

Arthur Trillo: To What Extent Does the *Hukou* System Represent an Obstacle to China's Economic Growth?

The *hukou* system is a household registration system in the People's Republic of China which was introduced by the Communist Party in 1958 and which ties the Chinese people to their place of birth. It was intended to keep the fledgling socialist society stable by reducing internal migration and providing benefits to urban citizens, the political support of whom was vital for the new regime's survival. Following reform in the 1980s, internal migration has taken place in China on an enormous scale, but the *hukou* system has penalised rural migrant workers by restricting their access to benefits in the cities they settle in, creating a society where migrant workers are effectively second-class citizens. The system also has a number of economic consequences, for example limiting the access of rural children to comprehensive education and leading to a decline in numbers of migrant workers in Chinese cities. The implications of this are profound and could arguably hinder the economy for years to come.

"We Were Smart" is a 2019 documentary by Li Yifan which centres on the "shamate" (transliterated from the English "smart") subculture which was popular among migrant workers in many Chinese cities in the late 2000s and early 2010s. Consisting mostly of interview footage with members of the subculture (referred to as "Smart Kids"), the documentary focuses on their experiences as young and naïve migrants struggling to survive in the exploitative factories of the cities and their interactions with urban Chinese. They experience harsh working conditions, including having wages withheld, toiling for extremely long hours, and sustaining injuries. It was often impossible for Smart Kids to find work once they had embraced the subculture, being rejected from factories on the basis of their outlandish hair styles. The documentary also touches on the circumstances in the villages that they left, with most interviewees having low educational attainment and having been left behind by parents who migrated to cities for work. The film documents the decline of the movement as internet users began to mock and impersonate the Smart Kids, leading to negative media attention and both physical and online harassment.

I found the documentary bittersweet as I was glad that these young people were able to find a supportive community after migrating to a new city, which I know can be quite an isolating experience, but the conditions they were living and working in were really shocking. Of course, such working conditions are unheard of in the UK. It was also sad to see that their goals to move to the city to make money were futile in a sense, as they did not see material improvement in their lives and many returned home, acknowledging that dreams of owning a house or car were simply unattainable.

This documentary led me to consider the systemic barriers that make upward social mobility difficult for rural Chinese, and how this impacted the economy. I saw that the *hukou* system was deeply linked to many of the challenges faced by the Smart Kids: they were largely left-behind children because their agricultural *hukou* registration did not allow them to live with their parents; they were poorly educated because there is less provision for teaching in rural areas; and they were limited to manual labour because they did not hold a local *hukou*. I was already of the opinion that such a system was unjust, and seeing the impacts on so many real people in the documentary strengthened this view.

The most significant economic consequence of *hukou* system is arguably that it impedes the educational attainment of the majority of China's youth. 64 percent of China's population is rural (Rozelle & Hell, 2022: p8), but children are further concentrated in rural areas as they were afforded exceptions to the One Child Policy, and thus 70% of children

hold a rural *hukou* (ibid.). These children are in an unenviable position. Left-behind children, who represent around one fifth of the child population of China (Gu, 2021), often do not complete junior high school and perform worse academically (Rozelle & Hell, 2022: p8), and rural children who do migrate with their parents to the city will be unable to attend public school without a local *hukou* in the majority of cases. Informal private schools have been shut down by the government (Wei, 2023) and when rural children are admitted to private schools, they are often stigmatised by their peers and teachers (Xiong, 2021). Evidently *hukou* restrictions have led to a dire state of affairs in terms of education, which is problematic considering that China's workforce is already undereducated, with 70 percent of working age adults being without a high school diploma (Gries, 2023a). Somewhat ironically, the Smart Kids in the documentary evidence the poor state of education for rural children, with some having left school without even completing second grade. This low investment in education by the Chinese government means that China may have difficulties in escaping the middle-income trap. Rising labour costs have led to industries like textile manufacturing moving out of China to cheaper countries (Gries, 2023d), but the Chinese workforce is not sufficiently well-educated to transition to higher value-added industries in the way that neighbouring South Korea and Taiwan did after their own manufacturing industries diminished. Consequently, China may not reach high-income status due to economic stagnation (Rozelle & Hell, 2022: p9). It is clear then, that through its educational restrictions, the *hukou* system will remain a considerable barrier to economic growth in China's future if it goes unreformed.

