



Reform of Chongqing's Hukou System : Will It Help Stimulate Domestic Demand?

**Yuko Gomi
Economist**

yuko_gomi@iima.or.jp

**Emerging Economies Research Department
Institute for International Monetary Affairs (IIMA)**

In recent years, China has accelerated reforms of its hukou or household registration system. In February 2012, The General Office of the State Council revealed its hukou conversion policy which expanded its coverage from the previously targeted small cities to middle sized cities. Since then, many cities have promoted the hukou reforms, and according to a report of the National Development and Reform Committee, published in June 2013, 14 provinces are considering to unify the rural (or agricultural) registration system and urban registration system.

In the background, there is an increased influx of so-called migrant workers into the cities. As they are not classified as the urban (non-agricultural) registration, they are not fully entitled to the public services such as social security benefits that the urban citizens can enjoy. For this reason, their living standards are far from being stable, although their wage level has been rapidly rising accompanied by the economic growth.

The problem of the “Citizenship of Migrant Workers” is one of the inescapable issues for the Chinese government, which promotes a shift of the economy from exports oriented growth to domestic demand oriented one driven by private consumption. But it is not a simple problem that can be instantly solved by giving them an urban registration. In this article, the author will introduce the reforms of the Chongqing’s hukou registration system that started in 2010 ahead of the other places in the nation, and then review its significance and challenges.

1. Historical significance of the hukou system

China's hukou, or household registration, system started as a way for grasping the demographic changes in order to promote the planned economic programs. It was divided into urban registration system and rural registration to identify the people targeted for food allocation. Conversion of the hukou was subject to the authorization, and education system, employment, and other social welfare benefits were designed following the hukou system since it was basically not assumed that the people would leave the land of their birth and move.

The development of the market economy had accelerated the influx of rural migrant workers to the cities, but since the conversion of the hukou from rural to urban was strictly restricted, a widening gap developed between the population living in the cities and the urban hukou holders, making it difficult to grasp the demographics that was an initial objective of the hukou system. The conversion restriction of the hukou system has actually limited the free flows of laborers and human resources and thus hindered the accelerated development of cities and urbanization of rural areas. In other words, the hukou system, which was introduced on the socialist economy assumption, has gotten left behind the times and rather emerged as an entrenched barrier in the market economy which China has propelled in the last decades.

Needless to say, the government was not indifferent to grasp this problem and has begun to take measures to relax, albeit gradually, the restrictions of the hukou system, by giving the migrant workers temporary urban hukou, or offering permanent urban citizenship if they satisfy the certain conditions. In 1985, an ID of "certificate of residence"(National Residence Permit) with no restriction of migration was introduced and issued to each and every individual in the country. Although it was expected to replace the hukou system, it has failed to do so, because the application for it still has to be made at the place of hukou registration and its use has been limited to the proof of identity required at a time of various official procedures, employment interviews, opening a bank account, etc.

2. Needed "Citizenship of Migrant Workers"

Migrant workers are residents who have flowed into cities from rural areas. According to a survey report "National Migrant Workers in 2012," total migrant workers reached 260 million in 2012, increasing by 3.9% over the previous year. They accounted for 19% of the total population of the nation. Youth under 30 years old accounted for 36.8% of the total, and 60.5% of migrant workers were graduates from up to junior high schools while 35.7% being engaged in manufacturing industry. Average monthly income of the migrant workers amounted to RMB2,290 (app. ¥37,800) in 2012. This compares to RMB3,897 (app. ¥64,300) for urban

employees of state owned enterprises and RMB2,046 (app. ¥33,800) for urban employees of private enterprises, meaning it has made a rapid catch-up to the level of the urban employees. For comparison, the average monthly income for farmers was RMB659 (app. ¥10,900). Migrant workers were once obliged to work under bad conditions or even with wages unpaid, but since the urban population exceeded the rural population in 2011 and the labor force in the urban areas began to run short, it seems bargaining powers of migrant workers have been strengthened to get better treatments for them.

Yet their labor environment is still harsh and severe as many workers have been forced to work long hours and in short-term employment. Only 0.6% of the migrant workers hold their own house while most of the others live in old apartments of their company or factory often with poor accommodations. As they do not have the urban registration even if they do live in the cities, they are not entitled to enjoy public services such as education and health and medical care, which has had a far-reaching influence on their children. Since the hukou is deeply incorporated in the social life of its holder, the non-urban citizenship virtually restricts their access to employment, housing, or even purchasing of a car. For instance, In Beijing city, you need a number plate before driving a car on the roads. However, the acquisition of the license plate for a car is decided by lottery and in order to participate in this lottery, you need a driver's license and an evidence of no previous holding of a license plate in Beijing. They are not enough, though. You also need to be a person that meets either one of the following conditions; a person holding an urban hukou of Beijing City, a holder of a certificate of working residence (a certificate of residence issued to high tech workers invited from out of town or overseas), citizens of Hong Kong and Macao or foreigners living in Beijing City, or a person with temporary certificate of residence who have joined the social insurance networks and paid income tax for more than 5 years.

