

## VIEWPOINT

# Reform and the HuKou System in China

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### Abstract

China created the dual HuKou system in an effort to modernize and manage rural to urban migration. The system restricted the mobility of most Chinese and limited rural peasant migration. In 1978 the demand for labour increased rapidly and rules controlling migration, including the HuKou system were loosened to encourage relocation. The establishment of a semi-capitalist market system in 1991 further encouraged the flow of labour and forced the liberalization of some aspect of the registration policy and by 2014 and in response to continued growth the Chinese government implemented a unified HuKou system to build equality among rural and urban citizens. In this brief, we review the reforms and argue that the HuKou system can play an important role in Chinese development.

**Keywords:** HuKou system; rural-urban migration; equality; population and development.

### Introduction

The Chinese government in an effort to manage its rural and urban populations and to build its capacity for agriculture and industrial growth introduced the HuKou system in 1949. A series of government reforms ensued including those of July 2014 that eliminated the dual rural/urban nature of HuKou to better address inequality in residency and build more equitable access to federal services for all Chinese. The reforms challenged long held beliefs concerning the meaning, role and value of rural and urban China to the construction of the nation as well as the inequalities, practices and difference that separated populations living in rural areas from those living in cities.

Much of the contemporary research on the HuKou system follows one of three paths. First, there are researchers who explore the challenges it has created for coordinated rural and urban development as well as the rift HuKou can generate between urban and rural populations (Yang, 2010). For many, HuKou was a barrier to development and modernization. It limited the growth of

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equality and hindered the free flow of labour concentrating industrialization in eastern cities and in the process exacerbating social the rural-urban divide (Wang, 2003; Liang, 2013). HuKou was defined as a major obstacle to rural migrant workers as they settled in growing cities and accessed jobs; and it was the main reason those very same migrant workers had lower salaries (Wu, Z Zhuoni, 2014; Qiao, Q Xueya, Y Xianguo, 2009). A second area of investigation focused on the direction of reforms and the role the government must play if the HuKou system is to improve economic well-being and create opportunities for rural migrant labourers (Qiao, Q Xueya, Y Xianguo, 2009; Yan, 2010). The third area of research focused on (and critiqued) the influence of HuKou on rural families as well as the burden migrants shoulder and that were associated with compulsory licensing and residency permits (Wang, 2012) as well as the role that licensing and residency permits played in limiting and concentrating economic development (Zhao, 2012).

Our paper compliments these lines of investigation and asks, what is the potential for reform in light of the government's latest HuKou policies? We begin with the opening of China in 1978 and some of the earliest reforms made to the HuKou system by regional and state governments. In the second part of the paper, we focus on regional changes to the HuKou system, as well as differences in registration and residency rules that followed the introduction of market reforms in 1992. In the third part of the paper, we examine several contemporary reforms to HuKou that date to the last few years and that were made in response to market liberalization and shifts in economic planning by the government. In our conclusions we argue that the latest reforms to HuKou begin to resolve some of the challenges that were central to the original system and that demand resolution as China moves into the future and some of the inequalities that were rooted in the dualistic nature of rural and urban HuKou.

### 1979—1991: Loosening of the HuKou System

China's economy opened to outside involvement and investment in 1978. The country's workers, particularly its rural workers, found themselves able to move in response to economic growth, development and new opportunities. Growing foreign-investment and some privatization as well as a shift toward supply-side development lead to rapid industrialization and brought several changes to HuKou system.

Building on the movement of rural peasants to rapidly expanding urban centres, The State Council published *A Document on the Issue of Peasants Settling Down in Cities* in October 1984. The report directed local governments to support the integration of rural peasants, to allow them to register in urban centres and to allow those cities to count these new immigrants as part of their non-agricultural population (Ho, 1994). These changes were amplified in 1985 by the Ministry of Public Security in *Interim Provisions on the Management of Transient Population in Cities* published in July.

