

## HEADLESS DRAGON: HOW FAILED *HUKOU* AND RURAL LAND REFORM COULD BE CHINA'S ECONOMIC UNDOING

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On March 16th, 2014, China's State Council released the highly anticipated most recent outline of its *hukou* reform policy titled *China's Urbanization Plan, 2016-2020*. The thirty-one chapter document specifically focuses on the human facet of urbanization. The plan traces out a scheme that would bestow 100 million urban *hukou* onto migrants by 2020, effectively allowing them to relocate to urban areas, with the intent of curbing the ever-growing gap between China's urban and rural populations. As part of this plan, the government has stressed its desire to promote "balanced allocation of public resources between urban and rural areas" and "to make basic urban public services available to all permanent residents in cities, including all rural residents."<sup>1</sup> Many anticipated that the State Council's announcement in March would provide a final answer to the urban-rural division problem that has plagued China for over the last forty years. But in actuality, China's newest reform does little to fundamentally change the strict prohibitive population control system put in place by the *hukou* system.

While means of population control have existed in China since the Tang Dynasty, the *hukou* (戶口) system stands alone in its high level of restriction. Two years after the establishment of the People's Republic of China in 1949, the newly legitimized communist government began enforcing a household registration system that identified citizens by their area of residence. The National People's Congress formally adopted the *hukou* system in 1958 as a means of enforcing the Maoist doctrine of Agrarian socialism and for preventing starving migrants from rushing into cities. While citizens' travel under limited circumstances was permitted, their *hukou* record effectively limited access to social services—education, healthcare employment, etc.—to strictly their hometown or province.

*China's Urbanization Plan, 2016-2020* notes that the described reforms will be a gradual process. While smaller commerce centers may be more accessible under the new platforms, major commerce centers—the places where migrant workers are interested in relocating to—will be as remain inaccessible to migrants. More importantly, while the government announcement outlines a definite—albeit flawed—plan for dealing with *hukou*, it fails to take the *hukou* issue into consideration in the overall context of the urban-rural divide. After all, *hukou* is just one of many variables contributing to the urban-rural divide, the land tribute system being the most notable other. As one scholar elucidates, "the current reforms do represent a reform, but they ignore the forest for the trees...[T]he truly critical problem in *hukou* reform is

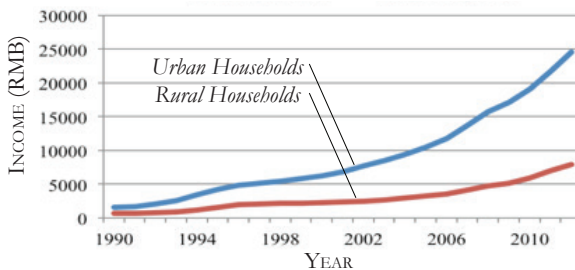
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how to peel away the political, economic and cultural rights that are associated with the residence permit.”<sup>2</sup>

### **HUKOU AND THE URBAN-RURAL DIVIDE**

With the advent of the economic “opening up” under President Deng Xiao Ping in the 1980s, China’s rural population began to flood into the coastal cities. This mass migration, that occurred in spite of the *hukou* system’s restrictions on travel, drastically perpetuated already present disparities between China’s rural and urban populations. Since 1978, China has experienced the largest internal migration in world history, with over 160 million holders of rural *hukou* migrating to urban centers.<sup>3</sup> These migrant workers have been the driving force behind China’s rapid economic growth; in the past thirty years, migrant labor has been responsible for 40% of national aggregate labor productivity.<sup>4</sup> Yet while coastal cities have flourished as a result of migrant labor, the rural hometowns of workers have not shared in the rewards. In 2002, the per capita income for *hukou* holders in eastern urban areas such as Fujian was 13,029 RMB, whereas the per capita income for holders of *hukou* for western rural areas like Guizhou was a paltry 2,005 RMB.<sup>5</sup>

