

Chapter 2

The Continuity and Changes of the *Hukou* System Since the 1990s: A Critical Review

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Abstract Since the foundation of the People's Republic of China, a series of centralized public policies had played important roles in shaping the social landscaping of China society, and well-being of its citizens. The *hukou* system is one of the most important contributing factors to social exclusion in transitional China. Attempts to reform and abolish this system have led to a variety of policies implemented at the local level. Through examining the *hukou* policies in different hierarchical cities, this paper illustrates the ongoing trends of decentralization and commodification that are already evident in public policy reform. Local governments are gaining more autonomy as the reforms of public policy are intensified and local economies become more developed, and differentiation between locals and non-locals are more likely to become widened. Nevertheless, commodification in the reform of the *hukou* system opens the way for those who have greater wealth or are better educated. Local governments are increasingly using market forces to guide public policy, which is resulting in a growing marginalized or excluded class of rural-urban migrants and economically deprived urban dwellers. The paper argues that it is essential to rethink the roles of the government as both policy maker and economic actor, and the balance and paradoxes between the two. The importance of the government as a redistributor in public policy should be readdressed in contemporary China.

Keywords The *hukou* system • Rural-urban migrants • Social exclusion • Decentralization • Commodification

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2.1 Introduction

Massive migration flows, of unprecedented scale and influence, have been occurring within China in the past three decades. It is estimated that around 200 million rural-to-urban migrants are on the move, and the statistics do not include urban-to-urban migrants or other unregistered people. The actual number would be much greater than the current estimate if all migrant and other temporary workers were included. Indeed, economists and demographers cannot estimate the actual number of internal migrants, because they use different statistical methods. Nevertheless, statistical difficulties aside, geographic mobility is now becoming the norm for most Chinese citizens.

Geographic mobility is not considered as a social issue in many countries where the citizens enjoy freedom of movement, but the Chinese have had this right only since the beginning of the transitional economic period. Previously, internal migration flows were controlled through the *hukou* system, also known as the household registration system. The *hukou* is basically divided into rural (agricultural) and urban (non-agricultural) *hukou*, and every citizen inherits their parents' *hukou* status¹ at birth. The importance of the *hukou* status lies in its association with different entitlements to employment opportunities and welfare benefits. During the state socialist period, the population were controlled and spontaneous migration was strictly prohibited. Rural people were confined to the land and commune and were unable to move to urban areas, while the state took full responsibility for urban residents by providing permanent employment and offering cradle-to-grave welfare benefits.² As nearly all resources in daily life were allocated by the state according to *hukou* status, exclusion through “where you are”³ (Wang 2005, p. 10) dictated the social inequality widespread in the state socialist period.

The *hukou* system and its impacts are indicative of the power of the state. Unlike any inequalities arising from market competition, social inequalities under the state socialist period stemmed mainly from the *hukou* status label. Transferring from rural *hukou* to urban *hukou* was the major means of upward mobility in society. The rural-urban divide was too deep to cross, as the annual transfer quotas were regulated by the state, and very limited channels⁴ existed to realize it.

¹ Prior to 1998, a child could inherit only from his/her mother's *hukou* status, while after 1998 they could inherit either from mother's or father's *hukou* status.

² See Wang (1997, 2005), Chan (1994) and Mallee (1995) for details on the differences between rural and urban *hukou*.

³ In fact, aside with rural-urban division, Chinese cities are also ranked along the administrative/political ladder. There are four municipalities (Beijing, Tianjin, Shanghai and Chongqing) directly under administration of the central government, which are provincial or higher than provincial level, then followed by the provincial capital cities, prefecture level cities, county level cities, designated town, and town.

⁴ There were five ways of realizing the *hukou* transfer: *Zhaogong* (招工), those recruited as permanent employees by a state-owned enterprise, *Zhengdi* (征地), due to land expropriation, *Zhaosheng* (招生), enrolment at a higher educational institution, *Zhaogan* (招干), those promoted to an administrative position, and *Canjun* (参军), those joining in the army.

Since 1978, when China began to introduce market forces into its economy, Chinese society has experienced great changes. First, the deepening of economic reforms and improvement in economic efficiency have caused massive layoffs in the state-owned enterprises (SOEs). Workers have to compete with the low-skilled migrants moving from rural to urban areas in the secondary labour market. The employment of university graduates is also receiving more attention, in the contexts of increasing university enrolments and abolition of the employment allocation policy.⁵ One's *hukou* status is no longer the sole determinant of urban employment in contemporary China, with market demand now having more influence. In other words, economic reform effectively eliminated the privileges that urban workers took for granted in the old days. Second, social groups and regions have benefited very unevenly from economic reform. Rural-urban migrants, as one of the most important groups contributing to economic growth, have been confronted with severe economic deprivation during the reform process. In addition, the regional disparity between eastern coastal China and inland or western China is obvious, with the result that urban people from undeveloped regions are more disadvantaged than rural people in some developed regions.⁶ Third, the economic transition has also resulted in decentralization and significant associated political consequences (Zheng 2004). Decentralization means that the Chinese state has relinquished some power back to local governments and society. Local governments have more autonomy in local economic development and administrative management. Meanwhile, new social organizations have emerged all over China at various levels.⁷ Fourth, China is more globalized, reacting to globalization in much the same way as other nation-states, despite its communist legacy. Foreign capital investment plays a very important role in China's economic growth. Deng's classic saying that "no matter if it is a white cat or a black cat, a cat that can catch rats is a good cat" discloses how China's Communist Party (CCP) is making the effort to balance the values of socialism and capitalism. Essentially, the Chinese Government is being pragmatic in developing the economy and dealing with international relationships.