The interim provisions abolished the rule that limited temporary city resident to no more than three months residency in urban centres without changing their resident status or returning to their communities of origin (Yusuf and Saich, 2001). The National People's Congress published *the Regulations on Resident Identity Card* in September of the same year. And while the rule required any citizen over the age of 16 to apply for an identity card, it loosened HuKou system rules to allow for job access that might supersede regional identities. In response, rural peasants migrated in ever larger numbers to growing cities with more than 6.5 million Chinese youth settled in cities (Yang, 1994:146) and more than 2 million working couples were reunited (The ministry of public security administration, 2001: 389).

In 1989 at least 30 million Chinese had relocated and large cities, including Beijing, Shanghai and Guangdong, established “migrant workers” zones with names like “Zhejiang Village” and “Henan Village.” While reforms reached the entire nation by 1990, there was a great deal of systematic abuse. For example, many people sold false urban registration cards to rural peasants (for details on the costs and outcomes, see Yin and Qihong, 1996: 14). Though the state tried to control these abuses, it is estimated that more than 3 million peasants had purchased urban HuKou documents generating over 25 billion Yuan for the black market by the end of 1993 (Yan, 2008).

Residency control remained a challenge for local and national governmental programs. In response, the State Council published *A Notice on Strictly Controlling Excessive Growth of ‘Urbanization’* in 1989 to manage movement and reduce the abuse of the HuKou system. Unfortunately, these reforms tended to isolate rural peasants and limit their access to state funded programs. In other words, HuKou policy was still a barrier that effectively separated rural and urban Chinese.

### 1992—2013: Opening of the HuKou System

Market reforms continued as urbanization and industrialization accelerated a new round of changes to the HuKou system that began in 1992. First HuKou policy was updated to ease residency requirements and facilitate the movement of highly skilled individuals as they relocated to big cities (see the 1994 policy statement from Shanghai’s city government: *The Provisional Regulations on Management of Blue Stamped Residence Registration*). People who invested one million Yuan in designated areas, bought commercial properties, held professional title or a stable job could apply for “blue stamped” residence registration. Through “blue stamped” residency rural Chinese citizens could become urban citizens and the policy was adopted in the cities of Nanjing, Tianjin, Guangzhou and Shenzhen (Vendryes, 2011). Even Beijing introduced a version titled the “work lodge certificate.” In 1999, the Ministry of Personnel and the Ministry of Public Security extended the program to include a resident’s spouse and in 2011 to include several more cities. Guangzhou, Shenzhen, Zhuhai and Dongguan implemented a “point system” whereby rural migrant

workers could accumulate points toward their residency effectively establishing a new HuKou system.

A second reform established special zones and new districts to promote economic development and high-tech industrialization in growing cities. The Ministry of Public Security created a special registration system for these special zones in 1992, establishing two residencies for all involved – the rural or urban HuKou of an individual's family and a second HuKou defined in relation to the special zone and work. This change added flexibility to the dualistic nature of HuKou and allowed rural peasants to access opportunities in cities (including jobs, education and welfare) without losing their traditional connections to home villages. Nevertheless, the program was unidirectional and focused solely on the movement of “successful” rural citizens to only a handful of growing cities; limiting the benefits others might experience (Bach, 2010).

The third major change to HuKou built upon reforms to rules that restricted residency for rural peasants. In 1997, the Ministry of Public Security and the State Council published the *Pilot Scheme for Reform of the Hukou System in Small Towns and Instructions on Improving the Management of Rural Hukou System*. The reforms allowed rural peasants to register as permanent residents and settle in small towns where they might enjoy equal treatment to those citizens with an urban HuKou. This policy was a boom to peri-urban development and in about two years had led to the migration of over 1/2 million rural Chinese to 382 towns across the country (Wang, 2003). According to the *Instructions* applications for permanent residence in small towns were no longer tied to specific targets and settlement was not linked to federal programs; rather, rural migrants and “blue stamped” residents became equal to local urban Chinese. The State Council formalized much of these reforms in 2012, under its *Notice on Actively yet Prudently Pushing forward the Reform of Hukou System Management* and the belief that the government should guide the non-agricultural industries and rural population transfer to small and medium-sized cities and designated towns to build toward rural/urban equality.

