

**CHINA'S *HUKOU* REFORM:
THE GUANGDONG AND SHANGHAI CASES**

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Executive Summary

1. China's No. 1 document of 2010 makes rural-urban integration the central government's top priority. It is also where the term "new generation of migrant workers" first appears in an official document. This reflects a new sense of urgency to continue with the unfinished *hukou* reforms.
2. Past *hukou* reforms allowed millions of peasants to work and live in cities without changing their *hukou* status. Meanwhile, a much smaller number of entrepreneurs, home buyers and professionals are able to migrate and change their *hukou* status.
3. Guangdong and Shanghai heralded a new round of *hukou* reform. In 2009 they announced new policies that would open up avenues for rural migrants to change their *hukou* status and become urban residents.
4. The new initiatives replace the Temporary Residential Permit with the Residential Permit. Holders of Residential Permit enjoy certain public services unavailable to holders of the Temporary Residential Permit.
5. Residential Permit holders will have to satisfy a criteria list set out by the government before they are eligible to apply for the host city's *hukou* which makes them city residents in the legal sense.
6. The requirements typically include seven years of documented residence and seven years of paying social insurance fees. Shanghai has a higher requirement on education and skill levels, reflecting the nature of its economy and the source of its competitiveness.
7. It is not likely that the new initiatives will provide an immediate solution to the problems faced by migrant workers. Under the stringent requirements, only a few could qualify.

8. On the plus side, the new initiatives have given local governments an additional resource to fund current social insurance expenditures should migrant workers choose to pay social insurance fees.
9. Although not an immediate solution to the problems faced by migrant workers, the Shanghai and Guangdong reforms are significant in two ways. First, it gives the two cities time to modify the *hukou* regime without causing instant disruption.
10. Second, the new requirements would serve as a guideline for migrant workers to plan for the next seven or so years in terms of place of work and residence. This helps to establish stable expectation and thus change the behavior of migrant workers.
11. It takes time, effort and vision to fully integrate second generation migrants. They are not seen as an indispensable asset so far by the city governments. In the near future, the well-being of this group as well as social tensions involving this group remains something to watch.

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A New Round of *Hukou* Reform

- 1.1 The No. 1 document of 2010 issued by the Central Committee of Chinese Communist Party and the State Council encourages cities with adequate resources to incorporate qualified migrant workers into their social protection schemes.
- 1.2 The document reveals particular concerns for the “new generation of migrant workers (新生代农民工)”, a term that made its first appearance in an official document. The central government has recognized the tension between this rising group of migrant workers, who aspire to become urbanites, and the current household registration or *hukou* system, which fails to accommodate their aspiration. There is a sense of urgency among central policymakers to accelerate the slow-paced *hukou* reforms.
- 1.3 At the local level, some provinces have already begun to pioneer a new round of *hukou* reform. Guangdong and Shanghai took the lead by announcing new policies in 2009. Despite minor differences in specific details, the general direction shared by both places is to institutionalize the conversion process through which a non-local *hukou* holder can become a local *hukou* holder.
- 1.4 The new policy came into effect in 2010. The Temporary Residential Permit (暂住证) which had been in use for nearly a decade will be replaced by the new Residential Permit (居住证) which allows card holders to enjoy certain

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public services provided by the local government. Holders of Residential Permit, after satisfying a list of criteria set out by the government, are eligible to apply for their host cities' *hukou* which thereof makes them city residents in the legal sense.

- 1.5 Previous *hukou* reforms have made substantial but uneven progress on two fronts. On the *hukou*-migration front, a very small number of entrepreneurs, home buyers and well educated professionals are eligible to apply for a local *hukou*. On the non-*hukou*-migration front, a huge number of rural residents are allowed to migrate and work in other places under the Temporary Resident Permit without changing their *hukou* status.
- 1.6 The overwhelming majority of China's rural migrants fall under the category of non-*hukou* migration. While non-*hukou* migration has caused many problems for rural migrant workers and their families, it is still acceptable to the first generation of migrant workers, who treasure the opportunity to work off-farm more than anything else. Having no local *hukou* does not bother them because most of them believe that a permanent return to their home villages or a resettlement in nearby towns is inevitable.
- 1.7 Demographic changes, however, make previous *hukou* reforms inadequate. The first generation migrant workers are increasingly becoming a minority, as the new generation, or the second generation now comprises up to 60% of the 150 million migrant workers in China today.¹
- 1.8 Unlike the first generation who still identify themselves as peasants who will ultimately return to their hometown, only about 8.7% of the second generation identify themselves as peasants. About 75% think, rightly so, that they belong to the category of workers (工人群体).²

¹ *Legal Daily* (法制日報), 3 Feb. 2010.