These changes suggest that China is a complicated heterogeneous society, and these changes also raise doubts that the rural-urban *hukou* division is fully responsible

⁵The employment of university graduates were allocated by the state, and individuals had little chance of changing it. Since the higher education reforms in the 1990s, the employment allocation policy has gradually been abolished and frequently changing jobs has been the normal experience for many graduates. More autonomy in employment also brings high mobility among university graduates.

⁶During the process of economic restructuring, urban residents are experiencing profound readjustment. Within many large cities of China, the old districts were demolished and replaced by modern shopping centres, skyscrapers and prosperous central business districts. The original urban dwellers were asked to relocate to other places, resulting in much conflicts and protest. At the same time, the rapid urbanization, particularly occurring in the peripheral rural areas, is bringing the transfer of *hukou* status to rural residents in those areas.

⁷Towards the end of the 1990s, there were 160,000 government-registered civil associations at the national and provincial levels, excluding non-profit organizations, religious associations and all local social organizations. The emergence of civil associations represents the re-making of civil society in China.

for all social inequalities in transitional China. This needs to be more carefully examined, as the goals of a reformed⁸ China are very different from those the state socialist period. This paper discusses the continuity, changes and debates of the *hukou* reform since the 1990s, as it considers that serious *hukou* reform did not start until 1990. Based on the research findings, the paper argues that market forces exert a great impact on *hukou* reform. Though the *hukou* reform was initiated by the government and influenced by the trends of decentralization and commodification, market forces are becoming a much greater influence on the social exclusion of rural-urban migrants in contemporary China.

2.2 The Trend of Decentralization in the *Hukou* Management Since the 1990s

During the planned economic period, the urban administration was responsible for central planning, and the relationship between the central and local governments was that of funder and service provider. This model failed to develop a market economy, and decentralization became unavoidable; “for the central government, the central-local relationship was increasingly about how to encourage local governments to provide goods and services without getting extra money from the central” (Li and An 2009, p. 8).

Two events led to the devolution of *hukou* management from central to local governments in the 1990s. First, in the early 1990s, the Chinese Government decided to terminate the provision and rationing of subsidized grains to the urban population, and *nongzhuanfei*⁹ (农转非) lost most of its significance (Cheng and Selden 1994). Second, after 1994 tax was distributed between the central and local governments, and since then local governments have managed their own administrative and tax affairs (Zheng 2004) and have been granted more autonomy in *hukou* management (Wang 2005).

In 1992, the Ministry of Public Security (MPS) issued the *Circular on Implementation of Local-Valid Urban Hukou registration*. More than ten provinces reformed the local *hukou* policy based on the local demands of migrants. In 1993, a working group involving officials from several ministries and commissions developed a draft proposal to reform the *hukou* system. Some of the proposal’s constructive suggestions included the abolition of *nongzhuanfei*, building up a single system based on one’s permanent resident location, and granting complete autonomy to

⁸The goal before economic reform focused on class struggles, while the emphasis now is more on economic development.

⁹*Nongzhuanfei* (农转非) was particularly related to commodity grain allocation. The non-agricultural *hukou* holders were allocated a certain amount of grain by the state planning system. For more details about *nongzhuanfei*, refer to Zhang (2004). As the grain allocation was abolished in early 1990s and people needed to purchase through the market, *nongzhuanfei* has lost its significance.

local governments to manage their own *hukou* system. The proposal recommended that *hukou* be categorized into permanent *hukou*, temporary *hukou* and visiting *hukou*. Although this proposal has never been formally endorsed, several points have been applied as guidelines for the subsequent *hukou* system reform. In particular, local governments have obtained the essential autonomy on *hukou* management, according to the directives promulgated by MPS in 1998. A most significant move was in late 2001, when suburban peasants were allowed to become legal urban residents in most small cities and towns (Wang 2002). Since urban *hukou* quotas were released in most small cities and towns, and thresholds/requirements vary among place to place, *hukou* desirability in China is hierarchically stratified. *Hukou* of the metropolises and provincial capitals is the most desirable, and migration control there is the strictest. Applicants for *hukou* in these elite cities, as termed by Wang (2005), normally need to satisfy a higher threshold than in other cities.

Table 2.1 presents social stratification by *hukou* location.¹⁰ The level of migration control corresponds with the level of desirability, and Wang (2005) estimates that 26.1 % of the total population live in the most desirable places, 3.4 % live in the surrounding suburbs, and the remaining 70.5 % are rural residents. He agrees that there is regional disparity, but also emphasizes that the rural-urban divide is still significant in the *hukou* system.

The following sections introduce the different *hukou* policies among the three tiers of cities.¹¹ Beijing and Shanghai are categorized as elite-tier cities, provincial cities and large cities are second-tier cities, and small towns and cities are third-tier cities.

2.2.1 *Hukou Policy in the Elite-Tier Cities*

As representatives of the elite tier, metropolises such as Beijing and Shanghai are unquestionably the most attractive destinations for internal migrants and they have the strictest migration control. Transferring the *hukou* to Beijing or Shanghai is

¹⁰ Wang (2005, p. 137) further summarizes China's four categories of citizenship according to the *hukou* system. The highest level is the elite Chinese, including those who are urban *hukou* holders living in the metropolises, provincial capitals and large cities, accounting for 6.3 % of the total population. The second level is the middle higher class, mainly those urban *hukou* holders living in the medium cities, around 10.4 % of the total population. The third class is the middle lower class, who hold urban *hukou* in the small towns and cities, and rural *hukou* holders living in the suburban areas of the metropolises and provincial capital cities, accounting for 21.6 % of the total population. The lowest class is those with rural *hukou* living in the rural areas, about 70.5 % of the total population.

