# 2. Five decades of the Chinese *hukou* system[1]

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## 2.1 INTRODUCTION

The annual, epic-scale mass movement of humanity in China during the Lunar New Year interlude, involving about 100 million people travelling long distances by train and bus, has become a perennial spectacle in the world's media. *The Financial Times* has called it 'the world's greatest annual human migration'[2] (Mitchell 2009). The 2009 'spring movement' (*chunyun*), as it is called, may have been the largest ever then (*China.com* 2009a), and one of the most logistically challenging in recent years. Each year, for almost an entire year, the great majority of the 130 million migrant workers[3] are separated from their families, and the Lunar New Year break is the only time when they can unite with family, thereby giving rise to this annual circulation. This also poses the question of why there are so many dislocated people to begin with, especially in a society that arguably has a long tradition of valuing family togetherness. The answer lies mainly in an institution, the household registration or *hukou* system that is responsible for this 'forced' separation of families from their breadwinner. This not-so-well-known system has played a significant role in China's spectacular rise on the economic front during the last three decades. It is perhaps China's best-kept 'secret' behind its recent unprecedented economic success.

The *hukou* paper, which records attributes of a household, has been dubbed 'China's No. 1 Document' for it has the omnipotent power to determine many important aspects of the life, if not the fate, of the majority of China's people (Tian 2003). Since it is location-based, it has also invariably affected people's identity, the sense of belonging to the community and place and their political attitudes (Friedman 2013). The year 2008 marks the semi-centenary of the promulgation of the *Hukou dengji tiaoli* (Household Registration Regulation),[4] a decree that codified the version of the Chinese *hukou* (household registration) system that we know today.

The system is recognized by scholars, such as Chan (1994), Knight and Song (1999), Solinger (1999) and Whyte (2006), as the major institutional pillar underlying the deep rural–urban chasm in China over the last half

century and as a system that discriminates against some 800 million rural residents (Wang 2005; Naughton 2007). The promulgation of this legislation in January 1958 took away one major basic right of the Chinese citizen, the freedom of internal migration and residence, a right encoded in China's constitution[5] for the first 26 years of the People's Republic (Zhu 2003). Freedom of mobility is a fundamental one for it not only gives an individual the opportunity to enhance his/her well-being by moving to a better place or a better job (or joining family) but also it increases the individual's political power to rein in the tyranny of a rogue state by threat of exit (Tiebout 1956; Moses 2006). As far as commodity labour is concerned, geographical mobility gives power to the owner of labour to strike a better deal in the process of selling his/her labour than in a situation without mobility, as in the case of slavery or serfdom.

In short, the *hukou* system is an institution that has affected many fundamental aspects of the life for hundreds of millions of Chinese for more than half a century and been intrinsically related to China's economic development over the last five decades. Most attention in the Western scholarly literature, however, has focused on its role in obstructing migration (e.g. Goldstein and Goldstein 1991; Chan and Yang 1996). Some scholars have become increasingly aware of its much broader ramifications on China's economy and society (see Wu and Treiman 2004; Wang 2005; Naughton 2007; Fan 2008). It is therefore apt at this juncture, 50 years since the introduction of the *hukou* system, to review the entire history of the system by taking stock from a broad socio-political perspective, especially given that this system is likely to last for many more years to come.

Given the complexity of the system and the enormous amount of information accumulated on this subject, the review in this chapter is selective, by necessity. It focuses on the more significant aspects and leaves out the details. By linking and synthesizing several bodies of research on *hukou*-related topics, such as industrialization strategies, urbanization, rural–urban dichotomy, social and spatial stratification, and migrant labour, the purpose and objective of the chapter is to paint a broad picture of the system and evaluate its place in Chinese society.

## 2.2 THE ESTABLISHMENT AND MODIFICATIONS OF THE *HUKOU* SYSTEM

The *hukou* system is often considered as unique to China (Goldstein and Goldstein 1991). While China's system of controlling and regulating internal movements of its citizens is far more elaborate than that in almost all

other countries in the world, a similar system existed or still exists in other (former) communist countries – such as the *ho khau* system in Vietnam and the *hoju* system in present-day North Korea (Dang 2003; Zhu 2003, pp. 539–540). In fact, these migration control systems, including the Chinese model, owe much of their common origin to the *propiska* (residence registration) system utilized in the former USSR. Later communist countries modelled their economic and political systems and their strategies on those of the world's first socialist country (Zaslavsky and Luryi 1979; Mathews 1993; Dutton 1998).

### 2.2.1 Industrialization Strategy and the *Hukou* System, 1958–1983

The system of registering population and households has a long history in China. In the pre-1949 era, the system was used primarily for collecting vital statistics that were needed for tax collection and conscription purposes. In limited instances, the system was employed for controlling certain groups of the population, especially during times of unrest and war (W. Wang 2006). However, the pre-1949 system never functioned in peacetime as a comprehensive, all-embracing social and economic control mechanism. The gradual development of a new, more encompassing version of *hukou* during the 1950s was an inevitable outcome of the establishment of a command economic system which required meticulous planning and control of all macro and micro facets of society and the pursuit of a Stalinist-type 'Big Push' industrialization strategy premised on exploiting the rural sector (Chan 1994; Alexander and Chan 2004; Naughton 2007).

Implementing such a strategy, the state siphoned off resources in the rural sector for capital accumulation in industry through the process of 'scissors prices' (Lardy 1983; Tang 1984; Chan 1994; Cai 2007a). As Yang and Cai (2003) observed, to enforce such an extraction the state needed to exercise coercion using a 'trinity' of tools (institutions) simultaneously: the compulsory procurement and monopoly sale of farm produce; the rural collective (commune) system, and the *hukou* system that controlled population mobility. The first tool was to generate an unequal inter-sectoral exchange while the second and third were designed to ensure the success of the first.