*Figure 1: Per capita income of urban and rural households, 1990-2012<sup>6</sup>*



*Hukou* has also had negative social impacts on migrant workers. In Zhejiang Province (China’s fifth wealthiest), only 26% of migrants qualified for any form of sick pay, as opposed to 68% for urban residents.<sup>7</sup> Moreover, only 19% of workers were covered by any form of health insurance versus 58% of holders of Zhejiang *hukou*.<sup>8</sup>

The educational consequences of the *hukou* system have also been profound. Until recently, migrant workers’ children (those that are not one of the 60 million “left behind” children put in care of grandparents while parents seek jobs in urban areas)<sup>9</sup> were prohibited from attending public secondary schools in areas different from the residential area identified by their family’s *hukou*. While this regulation has been eased, official government policy still charges migrant worker families a “migrant tax” to attend school in areas outside the jurisdiction of their *hukou*. In Shandong Province, for example, migrant students are levied with fines of up to 1,000 RMB per year<sup>10</sup>—an

enormous figure considering the median migrant wage of 2,290 RMB.<sup>11</sup> As a result, many migrant students seek out low quality and cheap private education or refrain from attending school altogether. Also adding to the gap between urban and rural education is the fact that students from outside of major cities are required to score higher on the gaokao (national college entry examination) to be accepted into the nation's top universities. A small fraction of openings are allotted to the rural provinces. In Shanghai's Fudan University, one of the nation's most competitive schools, only 29 out of the approximately 14,100 undergraduates come from Heibei, a province of over 70 million. That is, while the Hebei Province accounts for over 5% of China's population, only 0.2% of students at Fudan's student body are from Hebei.

Migrants are also faced with blatant discrimination. In a poll of native Shanghai *hukou* holders, one-third of those surveyed stated that they would not want live next to a migrant worker. This figure increased two-fold for those surveyed in Changchun, a second tier city in Jilin province.<sup>12</sup> One is rather unsurprised, then, when University of Toronto political scientist professor Lynette Ong asserts that "*hukou* is basically apartheid."<sup>13</sup>

### LESS THAN MEETS THE EYE

The Chinese government seems to have become aware of the nature of the *hukou* issue. Since 2013, Premier Li Keqiang has spoken of a "human-centered new style of urbanization."<sup>14</sup> In a speech at the Boao Forum for Asia in Henan this past April, he spoke of the need to "address the bifurcation between urban and rural areas and within cities, and grant urban residency in an orderly manner to rural people who have moved to cities."<sup>15</sup>

However, Li's statements and the directives outlined in *China's Urbanization Plan, 2016-2020* come with a major catch. The *hukou* system does not disappear with the execution of these reforms. Instead of eliminating the system altogether, the government plans to merely confer urban *hukou* to more citizens. The current goal of granting urban residency to 100 million within the next six years, if successfully realized, would still leave two-thirds of the country's migrant workers without urban residency authorization.<sup>16</sup> Furthermore, strict stipulations exist on who can qualify to apply for official resident status in cities. While the government touts that 100 million Chinese citizens will be granted urban *hukou* and thus become urban residents, the reality is that most will not receive residency in prosperous, appealing cities but in backwater county-level administrative seats and small towns. The government has capitalized on the ambiguous definition of the term "urban."

In the new system described in *China's Urbanization Plan, 2016-2020*, if a migrant worker seeks official residency in a city whose population exceeds half a million people, he or she is required to have steady employment, stable accommodation and a proven history for financial contribution to the regional social security system.<sup>18</sup> These stipulations are rarely satisfied by migrant workers, and instead favor educated and middle to upper-class individuals, who rely on the benefits of urban *hukou* less.

