions, years of social insurance contribution, social contributions such as blood donation and voluntary work, and government awards. In parallel, all migrants are encouraged to apply for residence permits to receive additional public services and welfare. The impact to date has, however, been lower than expected. With a three-year target of 1.8 million conversions, only 100,000 *Hukou* conversions were done in the first year.

Another approach has involved strict and fixed conversion criteria with rationing. Shanghai was the first city to introduce the residence permit system open to all, but the qualifying conditions are among the strictest. The Shanghai system uses three categories. The first are those with college degrees or special talents and those who work, do business, or invest in Shanghai and their families. The second are those who have stable employment and housing. The third are those who are being reunited with family members who already possess Shanghai

*Hukou*. Residence permit holders enjoy equal public services including children's education, health and family planning services, training, social insurance, and driver's licenses. They are required to make seven years of social insurance contributions before applying for urban *Hukou*. In addition, Shanghai has a tight overall quota on *Hukou* conversions, and the number of conversions has to date been very low.

Yet another reform variant has promoted localized *Hukou* conversion through exchange of rural and urban entitlements. Chongqing has encouraged family migration with *Hukou* conversion, but only for those who are rural residents of Chongqing. *Hukou* transfer to urban districts requires that migrants work or do business in the area for more than five years, purchase commercial property, or make significant investments/ tax payments. Requirements are much lower for *Hukou* transfer in small cities and towns. The key feature is the so-called "exchanging three rural clothes for five urban clothes" policy: the "rural clothes" being homestead land, farm land, and contracted forest land, while the "urban clothes" are pension, medical insurance, housing, employment and education. Those converting from rural to urban *Hukou* can keep farm and homestead land and forest for three years but must give it up thereafter if they wish to retain their urban *Hukou*.

Chengdu introduced a residence permit system with two types of permits: temporary and permanent. The residence permit and *Hukou* conversion is only open to those who are already residents of rural areas of Chengdu prefecture. Local migrants apply for temporary permits if they stay between one month and one year and for a permanent permit if staying over a year. Local migrants will be issued residence permits if they have contracted jobs, register for business, purchase housing, or are dependents of residence permit holders. Residence permit holders enjoy more public services and welfare than temporary residence holders and are eligible



for *Hukou* conversion (Shen Peng, 2010).

Local reforms have been least complete in the larger urban areas that are favored by rural migrants, at least for migrants from outside those jurisdictions. At the same time, urban *Hukou* in small and medium cities entitles the migrant to less generous social services and social protection, limiting the success of policies aimed at attracting migrants to smaller cities.

Reforms in larger cities have generally been oriented to better-skilled and richer migrants, significantly limiting their labor market impacts and reducing the equity benefits of reform. Exclusion of migrants is done in a variety of ways, for example through entry barriers on skills, investments, or income or through rationing by strict income/work and residence requirements.

Above these local policy initiatives, the key change remains removing the distinction between rural and urban *Hukou*. By March 2009, there were 13 Provinces that managed to accomplish this. In 2010, Premier Wen Jiabao proposed new household registration reforms that would further relax the restrictions on, and requirements for, urban settlement. Wen pointed out that both central and local government should solve a series of problems. These included *liudong renkou* employment and settlement so that they enjoyed the same treatment as urban citizens. According to the Chinese State Statistics Bureau, in 2008 the number of *liudong renkou* was about 230 million, which means 16% of total Chinese citizens. Most of these people live unofficially at the margins of Chinese urban life, ignored by local governments and urban residents. However, as a labor resource these people are critical for China's economic development. While they work in cities, *liudong renkou* cannot convert from agricultural *Hukou* to non-agricultural *Hukou*. Even if they have children in cities where they work, their children are still designated as nonresident outsiders. The resulting widespread socioeconomic inequality and exclusion are outgrowths of China's persistent dual classification of *Hukou* registration.

### III. Scholarly Interpretations of the *Hukou* System

Scholarly treatments of *Hukou* differ not so much in their overall assessment of the system's significance as in their focus on particular aspects or consequences of it. Moreover, with the rapid growth of China's economy and the relaxation of *Hukou* restrictions after 2001, attention has turned away from *Hukou* as a means of social control and towards its role in the country's future socioeconomic development.

The evolution of the *Hukou* system over the last half century is an integral part of China's experience of industrialization. Both are aspects of the larger narrative of China's state-promoted economic development, in particular its extraction of economic surplus from the agricultural economy in order to finance industrialization and the growth of urban areas. The single most important economic fact about China is its enormous population, and it is this resource which China has traditionally exploited. China's *Hukou* system from the beginning of the communist era contributed to the mobilization of an inexpensive surplus labor force to be employed in state-owned industries. The later advent of economic development strategies more sympathetic to capitalism did not change this basic reliance upon cheap labor. Beyond its strictly economic significance, the *Hukou* system of household registration, along with the system of ethnic identification, creates a multitude of civic categories, resulting in what Hilary Josephs (2010) calls the "invisible walls" that separate the population of China into various socio-legal categories which blunt the emergence of a common sense of civic identity.

The most comprehensive recent treatment of *Hukou* is Fei-Ling Wang's *Organizing Through Division and Exclusion—China's Hukou System* (2005). Wang not only examines its significance from a social and political, as well as economic point of view, but also assesses the meaning of recent reforms.

Emerging out of the struggles with the Kuomintang in the late 1940s, *Hukou* subsequently evolved into a framework for distributing scarce goods, and underpinned a basic distinction between cities and the countryside. With economic liberalization, *Hukou* served to limit the amount of rural-to-urban migration, thus enabling China to industrialize without the problems of uncontrollable urbanization. The key function of the *Hukou* system, in Wang's account, has been its service in handling the so-called "Lewis Transition" in China's rapid economic development, namely the redeployment of low-productivity and surplus agricultural labor into industrial work to the point where factory wages begin to rise.

