

Hukou System Reform and Challenges

Emre ŞAMLI*

Abstract: Whichever profession a citizen occupies, s/he is supposed to live in a place where s/he is born. This is called Hukou System and it was issued around 1950s in order to control the migration. Although main aim of the system which has been reformed several times is to prevent the rural depopulation, diverse expectations and demands ensure to take form the system. Even though the residence permit system does not allow cities to be in anarchy, it creates many problems such as home-staying children, economic underdevelopment, inequality, and lack of urbanization. For the problems, the government of China decided to make some changes on the system in 2013. This paper will analyze and describe the system and then try to show the main challenges of the intended reform.

Keywords: *Hukou System, residence permit, home-staying children, inequality, (non)urbanization*

Hukou Sistemi Reform ve Zorlukları

Öz: Hangi mesleği icra ettiğine bakılmaksızın vatandaşının doğduğu yerde yaşamasını öngören Hukou Sistemi, 1950'li yıllarda göçün önüne geçmek üzere yürürlüğe girmiştir. Yürürlüğe girdiği tarihten günümüze kadar çeşitli reformlara uğrayan söz konusu sistemin ana teması kırsal nüfussuzlaşmanın engellenmesi ise de değişen beklentiler ve talepler sistemin şekillenmesine yardımcı olmuştur. Her ne kadar söz konusu sistem şehirlerin anarşi içinde kalmasını ve adeta düzensiz bir düzende kalmasını engelliyor olsa da, evde kalan çocuklar, ekonomik az gelişmişlik, eşitsizlik ve şehirleşememe gibi sorunlar yaratmaktadır. Bu problemlerden ötürü Çin Hükümeti 2013 yılında aldığı bir kararla bu sistemde bazı değişiklikler yapmayı kararlaştırmıştır. Hem söz konusu değişikliklerin ne anlama geldiğini kavrayabilmek hem de sistemi daha yakından tanımak adına bu makalede sistem analiz edilerek tanımlanacak ve devamında da öngörülen reformların önündeki engeller açıklanmaya çalışılacaktır.

Anahtar Kelimeler: *Hukou Sistemi, ikamet izni, evde kalan çocuklar, eşitsizlik, şehirleş(eme)me*

* University of Dundee, emre_samli53@hotmail.com

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Introduction

Reforming the hukou system was the message that came through loud and clear from a meeting of top academics and policy advisers hosted by the Chinese Academy of Social Sciences in August 2013 (Qi, 2013). The news most probably may not seem important to those who do not know about the system but for China and the Chinese people it means a lot. The author of this paper was one of the people who was not aware of the system and its importance and reveal this article to answer the following questions:

- What is the hukou system?
- What is its rationale?
- What are the problems of it?
- What are the challenges of reform?

Household registry, known as *hukou*, has attempted to regulate labor mobility and population growth in larger cities since 1950s (mainly accepted as 1958) (Boffy-Ramirez & Moon, 2017).¹ Although main aim of the system which has been reformed several times is to prevent the rural depopulation, diverse expectations and demands ensure to take form the system. Even though the residence permit system does not allow cities to be in anarchy, it creates many problems such as home-staying children, economic underdevelopment, inequality, and lack of urbanization. Because of the problems, many scholars agree on reforming the system and the government of China decided to make some changes on the system in 2013.

In order to understand how significant, the reforms will be, it should be known what the hukou system is and why the system was required. In other words, in this paper, as will be shown above, it will be mentioned firstly the definition of the hukou system and its different phases. Then rationale of the system will be focused, which is mainly low-cost workers, monitoring of targeted persons, regulation of balance of demography, and so on. Thirdly, the paper will cover the problems of the system. In other words, the third part will analyze "*why shall the hukou system be reformed?*" The reasons are respectively children, economy, inequality, and urbanization. And the final part of the paper will be on challenges to the reform,

¹ The system is also defined as "*China's No. 1 Document*" to emphasize the power of the state (Chan, 2009, p. 198).

which are who pays for reform and land reform. Eventually, the efforts of the new government in China with the decisions taken in the Third Plenary Session of the 18th CPC Central Committee will be clarified.