Figure 2: 2014 Hukou Stipulations<sup>17</sup>

<b>Who Gets a Hukou?</b>				
Migrants in China's cities have to meet a daunting array of requirements before they can apply for official resident status.				
	County-level cities and other small towns (e.g. Dunhuang)	Population 500,000 to 1 million (e.g. Dandong)	Population 1 million to 5 million (e.g. Qingdao)	Population 5 million and above (e.g. Beijing)
Stable accommodation	✓	✓	✓	✓
Steady job		✓	✓	✓
Paid into local social security for minimum time		✓	✓	✓
Steady job for minimum time			✓	
Minimum continuous residency				✓
Other, unspecified requirements				✓
Sources: State Council of China; U.N. Population Division			The Wall Street Journal	

In addition, almost 200 hundred cities in China have populations of over 1 million, ruling out the possibility for migrant workers to acquire *hukou* in major commerce centers. Certainly, there is a need for prudence in the urbanization process. If the government were to remove restrictions on migration altogether, cities like Beijing and Shanghai would be incapacitated by the influx of migrants and society would fall into disarray. The problem rests not with the fact that the Chinese government has been cautious, but rather with the excessiveness of this cautiousness. Until the Chinese government abandons its unduly apprehensive approach to *hukou* reform, both migrants and the Chinese state as a whole will continue to struggle to modernize.

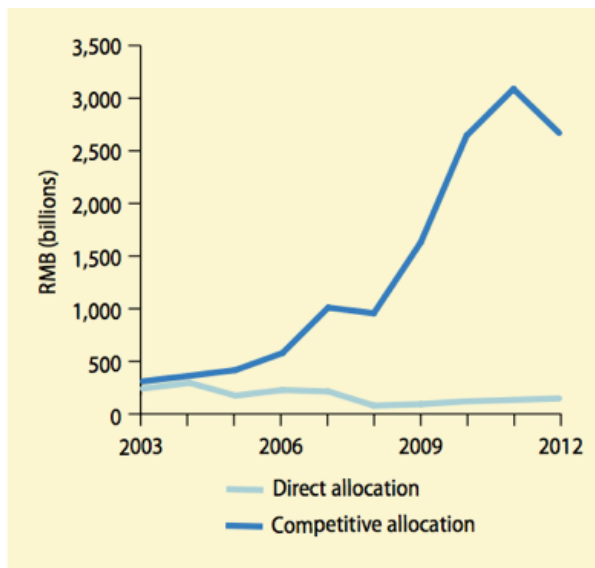
**A SECOND VARIABLE: THE LAND TENURE SYSTEM AND THE URBAN-RURAL GAP**

Surprisingly, many holders of rural *hukou* are not eager to cash in on urban residency. One user on China's popular micro-blogging site Weibo questioned, "do I want to give up my rural *hukou*? No, because it means losing a sense of belonging and security. If I lose my job in the city, I'd be out on the street. Land is my lifeline."<sup>19</sup>

This popular sentiment relates to another major shortfall of the March 16<sup>th</sup>

reforms: the failure to tackle the complicated issue of land rights. The Constitution of the People's Republic of China dictates that urban and non-farmland is state-owned, whereas farmland is owned under the Maoist system of rural collectivism. Under this system, each agricultural family is allotted a small plot of land, but cannot sell these rural collectives under any circumstances.<sup>20</sup> Thus, while an inpouring of capital has flooded urban areas as a result of a vibrant property market, farmers in rural areas are unable to sell their land. Local governments largely ignored the collective ownership provision, instead profiting from their orchestration of off the book sales of this agricultural land in which the landowners themselves are barely compensated.<sup>21</sup> According to a report composed by the World Bank in conjunction with the Development Research Center of China's State Council, approximately 90% of new land in Chinese cities comes from deals in which farmers received less than 20% of the Open Market Value of their properties.<sup>22</sup> As agribusiness insider Sun Dawu puts it, "Farmers cannot...enjoy human rights unless they enjoy property rights."<sup>23</sup> Economically, the land tenure issue disrupts the well being of rural China. With the two options for rural farmers being a) to keep in in the collective ownership of farmers or b) to illegitimately convert it to urban land, rural areas have no valid opportunity to prosper or grow. While the national government did set dates in January 2014 for a trial period during which a small number of collectively owned properties could be sold on the open market, some government officials are opposed to such revisions—the government-controlled sale of rural land covers 70% of most local government's annual revenue.<sup>24</sup> Thus, if government serves to profit at the expense rural citizens, it is unlikely that substantive reform of land tenure will occur anytime soon.