In its economic aspect, *Hukou* has contributed to China's high growth rate in a dual economy where the rural areas serve as reservoirs of labor that can be deployed into export-oriented industrial zones. At the same time, it places limits on the development of a market economy may represent a break upon future growth. The population controls the *Hukou* system imposes contribute to relative social stability in a large country experiencing rapid economic development. This stability also serves the ruling interests of the Communist Party, which nurtures its legitimacy by delivering improved living conditions to ever-larger numbers of citizens.

Ultimately, Wang contends, the *Hukou* system sustains the coexistence of a rapidly developing, fairly diverse, dynamic market economy and a stable communist one-party authoritarian regime. China has so far managed high growth rates and technological progress, even while preserving a dual economy that has managed to contain the growth of urban regions to manageable rates. It is significant that urban slums which might have resulted from uncontrolled rural-urban migration are basically absent from Chinese cities. Yet the *Hukou* system maintains a dual Chinese economy and market segmentation that together lead to

inefficiency and waste. If, over time, the benefits of the *Hukou* system dwindle, as there is no guarantee of a real and speedy spillover or trickle-down effect of the “in”, prosperous urban sector in coastal China upon the excluded rural and inland regions. This will be especially the case if local authorities use *Hukou* status as an economic development device for attracting coveted (rich, skilled) residence from elsewhere (Wang 2004). In this event, the *Hukou*-derived distinction between agricultural and urban residence will increasingly map onto the more general socioeconomic distinctions between poor and rich.

The degree to which the *Hukou* system reinforces patterns of socioeconomic inequality is a theme explored in different ways by other writers. Examining the economic circumstances of temporary migrant workers, Jianfa Shen (2006) finds that such workers experience low income and greater physical risks in adverse working conditions. Temporary migrants also lack access to the safety nets available to permanent residences. This includes limited access to public services such as affordable public education for their offspring, social housing and basic public health. Finally, because of their unofficial status temporary migrants have limited recourse to the law for their own protections and are often unable to assert their rights under the law.

Li Zhang (2011) stresses the economic consequences of the different legal status of *Hukou* registrations. The urban employment rights of rural migrants again only limited recognition within the limits of residence policies for temporary workers. Zhang finds that the citizenship embodied in the *Hukou* system is closely associated with the marginalized status of rural migrants, which is often quite low in comparison to local urban *Hukou* holders. Rural migrants are excluded on the basis of their rural *Hukou* registration, which bars them from enjoying equal job opportunities to those of the state-designated urbanites. This, in turn, limits their entitlement to social services, and strips them of the right to full urban citizenship.

In short, temporary migrants are more vulnerable than permanent migrants. The low socioeconomic status of temporary migrants is reinforced by the inertia of the *Hukou* system as a whole, particularly as it affects the distribution of educational, social service, and welfare provisions available to urban and rural areas and populations.

Beyond its significance for China's patterns of socioeconomic inequality, the *Hukou* system has had an impact on other macroeconomic variables, notably the composition of the country's Gross Domestic Product (GDP) and its savings rate. These variables are in turn linked to the land policies which have characterized China's urbanization. As Yasheng Huang (2010) argues, Chinese land remains in public ownership, and the disposition of land has been deeply involved with the longevity of the *Hukou* system since 1979 (Chan [2009] also highlights the connection between population control and land policies). The legal status of land and the lack of private property in the form of land assumes particular importance given that Chinese urbanization process has proceeded by increasing the number of cities rather than by growth in the existing cities.

The way in which urbanization has occurred in China has had important effects on the income and consumption behavior throughout the Chinese population, both urban and rural alike. In particular, personal consumption as a percentage of GDP has declined, even as the country becomes more urbanized and the overall GDP per capita has increased. Chinese urbanization reflects the broad attempt by millions of rural migrant workers to improve their lives, but it also may have increased their propensity to save given the legal and material uncertainties fostered by the persistence of the *Hukou* system. Lacking access to social benefits and other resources that accompany *Hukou* registration, the millions of *liudong renkou* compensate by saving more of

their incomes. As a result, their living standards are lower and China's economy as a whole experiences a lower level of personal consumption that would otherwise prevail.

Zhou Xiaochuang, the governor of China's central bank, has himself argued that during the urbanization process, compared to corporate profits, personal income grew relatively slowly. He observed that the overwhelming majority of Chinese laborers have been left out of the rising prosperity found in the corporate sector. In response to this growing imbalance, Zhou has advocated measures to increase the net worth of ordinary citizens in order to discourage an abnormally high and growing savings rate. Moreover, the IMF also contends that China's household income lags the country's GDP growth, and that this too is a factor accounting for stagnant personal consumption.

One feature of the *Hukou* system which feeds through to a higher savings rate than would otherwise prevail is the differential access to educational resources. Having an urban *Hukou* registration opens up inexpensive educational opportunities to the children of *Hukou* holders. In contrast, those holding rural *Hukou* are afflicted with a double disadvantage. The first is that, when away from their original place of registry, rural *Hukou* holders can't make use of the school system for which their children would be eligible. The second disadvantage is that, in order to provide for their children's education, they are obliged to pay tuition for private schools, the expense of which encourages household saving.

China's trend in domestic consumption, in saving rates, and in its urbanization patterns all seem to reinforce the same imbalance in China's economic development. The growth of temporary migrant populations in urban areas seems to have been accompanied by a fall in the consumption component of the Chinese economy. *Hukou*-related status differences tend to

dampen consumption growth, thus reinforcing China's reliance upon exports and capital investment as drivers of economic growth.

In its recent comprehensive report on China's economic prospects, The World Bank (2012) links the effects of the *Hukou* system to future labor market trends. Both *Hukou* reform and locally administered insurance schemes are necessary in order to facilitate the massive shifts in manpower which China's modernization requires. As millions of workers relocate for employment opportunities, China's labor markets must offer both flexibility and protection for workers. This security includes not just some predictability in their employment, but the existence of a social safety net that includes portable pensions and health care. Labor market reforms that make it more flexible and more responsive to shifting employment needs are key to China's aspirations to grow into a high-income, diversified economy. However tardy it is *Hukou* reform is critical though progress will likely be slow because it will depend upon so many other policy changes.