As in many other communist countries, the Big Push industrialization approach was notorious for creating huge disparities between the urban-industrial and agricultural sectors and was bound to generate immense outflows from the countryside, until mobility controls were fully in place. As China pressed forward with this kind of industrialization in the 1950s, large numbers of peasants began to leave the countryside for the

cities. Even though the freedom of migration and residence was freshly enshrined in the first Constitution in 1954, the state took measures to stem those flows by imposing travel document checks and other administrative measures at various major transportation nodes in 1955 to 1957 (Tien 1973). These migrants were derogatively labelled 'blind flows' in the official documents, as if they were aimless troublemakers. It soon became obvious that a more systematic and powerful, coercive mechanism would be needed to prevent or at least regulate such 'undesirable' rural-to-urban migratory flows. It was then that *hukou* came into full play as a central component of the command system.

While the *hukou* system was restored in 1951 to record the residence of the urban population and to track down any residual anti-government elements, it was expanded to cover both rural and urban populations in 1955 (Mallee 1988, 1995; Cheng and Selden 1994). In 1958, the promulgation of a more far-reaching *hukou* regulation (*Hukou dengji tiaoli*) marked the final step of codification in this direction. The 1958 regulation even today represents the only national legislation on migration and residence promulgated by the National People's Congress (China's highest legislative body), and it remains fully in force (Zhu 2003). The decree required that all internal migration be subject to approvals from the authorities at the destination. Each person was classified as rural and urban etc., and for newborns their *hukou* classifications would follow that of the mother.

To carry out the Big Push industrialization, a dual economy and society were deliberately created by the state, based largely on pre-existing conditions. The industrial sector, mostly located in cities, was designated as the priority component of the economy and was nationalized (i.e. state-owned). It was put under strict state management and received strong state support and protection. Basic state-provided social welfare and subsidies for urban workers and their families were also put in place to maintain social and political stability of this subsystem. Although basic, that welfare was expensive, and could only be provided for a small priority sector (about 15–16 per cent of the population in 1955). It was largely maintained at that level until 1978 (see Table 2.2).

The other subsystem was the non-priority, agricultural/rural sector encompassing the rest, roughly 85 per cent of the population. Remaining beyond the state's direct responsibility, it was largely treated as a 'residual', with its main functions being as a provider of cheap raw materials (including food grain), labour and capital for the urban-industrial sector. The rural population and production were collectivized to serve the above functions with the collectives operating, among other functions, as the state's policing mechanism. The farm population, excluded from

state-supplied welfare and subsidies, had no claim on national resources and was expected to fend for itself with the possible exception of times marked by extreme duress or emergencies. Its main task was to produce food grain and raw materials sold at state-dictated (low) prices to support industry, which was monopolized by the state. This allowed the state to tap the monopoly profits of industry for its coffers, for the purpose of implementing the ambitious industrialization programs. By immobilizing the peasantry, forcing them to tend the land at mostly subsistence levels of compensation and excluding them from access to social welfare and the ability to move to cities, this approach created two very different societies. And given the immutable, hereditary nature of the *hukou* classifications, the peasantry *de facto* became an underclass.

To grasp the essence of changes in the *hukou* system and their significance, it is important to understand the *hukou* classifications and the ways of *hukou* conversion. All Chinese nationals' personal *hukou* was categorized according to two related classifications: by *hukou* type and by residential location.

### ***Hukou* type**

The *hukou* 'type' (*leibie*) or 'nature' (*xingzhi*) is differentiated into the 'agricultural' (*nongye*) and 'non-agricultural' (*fei nongye*) *hukou*. Since the early 1960s, this classification has determined one's entitlements to state-provided goods and services, including the critical rationed food grain (called 'commodity grain,' between 1955 and 1992) and many other prerogatives. The *hukou* type originated from the occupational division in China's economy in the 1950s but as the system evolved the 'agricultural' and 'non-agricultural' distinction bore no necessary relationship to the actual occupations of the holders. This distinction between agricultural and non-agricultural status defined one's relationship with the state and eligibility for an array of state-provided welfare. Non-agricultural status entitled the bearer to state-provided housing, employment, grain rations, education, and access to medical care as well as other benefits. The non-agricultural population was loosely considered as the holders of urban *hukou* (Chan and Xu 1985).

One's *hukou* status remained unchanged no matter where the individual moved, unless he/she went through a formal *hukou* conversion. For instance a person with non-agricultural *hukou* status, regardless of the individual's physical location (i.e. whether he or she resided in a town, small city or large city or in the countryside), was automatically entitled to the basic benefits distributed and funded by the government, making non-agricultural status highly desirable and sought throughout the country. Therefore, *hukou* type was very much a social status and an

important consideration, for instance, in the marriage market (Lu 2004). This remains largely unchanged today.[6]

**Residential location**

In addition to the *hukou* type, each person was also categorized according to his or her place of *hukou* registration (*hukou suozaidi*). This was the individual's official and only 'permanent' residence. In other words, in addition to the *hukou* type above, each person was also distinguished by whether he or she possessed a local (*bendi*) *hukou* with respect to an administrative unit (such as city, town or a village). The local regular *hukou* registration defined one's rights to pursue many activities and eligibility for services in a specific locality – a not inconsequential status given that levels and availability of services, even today in 2015, still vary from place to place.

Because of tight mobility controls and monitoring during Mao's tenure, almost all people actually remained where they were 'supposed' to be. The number of people residing in a location different from their *de jure* residence was quite small. Even in the early 1980s when the size of this 'deviant' group began to grow the percentage was still minuscule, accounting for only 0.6 per cent of the total population (Chan 2012b).