3. Experiments of Chongqing City

Chongqing City is now promoting hukou reforms under the philosophy that in order to promote economic development led by the expansion of domestic demand, it is important to increase the regular employments in cooperation with the enterprises, incorporate the migrants into urban citizenship and encourage their tax payments and consumption.

In August 2010, the city published a program that, putting in RMB 400 billion, it would officially start to turn 10 million farmers in its district into urban citizens by transferring their hukou from the rural to urban, with the aim of raising the ratio of non-agricultural population from current 29% to 60% in 2020. By September 2012, about 3.45 million of farmers got the

urban hukou. For this purpose, Chongqing City authorized the turnover to those who have permanent residence in either their own house or rented, those who have worked in the city for a certain period of years, and those who have paid tax above a certain level, and allowed the farmer and his family to enjoy the same public services as the local residents do for employment, education, social welfare, housing and health care. When the urban hukou is offered, the farmer basically has to give up his entitlement to farm a plot of land and own a village homestead, and instead receive the compensation with which he purchases various insurance plans he needs. Chongqing City is further planning to focus on the hukou conversion of the 2 million migrants and their families living in the city, 400 thousands of farmers who have lost their land by expropriation projects, and 700 thousands of university and vocational school students with rural hukou¹.

Now, what are innovative about the reforms of Chongqing City? They include the relatively relaxed conditions that enable even the farmers with rented house to apply for the urban hukou. In addition, the farmers are entitled to the rights to use the land and receive the earnings from it even after the transfer. The reform also covers the farmers who have not been compensated yet for the expropriation projects implemented since 1982. Furthermore, at a time of hukou transfer, in addition to the rights to the farmland to be retained by the farmer for 3 years, the members of his family are allowed to retain the rights to use the farmland or receive the earnings on it without any penalty on hukou transfer. These allowances reveal how serious the City is about incorporating the migrant workers into the urban hukou.

4. Limitation of the hukou reforms of Chongqing City

To accommodate the increased population with urban hukou, Chongqing City has increased the efforts to build new schools and public apartments, and also allotted the number of transfers to some of the districts to avoid excessive concentration of population in the central areas of the city. Judging from these efforts and system design, their reform can be evaluated as having a certain level of effectiveness and workability.

Then, will the hukou reforms that give the migrant workers an urban hukou contribute to an increase of consumption? Actually, the consumption level of migrant workers has already reached a significantly high level. According to a survey of the Financial Times, the migrant workers spent RMB4.2 tn (app. ¥69.3 tn) in 2012, accounting for about 20% of the total private consumption expenditures of China. By simple calculation, they spend 59% of their income for consumption. They are basically fairly spendthrift. So if they come to enjoy various social

¹ They have to have a rural hukou of Chongqing City.

welfare services, a certain effect on consumption can be expected by the possibility that the counterpart of the costs, saved by the receipt of benefits, may be spent on consumer goods and services. On the other hand, a report of National Institute of Population and Social Security Research, published in 2012, shows that it is often the case that the migrant workers have constantly long working hours with less spare time, and they usually stay at home at their off-time. If they get more money, they will naturally spend more on a daily shopping and on some home appliances necessary for everyday life, but it is inconceivable that they will rapidly increase the expenditures for a large-scaled consumption like on leisure.

Furthermore, not every migrant worker wants to be converted to a city hukou. A large number of migrant workers have not completely given up farming, and they come back at his leisure time to their farmland to cultivate their land or help their families. Even if they are not actually engaged in agriculture, they seldom abandon the rights related to the farmland, often by consigning it to the third parties, as the farming is not subject to taxation.

Hukou reforms constitute the most important pillar of “urbanization of population” among the urbanization policies the China’s Communist Party leaders promote. The Chongqing’s efforts can be a great first step in that they incorporate the migrant workers in their public services networks. However, looking from their situation in employment and daily life, there are many challenges to be faced, including the improvement of labor conditions towards long-term employment contract and shorter working hours. In order to turn the rural migrant workers into fully qualified urban citizens, it is indispensable to address these problems from a comprehensive perspective of reforming the whole social system.

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Address: 3-2, Nihombashi Hongokuchō 1-Chōme, Chūō-ku, Tokyo 103-0021, Japan
Telephone: 81-3-3245-6934, Facsimile: 81-3-3231-5422
〒103-0021 東京都中央区日本橋本石町 1-3-2
電話 : 03-3245-6934 (代) ファックス : 03-3231-5422
e-mail: admin@iima.or.jp URL: <http://www.iima.or.jp>