Figure 3: Local government income from land sales, 2003-12<sup>25</sup>



## AN ECONOMIC CASE FOR REFORM: AVOIDING THE MIDDLE INCOME TRAP

The small town and county-level administrative seats that the Chinese government has allotted for migrant workers to obtain urban *hukou* are not important centers of commerce. Available employment opportunities in these areas, if any, will be extremely finite.<sup>26</sup> However, similarly sized towns and small cities in coastal China are economically vibrant, but with a demand for labor and a local population not large enough to meet this demand.<sup>27</sup> This is precisely why local governments should welcome migrants from interior provinces; the relationship would be a mutually beneficial exchange for both parties involved. China's GDP growth rate has fallen from 10.7% in 2010 to 7.7% in 2013,<sup>28</sup> but the inflow of migrants to smaller, vibrant coastal cities would diversify economic productivity to underserved markets there. In a short-term sense, this inflow would help to quell a slowdown in growth; what bank HSBC has called, the fact that "new export orders and employment contracted" in April 2014.<sup>29</sup> In a long-term sense, opening the eastern coast to rural migrant workers will help them better both their disposable personal income and social status.<sup>30</sup> Having an economically and educationally well-off population across the nation also ensures that China can successfully transition from a mass labor economy to an industrialized economy. Yet leaving the migrant population in the lurch would be a major economic miscalculation in and of itself. Incentives to increase the disposable incomes of rural citizens should be seen as beneficial to the well being of the economy, since citizens with more income will be able to invest in and spend more on the market. China ranks number eighty-two in terms of nominal GDP per capita, behind countries such as Turkmenistan, Botswana and Bulgaria,<sup>31</sup> indicative of the fact that China is still far from being able to call itself a first world country. If China wants to avoid falling into a middle-income trap,\* it should aim to ensure that rural migrants of the interior Chinese regions have access to opportunities in small yet growing cities on the coast.

China may have been able to get away with exploiting its migrants for economic gains in its ascendant past, but as it attempts to take on the role of a first-world country on all fronts, China needs a solid and practical policy that reduces the urban-rural divide and promotes economic and social modernization. China's manufacturing and export economy of the last twenty-five years was built on the backs of migrant workers. Yet, where is the government when they need a favor in return?

While it would be incorrect to say that the Chinese government has ignored the issue of *hukou* and land tribute reform, policy-makers have displayed a lack of both insight and courage in tackling these problems—the result is an overhyped, do-little agenda that skirts between action and inaction. While there is danger associated with the rapid urbanization of all 300 million migrant workers in China, the government overestimates the danger and pays little attention to the rewards. It is only a matter of time before China feels the economic repercussions of its failure to address these problems, and by then it could be too late to reform and avoid further economic backlash. In 2011, scholars and observers alike eagerly anticipated the Chinese government's cabinet reshuffle of 2013 as a possible watershed moment in *hukou*

reform, only to be disappointed by the resulting lack of change. While the March 16th announcement of *hukou* reform may have been marginally more satisfying, China's migrant worker and rural populations must still wait for the day they are freed from the shackles of socioeconomic apartheid.

\*“The problem in a nutshell is that countries can get stuck at a level of development in which its populace has been generally lifted out of poverty but hasn't been elevated to the income levels of more advanced economies. That happens because it is easier to jump from a very poor country to a middle-income nation than it is to advance from that middle-income status to the ranks of the truly developed.”

Michael Schuman, “Can China Escape the Middle-Income Trap?,” *Time*, March 12, 2013.



## NOTES

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