Inasmuch as the two classifications mean different things, cities and towns have both non-agricultural and agricultural *hukou* populations residing within them. Conversely, agricultural *hukou* population may exist in the countryside *or* in the cities. Therefore, excluding foreign nationals, the dual *hukou* classifications yield four categories of people (Table 2.1).

As far as rural–urban migration is concerned, the most sought-after move is from B to C in Table 2.1. For this to happen, an individual would have to obtain approval from the state to convert one's *hukou* type from agricultural to non-agricultural (a process known as *nongzhuanfei*) and, subsequently, to change the place of *hukou* registration (from a specific village to a particular town or city). In this two-step process, *nongzhuanfei* was by far the most critical conversion and much harder to obtain. The latter process (residential re-classification) usually came with *nongzhuanfei*. The criteria for obtaining *nongzhuanfei* were stipulated by the central government and were designed to serve the needs of the state. In Mao's period, *nongzhuanfei* was conferred mainly on those persons: (a) recruited as permanent employees by a state-owned enterprise (*zhaogong*); (b) displaced due to state-initiated land expropriation (*zhengdi*); (c) recruited for enrolment in an institution of higher education (*zhaosheng*); (d) promoted to administrative positions (*zhaogan*); (e) relocated because of family crises (such as moving to a city to look after a sick parent); (f) joining the army (*canjun*) and demobilized to cities, and (g) deemed to belong to special categories (either recipients of compensation for past policy mistakes or

*Table 2.1 Major constituent groupings of populations by* hukou *type and location*

| *Hukou* location | Agricultural *hukou* | Non-agricultural *hukou* |
|---|---|---|
| Urban areas | A | C |
| | Rural migrant labourers | Urban workers |
| | Farm workers | State cadres and professionals |
| | Dependents | Dependents |
| Rural areas | B | D |
| | Rural (industrial) workers[a] | State farm workers[b] |
| | Farmers | State cadres and professionals |
| | Dependents | Dependents |

*Notes:*
a In township and village enterprises.
b In state-run agro-enterprises.

*Sources:* Modified from Chan and Tsui 1992; and Chan 1994.

people who had endured personal sacrifices and hardships because of their work for the state). Conversely, people who committed certain crimes could be stripped of their non-agricultural *hukou* status (Yu 2002).

In each locale, the annual quota of *nongzhuanfei* was set by the central government at 0.15 to 0.2 per cent of the non-agricultural population. In practice, the actual rate was higher because people and local officials found ways to circumvent the restrictions. Even so, the overall growth of the non-agricultural population was very slow averaging, for example, 1.47 per cent annually for the period 1966–1976.[7] The bulk of the growth of the non-agricultural population was due to natural increase, which was about 1 per cent during that period. Even if unsanctioned migration is included the overall rural–urban migration rate was very low (Wu 1994), especially relative to China's level of industrialization at that point.

Table 2.2 shows the percentage share of the non-agricultural population in China's total since 1949. As a result of mobility and conversion control, the percentage of non-agricultural population share declined slightly between 1958 and 1980 despite the rise in the non-agricultural share of GDP (Table 2.2). Geographical mobility controls were not only imposed between the rural and urban areas; as with the administrative hierarchy of the command economy, the controls actually encompassed all locales, being differentiated according to the administrative rank of the locale.[8] The result was a spatial hierarchical system with differing levels of control, discussed in greater detail below.

*Table 2.2 Non-agricultural and urban populations, and GDP, 1949–2007, percentage of national total*

| Year | A. Non-agricultural population[a] | B. Urban population[b] | C. GDP of non-agricultural sectors | A − C | A − B |
|---|---|---|---|---|---|
| 1949 | 17.4 | 10.6 | | | 6.8 |
| 1955 | 15.2 | 13.5 | 53.7 | −38.5 | 1.7 |
| 1958 | 18.5 | 16.2 | 65.9 | −47.4 | 2.3 |
| 1965 | 16.7 | 18.0 | 62.1 | −45.4 | −1.3 |
| 1970 | 15.3 | 17.4 | 64.8 | −49.5 | −2.1 |
| 1975 | 15.4 | 17.3 | 67.6 | −52.2 | −1.9 |
| 1978 | 15.8 | 17.9 | 71.8 | −56.0 | −2.1 |
| 1980 | 17.0 | 19.4 | 69.8 | −52.8 | −2.4 |
| 1985 | 20.1 | 23.7 | 71.6 | −51.5 | −3.6 |
| 1990 | 21.1 | 26.4 | 72.9 | −51.8 | −5.3 |
| 1995 | 23.8 | 31.7 | 80.1 | −56.3 | −7.9 |
| 2000 | 26.1 | 36.2 | 84.9 | −58.8 | −10.1 |
| 2005 | 32.0 | 43.0 | 87.5 | −55.5 | −11.0 |
| 2006 | 32.5 | 43.9 | 88.3 | −55.8 | −11.4 |
| 2007 | 32.9 | 44.9 | 88.7 | −55.8 | −12.0 |

*Notes:*
a Based on *hukou* classification.
b Based on *de facto* population.

*Sources:* Calculated by the author from *China Statistical Yearbook* and *China Population Statistical Yearbook*, various years.

### 2.2.2 'Age of Migration' and the 'World's Factory', 1984–Present

Despite the continued stringent control over *hukou* conversions over the past 50 years 'migration' began to rise in the 1980s, culminating in an almost opposite situation compared to the past. This new situation in the 1990s has been called the 'age of migration' by some authors (Liang 2001). This includes the internal physical movement of people changing the place where they ordinarily reside, with or without the conferral of local citizens' rights and the accompanying access to voting, public education, social welfare, and other rights or benefits at the destination.