Unlike the past, the current *Hukou* system doesn't prevent people from moving from the country to the city. Yet those migrants lacking urban *Hukou* status are deprived of urban *Hukou* entitlements such as health insurance, schooling, and housing. One thing that makes *Hukou* reform more difficult is that local governments lack the wherewithal and the will to offer public services to non-registered migrants and their dependents. So the success of *Hukou* reform depends on how capable local governments are in reforming and managing their own finances, and how fiscal burdens are shared across governmental levels. If local governments aren't able to deliver to migrant populations the same level of social support that is granted to urban residents, then this has adverse implications not only for economic inequality but for social mobility. As Section II described, *Hukou* reform at the local level has been active. However, the costs

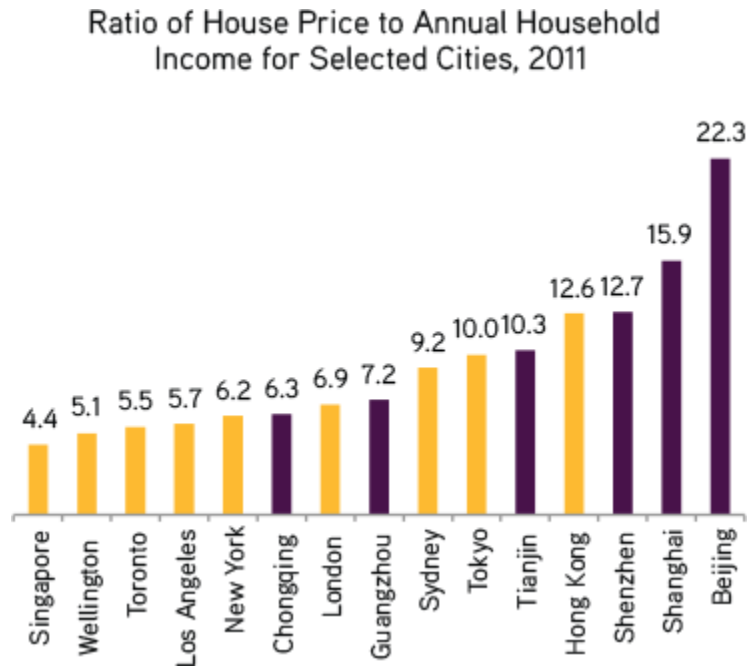
involved means that those places where migrants are most concentrated—the largest cities—are precisely those areas where reform has been most hesitant. By way of contrast, smaller and medium-sized cities have found the challenge of providing migrants with social services to be less of a burden.

Income inequalities are worsened by differences in asset ownership, particularly housing. Housing is estimated to account for around 60 percent of household wealth and for almost two thirds of the inequality of wealth among households. While most rural and urban *Hukou* registrants owned their housing by the mid-2000s, fewer than 10 percent of migrant households owned housing in their city of residence in 2007. In addition, while housing wealth increased rapidly for all homeowners between 2002 and 2007, the rate of annual increase for urban households of 15–20 percent was more than double the increase for their rural counterparts. As a result, per capita urban housing wealth went from 4.5 times that of rural households in 2002 to 7.2 times only five years later, a gap significantly higher than the urban-rural income gap (World Bank 2012).

One way to dramatize the effect of rising urban housing prices on the wealth gap is to contrast some of China's major cities with their international counterparts. As Figure 1 shows, the income-to-price ratio in major Chinese urban housing markets is much higher than in other major developed-country markets.



Figure 1



Source: Reproduced from: <http://www.economicfanatic.com/2012/05/evidence-of-enormity-in-chinas-real.html>

Income inequalities also influence access to social services and social protection. The *Hukou* system reinforces income disparities by increasing the costs of services like education, health care, and housing for migrant households. Migrant workers are also less able to access lucrative employment opportunities in the public sector or with state-owned enterprises, and face greater challenges than do local workers in securing high-paying work even outside these sectors.

China's urbanization is facing several demographic challenges. China moved from under 20 percent urban population in 1980 to almost 50 percent by 2010, and is expected to have around two thirds of people living in urban areas by 2030. This has contributed to structural transformation and higher productivity, facilitated by easing of population mobility restrictions in the *Hukou* system. However, the failure to address entitlement reform for migrants through

incomplete reforms of *Hukou* and the ongoing challenges of managing farmers losing their land to urban expansion has meant that there remains a fundamental segmentation between the local urban *Hukou* population and the non-urban *Hukou* population.

Lack of portability of pension rights has acted as an additional barrier to the mobility of workers, both across space and also across sectors within urban areas. Until very recently, there have been no national guidelines for portability of accumulated pension rights when moving to a different city or when moving employment from one subsystem of the urban pension system to another. The level of pooling of contributions has been highly localized, with only recent efforts to pool partially to the provincial level. As a result, workers face uncertainty when moving to a different place or taking up a different occupation. To the extent that this limits labor mobility and the efficient deployment of the work force, this will reduce China's productivity growth (World Bank 2012).

Fang Cai (2011) not only depicts the *Hukou* system reform in the context of China's transition towards a market economy but underscores how China's economic reform was itself initiated in rural areas (see also Chan 2009). In the initial stage, reform began with incentives introduced into agriculture that increased production, thereby rendering large numbers of agricultural workers redundant. As a consequence, Chinese farmers, after fulfilling their needs for basic living, began to seek off-farm work to increase their incomes. The intention of economic reform at that time was not abandonment of the planned system; therefore, *Hukou* system reform actually took place without a clear blueprint of the overall reform, and it was characterized by labor movement from agricultural to industrial and service occupations even in rural areas, and from villages to nearby towns.

Post 1979, then, the *Hukou* system evolved in a way that contributed to China's emergence as the world's premier low-cost manufacturer, as surplus peasant labor was activated to take their places in coastal export processing zones. Although China's economy has grown to be much more complex and sophisticated in the intervening thirty years, the basic premise of its industrialization strategy remains in place. Without this massive migration of labor, China's basic model for engaging an integrated global capitalist system would not have been possible.