² Ibid.

- 1.9 This new generation of migrant workers, mostly born in the 1980s and 1990s, can be divided into two sub-groups. In the first category, they have completed their education at least up to middle school level at their hometown/village before they migrate to the city. They have minimal experience in farming, and their emotional ties with both rural areas and rural lifestyle are weak. Most of the new generation of migrant workers belongs to this category.
- 1.10 A small minority migrates to the city with their parents at a very early age; some were even born in the city. These people belong to the second category. To them, village life is completely foreign, while city life seems more natural to them.
- 1.11 Growing up in the digital age of televisions, cell phones and computers, these young migrant workers are no different from city youngsters in their material demand and outlook. Many choose to work in the city not out of survival needs, but simply for the splendor of city life.
- 1.12 However, with their *hukou* still registered under their hometown village, they are effectively excluded from the city's protective umbrella. They face enormous discrimination in access to education, work and public services, and remain a foreigner to the city whose lifestyle they so naturally adopted. As an odd group of people who neither belong to the village, nor are received by the city, they are the truly "floating population".
- 1.13 Obviously, the new generation can be a source of social instability if they are not properly integrated into city life. Against this new social development, a new round of *hukou* reform which makes the system easier and more regularized for migrant workers to acquire a local *hukou* seems inevitable.
- 1.14 However, the central government is somewhat powerless in this respect. It has to rely on local governments to implement the reform as social insurance plans and public services are managed and funded by local governments. For a long time, local governments are reluctant to grant local *hukou* to migrant workers because of the high cost.

- 1.15 It was thus a booster to the central government when Shanghai and Guangdong took the lead in pioneering the new round of *hukou* reform. The new policies discard the quota approach, and adopt instead a criterion-matching method. The criteria are not particularly tailored to investors and the well educated. Instead, they include the length of stay, contribution to social insurance plans, and other requirements that are not out of reach of migrant workers.
- 1.16 The new policies of Shanghai and Guangdong hence open an avenue for China's migrant workers to truly become urbanites (农民工市民化). As places that spearhead China's economy, their policies offer a model for other provinces to follow.

The Guangdong Case

- 2.1 The new policy document, Statutes for Servicing and Managing the Mobile Population in Guangdong Province (revision draft) (广东省流动人口服务管理条例 (修订草案)), was effective from January 1, 2010. The main thrust of this round of reform is the replacement of the Temporary Residential Permit with the Residential Permit. Holders of the latter, upon meeting certain conditions, are eligible to apply for a *hukou* that is no different from that of native residents from their host city.
- 2.2 The Residential Permit records the card holder's basic personal particulars, and is evidence of residence in the province of Guangdong. Unlike the Temporary Residential Permit which needs to be re-issued whenever the migrant moves to a new place, the new Residential Permit is applicable across the whole province. This allows migrant workers to change job and location without applying for a new permit as long as he/she resides in Guangdong. All he/she has to do is to update his/her information at the local police station.
- 2.3 There are two types of Residential Permit – long term and short term. The former is valid for three years, while the latter is for six months. Migrants

between the age of sixteen and sixty, who have resided in Guangdong for a period of more than thirty days, are required to apply for either one of the permits.

- 2.4 What sets long term Residential Permit holders apart from Temporary Residential Permit and short term Residential Permit (which are in essence official documents establishing a migrant's stay in Guangdong without entitlement to local public services) holders is their eligibility to enjoy some of the city's public goods.
- 2.5 Such services include (1) official endorsement for business trips to Hong Kong and Macao;³ (2) automobile registration and driving licenses;⁴ (3) equal access to urban public schools for migrant children; (4) tuition and miscellaneous fee exemptions for their children's education, similar to those enjoyed by children of a local *hukou*; (5) long term housing rental and public rental housing (公共租赁住房) provided by the local government; (6) urban social assistance known as the "Minimum Livelihood Guarantee Scheme"; (7) vocational training; (8) public employment service (公共就业服务); and (9) medical care for contagious diseases and vaccination service for children.
- 2.6 Apparently, the new policy aims to reduce the gap between city *hukou* holders and migrant workers in their public goods entitlements. This latest round of reform gives migrant workers an opportunity to register their *hukou* in Guangdong as long as they have:
- (a) lived in the same locality for consecutively seven years;
 - (b) paid social insurance fees (社会保险费) for full seven years;
 - (c) a fixed residential place;
 - (d) lawful employment or business;

³ Formerly, people who wish to apply for official permit for such purposes have to go back to their home town where their *Hukou* was issued and registered to process the paper work.