In the great majority of countries throughout the world, internal 'migration' is not simply physical movement. Migrants, after staying for a period, are usually granted the right to vote and access to social welfare at the destination. What is unique about migration in China is that the two aspects of internal migration (movement and citizenship) can be totally disparate: i.e. one can move to a new place but can be permanently barred

access to community-membership-based services and welfare. People who have moved to a new place but do not possess local citizenship (*hukou*) are referred to as the non-*hukou* population.

The situation of Chinese migrants without citizenship is not unique in the context of international migration. Many so-called 'guest labourers' working in foreign countries, sometimes for years, without local citizenship, fall into this category. But few countries have applied such a system to their own citizens in modern times. In China, this group is commonly called the 'floating population' (*liudong renkou*). Its size has grown rapidly from a few million in the early 1980s to about 221 million in 2010 (Chan 2012b). Its largest constituent subgroup is 'rural migrant labour'.

The goal of reform in the early years of the post-Mao era was to improve the command system then in use and not to dismantle it. Except for rural de-collectivization and the 'open door' policy, the government actually sought measures to reinforce the command economic system. In migration, measures were formulated and implemented in 1978 and 1979 to tighten various aspects of the migration approval processes and the hiring of contract workers from the countryside (Lu 2004). However, with rural de-collectivization, the existence of a large surplus of rural labour soon became obvious and it needed to be accommodated elsewhere.

A small breakthrough occurred with the introduction of a new *hukou* category, called '*hukou* with self-supplied food grain,' in small towns in 1984 (Chan and Zhang 1999). This category applied to migrants moving to small towns who did not have *nongzhuanfei*, meaning that the state was not fiscally responsible for any of the welfare of the new migrants in these towns. A wider door was opened to migration the following year with a national policy of allowing temporary residence (Solinger 1999). People were permitted to move to stay 'temporarily' at a location different from that where they had been registered, including the large cities, but again without local *hukou* and all the associated rights and benefits. This new policy was to accommodate the growing demand for low-cost, low-skilled workers to fill positions shunned by many urban locals and the even larger number of factory jobs created by China's new export-oriented industrialization strategy in the late 1980s.

The exclusionary and discriminatory functions of the *hukou* system have elicited much concern and criticism. Within China, in the last two decades, hundreds of articles have been published on *hukou*, including calls for the need to abolish the *hukou* system and *nongzhuanfei*. Yet despite heightened media attention to the topic in China and elsewhere, much confusion and many misinterpretations persist.

Beginning in the early 1980s, China has gradually implemented various programs to devolve fiscal and administrative powers to lower-level

governments, including the management of the *hukou* system. Local governments have had more control in deciding the levels of both *hukou* and non-*hukou* migration to their respective administrative jurisdictions, especially since the late 1980s. Other measures put into effect include easing *hukou* conversions to small towns where state-provided welfare is minimal (in 1997 and 2001); permitting transfers in family cases that involve either children or elderly parents, when parents or children, respectively, are already urban citizens (in 1998); and offering local *hukou* status to the ones who have money (investors and home buyers) or occupational skills fitting the requirements stipulated by local governments (Chan and Buckingham 2008).

With the end of food grain rationing in 1992 in most of China (Wang 1997) and the localization of *hukou* management, *nongzhuanfei* has lost some of its symbolic and substantive importance for *hukou* migration. A few locales began to experiment with the abolition of *nongzhuanfei* in the late 1990s or, more specifically, the elimination of the agricultural/non-agricultural distinction within the local *hukou* population.[9] The distinction in these places thus simply was between those with local *hukou* and those without. With more local control of *hukou* management, local governments also gained the power to decide the criteria upon which local *hukou* would be granted (called 'entry conditions'). This has become the principal mechanism for regulating *hukou* migration in some locales. In short, what used to be a two-step process in *hukou* migration has now been simplified to a one-step procedure in a few places, such as Shenzhen, Guangzhou and some city districts of Beijing.

An examination of the programs to eliminate the agricultural and non-agricultural distinction within the local population demonstrates that it is not simply a matter of extending benefits to the former local agricultural population (mostly at the urban fringes). Rather, in the great majority of cases, the situation is more complex: local agricultural populations are given a new urban *hukou* (with some welfare benefits) in exchange for their permanent loss of land use right, an asset that can usually provide far greater present and future financial benefits in an urbanizing region (Su and Chan 2005). Some critics have considered this 'equalization' an indirect pillaging of peasants' property (Dang 2008). As for the 'entry conditions' for outsiders to gain a local *hukou*, the conditions were set very high so that only a very select group could qualify – e.g. millionaires who were able to purchase a high-end apartment or make large business investments or those with an advanced degree or professional qualifications. Some spouses and children of existing residents with local *hukou* were also eligible. This has produced some easing in the *hukou* migration system for these select groups.

It is evident from the above that these new initiatives have had little

relevance for the great majority of 'non-local' rural migrant workers and that there has been no fundamental change in the *hukou* system. The increasing prevalence of non-*hukou* migrants has become the hallmark of China in the last quarter century. In the post-1984 period, the one substantive change has been the removal of obstacles to geographical mobility outside the *hukou* conversion framework. This has allowed peasants to make extra incomes by working in cities, supposedly on a temporary basis.

## 2.3 THE IMPACT OF THE *HUKOU* SYSTEM

The impact of this mega social, economic and political system is multifaceted and to some extent dynamic over time. This section focuses on four major dimensions at the broad, societal level, all closely related to China's economic development and social change.