Even though the expanded labor mobility produced reform to a certain extent, the *Hukou* system still served two traditional roles.

First, the *Hukou* system has guaranteed the priority of urban laborers to obtain employment in urban sectors. Second, the *Hukou* system excluded migrants from obtaining equal access to urban social welfare. In the course of tackling the employment crisis in the late 1990s, local governments built a preliminary social protection system for urban workers, including a basic pension, health-care insurance and unemployment insurance, and a minimum living standard guarantee scheme. Although these programs did not apply fully to all urban workers, they officially included all workers with urban *Hukou* status and excluded rural migrants. In addition, migrant workers could not participate in job search and job training programs, thus reducing their employment opportunities.

With mass rural-urban labor migration, the labor surplus in agriculture shrank, as did the growth rate of the working age population. However, rapid economic growth has continued to generate a huge demand for labor that has outstripped its supply. Since 2003, the difficulty of hiring migrant workers, or a more general labor shortage, has become widespread and wages of migrant workers have significantly increased year by year. In addition, the wage rates of workers

in agricultural sectors have also increased, indicating that shortages in one area has implications for wage rates in other areas.

In terms of governments' incentives for *Hukou* system reform, Cai notes two facts:

First, shortages of migrant labor, which first emerged in 2003 and became severe after the recovery of the economy from the financial crisis of 2008, has affected enterprises' ability to produce at full output. As a response to this, local governments in coastal areas, where enterprises struggle to recruit workers, have included *Hukou* system reform among policy measures to stabilize labor supply.

Second, with the strict control over arable land use, the only way that local governments can exploit land to boost urbanization is to reclaim the plots of contracted arable land and housing sites left behind by those who have migrated away and to use the quota of those plots elsewhere to balance the reclamation and exploitation of land.

According to Chan and Buckingham (2008), China is attempting to jettison the use of *nongzhuanfei* in some areas without abandoning *Hukou* entirely. With a more decentralized administration of *Hukou*, *nongzhuanfei* is no longer integral to the system, though getting rid of it doesn't necessarily imply the end of *Hukou* or some new era of unrestricted movement. Indeed, with the decentralization of the system, barriers to movement increasingly take the form of incentives that are intended to attract desirable migrants—the well-educated, the wealthy, etc.—that are not available to less desirable migrants. The removal of formal migration barriers in effect applies only to these favored groups as a practical matter. What used to be a socioeconomic divide governed by the distinction between “agricultural” and

“nonagricultural” *Hukou* has now been transformed into a more general gulf between outsiders and insiders.

Chan (2009) points out the importance of land policies in the evolution of *Hukou*. As peasants have entered the ranks of a mobile workforce, their land has become available to local and regional authorities seeking to promote industrialization or other urban construction projects. Recent examples of forced acquisitions of land have been the catalysts for protests and other expressions of mass discontent.

Sun and Fan (2009) contend that *Hukou* policy over time has been governed by two trends. First, restrictions on rural-to-urban *Hukou* transfers have been loosened. Second, the type of migrant entering the population stream has changed over time. Early movers tended to be more skilled, motivated and ambitious. Now that migrant networks have emerged knitting together origins and destinations, the opportunity costs of migration have fallen, and new generations of migrants possessing fewer skills and less drive are attempting the same transition. As a result, permanent migrants tend to look different—more educated and prosperous—than do the latest waves of temporary migrants. The dynamic of migration over time thus reinforces the perception and reality of an urban underclass.

Events like the global financial crisis of 2008 are felt disproportionately by temporary migrant workers. Though migration in general tends to result in higher standards of living, temporary migrants still experience far greater uncertainty in their life chances, and the relative lack of a safety net results in a much riskier and more marginal existence.

Indeed, the implications of these changes in *Hukou* lead Zhan (2011) to argue that the system no longer plays a determining role in the socioeconomic prospects of migrant workers.

Even if Hukou were abolished, the income and wealth gaps that have emerged would not narrow. In fact, Zhang and Zhu (2010) find that *Hukou* categories have been internalized into the corporate practices of human resource management. Even if migratory regulations are relaxed, discrimination practices and outcomes will persist. The legacy of the *Hukou* system affects the behavior of private economic actors as well as the actions of public officials at all levels.

In their study of Shanghai, Zhang and Wang (2008) argue that civic status has little practical significance for most rural migrants, since urban *Hukou* status increasingly reflects the resources and skill sets the migrants bring instead of their mere residence. As urban governments use population registration rules as a means of cherry-picking the more desirable migrants, residency status becomes in practice a reward for migrants' functional capacities rather than an acknowledgement of their civic entitlements.

The way in which responsibility for market-oriented reforms has been applied also shapes the incentives of municipal governments. Along with control over *Hukou* policy, local governments have also become responsible for fiscal commitments (especially for social welfare) that used to be managed by the central state. Municipalities have been forced to assume greater responsibility and discretion in how they carry out fiscal policies. Promoting economic development is has become a key source of municipal income, and local governments prioritize it. Control over Hukou status becomes a variable that local governments can manipulate in ways consistent with their development objectives. The case of Shanghai in particular underscores the interest local governments have in making it difficult for migrants to settle permanently who might become burdens upon local resources.

Because local governments look dimly upon temporary migrants when it comes to social welfare, this population tends to retain enduring links with their migratory points of origin. The expense and insecurity of urban living encourage migrants to keep the rest of their families elsewhere. Indeed, rural rights to land use may be the only fall-back that temporary migrants have if their economic circumstances worsen. Though migrants as a whole are permanent participants in urban life, their networks of social protection are still rooted in the countryside from which they first moved.

This survey of scholarship on the *Hukou* system highlights how the persistence of *Hukou* during the thirty-plus years of China's rapid economic development has increasingly tied together policy problems in a way that threatens to put a break on China's future economic development. A system of population control that, at least initially, seemed useful in managing the stresses of China's rapid urbanization may be aggravating income inequality, and reinforcing patterns of social exclusion that may increase political tensions in the future. This thesis will return to some of the policy tensions arising out of *Hukou* reform in Section V. Next, however, the thesis explores one particular aspect of land policy: the *chengzhongcun*.