Hukou System and Its Rationale

As mentioned above, the system has attempted to regulate the population since 1950s. To speak in literature, since economic resources were mostly devoted to urban areas, as the government hoped to extract the country's agricultural economic surplus to fuel urban industrialization, this created uneven allocation of resources and caused a massive influx of migrants into the main cities (Zi, 2018). As a result of this massive move, substantial unemployment in urban areas occurred and the hukou system was issued to restrict both interregional and rural-to-urban migration. According to the regulation, every resident to be accounted for in a household and report identifying information such as name, spouse, date of birth, and educational attainment (Boffy-Ramirez & Moon, 2017).

The system registers households with their particular region as either rural or urban.² Depending on this status, residents are only able to receive certain services such as education and healthcare from certain places. These services are limited to their region of registration. In other words, it is a social management system that ties benefits such as health care and pensions to the birthplace. Although the pretext for this system was officially "*consolidation of socialist system and public interests*", China is not the only country (regime) to implement the system because similar systems are valid in Japan, Vietnam, and North Korea (Chan, 2009, p. 199).

Broadly speaking, there have been three phases in the operation for the hukou system and every phases were came out to meet some requirements (Zhang & Treiman, 2013). During the first period, between 1950s and late 1970s, it introduced a strict division between rural and urban population with the official objective of "*consolidation of socialist system and public interests.*" In addition to the goals of social and political stability, most experts point at the economic rationale behind the control system which is "*restricting*

² For some studies, it is claimed that the hukou system divided the population into four categories basing on occupational (agricultural/non-agricultural) and locational aspects (urban or rural). This division is largely according to the place of birth and the hukou status of the parents (Melander & Pelikanova, 2013).

rural-urban migration was necessary to push the heavy-industry-oriented development strategy and the collective transformation of agriculture.” (Zhao, 2017). Therefore, the Party used the hukou to balance the population. Movement was controlled by limiting access to work, food, and services. Although it has such rationale in its first period that is admired by some scholars mainly because it could prevent urban slums and urban anarchy (Wang, Hui, Choguill, & Jia, 2015, p. 279), some historians argue that the Hukou aggravated the death toll during the “Great Leap Forward” period (1958-1962), when peasants were locked and millions were starved to death (Zhao, 2017).³

During the second period, from the late 1970s to the mid-2000s, priority of the Party was to take advantage of massive rural labor surplus in order to support rapid economic expansion.⁴ In other words, when China decided to convert its economy from agrarian to industrial, it required labor flexibility (Melander & Pelikanova, 2013). For this purpose, restrictions on movement and work were lifted. For example, in 1984, government of China allowed skilled farmers and their families to settle in urban areas (Zi, 2018). The provision that permitted the rurals to buy “temporary urban residency permits” make the residents legal workers. The fee for these permits decreased over time and has become reasonably affordable. It is estimated that more than 60 million people migrated to cities within the first decade of the application (Melander & Pelikanova, 2013).

Besides, in 1993, the government officially ended the food rationing system and internal migration was no longer limited by hukou-based consumption coupons (Zi, 2018). In the late 1990s, government made more relaxation such as hukou status for family cases, blue-stamp, and a general lowering of thresholds for granting of temporary residence permits (Melander & Pelikanova, 2013). The result was the creation of a large, mobile, and crucially low-cost workforce that became the backbone of manufacture and export-orientated economy of the country.

Throughout the current period, as the economy of China has matured and started to move up the value chain, it is generally agreed, even tacitly by the Communist Party, the hukou system

³ This was campaign led by Mao Zedong who wished to transform the country from an agrarian economy into a socialist society via rapid industrialization and collectivization.

