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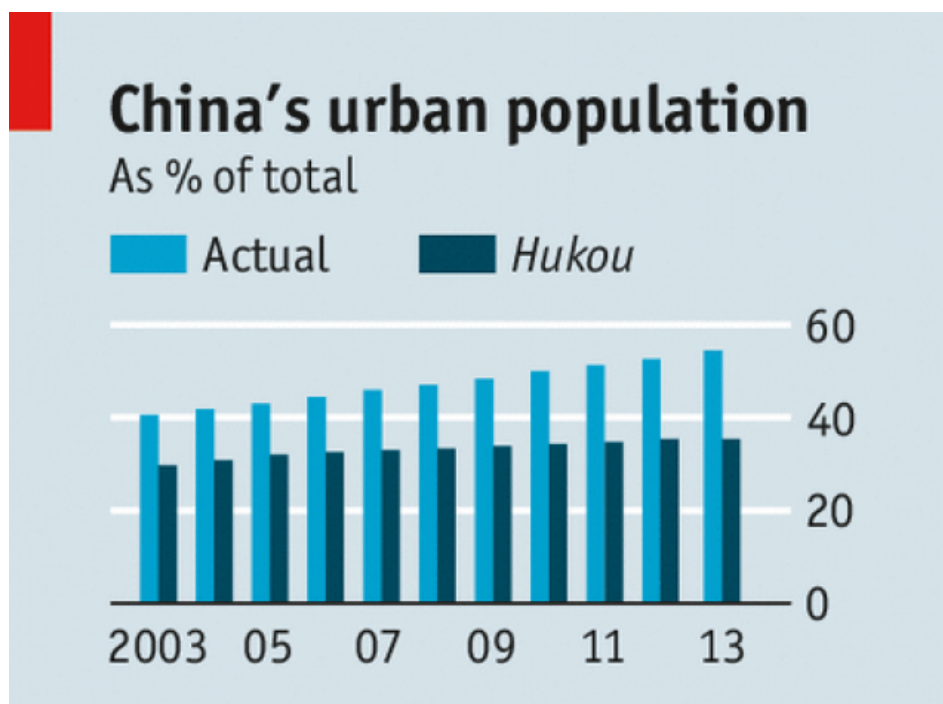
China's cities

## The great transition

*The government is right to reform the "hukou" system, but it needs to be braver*

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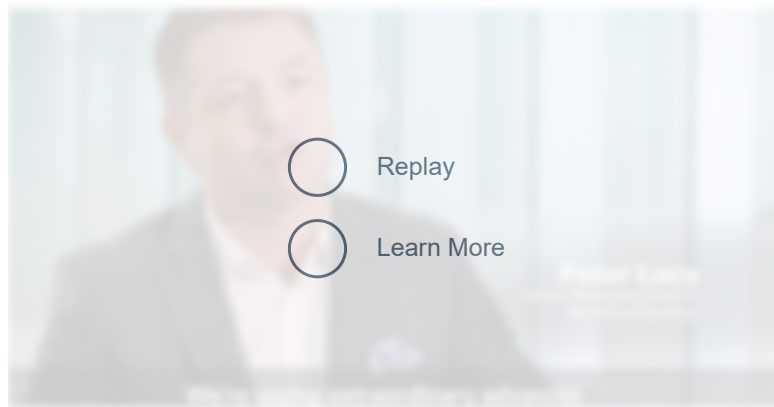
Mar 21st 2014



CHINA'S future is now firmly urban. Already around 54% of its people live in cities —and the proportion is rising fast as ever more jobs are created in offices, factories and construction sites, luring ever more people from the countryside. There are now around 250m rural migrants living in cities. Despite many wobbles, in the property market (see [article](#)) and elsewhere, this extraordinary revolution has been surprisingly smooth: there are, for instance, very few shanty towns of the sort you see in Brazil or India. Yet at the heart of prosperous, urban China sits an enormous inequality, based upon the *hukou* system of household registration.

To have full access to schools and hospitals in the cities at subsidised urban costs, you must have an urban *hukou*. But if you were born in a rural area then your *hukou* (and that of your children) is registered there—and changing that is very difficult. Only 36% of China's total population are urban *hukou* holders. This has, in the past, helped control the flow of people and kept urban labour costs down while letting the new urban middle class retain their privileges.

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The first generation of migrants was happy just to get paid more in the cities. Now many complain about how unjust the system is, and it has begun to look politically dangerous. The labour of these poor migrants built China's new cities; and they and their children form an increasingly angry urban underclass, unable to live the "Chinese Dream" being touted by China's president, Xi Jinping.

That explains the importance of the government's long delayed "people-centred" plan on urbanisation, released on March 16th (see [article](#)). It wants 60% of China's people to live in cities by 2020, putting it broadly in line with the current average for countries with similar income levels to China, and it wants 45% of them to have full urban *hukou*.

This is a huge change. It involves giving full urban *hukou* to 100m of the 250m migrants. It could be a significant boon to the economy, too, enabling migrants, who now save a large proportion of their wages because of fears about the cost of health care, to consume more. But the plan should have gone much further.

**You say you want an urban revolution**

There are two main areas where it falls short. First, the *hukou* liberalisation focuses on cities with under 5m people. Yet most new jobs are being created in the 16 big cities with populations of more than 5m, and most of the dodgy government debt seems to be concentrated in the smaller cities whose officials are therefore unwilling to fork out for benefits for new urbanites. Large cities can give urban *hukou*, but only on a complicated points-based system which tends to favour the prosperous, giving graduates and skilled workers a better chance. When tried elsewhere, that ends up allowing mainly the elite to migrate. The points-based system should be scrapped and the door opened faster and wider.

The second problem is bigger. Though migrants hate the way they are discriminated against in cities, many are nervous about accepting an urban *hukou*, even if offered, as they do not see it as a reliable source of security. Urban welfare systems are so new and so imperfect that migrants doubt, with good reason, that they will be able to draw on unemployment benefits or a promised pension, especially if they move to another city. So they keep one foot in the countryside, holding onto their tiny patch of land and never making the break. Even if they want to sell their land, they are still not allowed to do so. The plan thus needs two other important strands: more cash for public services in the cities, and allowing the establishment of a rural land market, so that the buying and selling of land could help enrich farmers just as it has enriched urbanites.

These are massive changes. But success in the next stage of China's epic modern development depends on them. Only then can it become the urbanised, modernised nation it longs to be, and only then can the Chinese Dream become reality.

**Correction:** This article originally said that only 36% of people who live in cities qualify as residents there. It has been amended to clarify that in fact 36% of China's total population are urban *hukou* holders.

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