The demand for labour in an expanding market economy and China's role as the “world's factory” the nation's workforce pressured the government to allow for workforce growth that could keep pace with growth. In response, a fourth reform to the HuKou system eased residency rules, helped rural Chinese to settle in growing cities and boosted internal consumer demand (see Rietig, 2014).

While the reforms opened rural and urban China to new opportunities, they lost much of their legitimacy in 2003 following the publication of *Administrative Permit Laws* that limited temporary changes (including the benefits associated with urban life) and directed most rural peasants to return to their rural homes as defined by their “natural” residency or rural HuKou. In other words, while there were many reforms, the agricultural HuKou still created serious barrier for rural peasants who wanted to resettle in cities and urban centres. In Beijing the limits on reforms banned migrants from several occupations (a total of 103

different careers), housing and services to anyone who wasn't formally recognized as a city resident (see chapter 16 in Li, 2002). Peasants were often forced to choose jobs that were stigmatized and viewed as culturally inappropriate for city dwellers or lived "shadow lives" on the margins of formal society where they became part of a largely hidden underclass an underclass that lacked representation, voice and continued to challenge reforms.

While the HuKou system was gradually opened between 1992 and 2013 and the breach separating urban and rural areas in China was addressed the changes were not permanent and not always successful. Reform was largely dependent on city leaders and their interpretation of the system, their expectations for reform and their plans for the future (see Liu, Stillwell, Shen and Daras, 2014). Changes were further mediated by complexities that lie well outside the purview of local or even state leaders and involved long held ideas concerning the differences between rural and urban populations. Finally, while changes were often focused on specific individuals with unique skills or on special zones tied to specific industrial processes, rural Chinese were ignored and overlooked. Thus, for all the changes, the HuKou system continued to block toward the free flow of people and the integration of rural and urban China (and see for example Fan, 2003).

### **Contemporary reforms: Integrating Urban and Rural HuKou**

The dual HuKou system with its unique set of rural and urban regulations limited the development of Chinese society and social justice in addition to the nation's economic integration (Young 2013). In response to continued problems and building upon the local changes fostered by the reforms of the 1990s and early 21<sup>st</sup> century, the Central Committee of the Chinese Communist Party (CCP) rethought and reformed HuKou registration. In *The Decision on Major Issues Concerning Comprehensively Deepening Reforms* the government relaxed control over rural peasants settling in towns and small cities. The CCP also relaxed restrictions barring rural peasants from settling in medium-sized cities, established a set of reasonable and easily met requirements for rural residents to obtain HuKou in large cities, and defined optimal populations for megacities. In March 2014, the CCP, under the direction of Prime Minister Li Ke-qiang granted urban residency to rural people who had moved to cities and implemented further reforms to HuKou policy that had no time limits. While these reforms did not address the rural-urban inequalities that define two distinctive populations; the government did successful revise the residency system for potential migrants and rural Chinese peasants who might settle in urban areas in the future. Two important outcomes of these reforms were first to reunite children with their parents in cities and grant those children the right to attend school including secondary school and college; and second, to guarantee vocational training for unskilled and/or under skilled rural migrant workers.

The State Council issued *Instructions on Further Promoting Reform of Hukou System* in July, 2014, and argued for adjustment to internal migration

policies that would effectively end the separate rural and urban HuKou systems. The new residency program addresses inequality and seeks to establish a people-oriented, standardized HuKou system by 2020 that will support the movement of rural, agricultural workers and peasants (Knight and Song, 1999; Kochan, 2009). This new policy shifts HuKou from a system that classified rural and urban Chinese and effectively separated the populations to a system that manages populations and supports the growth and development of China's working class.