⁴ Literally “reform and opening-up” policy is known as “Socialism with Chinese characteristics”, or “socialist market economy” led by Deng Xiaoping.

has lost its useful purpose. Instead, there is growing consensus that over 200 million migrant workers who now exist actually present an obstacle to the new priority of rebalancing the economy to be more consumption centric. For that sense, on March 2008, over 30 leading intellectuals had written open letter to the government and asked for "*immediate abolition of the rural-urban dual hukou system.*"

In 2008-09, some published essays remarked the hukou as "*caste system*" and described China as "*a great country of discrimination.*" (Wang F.-L. , 2010, p. 90). Finally, on March 6, 2013 Wen Jiabao mentioned that the change on the hukou system was essential to advance urbanization "*actively but prudently*" (Li & Ruwitch, 2013). But most importantly, there is a person who wrote his doctoral thesis on the role of urbanization to economical development; i.e, impact of the hukou to the urbanization. The person is New Premier Li Keqiang (Standing, 2013).

However, there still exists over 200 million Chinese live outsides of their officially registered areas under the condition of illegal immigrants since 1980s.⁵ They are often blamed for rising crime and unemployment. Also, rulers of some cities have imposed discriminatory actions against them. Therefore, the hukou system has enormous negative impacts on the people who live illegally and wait for solution.

Nevertheless, the solution has its own challenges that will be pointed out later in the paper. However, in order to clarify and understand better the issue, it is required to know the rationale of the system. For some scholars and experts' Chinese governments have been some advantages with the system. At the top, by regulating labor, it ensured an adequate supply of low cost workers to the plethora of state owned businesses. Secondly, the Chinese Ministry of Public Security continued to justify the hukou system on public order grounds, and also provided demographic data for government central planning (Wang F.-L. , 2010, p. 82).

The third advantage of the system is that it increases the stability of China by better monitoring of targeted persons who are politically dubious by the Party's standards. This is still a significant function. Prior to the Chinese economic reform that began in the

⁵ The China National Bureau of Statistics estimated that 277.5 million rural-migrant workers reside in provinces without an official resident hukou, and these individuals make up more than one-third of the country's workforce (Zhou & Cheung, 2017, p. 6).

late 1970s, the system succeeded in limiting population growth in the cities. Finally, although the hukou has been controversial and regarded as unfair by citizens, there is also fear that its liberalization would lead to massive movement of people into the cities, causing strain to city government services, damage to the rural economies, and increase in social unrest and crime (Wang, Hui, Choguill, & Jia, 2015, p. 279).

Problems of the System

As mentioned earlier, the hukou system has some problems. These are home staying children, impacts on economy due to the lack of labor participation, inequality among the people, and urbanization.

1. Children

The children of farmworkers commonly referred as the home-staying children (some called them as migrant children or left-behind children). Statistics indicate that the number of migrant children has increased from 25.33 million in 2005 to 35.81 million in 2010.⁶ Statistically, almost 60 % of migrants left their children behind for compulsory reasons (Melander & Pelikanova, 2013).

Since the hukou system requires students to take both the high school (*Zhongkao*) and the college entrance exam (*Gaokao*) in the place where their parents are registered, the children are not allowed to enroll in urban schools. Therefore, they must live with their grandparents or other relatives in order to attend school and be educated.⁷ Also, although recently there have been some revises on educational issue of migrant children, these revises do not cover the education after middle class (Zhou & Cheung, 2017, pp. 9-10). In other words, since the Chinese Ministry of Education requires all students to take both the high school and college entrance examinations where their hukou is registered, these children must return to complete higher learning entrance examinations, even if

⁶ Recent studies show that there are almost 100 million left-behind children (Zhao, 2017).

⁷ Nevertheless, some schools have quotas for guest students. But since the tuition fee is significantly high, it is nearly impossible for non-locals (mainly farmers; i.e, low-income) to afford. It should be pointed out that there are some organizations in China which try to help migrant children attend school by mitigating admission eligibility gaps and so forth (Zhou & Cheung, 2017, p. 8). However, the schools (migrant schools) cannot offer the same quality as state schools do. Moreover, the resources (including teachers) are often scarce and classrooms are overcrowded.

they have lived most or all of their lives in an urban area (Zhou & Cheung, 2017, p. 9).

A survey that was conducted by Liu and Jacob shows that the hukou system creates obstacle for education (Liu & Jacob, 2013). According to the survey almost 60 % of migrant children state that they will not continue their education after they graduate from junior schools. More than 90 % of the children explain that the reason why they will quit their education is the hukou system. To put in a differently, not only adults but even children evaluate the hukou system as unfair. Also, the results tell that migrant children feel that the system in China does not involve them and they are in *hopelessness* within this context. As will be asserted below, this feeling of hopelessness increase tension among young generation.