¹¹ Here, the provincial capital cities and large cities are categorized together. According to the strictness of the *hukou* transfer, they are still less difficult than Beijing and Shanghai. For example, Tianjin and Chongqing are the other two direct municipalities under the central government, but their *hukou* control is not as strict as Beijing and Shanghai.

Table 2.1 Social stratification by *hukou* location

Location	No.	Urban residents (millions) (% of total population)	Desirability	Migration control
Metropolises	12	13.7 (1.1 %)	Elite	
Eastern/coastal China	11	13.0 (1 %)	Highest	Tightest
Rest of China	1	0.7 (0.008 %)	Highest	Tightest
Provincial capitals	27	46.2 (3.6 %)	Elite	
Eastern/coastal China	10	25.5 (2 %)	Very high	Very tight
Rest of China	17	20.7 (1.6 %)	High	Very tight
Large cities	20	19.6 (1.6 %)	Second tier	
Eastern/coastal China	17	16.5 (1.3 %)	Very high	Very tight
Rest of China	3	3.1 (0.02 %)	High	Tight
Medium cities	141	61.2 (4.8 %)	Second tier	
Eastern/coastal China	68	29.5 (2.3 %)	High	Tight
Rest of China	73	31.7 (2.5 %)	Medium	Tight
Small cities	478	70.4 (5.6 %)	Third tier	
Eastern/coastal China	267	39.3 (3.1 %)	High	Medium
Rest of China	211	31.1 (2.5 %)	Medium	Medium
County-seat towns	1682	92.3 (7.3 %)	Third tier	
Eastern/coastal China	483	26.5 (2.1 %)	High	Controlled
Rest of China	1200	65.8 (5.2 %)	Medium	Minimal
Towns	19780	135.9 (10.9 %)	Third tier	
Eastern/coastal China	9844	68.6 (5.5 %)	High	Controlled
Rest of China	9966	67.3 (5.4 %)	Medium	Minimal
Total urban residents		322.5 (26.1 %)	Socially privileged	
Eastern/coastal China		171.2 (13.9 %)	Desirable	Controlled
Rest of China		151.3 (12.2 %)	Desirable	Controlled
Suburban rural residents		42.1 (3.4 %)	Medium	Minimal
Rural residents		872.2 (70.5 %)	Low	Generally none
Total rural residents		914.3 (73.9 %)	Undesirable	
Remote areas		Rural and urban residents	Undesirable	Rewarded

1. Metropolises include the four centrally administrated municipalities (Beijing, Shanghai, Tianjin, Chongqing) and “separately planning cities” including the SEZs (Shenzhen, Zhuhai, Shantou, Xiamen, Haikou, Dalian, Qingdao, Ningbo). All (except Chongqing) are on the East Coast

2. Provincial capitals refer to the provincial capital cities

3. Large cities are with urban residents between 0.8 and 2 million

4. Medium cities are with urban residents between 300 and 800 thousand

Source: Wang (2005, p. 135)

almost beyond the reach of ordinary urban-urban migrants from other provinces, let alone the inter-provincial rural-urban migrants.

Regional protectionism was prominent in Beijing’s *hukou* reform. The reform took place mainly in 14 satellite towns and 33 central towns of Beijing, for those

who had Beijing agricultural *hukou* and were willing to transfer to urban *hukou* status. But association with the local agricultural *hukou* status was not enough; applicants also needed to have steady employment and legal home ownership (no less than a two-bedroom commodity flat) in a nearby town in order to transfer their agricultural *hukou* status.

The *hukou* policy for the inter-provincial migrants is much higher, as the policy aims to absorb capital investors and the highly educated. The measures resemble international permanent migration. For instance, the individuals who apply for the *hukou* in eight districts¹² of Beijing municipality should have managed an enterprise for at least 3 years, and the enterprise should pay tax revenue for up to RMB 0.8 million¹³ annually but with an cumulative amount reaching RMB 3 million in the previous 3 years. In addition, the enterprise's workforce should contain at least 90 % of local staff, with more than 100 local employees hired per year for three continuous years, and the applicant himself needs to have his own commodity flat in the area where he wants to apply for a *hukou*. The threshold of being issued a *hukou* within the eight districts of Beijing is extremely high, and ordinary migrants have no hope of being included. The applicant could also apply for *hukou* outside the eight districts (in suburbs or satellite towns), but even then the annual revenue of his enterprise must reach RMB 0.4 or 1.5 million in the previous 3 years, and the enterprise workforce should be at least 50 % local employees.

In addition to realizing *hukou* transfer through investment, the Beijing Municipality assigns the *hukou* transfer quotas to the units, including central government-led enterprises, other SOEs, education institutions, government institutions and so on, and those units assist their employees to transfer their *hukou* to Beijing. The quotas are limited and competition is fierce. As a typical example, hundreds of thousands of university graduates are employed in Beijing, but a large majority of them are ineligible for a Beijing *hukou*. The situation for low-skilled, poorly educated and poor migrants is even worse. Until recently, Beijing was one of the cities that requires a Temporary Residential Certificate. The opportunity to transfer *hukou* status has been almost non-existent.