#### **IV. Land Policy and *Chengzhongcun***

The fundamental land policy of China is all land belongs to government or rural collectivities instead of citizens. Citizens or groups don't have any proprietorship of China's land, they just have rights to use it, and such rights are not indefinite but expire after a certain amount of time. What is more, the rights of land use can be traded by citizens or government, but neither former nor latter can trade land itself in China, in other words, there is an absolute subjection relationship between land and Chinese national government. However, the rural and urban land policies are different (rural land belongs to rural collectivity while urban land belongs to national or local government), and such differences make a huge impact on China's urbanization.

According to the "Land Management Law of People's Republic of China", if the government wants to take land from peasants (such expropriation are compulsive), the local governments should give compensations to those landless peasants, the amount of such compensations will depend on local price of land and economic and political condition. Citizens and enterprises can also buy rights of land use from peasant for commercial use. Such actions subjectively promote the urbanization of China. Nevertheless, those trades also triggered several problems. The first is the gap between the demand for construction land and the amount of land allocated. In order to prevent the problems brought by overly rapid urbanization, the Chinese government made a controlled allocation for construction land using according to different provinces' development. However, such allocations have often been challenged because of the large construction land demand from citizens, enterprises and even local governments, and those people always ignore such allocation.



Second, low connection between the target of cultivated land protection and social economic development, such contradiction can satisfy neither enough cultivated land for domestic grain production nor social and economic development. Third, increasingly social contradiction from land expropriation, this problem is little bit complicated: the compensations of land expropriation are too low to satisfy peasants' expectation; there is no unified land management law to regulate such actions; uneven distribution of interests of land use; those landless peasants have no subsistence guarantee after they "sold" their land; *Hukou* status conversions are quite sluggish in the process of urbanization (Li 2011).

Besides, during the process of high-speed urbanization, more and more peasants "sold" their cultivated land to government or enterprises and become landless peasants with agricultural *Hukou* status or citizens with non-agricultural *Hukou* status. However, only few of them gain satisfactory compensations from local governments or enterprises and get rich (depending on their lands' locations), most of landless peasants and new urban residents are still living under the average living level. Therefore, such phenomenon creates a new problem: *chengzhongcun* (urban village).

*Chengzhongcuns* used to be villages, during the process of urbanization, all their cultivated lands were commandeered, then, most of those landless peasants became urban residents and their residences were gradually surrounded by urban areas and finally became parts of cities. Nevertheless, even though living in the cities, some of those residents' *Hukou* statuses are still agricultural *Hukou* and their public administration systems are still based on rural models (since there is no unified household management law to regulate such *Hukou* status conversion, and depend on different provinces' developmental situations of urbanization, some of those landless peasant are still keep their agricultural *Hukou* statuses), what is worse, the infrastructure, living

condition, social and economic development of those *chengzhongcuns* are far behind those of modern cities. They are forgotten by time and modern city management and they also make a huge barrier to Chinese cities' development.

For example, Beijing alone once had 311 *chengzhongcuns*, with a total population of about 0.715 million and covering about 9,500,000 acres of urban land. Because of the 2008 Beijing Olympic Games, Beijing government decided to thoroughly rectify and reform the capital's lay-out, so they started to remove those *chengzhongcuns* and transformed them became urban greenbelts, shopping centers or modern residential areas since 2004. For those original residents who owned houses in *chengzhongcuns*, depend on what their old houses would become, they can get compensations or new residences from government. For those temporary residents and floating population, they were required to move to other areas unconditionally (Duan 2010).

In China, each big city has several *chengzhongcuns*, depend on their conditions and environments, the reform plans of *chengzhongcuns* are largely identical but with minor differences.

The residents of *chengzhongcun* are composed by villagers, townspeople and transient populations (peasant-workers, migrant workers and people even without any household register), and the recurrent population is also the main component of crime groups, so the security situation of *chengzhongcun* always be the main hidden danger of cities' environment. What is more, the urban planning of *chengzhongcun* is very disordered, disorderly and unsystematic illegal buildings can be seen everywhere, incomplete infrastructure and bad sanitary condition make the living condition of *chengzhongcuns* stay at a quite low level (Wang 2009).

Subjectively, *chengzhongcuns* are products which created by dual rural-urban management system and dual system of land ownership. The former means that cities and countryside belong to different land management system and *Hukou* system. The latter means that urban land belongs to national government and rural land belongs to local rural collectivities. Most scholars believe that the dual system of land ownership is the primary cause of *chengzhongcun*, from the aspect of geography, *chengzhongcun* belongs to urban area, from the aspect of society and economy, it still cannot get rid of the shadow of countryside, accordingly, in order to reform such special social phenomenon, Chinese government needs to make a deep change in the field of fundamental land system, land ownership system and household management system (*Hukou* system).

In fact, *chengzhongcuns* are kind of slums which are inevitable outcomes of urbanization. How to reform those slums, to eliminate their negative effects, use them to promote cities' development, lower the costs of urbanization and accelerate the urbanization process became a serious lesson faced by many governments. During the rural-to-urban transition process, since the land, household registration system, population and other social factors are all part of a dual rural-urban management system, they were not included by unified urban planning, construction and management, their developments are spontaneous and blindness, therefore, their modes of producing, life-styles are still keep many rural characteristics, consequently, *chengzhongcuns* always make huge barriers to urban infrastructure layout (Huang and Li 2009).

Accordingly, the reform of *chengzhongcuns* should not only focus on improving infrastructures and living conditions of those areas but also change the current dual household management and rural-urban management system.

## V. Tensions Within *Hukou* Policy

According to Wang (2005) while the *Hukou* system is outdated in crucial respects, it won't disappear anytime soon. *Hukou's* purpose was always to introduce divisions among the people that made government control easier, discourage the mobilization of political opposition, manage urban development, and maintain the state's control over the economy. The Chinese government has aimed to overcome the dual-economy problem by promoting development of small cities and towns while allowing the major cities to continue to "get rich first".