(Árnadóttir, 2012)⁸

All children in China must attend school legally, but many migrant children have not accessed to their hukou. Thus, not only home-staying issue causes problem in China but also since the

⁸ As understood, after 9-year of education, students have to take 'Senior Secondary School Entrance Examination (*Zhongkao*)' in order to attend Senior Secondary or Vocational Secondary. If the students who can graduate from the secondary schools have intention to go to college (university), they are supposed to take 'National College Entrance Examination (*Gaokao*)'.

children of migrants receive inadequate and low level of education, it is predicted that they will become a big social problem (Chan, 2009, pp. 212-213).⁹ In other words, as scholars identify that this lack of education affects not only migrant children and their families, but also society as a whole. Although the hukou policy was revised to allow migrant children to receive public education in cities, they still experience some social exclusion and discrimination (Zhou & Cheung, 2017) that cause some other social problem that will be pointed out below.



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2. Economy

The hukou system was a major institutional pillar for the command economy and without such a system, it was nearly impossible to achieve the paramount goal of rapid industrialization (Chan, 2009). Also, the system allowed China to avoid the *Lewis turning point*. However, some scholars and reports claim that China has come closer to that point and has to revise its policy of economy (Das & N'Diaye, 2013).

⁹ The article number 42 of the Third Plenum might solve the problem; http://www.china.org.cn/china/third_plenary_session/2013-11/16/content_30620736_4.htm (accessed on 14/04/2018)

¹⁰ As pointed out by the Picture, students from rural areas have to tackle with the problems of the hukou system in order to catch 'Beijing Kid'. https://chinashukousystem.files.wordpress.com/2015/04/816697_orig.jpg (accessed on 13/07/2019)

The hukou prevents more than 200 million migrant workers from fully participating in the labor market. Cai Fang, the director of the Institute of Population Studies at the Chinese Academy of Social Sciences claims that (Qi, 2013): *“Migrant workers don’t have the same benefits as the urban residents that significantly limits their participation in the labor market. That is because without access to services in their host city, migrants must return to their hometowns to settle down and raise a family.”* Besides, he tells that if the labor participation rate rises by 1 % each year, it would lift economic growth potential by 0.88 %.

Moreover, recent government in China aims to improve private consumption in order to return to a more sustainable development path (Dreger, Wang , & Zhang, 2015). Some studies show that the relevance of the hukou system is the main driver for modest consumption. Therefore, since the average propensity to consume is slightly lower for migrants, policy changing towards consumption-driven growth is at risk as long as the hukou is valid (Dreger, Wang , & Zhang, 2015). Similar conclusion is explained by the former city planner Wu Jiang. He claims if China really wants to encourage more people to move to the cities and spend more money there, it is high time to reconsider the hukou system. Thus, high domestic savings is already one of the biggest economic challenge of China (46 %) and if China cannot encourage rurals (and migrants) to spend more, it will be severe problem for the future.¹¹

Not only the scholars mentioned above, but also Zi emphasizes that if the government of China abolishes the hukou system, it leads to a sizable improvement in aggregate welfare and it has also a strong distributional impact (Zi, 2018). In addition, he declares that the abolishing increases the gains from trade and alleviates its negative distributional consequences. To sum up, expenditure of migrants is depressed by institutional constraints in urban and if the limits are lifted, not only migrants but also economy of China will develop.

3. Inequality

The negative effect of the hukou is not only limited to the economy and on children. The system plays in widening inequality.

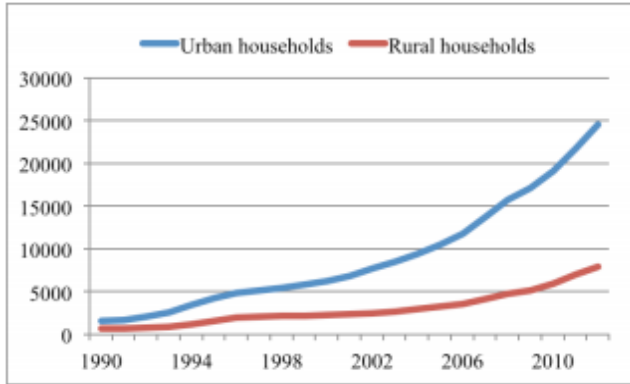
¹¹ <https://www.cia.gov/library/publications/the-world-factbook/geos/ch.html> (accessed on 05/07/2019).