### 2.3.1 Industrialization

In conjunction with other mechanisms, the *hukou* system has been a major institutional foundation for the command economy. Without such a system, China would not have been able to achieve the paramount goal of the command economy – rapid industrialization within a short time,[10] albeit at very high cost, during the early decades of communist rule (Tang 1984; Chan 1994).[11] Despite this 'achievement', it is no secret that the Chinese leadership publicly admitted that the economy as a whole was on the brink of collapse on the eve of the reform in 1978, and that some 250 million peasants were in abject poverty. The economy was in dire need of a new direction (Lardy 1983).

However, the *hukou* system, a major instrument of the command system and unlike many other instruments of the old system, has not been tossed into the garbage bin of history but instead remains potent and alive in the era after Mao. Beginning largely as a temporary, ad hoc measure, a very small number of peasant workers were brought into cities under the name of 'temporary contract workers' to address labour needs in the 1970s. These workers did not have urban *hukou* or access to urban social services, as expected. This practice of allowing peasant labourers to come into the cities to fill unwanted (mostly manual work) positions was gradually expanded in the early years of the reform. When China's export-processing industry roared into high gear in the mid-1980s and 1990s, the deployment of rural labour to the cities for the export industry became a major post-Mao strategy. Ironically it became the instrument for unshackling labour from the rural collectives.

By the mid-1990s, rural-*hukou* labour had become the backbone of the export industry and, more generally, the manufacturing sector. In coastal export-oriented cities, such as Shenzhen and Dongguan, migrant labour easily accounts for the great majority (70 to 80 per cent) of the labour force (Liang 1999). Even for a more typical urban site like the inland city of Wuhan, workers without local *hukou* accounted for 43 per cent of the manufacturing workforce in 2000.[12]

More generally, the group referred to as 'rural migrant labour' (*nongmingong*)[13] has grown into a large mass, reaching 132 million in 2006 and about 160 million in 2011 (China's Agricultural Census; Yu 2008; Chan 2012b). Of course, the incomes of rural migrant labour have now become an important part of peasants' incomes, accounting for close to 40 per cent of their average net incomes in 2008 (Nongmingong 2009).

In the cities, in addition to the lack of access to many basic social services, these migrant workers also face many formal and informal obstacles to securing jobs other than low-skilled ones (Solinger 1999; Li 2003; Cai 2007a). The lack of local *hukou* for migrant workers, combined with factors such as the plentiful supply of labour and lack of access to legal information and support, has created a huge class of super-exploitable, yet highly mobile or flexible industrial workers for China's new economy (Alexander and Chan 2004). The 'China price', mainly due to its low labour costs, was the lowest among major developing countries (Chan and Ross 2003).

Many of these workers are vulnerable and often subject to exploitation and labour abuses (A. Chan 2001), as will be shown in later chapters. Their 'temporary' nature and lack of local citizenship also make them very expendable. For example, the global financial crisis (2008–09) hit China's export sector seriously and led to the unemployment of about 20 million migrant workers (Bradsher 2009).

The new approach of 'freeing' peasant labour has served China's economic growth strategy of being the world's low-cost producer very well. Effectively, this has helped defer the arrival of the critical 'Lewis turning point'[14] so that China can continue to draw labour from rural to urban areas and export-processing zones, at rural-subsistence wage rates for a longer time.

### 2.3.2 Urbanization

Typically, urbanization is a concomitant demographic manifestation of the industrialization of an economy. This is a vital part of modern economic development. Indeed, urbanization is the transformative outcome of industrialization. In practice, many countries have deviated from that

pattern. The most common deviation observed in Third World countries is what has been called 'over-urbanization', referring to a situation of 'urbanization without much industrialization' – resulting in substantial and chronic urban unemployment (Todaro 1969; Gugler 1988).

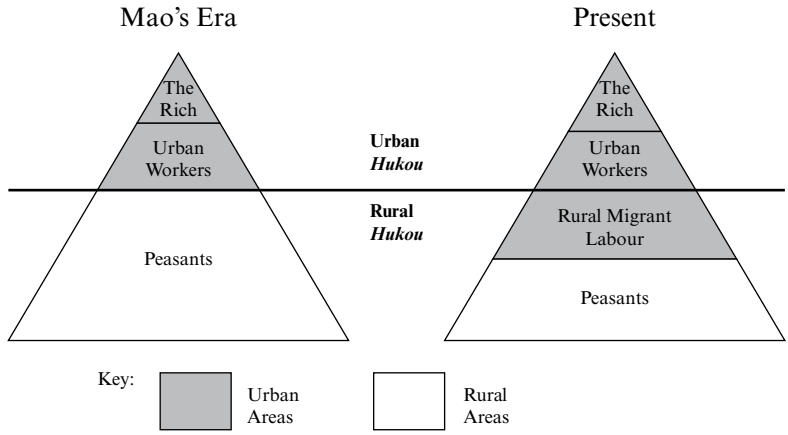
In China, the reverse has taken place. There has been rapid industrialization but relatively slow 'urbanization', a phenomenon manifested in various forms under different conditions (Chan 1994; Zhang 2004). Chan (2010) argues that 'incomplete urbanization' has been pursued since 1949. More specifically, because of the overriding priority and urgency accorded industrialization in China, the government opted for a strategy that ignored the urbanization of peasants and denied them the benefits and welfare that accrue from being 'urbanized'. Therefore, the twin processes of industrialization and urbanization have been deliberately decoupled by the 'invisible walls' erected by the *hukou* system.