The Legislative Affairs Office of the State Council published the *Regulations on Residence Permit Management (Exposure Draft)* in December 2014 to collect social opinions on the changes that were proposed and to outline the public services that the new residency rules will permit including equal rights to free education, non-discrimination in the work place, the expansion of vocational training, employment support, housing, pension services, social welfare, social assistance, and their family reunification. Regardless of these changes, rural peasants tend to be sceptical of the reforms and given their experiences they often hesitate to embrace new HuKou rules. Many peasants have no intention to settle permanently in Chinese cities. For example, only 10.7% of rural Sichuan migrant workers are willing to transfer their residency and accounts to urban settings (Gu, August 25, 2014). These peasants worry about the detail of the new policies that have yet to be fully worked out and the inequalities that continue to define rural and urban China. Furthermore, HuKou reform is not just a change of the residence booklet, but it is associated with access to work, education, health care and more. The reallocation of resource also creates some friction between older urban residents and new rural immigrants (and see Iredale, Bilik, Su, Guo and Hoy, 2001).

Peasants are also reticent to trade on their HuKou and give up the benefits that come with their rural HuKou. Peasants hold "three rights" (the right to land and its management, the right to a homestead and the right of collective income distribution), and they are not ready to trade those benefits for the right to settle in a city. Complicating the changes, the gap between rural and urban living standards as well as access to resources is narrowing. Direct subsidies to grain producers, rural cooperative medical service and the preferential policy of family planning along with the "three rights" are difficult to give up (Bach 2010). And while the traditional system did not always maximize incomes, it did minimize risks. As a result, rural Chinese may choose to keep their HuKou residencies and avoid the risk of urbanization even as reforms encourage relocating to cities and share in the opportunities they hold (Young 2013; Yusuf and Saich, 2008).

### **Conclusion**

The HuKou system was established to foster development, ease the rural-urban divide and aid the newly formed central government as it planned for change. Unfortunately, rather than driving change and building equality, the HuKou system divided rural and urban Chinese and stifled development.

Urban Chinese benefited from their place in the HuKou system, pushed rural Chinese peasants into the shadows where they could not access urban programs and advantage residents in the country's growing cities who continued to see themselves in a privileged position vis-à-vis the rural poor. In comparison, rural Chinese typically suffered under the HuKou system and lives that were defined by disadvantage, extreme poverty and deprivation. Rather than a vehicle for reform, the HuKou system became a symbol of status that differentiated urban and rural populations and did little to address social inequalities or the biased distribution of resources.

Contemporary reforms hold the potential to transform the HuKou system and to do so in a way that is not limited to a select group of cities as was the case in the late 1990s and early 21<sup>st</sup> century (Wang and Cai, 2007). The state and the CCP have begun to build upon earlier successes and in *The Decision on Major Issues Concerning Comprehensively Deepening Reforms* they have set the stage to close the divide that continues to separate rural and urban Chinese. Reforms should reduce the barriers that limit rural Chinese from settling in cities. They should also open access to goods and services that will foster a sense of equality and balance between rural and urban communities. Reforms will also allow the state to better manage and work with rural migrants who can “come out of the shadows” and access opportunities in the open (Fan 2003; Knight and Song, 1999).

The potential for reform to the HuKou system and to mending some of the inequalities that define the local population are quite strong and positive given the success of the small scale, local programs that were implemented by cities in the 1990s and early 21<sup>st</sup> century in an effort to better manage rural-urban divisions and labour needs.

We believe that continued reforms are inevitable given the growth of the Chinese economy in terms of both consumption and production. The opportunity is ripe for growth through state managed development as well as private investment. HuKou reform should build upon these opportunities reject the inequalities that define life and close the divide that separates rural and urban Chinese even as it fosters policies that address challenges to the state's educational system, labour markets, capital markets, consumer credit and continued growth.

HuKou reform can establish a system that is an integral part of China's development. Rather than limiting access and opportunity, reforms should grant rural Chinese peasants the same rights and opportunities that are often reserved for city dwellers, remove obstacles that limit the free flow of people and families, and foster equality under the law and as defined by civil codes. We hope that the most recent round of reforms that are envisioned by the state and that build upon the experiences of cities throughout the country are only the first step in a continued process of growth that will accelerate as China continues to develop.

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