Furthermore, a lack of meaningful reform to the *hukou* system has contributed to a decrease in the size of China's floating population, which may harm productivity in the long term. The *hukou* system was first relaxed in the 1980s, and in the intervening years half a billion people have migrated to the city (Gries, 2023c), despite effectively being penalised for doing so. The financial incentives behind migration may no longer outweigh the downsides of living in cities without a local *hukou*, demonstrated by the fact that since 2010 the number of migrant children in cities has declined, and the migrant population as a whole began to decline in 2015 (Xiong, 2021). This was reflected in the documentary, in which many Smart Kids ended up returning to their villages, as their dreams of home ownership were not attainable, as mentioned above. They cited financial reasons for this, but in practice many cities do not allow the purchase of property without a local *hukou*, which can be very difficult to obtain (Gries, 2023c). While the kind of exploitation seen in the documentary is of course shameful, if China is to continue its economic growth, it will need a growing working age population to work in industry. If this loss of workers is to be reversed, the government may need to reduce the inequalities in income and provision of benefits (Yang, 2014: p207) that make city life unappealing by reforming the *hukou* system. Previous relaxations of the *hukou* system have led to increased migration to cities, so it would not be unreasonable to expect this to happen again, and it would also mitigate the loss in productivity that the system causes (ibid.). It can therefore be seen that the *hukou* system has been a factor in the declining migrant workforces in China's cities, which will hinder future urbanisation and economic growth.

There is, however, a potential benefit of the *hukou* system for the Chinese economy, which is that it could once again help to maintain low food prices in China. When it was created in 1958, the *hukou* system was intended to keep farmers in the countryside and thus keep agricultural production at a low price (Gries, 2023c). At present, China relies on imports equivalent to the produce of nearly 150 million acres of arable land, for food, oil seeds and animal fodder (Wang, 2023: p6). This comes at a time when Xi Jinping is attempting, through a policy of "dual circulation", to decouple China from the rest of the world and direct it

towards a more self-sufficient economy (Gries, 2023b). In order to achieve this goal, the *hukou* system could be used to make domestic food production cheaper again as it did in the 1950s. Presently, benefits attached to rural *hukous* include land-use rights and access to agriculture subsidies, but in spite of this, one survey in Shanghai found that 89 percent of respondents would nonetheless prefer an urban *hukou* (Yang, 2014: p205). This demonstrates that reform of the *hukou* system would still be needed to make agriculture a more appealing pursuit. Furthermore, it must be conceded that while the *hukou* system could be used to achieve Xi's goal of self-sufficiency, it would come at the expense of Chinese industry, which would be deprived of workers. For this reason, while the *hukou* system may be expedient for one element of Chinese economic policy, it cannot be said to be entirely beneficial for economic growth.

To conclude, the *hukou* system can be understood as a remnant of an intentionally inequitable policy from a young and vulnerable planned economy that has long since been replaced, and one which is now holding back economic growth. Were all Chinese treated equally, regardless of their place of birth, future generations may not suffer the same challenges and difficult family situations as the Smart Kids, and China would benefit from a more educated and thus productive workforce. This workforce would be one which would be more incentivised to work in the cities again without fear of being ineligible for healthcare, schooling, or other benefits. This would go some way to stem the shrinkage of China's aging workforce and facilitate a transition to higher value-added industries. By contrast, a push for more agricultural production at the expense of industry does not appear to financially justify the continued use of the outdated household registration system.

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