During the Maoist era, the strategy was to stop peasants from going into cities. As a result, relative to China's industrialization level its level of urbanization (the percentage of the total population living in urban areas) was low by world standards, leading to the phenomenon of 'under-urbanization' (Chan 1994). In the reform era, 'incomplete urbanization' has assumed a different form. Physical controls on migration into cities have been lifted but the extension of urban social and economic benefits to migrants remains largely non-existent. Thus, migration rates of peasants to cities have risen over the past three decades but a significant part of urban in-migration is by rural–urban migrants lacking *hukou* status at the destination (Chan 2012b). Many of the *de facto* residents thus are denied urban citizenship and benefits that normally accompany migration.

Therefore, recent Chinese urbanization is true only in demographic terms (as measured by the *de facto* urban population size) but not in the full sense in 'legal' (as defined by the *hukou* system) and socio-economic terms. Data in Table 2.2 further illustrate this point. While between 1958 and 1978, the difference between the percentages of the total population accounted for by the non-agricultural and urban populations remained about the same (about 2 percentage points), this difference began to rapidly widen to more than 10 percentage points after 2000. That percentage represents roughly the share of rural migrant labour in China's total population. By 2012, this percentage had surged to 17 per cent (Chan 2014).

### 2.3.3 Social Stratification

Emblematic of China in the last 50 years, the unusually high level of rural–urban inequality and the wide socio-economic disparities have been




*Source:* Chan (2012a).

*Figure 2.1 Social stratification and* hukou *type*

analysed by many people (e.g. Knight and Song 2003; Yang and Cai 2003; Whyte 2006).[15] They stem from the deliberate policy design for a dual structure, as explained earlier, and represent a major divide in social stratification (Li 2005; Whyte 2006). Figure 2.1 outlines the main components of China's dual structure, with particular reference to position in the social hierarchy (pyramid), type of *hukou* (urban or rural), and rural/urban location in two different historical periods – Mao's era and the present.

Peasants, forbidden to go into the cities during Mao's era (c. 1949–1978), were confined to tilling the soil to grow food for urban workers. As illustrated in Figure 2.1, the physical rural–urban boundary basically coincided with the rural–urban *hukou* divide in that era. Following China's opening in 1979, peasants have been allowed to go to the city to find work but they are limited to low-paid factory and service jobs. Despite living in cities, migrant workers still maintain their rural-*hukou* status and are treated as rural residents, with little or no access to urban-type social security.

In the present era, the physical boundary of rural and urban areas (as places where one may live) has become permeable but the rural–urban divide, based on the *hukou* system, persists (Figure 2.1). The divide effectively caps upward social and economic mobility for the rural-*hukou* group. The great majority of them are not allowed to change their *hukou* from rural to urban, hence the major venue for social mobility was closed to them (Treiman and Zhang 2011). Even more restrictive to their social

mobility is that *hukou* status is hereditary (in a legal sense), so intergenerational social/economic mobility is also greatly hindered.

The rural migrant population is quite different from the typical urban and rural populations and has a distinct identity and social status (F. Wang 2006). Considered 'rural' by Chinese legal (*hukou*) designation, despite living and working in the cities, individuals in the rural migrant labour category are generally younger and more educated than the population they left behind in the countryside (K. Chan 2001). Their income and social status is higher than that of the non-migrant peasants but they rank much lower than urban workers according to these criteria. According to F. Wang (2010), the migrants are very aware of their low status in the city and are critical of the discrimination against them based on the *hukou* status. They also have a stronger demand than the urban-*hukou* residents and the non-migrant peasants for equal rights and treatment. While the basis of the current social stratification is still dualistic along the *hukou* lines, because of the emergence of the new social group labour, the broad division of Chinese society is more aptly evolving towards a tripartite structure, as noted by F. Wang (2006) and others.

Though incomes and occupations are the two major dimensions of our interest in the comparison of the *hukou*-based 'rural' and 'urban' populations, their differences are far more extensive. Table 2.3 tallies the major rural/urban *hukou*-based differences, especially in opportunity structure, and their changes. A drastic change occurred in the late 1950s, when the rural population's right to mobility was eliminated, along with other benefits (gradually in the 1960s). The situation improved in the mid-1980s with the restoration of geographical mobility to the peasantry but large disparities in income and the main opportunity structure remain today, and may well have widened (Shue and Wong 2007). For example, though the majority of population still resides in rural areas, the number of college students recruited from these areas has now dropped to about 18 per cent, compared to about 35 per cent in 1980 (*Sing Tao Daily* 2009; China.com 2009b). Empirical studies by Wu and Treiman (2004, 2007) have unequivocally demonstrated that these differences are also transmitted to the next generation. Ostensibly, the inadequate and low quality of education received by children of rural migrant labourers has become a major social issue in China.

### 2.3.4 Spatial Stratification

The rural–urban stratification created by the *hukou* system is not only 'vertical' as evidenced in the different social strata examined above but also 'spatial' or 'horizontal' (Wang 2005). Significant spatial stratification