⁴ Like traveling to Hong Kong and Macao, these have to be done at where their *Hukou* are registered.

- (e) abided by the One Child Policy;
 - (f) paid taxes;
 - (g) no criminal records.
- 2.7 For children of Residential Permit holders to enjoy equal treatment in education in their host city, they must have:
- (a) lived in the same locality for five years;
 - (b) paid social insurance fees for five years;
 - (c) stable employment;
 - (d) abided by the One Child Policy.
- 2.8 These requirements are generally summarized as “five years entering the local public school system” (五年入学) and “seven years entering the local *hukou* system” (七年入户). By specifying the length of stay, Guangdong’s new policy gives migrant workers who have long been working and living in Guangdong province a chance of settling in the city.

The Shanghai Case

- 3.1 The official document for the new round of *hukou* reform in Shanghai, Trial Methods for Shanghai Residential Permit Holders to apply for Permanently Residential *Hukou* (持有<上海市居住证>人员申办本市常住户口试行办法), was issued on February 23, 2009. Like Guangdong province, the main content of the reform is to open an avenue for non-locals to become Shanghai *hukou* holders through qualification fulfillment rather than the previous quota setting mechanism.
- 3.2 The conditions laid out by the Shanghai government are similar to those in Guangdong. Applicants should be:
- (a) holding Shanghai Temporary Residential Permit for seven years;

- (b) paying taxes;
- (c) paying social insurance fees for seven years;
- (d) working in jobs that require a middle level and/or above technical skill;
- (e) having criminal-free record.

3.3 Apart from the aforementioned, applicants would also be qualified by a point system. Those who score a hundred points and/or above in the seven categories listed below are eligible for Shanghai *hukou*. They should have:

- (a) certain education qualifications;
- (b) stable employment in Shanghai;
- (c) paid social insurance fees in Shanghai;
- (d) paid personal income tax in Shanghai;
- (e) employment at other provinces or overseas (外省市[海外]工作资质);
- (f) special employment (特殊就业);
- (g) business, investment and paying taxes in Shanghai (在沪创业投资纳税).

3.4 This is the fourth time that Shanghai reformed its *hukou* system. The first round was initiated in 1994. Shanghai introduced the “Blueprint Resident Certificate Program” (蓝印户口) to draw talented people and investment from outside the city. Non-locals who invest in Shanghai,⁵ purchase commercial housing,⁶ or work in Shanghai, and meet certain standards, can obtain a Blueprint Resident Certificate, which allows them to enjoy privileges comparable to locals who hold a Red-print Resident Certificate.

⁵ To be eligible for a “blueprint *hukou*”, it requires an investment of 10 million *yuan* for mainlanders and US\$200,000 for foreigners and Hong Kong-Taiwan-Macao people.

⁶ The value and size of commercial housing are also specified: (1) 65 square meters in Pudong new district; (2) 320,000 *yuan* of commercial value for a house in the Pudong Lujiazui area; (3) a commercial value of 160,000 *yuan* within the inner circle line area (*neihuanxian*); and (4) a commercial value of 100,000 *yuan* outside of inner circle line area.

- 3.5 This reform was considered a failure at drawing talents to the city because only one-tenth among migrants with blue-print resident status had special skills. The reform ended in 2002. The second round of reform introduced the Residential Permit (居住证) effective from June 15, 2002. It is for those who hold at least a bachelor's degree and those who possess special talents and skills. Shanghai even announces annually a list of talent types it seeks to recruit.
- 3.6 Building on the second round of reform, the third round of reform further specified the implementation details of issuing the Residential Permit, and the privileges permit holders can enjoy. It also expanded the pool of eligible applicants to include those with special skills and those outside the city's list of talents.

Just a Show or Any Real Progress?