As in Beijing, the *hukou* transfer in Shanghai is difficult and the threshold is too high for ordinary migrants. Both cities are trying to attract rich, highly educated and highly technical migrants. For instance, in 1993, *Temporary Regulation on Blue Print Hukou Management in Shanghai* clearly documented that the blue print *hukou* was directed mainly at migrant workers, who invested, bought commodity flats or were employed in authorized enterprises or institutions, and blue print *hukou* holders were treated as Shanghai local citizens. Therefore, unless they were associated with a large amount of capital, had received a higher education or were highly skilled, migrant workers were very unlikely to transfer their *hukou* status. This regulation was amended in 1998, but essentially little has changed.

¹² The eight districts within municipality are Dongcheng district (东城区), Xicheng district (西城区), Chongwen district (崇文区), Xuanwu district (宣武区), Chaoyang district (朝阳区), Haidian district (海淀区), Fengtai district (丰台区) and Shijingshan district (石景山区).

¹³ RMB 1 = USD 0.1516, therefore RMB 0.8 million is about USD 0.12 million as on Jan, 2011.

2.2.2 *Hukou Policy in the 2nd-Tier Cities*

Provincial cities are less strict about *hukou* transfer than the elite cities. Some cities are even pioneering attempts to abolish the rural and urban *hukou* division, instead unifying them into a single category. Shijiazhuang, the capital of Hebei province, and Zhengzhou, the capital of Henan province, are such cities. Since the end of the 1990s, many cities have begun to extend their central districts. The main method was to expand the city to the peripheral areas and transfer the *hukou* status of the residents there accordingly. In 2000, the population in Shijiazhuang municipality climbed by 150,000 after the city expanded. The Shijiazhuang government reformed the *hukou* policy and opened the way for migrant workers, including groups of direct dependents, investors and college or technical school graduates. Rural migrants from the suburbs or peripheral areas, if meeting several conditions, are eligible to apply for local *hukou*. Inhabitants from other provinces are also eligible to apply for the Shijiazhuang *hukou*, provided they are employed by the local government and local enterprises or have worked in a management/technical position in the service sector for more than 1 year, or if they can afford a commodity flat or invest in the local economy.

Zhengzhou is one pioneer city that is implementing a more radical *hukou* reform. The reform began in 2003, and aimed to abolish different categories and names of *hukou*, such as agricultural *hukou*, temporary residential *hukou*, small town *hukou* and non-agricultural *hukou*, replacing them all with one identical Zhengzhou residential *hukou*. The aim of the reform was to break the *hukou* barrier and form a unified management system. The government simplified the *hukou* transfer procedures for migrant workers and the reform then covered a much larger group. Conditions of applying for Zhengzhou residential *hukou* included owning a commodity flat, being a graduate student with intermediate technical credentials and above, or being a formal employee participating in a social insurance scheme. As the threshold was much lower than the elite-tier cities and more flexible than Shijiazhuang, more people applied. All successful applicants were treated as local Zhengzhou citizens, and had equal rights to education or joining the army, and were covered by the Minimum Standard Living System. The *hukou* reform in Zhengzhou caused strong repercussions and was considered the way for future reform. However, after 1 year the reform had to be stopped, due to the pressure of the increasing population on the local infrastructure, particularly inadequate education facilities for the higher number of applicants.

Despite the failure of Zhengzhou's *hukou* reform, it provided lessons in *hukou* management and many ideas were borrowed by governments in other cities. One lesson was that abolishing the *hukou* divisions overnight does not solve all social problems, as existing urban infrastructure and welfare resources are generally insufficient to meet the needs of a large number of newcomers. Therefore, many local governments took a cautious attitude towards the complete relaxation of *hukou*.

Indeed, the trend of breaking the rural-urban division in *hukou* status is obvious in the 2000s. For example, Nanjing, the capital city of Jiangsu province, abolished

the rural-urban *hukou* division and introduced the residential *hukou* that covered the whole Nanjing municipality and its suburbs. Similarly, reforms took place in a number of cities in Zhejiang province, where a new typology of *hukou* was recommended: Temporary Residential Card (*linshi juzhuzheng*, 临时居住证), Common Residential Card (*putong renyuan juzhuzheng*, 普通人员居住证) and Professional Staff Residential Card (*zhuan ye renyuan juzhuzheng*, 专业人员居住证), categorized by employment status. In addition, Guangzhou, Chengdu, Chongqing and Wuhan undertook new measures of *hukou* reform to break the rural-urban division.

The 2nd-tier cities share some common characteristics of *hukou* reform. First, most cities have begun by reforming and unifying the rural and urban *hukou* and replacing them with single *hukou*. Several cities have abolished the rural-urban *hukou* divide in their central districts and peripheries, which usually accompanies the development and expansion of the cities.¹⁴ This process at the city periphery has been described by Seabrook (1996, pp. 16–17): “rural people no longer have to migrate to the city: it migrates to them”. Second, conditions for issuing a local urban *hukou* to migrants are less strict than in elite-tier cities. The local governments have complete autonomy over the *hukou* quotas and management, and so they can absorb migrants according to their particular developmental needs. Formal employment and a legal place of residence are the foremost conditions for applicants in most cities. Highly skilled and educated people are undoubtedly more welcome, and individuals bringing investment also find it easy to get a local urban *hukou*. Fourth, the reform presents little opportunity for rural-urban migrants to realize *hukou* transfer, as most of them work as labourers or in low-skilled jobs. The lesson from the Zhengzhou reforms is that complete relaxation of *hukou* brings other social problems, and local *hukou* control is still considered an effective method of preventing the potential chaos caused by a large and rapid influx of migrants (Ma 2006). The most encouraging progress in *hukou* reform seems to be breakdown of the rural-urban *hukou* division in many cities. However, differences in *hukou* management between cities are deepening regional disparity and divisions between locals and non-locals.