*Table 2.3 Differences and changes in social and economic characteristics between rural and urban populations in China*

| Period | Specific differences |
|---|---|
| 1949–1952 | Occupations (agricultural vs industry) and residence locations (rural vs urban). |
| 1953–1957 | In addition to the above: food rationing imposed; only urban population had state-guaranteed food grain supply. |
| 1958–1965 | In addition to the above: rural to urban migration strictly banned. Urban population had access to state-provided employment, housing, education, and other welfare. |
| 1966–1976 | New change: rural population allowed to develop and work in some non-farm enterprises in the countryside. |
| 1977–1984 | New change: a limited number of rural labourers contracted to work in cities. |
| 1985–1992 | New changes: rural labourers allowed to work in some jobs in cities without the urban *hukou* and eligibility to receive urban services and welfare. |
| 1993–2000 | New change: food rationing lifted. |
| 2000–present | New changes: *hukou* migration to small towns permitted (2002); *nongzhuanfei* gradually phased out in some locales; rural population in some outlying areas of cities given urban *hukou* status, mainly in exchange for giving up the individuals' rural land use rights.<br>Promulgation of *National New-type Urbanization Plan, 2014–2020* and *Opinions on Further Promoting the Reform of the Hukou System* (2014). |

generated by the *hukou* system exists both between rural and urban areas and also within the urban sector. China's command economy in the pre-reform era relied heavily on a top-down, unitary administrative hierarchy of work units (both government bodies and economic enterprises) to perform multiple government (and economic) functions as well as to administer territory (Liu 1996). Thus the hierarchy is the machinery of the command system in spatial terms (Chan 2010).

Despite being part of the machinery of the command system, the hierarchical administrative system continues to function some 30 years after the inauguration of market reform. Though there has been significant devolution of administrative powers to lower-level governments in the last three decades the multi-tier hierarchy, consisting of five main levels of government (central, provincial, prefectures, counties, and towns and townships), has remained the same throughout the last half century.

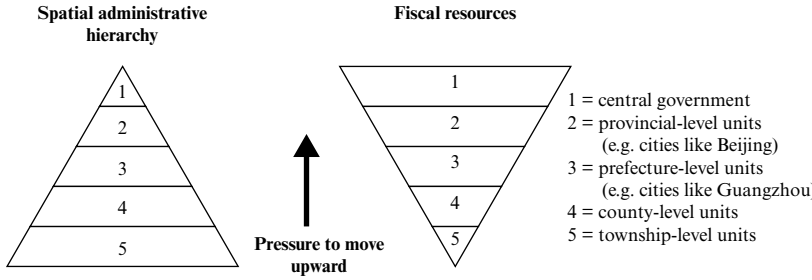



*Figure 2.2 Spatial stratification (schematic)*

All units within the hierarchy are charged with administrative powers and responsibilities in accordance with their level, with the central government units at the apex, provincial-level units at the next level, and so on. All localities (including administrative units, such as cities and towns) are differentiated and ranked in the same way. Not surprisingly, only a few cities occupy the highest level right below the central government (currently, four provincial-level cities), whereas the number of lowest-level units (township-level units) is vast. The administrative hierarchy in general resembles a triangle, as shown in Figure 2.2.

The administrative hierarchy also is a system for disbursing fiscal resources. Both the quantity and quality of state-provided services (such as education and urban infrastructural services) and welfare are highly correlated with hierarchical rank in both the pre-reform and current eras: generally, low-ranking areas have low quantity and quality of services, and high-ranking areas high quantity and quality of services (Chan and Zhao 2002; Chan et al 2003). Indeed, this spatial differentiation also shapes the opportunity structure of people residing in different geographical locations.

Schematically, this regressive allocation of public resources can be represented by two triangles pointing in opposing directions (Figure 2.2). The arrangement of the different strata in the spatial hierarchy produces a roughly normal, upward-pointing triangle; conversely, the distribution of main fiscal resources corresponding to each stratum produces a downward-pointing triangle. Such a structure obviously cannot be maintained in equilibrium without iron-fisted controls, as there are immense pressures and incentives to move 'upward'. The *hukou* system, as the door guard of the command system, has functioned well, keeping the system under control by resisting these pressures. Contrary to the role played by the 'public sector' (government) in most other countries, China's public sector actually redistributes benefits in the reverse direction – i.e. towards locations and population groups that are already advantaged.

Even though they all reside within the same country, Chinese citizens do not uniformly have equal legal citizenship and access to welfare services. Thus, not only are there in essence two 'peoples' in China (agricultural versus non-agricultural *hukou*) but each individual is located within his/her own small *hukou* administrative unit (a neighbourhood in the city or a village) at different positions in the hierarchy. This has a bearing on the level of benefits that can be accessed and varies from one administrative unit to another. *Hukou* also gives local governments the power to control the residential mobility of people registered within its respective administrative boundaries, leading to the formation of local protectionist 'fiefdoms' (e.g. Tsui and Wang 2005).

## 2.4 DISCUSSION AND CONCLUSION

Despite the many far-reaching and dramatic social and economic changes taking place in China over the last 30 years or more, the *hukou* system remains one of the most enduring institutions from the 1950s. Its continued potency tells us how far, or little, China has departed from its old 'socialist' path. Serving as much more than a migration control mechanism, the *hukou* system was a mechanism for organizing labour in pursuit of rapid industrialization during most of the first three decades of the People's Republic. By immobilizing the peasantry and putting them under close surveillance the state was able to orchestrate extractions from the agriculturalists to support the paramount goal of industrialization.

In the reform era, the *hukou* system has been adapted to serve the state's new, export-oriented industrialization – this time, ironically, by 'freeing' the peasantry to create a vast class of extremely cheap, mobile labour. This disenfranchised underclass of migrants has provided an almost infinite pool of labour, at extremely low wages, for domestic (including the state) and global industrialists. This has rendered China's economic production very 'efficient' and competitive. At the same time, by turning peasants into a 'mobile population' some of their land (often representing the peasants' lifelines and only form of social security) also could be inexpensively requisitioned to feed the insatiable demand for land for industrialization and urban construction.