Recent figures from the Pew Research Centre Global Attitudes Project show that worries about inequality in China is increasing. Data shows that 52% of the people consider inequality to be the greatest problem for the future. The dissatisfaction could accelerate serious social unrest because millions of people feel that they are being left behind against others. This issue is a result of the hukou system that is called by some scholars as the system creating *urban-rural 'apartheid'* (Melander & Pelikanova, 2013). Some others state that migrants workers in China are just like the guest workers in somewhere else due to the hukou system (Zhao, 2017).¹² Moreover, it is well known that migrant workers work in jobs that are not filled by local residents and has less income that will be covered below.

The inequality, firstly, bases on income. According to China Bureau of Statistics (that can also be understood from the graph below), while income of urban (per capita) is around 37,000 Yuan and expenditure is 25,000; for rural residents the numbers are 14,000 and 11,000, respectively. That means, whereas an urban resident can save around 32 % of money, only 18 % is invested by rural resident.

Similar study is conducted by Zhao and he concludes that urban workers earn much higher than rural ones (Zhao, 2017). Even migrants in urban have more income than rural. Therefore, it might be easily emerged that since there is significant inequality in China depending on urban-rural, people in rural have great incentive to migrate even if they are treated as *second-class* as will be mentioned below.

¹² There are some basic and similar demands between *sans papiers* (migrants in France) and the migrants in China. As known, in 1996 French migrants revolted against government and asked for '*Papiers pour tous*' (Residency paper for everyone). The paper means full rights of citizenship by which undocumented but backbone of economy aliens (migrants) can prosper (Hardt & Negri, 2012, pp. 391-392). As mentioned earlier, similar to *sans papiers*, Chinese rurals were required to convert economy from agrarian to industrial and government eased the hukou system to support its economical development because according to Hardt and Negri, capital demands such mobility of labor power. In other words, there is no difference between two but *Chinese migrants are citizens and have rights without utilizing*.



(Melander & Pelikanova, 2013)

As study demonstrates that there has been changed urbanization from 1965 to 2000 (almost 18 %) but the increasing urbanization with no permission on the hukou caused differences between groups (Afridi, Li, & Ren, 2015). As will be pointed out below, the goal of China for urbanization is 66 % by 2020. If the problem of inequality is not overcome and China cannot achieve to be one society, China might probably experience significant issues in near future.

Furthermore, according to some scholars, the GINI coefficient based on family income rose from 0.3 in 1980 to 0.55 in 2012 (Boffy-Ramirez & Moon, 2017).¹³ To put in a different way, even though their cheap labor had fueled urban economy and growth and this was encouraged by central government to engage in economic activities in cities, migrant workers and their children, consequently, became an underclass group. (Zhou & Cheung, 2017, p. 9).

Other than the difference on income level, the hukou system creates inequality between groups which are at same level of income (Zhou & Cheung, 2017). Because group of urban “rural” poor (i.e., peasant workers in cities), unlike the urban “urban” poor, are

¹³ Some studies give different results of GINI-index for China. According to CIA Factbook GINI is around 46.5 % (31th ranking). Han and his colleagues also claim that the index is around 0.47 (Han, Zhao, & Zhang, 2016). Although numbers are different on GINI issue because of methodology or other estimates, one point is stable that China is economically unequal country.

excluded from the “urban” welfare and social security system, it caused to another inequality and dissatisfaction. In other words, as mentioned “*migrant workers are usually treated as second-class citizens and are prevented from accessing various social benefits provided at the local level*” because of the hukou system (Zi, 2018).