2.2.3 *Hukou Policy in the 3rd-Tier Towns and Cities*

Since 1984, when peasants were allowed to work temporarily in nearby small towns and cities,¹⁵ developing towns and cities have followed a strategy of absorbing

¹⁴ By comparing recent inner-city redevelopment in the PRC to urban renewal in the United States in the late 1950s and early 1960s, Zhang and Fang (2004) explained Shanghai forced more than 1.5 million citizens between to relocate 1991 and 1997, to make way for skyscrapers, luxury apartments, malls and new infrastructure. Nearly one million in Beijing’s old city were relocated to the city outskirts.

¹⁵ The term “small towns and cities” in China is defined as small urban centres of different scales and administrative types, which includes small cities, officially recognized towns (*jianzhizhen*) and market towns (*nongcun jizhen*).

surplus rural labour. To deal with a large population base and to avoid population pressure on large cities, the Chinese Government regulated the release of *hukou* restrictions in small towns and cities. A proposal on *hukou reform in small towns and improving hukou management in rural areas*¹⁶ was approved by the state council, which proposed that steering internal migrants to small towns and cities was a good way of speeding up urbanization in China. It suggested that rural people with formal employment and who had owned a home in a small town or city for 2 years should be considered for local urban *hukou*. In 2003 Ministry of Public Security (MPS) further urged local governments to accelerate the *hukou* reform in small towns and cities, and help rural migrants transfer their *hukou* status. However, this paper will not address in detail the measures and standards adopted in these small cities and towns.¹⁷

The relaxation of the *hukou* in small cities and towns has played a significant role in absorbing the surplus rural labour force. It is estimated that between 1978 and 2007 the number of towns rose from 2,173 to 19,246, and people living in small cities and towns as a proportion of the urban population increased from 20 to 45 % (State Bureau Statistics, 2008). The *hukou* reform has had a significant effect on rural-urban migration. As the Chinese Government considers a very cautious step towards abolishing the *hukou* barrier in large cities, the reforms in small towns and cities are beneficial in starting to break the rural-urban divide nationwide.

2.3 The Trend of Commodification in *Hukou* Management Since the 1990s

Commodification of *hukou* means that the grant of local urban *hukou* is highly correlated with individuals' amount of capital, with the result that traditional channels of *hukou* transfer lose their effectiveness. The local government, with complete autonomy of *hukou* management, is more driven by local interests when making *hukou* policies. For example, the *hukou* policies in all three tiers of cities require applicants to be formally employed or have home ownership. Using market mechanisms to absorb the desirable migrants is quite evident in contemporary China.

In fact, by the early 1990s it had become open and common practice in both large and small cities and towns to institute a "blue seal" *hukou*, which was different from the *hukou* of the permanent population, whose registration books carried a red stamp. The purpose of the blue seal *hukou* was to attract capital and people of high calibre into the cities (Wong and Wai-Po 1998). The price varied among different localities—from RMB 3,000 in a small town to RMB 10,000 in the large cities in 1993 (Solinger 1999).

¹⁶ <http://www.yfzs.gov.cn/gb/info/LawData/gj2001q/gwyfg/2003-07/29/1505080402.html>

¹⁷ For more details refer to Li and An's (2009) empirical studies in Anhui province, and Wang's (2002) debate on *hukou* reform in small towns of China.

Shanghai provides an interesting example. Blue seal *hukou* was temporary residential *hukou*, and it could be transferred after 3–5 years, although in Shanghai the quota of transferring to permanent *hukou* status was tightened, with only 288 being finally approved to obtain permanent residence in 1996 (Wong and Wai-Po 1998). The sale of the blue seal *hukou* was considered an important means of stimulating the housing market and introducing capital into the local economy. By the end of 1996, 2,414 people had obtained blue seal *hukou* in Shanghai. Of these, more than 60 % qualified through investment, and a number of domestic-sale commodity flats were sold to outsiders for the purpose of applying for blue seal *hukou* (Wong and Wai-Po 1998).

The Shanghai municipal government felt great pressure to transfer all blue seal *hukou* holders into permanent Shanghai citizens, and it decided in 2002 to terminate the blue seal *hukou* policy. The side effects of this policy were identified by the Shanghai Municipal Public Security Bureau (1996). First, the policy had not achieved the goal of attracting the most wanted migrants. Some people who gained the blue seal *hukou* had not possessed the required abilities. Second, purchasing a commodity flat was quite a high standard, and was difficult to apply in the suburban districts. Third, some advertisements for the flat-for-*hukou* scheme turned out to be inaccurate and misleading. The temporary *hukou* policy was subsequently terminated in other cities.¹⁸ Overall, however, the idea of commodifying the *hukou* in local cities survives, and through market selectivity it results in including the rich and talented while the poor rarely benefit from the reform.

The increasing market mechanisms applied to *hukou* reform symbolize fundamental changes in the relationship between the market and the state during the transformation period. Since the Chinese Government was determined to develop a market economy, the government has become more versed in using the market forces to manage migration flows. This is different from the planned economic period when the market force was considered illegal as the country was ruled by socialist principles. Exclusion of peasants from equal opportunities was typically brought about by institutional exclusion through administrative orders, while market forces pushed rural migrants to come into the cities but on the other hand also excluded them. The role of local government is to stimulate market competition—showing a preference for the rich, highly educated and skilled, but taking less responsibility for redistribution. The *hukou* reform is a typical example of how local governments can make good use of a low-priced labour force, but fail to consider how to integrate them, and also how local governments can manage the reform to absorb more capital and encourage economic growth.