Based on the division between the haves and the have-nots, the poor, in the cities as well as in the countryside, are now uniformly excluded across the nation, whereas the rich may now overcome the *Hukou*-based exclusion with ease. The increasingly combining and merging evolution of the *Hukou* exclusion with the money-based institutional exclusion appears to be the new basis for dividing and organizing the Chinese in the years ahead.

Wang (2005) stresses the dilemma which Chinese government is facing: on one hand, the government uses current household registration management system to limit rural-urban migration in order to balance the urban and rural development and regional development, decompress those eastern big cities, keep enough agricultural population in countryside to maintain the agricultural industry. On the other hand, government also wants surplus rural labor force move to cities to promote the industrialization and urbanization. At present, many big companies cannot recruit enough workers in coastal area, since most of those companies are labor intensive industries, consequently, without enough workers, they cannot sustain their business normally. The reasons for this phenomenon are several. First and foremost, the limitation of dual *Hukou* system, because of it is really hard to settle in the coastal area if ones *Hukou* status is agricultural *Hukou*, many of peasant-workers choose to find jobs in other places.

Second, the speed of salary growth is slower than the growth of living costs in those eastern big cities especially the high costs of housing. Third, in recent years, the Chinese central and western regions increasingly need labor forces for their own development, so they made a series of preferential policies to encourage workers to stay in their homelands. Such phenomena will cause population transfers away from those eastern big cities when their urbanization is still incomplete. This result will surely injure China's development. Accordingly, it is no time to delay to the reform of household registration system.

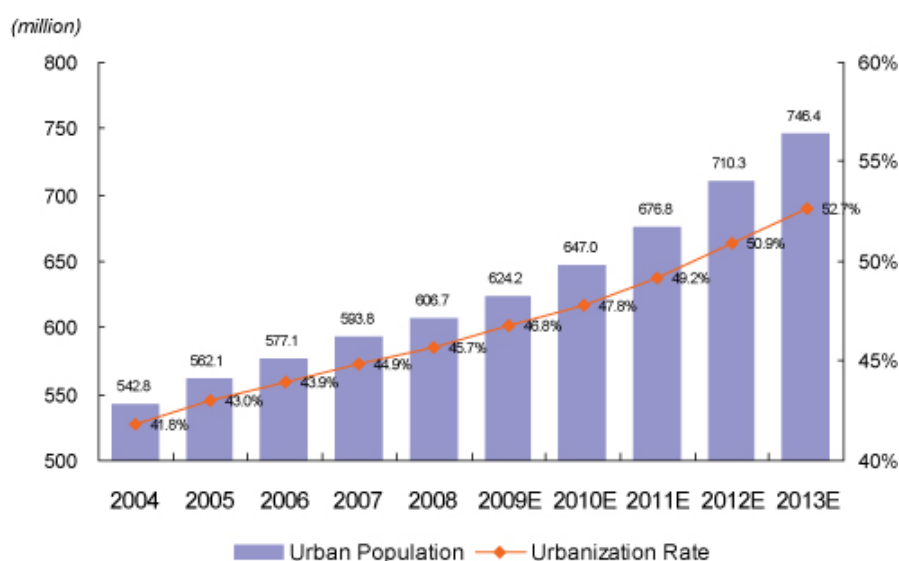
The consequences of the *Hukou* system may be addressed not only by its reform, but by other policies aimed at fixing its effects. For example, Jianfa Shen ( 2011 ) suggests that more educational resources and opportunities should be made available to the rural areas and rural population. This is one component of a feasible solution to China's economic development bottlenecks, particularly in areas away from the coast which have been traditional sources of migrant labor. Making the countryside a more desirable place to live would, over the longer term, moderate China's challenge in managing its surplus labor and keeping land available for productive agricultural use.

The growing relative backwardness of rural areas is also worsened by urban-oriented development strategies themselves. According to Li Zhang (2011), urban residency rights have been used to grab mobile capital and human resources on the one hand, and to exclude some members of society from accessing public services in cities on the other. In this context, the abandonment of control of urban residency rights by city governments and the recognition of migrants' equal citizenship rights in cities remain a considerable policy challenge for building the harmonious society that China's elites favor.

Indeed, while *nongzhuangfei* was once central to the *Hukou* system, it is no longer relevant in the current, more decentralized policy environment. Improving migrant workers' life chances will require policies or interventions that effectively enhance migrant workers' position within the market and reduce their social exclusion (Zhan 2011). Reforms would be beneficial not just to the rural population, but to the urbanites themselves. While urbanization under the constraints of *Hukou* has boosted migrants' standard of living, it may nonetheless have restrained their consumption because of their perceived need to save income against adverse contingencies.

Figure 2

Growth in China's Urbanization Rate



Source: Reproduced from: [http://google.brand.edgar-online.com/EFX\\_dll/EDGARpro.dll?FetchFilingHtmlSection1?SectionID=6898114-220674-232176&SessionID=8EsGHFiwbTrC4J7](http://google.brand.edgar-online.com/EFX_dll/EDGARpro.dll?FetchFilingHtmlSection1?SectionID=6898114-220674-232176&SessionID=8EsGHFiwbTrC4J7)

The decline of China's consumption as a percentage of GDP seems associated with China's urbanization. Indeed, urbanization seems to have the perverse consequence of dampening workers' propensity to consume. Zhang (2011) argues, in effect, that the right way to

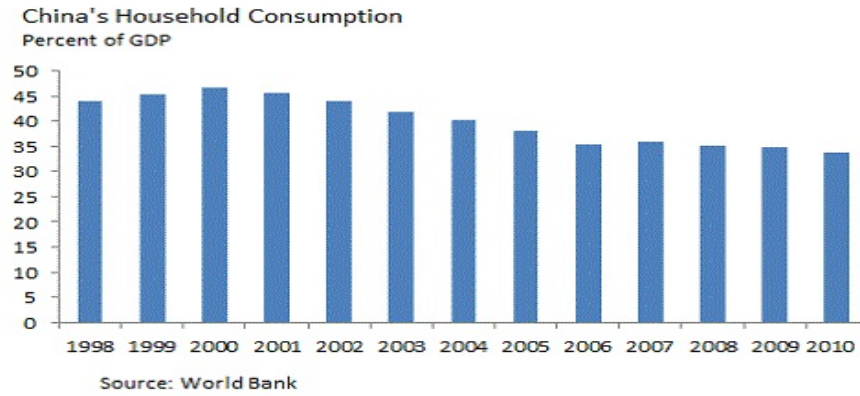
wean the Chinese economy away from its excessive dependence upon export-oriented industrialization would involve reforms to the *Hukou* system as well as the introduction of some form of private land ownership. Thus, *Hukou* reform cannot be undertaken without regard for these other policy areas.