Over the last five decades, the *hukou* system served the state well by helping it achieve the goal of making China a major industrial power, first through Mao's forced industrialization program and second through the post-Mao 'world-factory' strategy. The latter yielded an unprecedented economic boom that is the envy of the world. But it has also reinforced the immense and perverse rural–urban socio-economic chasm created by

Mao and sustained serious and protracted social and spatial stratification. Ironically, the *hukou* system, with its attendant social discrimination and exclusion, is now a major obstacle in China's path to becoming a modern, First World nation and global leader. An imbalanced approach to development that ignores or sacrifices the interests of the peasantry cannot persist forever.

This point has become clearer to many, as recent mass peasant and migrant labour protests have threatened China's political stability and longer-term economic sustainability. Migrant workers are now keenly aware of the serious discrimination they face and are fighting back (Friedman 2013). The growing realization is evident in the recent central government rhetoric and new measures intended to curb further land conversions and protect the interests of peasants and migrants since late 2008 and especially in 2013 and 2014.

In 2011 the then Vice-Premier Li Keqiang began to push for a 'new-type' of urbanization which gives more emphasis to human aspects, rather than construction. It emphasizes growth in urban household incomes rather than local government investment spending on buildings (Li Keqiang 2013). After several rounds of revisions, the strategy appears to have been settled and the guiding principles were approved in November 2013 by the Chinese Communist Party, at the Third Plenum. The Plenum acknowledged that China's dual rural–urban social structure remains a major obstacle to development and vowed to accelerate *hukou* reform (CCP 2013).

In March 2014, China unveiled the first national urbanization blueprint, entitled *National New-type Urbanisation Plan, 2016–2020* (Zhongguo Zhengfu Wang 2014). The plan's highlight is the human aspect: it specifies a target of the granting of 100 million new urban *hukou* in 2015–2020 to enable migrant workers to settle where they work. This explicit commitment to such a large numerical target for the granting of urban *hukou* was unprecedented. Beneficiaries will be those no longer involved in farming, including many current migrants. College-educated and skilled workers, and long-term migrants, will get priority.

The *Urbanisation Plan* aims for 60 per cent of China's population to live in cities and towns and 45 per cent *hukou* population in the cities and towns by 2020. The difference between these percentages will be 15 per cent in 2020, down from 18 per cent in 2013 (Zhongguo Zhengfu Wang 2014). That is, 15 per cent will be without urban *hukou*.

The plan also calls for expanding the existing practice of easing *hukou* restrictions in towns and small cities but at the same time putting more controls on migration to the big cities. In late July 2014, the State Council issued Opinions on *hukou* reform, laying out similar but more detailed

specific measures and guidelines (State Council 2014). It has also formalized the merge of agricultural and non-agricultural *hukou* types into one single classification, a move that started in some provinces in 2005, as explained before.

The urbanization blueprint and the *Opinions* are major positive steps for reforming the *hukou* system. Many hope that this is the beginning of a serious effort to dismantle the five decades-long *hukou* system. However, the reluctance to open up the *hukou* system in big cities will remain a major obstacle to substantive reform of the *hukou* system in terms of permitting migrant workers to settle down where they work. Nevertheless, even when the central government has the best intentions and plans the proposed reforms can still be distorted, usurped for other purposes or even reversed as they get implemented at the local level. This is where the real test will lie.[16]

## NOTES

1. This is a condensed and updated version of 'The Chinese *Hukou* System at 50,' *Eurasian Geography and Economics*, 2009, **50** (2), 197–221, with the copyright permission of Taylor & Francis (http://dx.doi.org/10.1080/15387216.2014.925410). A new Figure 2.1 has been used and the conclusion has been expanded.
2. This annual 'migration' is likened to the seasonal movement of a complete population of animals from one area to another, usually in response to changes in temperature or food supply. In the Chinese media, migrants are often described as the '*houniao*' ('migratory bird') population.
3. This figure rose to 159 million at the end of 2011 (Chan 2012b).
4. The full text in English can be found in Tien (1973, pp. 378–83).
5. This includes China's temporary 'Constitution' (the Common Program of Chinese People's Political Consultative Conference) in 1949 (see Zhu 2003).
6. See an update at the end of this chapter.
7. Computed from annual editions of the *China Population Statistical Yearbook* (various years).
8. Therefore, migration between urban places of lower and higher rank in the administrative hierarchy was also subject to control.
9. See an update in the Conclusion.
10. The country has attained rapid industrialization in a narrow sense, as measured by such metrics as the quantity of steel and other major industrial products.
11. In addition to its general deleterious effects on agriculture, the forced collectivization and industrialization programs of the late 1950s had contributed significantly to a famine that resulted in at least 20 million deaths in the early 1960s (Becker 1996).
12. Based on microdata from the 2000 census for Wuhan.
13. This is used in the narrow sense, excluding those employed in the township and village enterprises.
14. This is named after economist Arthur Lewis, a Nobel laureate. According to him, developing countries' industrial wages begin to rise quickly at that point when the supply of surplus labour from the rural areas tapers off. Wang (2005) has stated that the *hukou* system enabled China to bypass the Lewis turning point. More recently, Cai (2007b) has argued that China has neared that point. This is a rather complex and controversial topic, especially given that China's export industry employs selectively mainly young labour.
15. The oft-cited ratio of urban to rural per capita incomes, drawn from National Bureau

of Statistics' household surveys (covering only monetary incomes), is typically roughly 2 in recent years (e.g. see Table 19.2 in Chan et al 2008). However, the *real* ratio of urban to rural incomes – including all the direct and indirect subsidies that urban-*hukou* families receive – is far more than that (see Yang and Cai 2003). A more encompassing definition of income can easily push the ratio to 4 or even 5, among the highest in the world. See recent examinations of the complexity of inequality measurements in China in Chan and Wang (2008), and Benjamin et al (2008).

16. For a preliminary analysis of these initiatives, please refer to Chan (2014).

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