¹⁸ Tianjin is the only one of the four municipalities directly under the central government that maintains blue seal *hukou*. It was reported that purchasing a full-price commodity flat could be associated with a blue seal *hukou* quota, which was criticized for pushing up prices in the housing market. Refer to <http://money.163.com/09/0412/08/56MGH9BO00252G50.html>

2.4 Debates over Reform of the *Hukou* System

2.4.1 *Standing Still or Progressing?*

The majority of studies of the *hukou* system in China take a negative and contemptuous attitude towards it, because it is considered to sacrifice freedom of movement and deprive the population of equal opportunity, particularly for registered rural residents (Attane 2002; Wang 2010). Under this system, hundreds of thousands of rural people move to the cities as temporary migrants, being treated unequally and as lower than their urban counterparts (Chan et al. 1999; Chan and Zhang 1999; Mallee 2003). The rural-urban divide shaped by the *hukou* system survives and even deepens with the process of market transition in China (Chan 2010; Chan and Buckingham 2008), as the Gini Index between rural and urban people is larger than before. The *hukou* reform has not essentially tackled the root of the inequalities.

A number of empirical studies support the above view. Comparisons between rural and urban people, including income gap, access to welfare benefits, educational opportunities and policy evolution show a distinct gap between rural and urban people (Whyte 2010). The studies illustrate the notoriety of the *hukou* system in shaping inequality, and researchers claim that the Chinese Government is deliberately maintaining the *hukou* system. For instance, Wang (2005) and Chan (2010) consider that maintaining the rural-urban divide through the *hukou* system could take advantage of China's prices to absorb more foreign capital and ensure a competitive position in the global economy. The logic is that as long as the rural-urban inequalities exist, they contribute to the *hukou* system.

One could question whether the inequalities between rural and urban people will terminate once the *hukou* division is abolished. The importance of the *hukou* system lies in its profound penetration into other institutions and opportunities. Some studies (Ma 2006; Zhao 2008) also suggest the attitude¹⁹ of the central government has been changing since 2003, with several regulations on employment, social security and construction of a new socialist country²⁰ appealing to local governments who wish to improve the policy favouring rural labour mobility and the provision of services to rural migrants (Li 2010). The purposes of these policies are to shorten the rural-urban gap and reduce the conflicts arising from social inequalities and the increased wage gaps.

¹⁹ The new government, organized by Jintao Hu and Jiabao Wen and formed in 2003, emphasizes rural development and the establishment of a harmonious society in China. It considers migration and urbanization are the most feasible solutions to the problem of rural-urban disparity.

²⁰ Refer to Hoering (2008). The Chinese Government finally decided to rescind the agricultural tax throughout the country, which is a change of epoch-making significance, and CCP promised to deliver tangible interest to the farmers and target practical results rather than formalism.

Also refer to http://www.bjreview.com.cn/special/third_plenum_17thcpc/txt/2008-10/10/content_156190.htm

Li (2010) outlines the major measures undertaken.²¹ (1) The State Council required municipal governments to eliminate most of the cards issued to migrants and to abolish all fees imposed on migration in 2004. (2) Since 2004, the Chinese Government has initiated training programs for rural migrants, with costs shared by the central and provincial governments. For instance, the “Sunshine Project” started with training 2.5 million rural migrants in 2004, and the number of trainees aimed to reach eight million each year between 2005 and 2008. The subsidy for each trainee has also been increasing over the years. (3) The State Council in 2006 further established a joint committee to coordinate rural migrants’ affairs among ministries. Each county set up an office to deal with inquiries by out-migrant workers regarding employment and rights protection. Furthermore, city governments are required to take responsibility for schooling migrants’ children. Some cities have eliminated the additional school fees charged to migrant children, and some cities have begun opening all public schools to migrant children or providing subsidies to schools admitting migrant children. (4) The New Labour Law was passed by the National People’s Congress in June 2007, and implemented from January 2008. The law concerns the protection of employees’ rights and wages. The law was expected to protect employees in terms of employment opportunities and payment, particularly the rural migrant workers with temporary jobs or short-term contracts in terms of employment opportunities and payment. (5) The Social Insurance Law was passed during the 11th session of the Standing Committee of the National Peoples’ Congress of China on 28 October 2010, to take effect on 1 July 2011. The law specifies a common right for all citizens to access and enjoy five forms of insurance—old-age, medical, working injury, unemployment and maternity insurance. It is also expected to benefit rural migrants, as the law allows employees to transfer their insurance across the country, thus overcoming the obstacles under the old regulations that restricted the movement of the migrant population.²²

While some pessimistically see the *hukou* system remaining untouched, others more optimistically see the rural-urban divide being significantly reduced by the recent regulations and changes in attitude towards the *hukou* system. Greater employment opportunities in cities and towns, more integrated policies for rural-urban migrants and improvements to agricultural production in rural areas to attract migrants back are all helping to reduce the effect of *hukou* on people’s opportunities. Recent shortages of rural migrants²³ mean that the peasants have more choice to

²¹ Also refer to Naughton (2007, p. 134).