- 4.1 Arguably, the growing and large-scale rural-urban migration has played the foundational role in China's growth since the late 1980s. However, the problems caused by such non-*hukou* migration have also surfaced over time. Apart from well-known problems such as low wages, bad conditions, wage arrears and lack of social insurance for migrant workers, non-*hukou* migration has caused other problems as well.
- 4.2 At the family level, full-family migration remains limited. Not only did the majority of migrant workers suffer from the absence of their spouse and/or children, their children were also left to grow up without parental care during the important formative years of their development. Moreover, school-aged children often have to share in the farming and housework. As a result, many of them do not perform well in school. This may pose a systematic disadvantage for future generations of the rural population.
- 4.3 At the community level, as most youth and middle-aged people have moved out, many villages experience a decline in mutual help, community

participation and community building. The elderly and the school-aged children lack the capacity to participate in public affairs and check the actions of village leaders, leading to a gradual erosion of community cohesion.

- 4.4 There is thus a need to push for *hukou*-migration and social integration. The central government has been promoting this in small and medium cities. The challenge is to make these cities more attractive to rural migrants who prefer to move to and work in larger cities. In fact, the Second National Agricultural Census for 2006 reveals that about half of the migration is inter-provincial, from central and western to coastal areas, and from villages and small towns to medium and large cities.
- 4.5 Seen in this light, China's *hukou* reform is critically dependent on local governments, particularly those labor-receiving provinces and municipalities. Local governments, however, often have different interests and agendas from those of the central government, a reason why an overhaul of the *hukou* system is so difficult in China.
- 4.6 Local governments are unwilling to grant local *hukou* to migrant workers for at least two reasons. First, it would mean substantial increase in spending on healthcare, education, public housing and other infrastructure to accommodate the migrant workers-turned-local residents. Second, protests from local population who want to preserve their privileges will be too strong for any local government leader to ignore.
- 4.7 On these two counts, it is a wonder why Shanghai and Guangdong took the lead in this round of *hukou* reform. Both are major destinations of migrants, the difference being that Shanghai attracts more highly educated talents, while Guangdong receives primarily peasant workers. The official number for people temporarily residing in Guangdong province in 2009 was 26 million, though the real figure could be much higher.⁷ In Shanghai, more than 6

⁷ *The Southern Daily* web version, 24 Feb. 2009.

million (out of a total of 19 million) did not have a permanent residency in 2009.

- 4.8 Demographic changes offer a partial answer, particularly for the case of Shanghai. Shanghai has experienced negative population growth for more than a decade, although this has been more than compensated for by the immigration of people. In 2008, however, the number of migrants declined by 183,000, the first time since the 1990s.⁸ Therefore, Shanghai's initiative may be driven by the need to increase population, and at the same time, utilize the population increment to optimize its population structure for its future development.
- 4.9 Migrant workers are also now viewed as a potentially important source of social insurance fund instead of a financial burden. They can help finance current social insurance expenditures caused by the ageing population.
- 4.10 Not many migrant workers currently meet the requirements as laid out by the two governments. The Shanghai authority estimated that only around 3,000 people have proof of residence for 7 or more years, and of this small group, only a few meet all the other requirements.⁹ The same is probably true of Guangdong. As such, the reforms provide no immediate solution to the problems associated with non-*hukou* migration or second-generation migrants.
- 4.11 However, the latest round of *hukou* reform is not entirely a show. The significance of the new initiatives is two-fold. Though the strict requirements mean that only a handful qualify for the *hukou* conversion now, the situation is only temporary. Local governments will see the benefit of the reform as migrant workers choose to pay social insurance fees and thus contribute to the funding of current social insurance expenditures. This window period is crucial for Shanghai and Guangdong to transit into a somewhat different *hukou* regime without causing instant disruption or immediate financial strain.

⁸ <http://news.sina.com.cn/c/2009-03-13/211517403732.shtml>

⁹ http://www.china.org.cn/china/features/content_17468979.htm

- 4.12 For migrant workers, the requirements would help them establish stable expectations and serve as a guideline for them to plan their future in the next seven or so years in terms of place of work and residence. This would have a stabilizing effect insofar as population movement is concerned.
- 4.13 For the city governments, local interests often prevail over other concerns. Unless migrant workers are perceived as an indispensable asset to the city, the city government is not likely to act in the best interest of migrant workers. Shanghai does not seem to welcome rural migrants as urban residents. Its requirements for obtaining a Shanghai *hukou* are so stringent that only a small minority of the well educated and the highly skilled could qualify. It remains to be seen whether and how Guangdong honors its commitment to *hukou* reform, a province which has benefited more from migrant workers than any other provinces in China.