The World Bank (2012) puts *Hukou* reform in the context of shifting political interests in the country. The benefits of reform are nationwide, but the costs are borne locally in terms of which level of government pays for services that are accessed by *Hukou* registrants. For this reason, a coordinated reform effort is a major challenge from a collective action point of view. Cities only capture some of the benefits of financing entitlement reform, and the localized returns on investments remain unclear with a mobile migrant population. While their localized choices not to fund or to underfund basic services for migrants are understandable, the result is inferior from the national point of view.

If China were to move to a more consumption-based economy, this would require workers not to save so much of their incomes. Yet China's high savings rates reflect in part the absence of an adequate safety net. Figure 3 illustrates how domestic consumption as a component of China's GDP has actually declined, even as the economy has grown at a rapid rate.

Figure 3

Domestic Consumption in the Chinese Economy



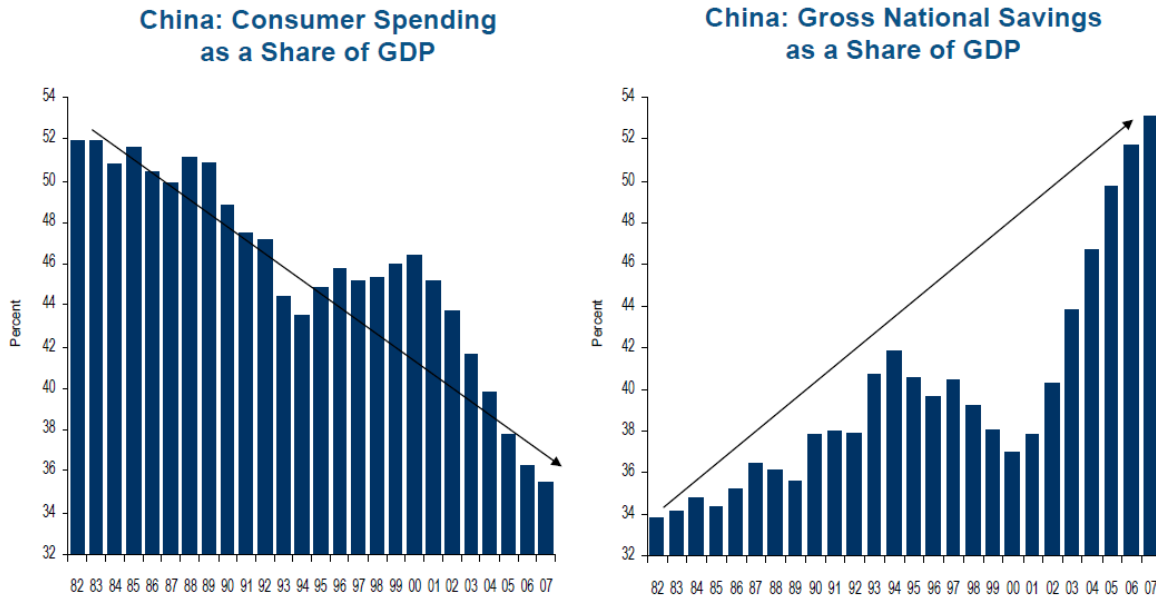
*Source: Reproduced from: <http://carnegieendowment.org/2011/03/31/can-china-fight-inflation-while-rebalancing-its-economy/46v>*

This decline in the consumption component of GDP reflects not only China's dependence upon exports and infrastructure investments as drivers of growth, but the high savings rates of the population. Figure 4 juxtaposes the trend in domestic consumption with China's savings rate:



Figure 4

China's Domestic Consumption and Savings Rates



Source: Reproduced from: <http://www.ritholtz.com/blog/2009/05/china-consumer-spending-vs-savings/>

In The World Bank's view, portable pension rights require the national pooling of social insurance contributions. This is a long-held goal of national policy, not only for pensions but also for health insurance. However, progress has been slower than hoped, with partial provincial pooling only recently being achieved. For health insurance, pooling to date has tended to be even lower down the system at the prefecture or county level. Higher-level pooling of pension and eventually health insurance contributions would be the single most effective measure to facilitate portability.

*Hukou* system reform has to be comprehensive, including better social protection policy in urban areas as well as fairer management of arable land. Fairer management must include an

end to the forced expropriation of farmland which has been the source of much popular discontent (Chan 2009). In addition to encouraging various reform initiatives by local governments, the central government should put forward general guidelines regarding the content and coverage of social security programs, as well as methods of managing plots of vacated land (Cai 2011). The need for comprehensive reform was underscored by the world economic crisis beginning in 2008. By February 2009, China's Ministry of Agriculture estimated that nearly 20 million temporary migrants had become unemployed, causing some to return to their places of origin. The potential for social unrest was significant. Although the exact figure may be open to debate, the economic disruptions of 2008 made it obvious that in a downturn in manufacturing output, the temporary migrant workers experience the brunt of the resulting unemployment (Sun and Fan 2009).