²² Refer to Xinhua (2010), China’s top legislature adopts social insurance law to safeguard social security funds, http://news.xinhuanet.com/english2010/china/2010-10/28/c_13580127.htm

²³ The shortage of rural migrants first occurred in 2004. After the Spring Festival in 2011, the usual time of influx of rural migrants to the cities, many employers, especially the labour-intensive sectors, were reported to be faced with severe labour shortages. Refer to news on the web: <http://www.theepochtimes.com/n2/china/china-faces-labor-shortage-in-2011-51439.html>, “China faces labor shortage in 2011”, http://news.xinhuanet.com/english2010/indepth/2011-02/19/c_13739584.htm, “labor shortage in China reflects shifting situation, plus changing mindset of migrants”.

farm in the rural areas, work in the large cities or move to small nearby towns. The following excerpt from *China Economic Review* illustrates the current labour shortages in urban China:

Cities in China are now competing for migrant workers due to growing labor shortages as industries transfer away from coastal cities and move further inland.

Previous labor providers of less-developed regions, such as Central China's Hubei and Sichuan provinces, have rolled out stronger policies to persuade migrant workers to stay home rather than work in coastal areas.

Zhou Haiwang at the Shanghai Academy of Social Sciences attributed the nationwide lack of manpower to relatively slower growth of the labor force in comparison with the country's fast-developing service economy.

Wuhan, capital city of Hubei province, held 12 large-scale job fairs for migrant workers in one day and some companies in the city like Foxconn Technology Group's Wuhan plant set up booths at the railway station to hire workers. (*China Economic Review* 2011)

Labour shortages not only reflect a demographic transition, but also increase labour opportunities in the places of origin. With different regions competing for migrants, it is expected that the Lewis turning point is occurring in China, and migrants "voting with their feet" will eventually drive policy change (Cai 2003, 2008). The ongoing processes of deinstitutionalization during China's transition have led to the *hukou* system being incompatible with a market economy and generally ineffective: "the process of deinstitutionalization includes changes not only in the core institution itself, but also in other institutional elements, such as political opportunity structures, market regularities, norms formed around collective identities, dynamics of collection, etc. that are closely associated with it" (Ma 2006, p. 1). Therefore, the *hukou* system cannot stand alone, but in combination with other institutions at different levels is forming a complex institutional matrix.

Despite different evaluations of the reforms to the *hukou* system, consensus has been reached on the profound impacts and penetrations of the *hukou* division into other institutions, including employment opportunities, welfare entitlements, education, housing and so on. Essentially, the debates on whether the *hukou* reforms stagnate or continue to progress are based on different perspectives of how the *hukou* system can be abolished. Pessimists see abolishing the *hukou* status division as a catalyst leading to a shattering of the dualism in other institutions. Abolishing the *hukou* categories could lead to other essential institutional reforms. However, optimists see the different categories of *hukou* status—agricultural *hukou* vs. non-agricultural *hukou*, local *hukou* vs. non-local *hukou*, or other newly emergent categories—only as labels. They consider it more important to reform the underlying institutions and break down the relationship between those institutions and the *hukou* division (Tao and Du 2008). By reducing the opportunities to allocate *hukou* categories, the *hukou* division will finally lose its significance. Optimists think the market is the major influence on dismantling the barriers of the *hukou* system. Their quandary is what should happen first: abolish the *hukou* division or reform the institutions.

2.4.2 *Who Benefited and Who Suffered?*

Identifying who benefited and who suffered in the *hukou* reforms is not straightforward, because simply comparing rural with urban does not cover the whole population during the entire state socialist period. One needs to consider *hukou* status (rural or urban), regional factors (hierarchical cities) and local economic development. Studies that focus only on the rural-urban divide tend to over-emphasize the rural and urban *hukou* differences and ignore any regional disparity.

Regional disparity has been discussed in several studies. Cheng and Selden (1994) were the first to discuss spatial hierarchies in China, and how the *hukou* system not only prioritizes the city over the country, but is also affected by hierarchies among and within urban areas. Wu and Treiman (2004) found that education, party membership and military service facilitated *hukou* mobility from rural to urban areas under the socialist regime, while rural *hukou* status significantly decreased educational opportunities and the chance of gaining party membership. While their findings confirmed the difficulty of obtaining urban *hukou* for peasants, they did not investigate permanent migration from one urban place to another or the urban *hukou* hierarchies caused by the closure of urban resources. Lu (2008) identified that the rural-urban divide and *hukou* hierarchies are the main features of social stratification in contemporary China. Therefore, comparisons need to be made between rural and urban people as a whole, but also between rural and urban people at different hierarchies of cities, temporary rural-to-urban migrants and temporary urban-to-urban migrants at different hierarchies of cities, and permanent migrants and temporary migrants at different hierarchies of cities. However, most studies compare migrants and non-migrants, rural-to-urban migrants and local urban residents, while the spatial hierarchies are rarely considered.

Data comparing different social groups in different hierarchies of cities are difficult to obtain, so identifying who benefited and who suffered from *hukou* reform is hard to determine. A common opinion is that the reforms indeed integrated the rich, highly educated and highly skilled migrants, but that most rural-urban migrants are still treated as temporary migrants, deprived of the rights available to the local urbanites (Li and Zhang 2004; Wang 2006).

Some studies suggest the urban *hukou* has somehow lost its attraction for rural people. Some rural-urban migrants find living costs in the large cities unsustainable, and even if they were granted local urban *hukou* it would be very difficult for them to settle permanently. To some extent, social integration is more than *hukou* transfer (Li and Zhang 2004), which means that even though the *hukou* transfer might now be easier, rural-urban migrants are less motivated to obtain the urban *hukou* at their destinations if the market opportunities and increased earnings do not meet their expectations. Mao and Wang (2006) investigated why suburban farmers in Zhejiang Province refused to transfer their *hukou* status from rural to urban, and found that the peasants feared losing their land rights and were not confident that the urban *hukou* would guarantee a better life in the city.

The above discussion highlights how the *hukou* reform in urban China has generally benefitted those who are rich, highly educated and skilled. The impacts of the *hukou* reform need more examination in regards to different hierarchies of cities. Living costs in metropolitan China have been soaring in recent years, making the threshold for obtaining local urban *hukou* very high, and yet obtaining local urban *hukou* does not guarantee migrants a better life. As a result, attaining local urban *hukou* is not particularly attractive to suburban peasants in developed regions. As land rights are still closely related with rural *hukou* status, not all Chinese peasants are willing to give up their land rights to obtain urban *hukou*. Especially for low-skilled rural people, the land guarantees a basic life.

2.5 Conclusion and Discussion

This paper has reviewed the continuity, changes and debates of the urban *hukou* reform in contemporary China. The rural-urban divide is a dominant feature of social inequality in China and the most distinctive feature of the *hukou* system is how it manages the rural and urban populations. Yet the *hukou* reform since the 1990s has not been limited to this dualism. Changes have come from market orientation and economic restructuring, with trends of decentralization and commodification quite obvious in the *hukou* system reforms. Decentralization in the *hukou* management means that local governments now have complete autonomy in absorbing or excluding individuals. Local governments maximize their local interests by including the most wanted migrants and taking advantages of the low-skilled, cheap rural labour force. Commodification is an instrument adopted by local governments to attract rich, highly educated and highly skilled migrants to settle in the cities. These thresholds are too high for most rural-urban migrants and also for many urban-to-urban migrants. Generally speaking, elite cities such as Shanghai and Beijing strictly control their *hukou* quotas for outsiders, and the cost of obtaining local *hukou* there, even in suburban areas, is the highest. The costs decrease for the 2nd tier cities—provincial capital cities and large cities—and the 3rd tier cities—small towns and cities.

Changes in the *hukou* system since the 1990s have also reflected changes in exclusion mechanisms in China. Unlike the state socialist period, when agricultural or non-agricultural *hukou* almost decided the destiny of a person and *hukou* transfer was the major way of realizing social mobility, market mechanisms in contemporary China now play an increasingly important role in allocating opportunities and resources. First, the economy is more market-oriented and GDP growth is an important measure of political credentials for local governments. Driven by economic interests, local governments act more independently in developing the local economy and they act as both economic regulators (sometimes economic participants) and public policy implementers. This results in local governments increasingly using market mechanisms to select wanted migrants and exclude the unwanted. Obtaining urban *hukou* is closely bound to the sale of the commodity

apartment in Chinese cities. Second, as the tension between authoritarian control and the spontaneous order became hard to ignore, the *hukou* system itself started experiencing “deinstitutionalization” (Ma 2006). The *hukou* system could not function as well as it did under the state socialist China. Some local governments expect to control migration through the *hukou* management, but it does not always work effectively and numbers of temporary migrants increase faster than anticipated. Geographical movement not controlled by *hukou* implies that other factors, such as employment opportunities, are gradually acting independently from a person’s *hukou* status.

The new political orientation of the central government signals more tolerance for progressive reforms and facilitates more public criticism of the *hukou* system. In this more open political atmosphere, intellectuals discuss equal treatment and complete citizenship for rural residents (Ma 2006). This paper summarizes two aspects of the debate on *hukou* reform in China. The first aspect questions whether reform makes any essential progress, and is concerned with different approaches to abolishing the *hukou* system. One approach sees abolishing the *hukou* division as the prerequisite, while the other approach suggests that reforming the institutions underlying the *hukou* system would eventually lead to dismantling of the *hukou* division. This paper argues that this second approach is probably more suitable for China’s development, for three main reasons. First, abolishing the *hukou* division was unsuccessful in the Zhengzhou reforms; the local government was obviously unprepared for the large influx of population and the infrastructure could not support the newcomers. Second, China’s progress after the economic reforms has been one of gradualism. Social stability and maintenance of CCP’s political dominance have been paramount. Therefore, the Chinese Government cannot abolish the *hukou* division overnight, but is more likely to reform it in a gradual way. Finally, the market economy has essentially affected the correlation between *hukou* division and allocation of resources.

The second debate concerns comparisons among different social groups—who has benefited and who has suffered in the *hukou* reform. Comparative studies are still rare in the literature, and those that exist mostly compare the rural-urban migrants with local urban residents, or migrants with non-migrants. The *hukou* hierarchies—such as the differences between urban *hukou* in metropolises and rural *hukou* in suburban areas, or between rural *hukou* in developed regions and urban *hukou* in inland regions—have received little attention. The main concern is whether the transfer of *hukou* status will guarantee the migrants get better employment and payment, as the land associated with the rural *hukou* status is a means of security in rural China. If the rural migrants could not live a protected life in the city while they were deprived of land rights, they would become landless poor in the city.

Social exclusion of rural-urban migrants is elaborated from five dimensions (see Table 1.2, p. 24) in this thesis. This chapter addressed the dimension of social exclusion of rural-urban migrants from institutional aspect: the *hukou* system and its continuity and changes of the *hukou* system since the 1990s. This chapter argued that institutional matrix (other institutions related to the *hukou* system) and the *hukou* system need to be reformed simultaneously. Discussion of other dimensions of social exclusion will be discussed in details in the following chapters.

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