In sum, the legacy of China's *Hukou* system has the potential to lock the country into an undesirable path of economic development. The lack of integration of migrants into their new urban environments, abetted by various barriers to formal urban *Hukou* status, has rendered China's urbanization only a partial success (Zhang and Wang 2010). Too many of the urban population lack roots and rights of permanent residents. Even for those migrants that have resided for many years, municipal governments have undertaken little systematic effort to formalize their residency status as permanent citizens. Though they are part of urban economic and social life, temporary migrants are bereft of any official identity. Indeed, municipalities have a financial incentive not to recognize their status claims, since this would open governments up to increased fiscal obligations. For their part, temporary migrants have responded predictably by holding on to their rural connections as a substitute for a non-existent urban safety net. Not only do they maintain rural registrations in order to preserve claims to land use, they also choose to

leave their families at their points of origin so as to minimize the expenses of urban life. Keeping ties to their rural origins isn't per se a bad thing. However, when it is an adaptive response to policies of civic exclusion, the implication becomes that China's population management practices have given rise to a large mass of unintegrated and rootless workers, mostly men, who lack the support and stability provided by the primary institution of the family. The prospect of such an urban demographic poses not only an economic challenge, but also has disturbing implications for China's future social and political stability.

## VI. Conclusion

In order to keep the labor force working in its positions so as to guarantee China's national development at a steady and efficient rate, the Chinese government formulated the *Hukou* system soon after the establishment of the PRC. The system indeed made a huge positive impact on China's social, political and economic development in early years. However, with the development of China's industrialization, urbanization, market economy and the globalization process, the negative effects of this inflexible and antiquated system are increasingly obvious.

There are many scholars who think that the *Hukou* system is no longer appropriate for China's further development since such system is a huge barrier for China's labor supply and mobility, therefore, in order to keep China's steady and high-speed development, the *Hukou* system should be abolished and replaced by modern Western household registration system which is more flexible and free than *Hukou* system.

While there is much that is sound in the scholarly and policy criticism of the current effects of *Hukou*, there are plausible reasons for why it needs a thorough reform that falls short of complete replacement. Above all, it must be kept in mind that *Hukou* has evolved in an institutional and policy context that is peculiarly Chinese. China is a communist country which has a totally different land policy, social, political and economic system compared to western world. To some extent, the logic of the *Hukou* system has been intimately linked with China's special land ownership. In China, all land belongs to government or rural collectivities instead of citizens. Private citizens or groups don't have any proprietorship of China's land, they just have rights to use it. This paradigm of land management has been an integral part of China's planned economic system and agriculture-based national policy. At present, the latter two have already become history, but the state-owned land system is still in place. What is more, in the Chinese

special socialist political and economic system, the traditional view of urban-rural difference and other factors also affect the development of China's household registration reform. Therefore, it is almost impossible to abolish *Hukou* unilaterally since it combined with China's land policy and other communist policies to be a systemic entirety. Even if the Chinese government repealed the current *Hukou* system and replaced it by western household registration system, no one can forecast if it will match China's special socialist regime and no one can guarantee such new system will be stable will not bring new problems under the socialist system. Consequently, at least at present and in the near future, the only way to eliminate *Hukou* system's negative effects on China's future development is to reform it instead of abolish it, given the current political and economic system.

On the other hand, the *Hukou* system still has its positive effects to China's social stability and development such as its management of *zhongdian renkou* (targeted people) ----- citizens who may do something harmful to society are specially and focally monitored and controlled by the *Hukou* police for the purpose of social control and crime fighting. Those targeted people including minority militants (especially Tibetan, Uyghur, Huis, and other Muslim nationalities), citizens who have criminal records, activists and other citizens who may be a threat to social stability and peace. Moreover, China's urbanization is still immature. Its urban capacity is far from able to satisfy all citizens' need since most of Chinese residents want to work and live in cities which have better infrastructure and other resources than rural areas. As a consequence, the *Hukou* system's function of population adjustment is still useful to China's current situation. In addition, the *Hukou* system can also balance the urban and rural development and regional development, restrain the growth of eastern mega-cities, while keeping enough agricultural population in the countryside to maintain the agricultural industry.

In fact, since the beginning of 21th century, in order to satisfy the needs of the development of market economy and guarantee enough cheap labors for coastal areas, the Chinese government was increasingly loosening its highly control of household registration, people can move to any city and convert their *Hukou* status if they up to relevant standard. Nevertheless, the rural-urban differences within the *Hukou* system are still in place. Such differences not only enlarge the rural-urban gap but also make those citizens who live or work in cities without local *Hukou* experience unfair treatment. This aspect of *Hukou* is a main contradiction which can be called a hidden danger or encumbrance of China's current and future development. What Chinese government needs to reform is the rural-urban differences of the *Hukou* system instead of totally repudiating and abolishing it.

However, this old problem is quite complicated which cannot be solved easily. For those peasant-workers and migrant workers who want to move to cities and convert their *Hukou* status from agricultural to non-agricultural, they need to buy residences or work legally and formally in cities for at least two years. The former will be easy and fast, but few of them can afford the current Chinese urban housing price, accordingly, most of them will rent residences first and choose the latter method, and the problems are concentrated on latter coincidentally. Those peasant-workers, migrant workers and floating workers who don't have local *Hukou* cannot share same social resources and opportunities with local residents especially in the field of their children's education, social insurance and welfare. What is worse, those requirements of *Hukou* status' conversion and unfair treatments may stop surplus rural labors and migrant workers from moving to cities for work, with adverse implications for China's urbanization, industrialization and modernization. On the other hand, since the main contradiction between huge number of Chinese population and their increasingly material and mental needs and the limited social

resource is still acute. It is a genuine and substantial challenge for the Chinese government to satisfy all its citizens' needs. At this point, the reform of *Hukou* system is a lengthy and tough journey. Even if China's prosperity were to rise to the level of a developed country, the contradictions embedded in *Hukou* would require a long time to be alleviated.

Ultimately, the dilemma is that the restrictive effects of the *Hukou* system upon China's urbanization interact with the limits upon China's hard power. Yet it is as unlikely to see replaced the current *Hukou* system with a western household registration system, as it would be to see the current socialist Chinese regime replaced with a capitalist one. Therefore, the first and foremost step to reform the current *Hukou* system is to develop China's economic power and comprehensive strength. Then, after Chinese government accumulates enough social wealth, the biggest barrier of Chinese reform of household registration system will be eliminated.

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