Very same issue is pointed out by Melander and Pelikanova (2013) but they mention another problem of this issue which is: *the hukou related injustice causes more anger for the younger generation than the first generation*. Therefore, if there happens no reform for the system, resentment of younger generation might increase the tension among the citizens. In other words existence of the hukou system that prevent the social mobility not only for intrageneration but also for intergeneration creates the “outsiders” of the system (Chan, 2009). But the major problem is that the outsiders of the system might be the “destructive margin”.¹⁴

4. Urbanization

Because of the overriding priority and urgency accorded industrialization in China, the government opted for a strategy that ignores the urbanization of peasants and denies their benefits and welfare that accrue from being “urbanized.” Therefore, the typically dual, interrelated processes of industrialization and urbanization have been deliberately decoupled by the “invisible walls” erected by the hukou system (Chan, 2009, p. 209).

However, Premier Li is an enthusiastic supporter of more urbanized China (Melander & Pelikanova, 2013). The goal is for China to go from being about 52 % urbanized now, to 66 % by 2020: ¹⁵ “*Urbanization will unleash enormous consumption and investment, and provide new opportunities for rural people,*” Also intellectuals tell the authorities “*will speed up household registration reform*” and “*study and set policies to push forward with turning rural residents into urban residents in an orderly manner but without delay.*”

¹⁴ According to a scholar, since urban areas are essentially owned and administered by the state, state has direct responsibility toward urban areas and uses its budget to meet all requirements such as food, employment, housing, food, sewage disposal, transportation, and so on (Cheng & Selden, 1994, p. 644). However, the same responsibility does not cover rural areas, and in its consequence, the registration system creates big disparities between urban and rural. It also creates the lack of “*sense of belonging*” for rural residents.

¹⁵ If only urban residents (with urban hukou) are counted, the level of urbanization is around 36% in 2013 (Wang, Hui, Choguill, & Jia, 2015). In China, while rural migrants working in cities and are counted as urban residents, they are not urban citizens. They are non-hukou population (Chan, 2009, p. 204).

But policymakers have so far avoided specifically mentioning any changes because of concerns that any relaxation would lead to flow of rural migrants and strain city finances. Additionally, many cities have developed without properly maintaining their environments, warns Xu Xiaoshi, who took over as head of the commission in March 2013: *“Some cities are plagued by traffic gridlock, deteriorating air and water quality, and ruined buildings.”*

Urbanization that is midterm goal of government as stated above means to transform the economy from export promotion to international expansion (Zhao, 2017). If China wishes to take the advantage of scale economies, it should aim at more mobile and versatile labor force with equal access to quality services and give equal treatment to workers that are prevented by the Hukou.

Challenges of the Reform

Although many scholars and academics claim that the hukou system has lost its significant rationale and needs to be reformed (abolished), there are some challenges that are barrier for any reform action. In that part the challenges will be focused.

1. Who Pays for Reform

Since a major tax revision in 1994, local governments have been left with a substantial gap between the amount of tax revenue and their spending liabilities. It is estimated that while local government is responsible for around 80 % of expenditure, they only receive 50 % of it from tax. This disparity has forced local officials to devise alternative ways to fund their spending obligations. That causes almost \$4 trillion debt of local governments. Consequently, local governments are deeply opposed to any reform on hukou. Project led by the National Reform and Development Commission in 2012, which interviewed city leaders across eight provinces, found nearly all leaders expressed that their administrations could not afford the extra spending to provide public services to hundreds of millions of migrants (Melander & Pelikanova, 2013).

To put in a different way, their concerns are classified within three bases. These three bases are *“Will fiscal policy be reformed to give local governments a greater share of revenue?”*, *“Will a cost-sharing model be developed between central and local government?”*, and finally *“Will local governments be given new means of raising revenues?”*

2. Land Reform

Contrary to common sense, survey conducted by the National Population and Family Planning Commission in 2011 found that if offered an urban hukou, only 26 % of migrants would accept (Melander & Pelikanova, 2013). This is because although a rural hukou has many disadvantages, migrants, at least, retain their rural land use rights (Cui & Cohen, 2015, p. 332). In other words, peasants holding “*three rights*” are not ready to give up their benefits.¹⁶

Moreover, land (or rural hukou) means a source of security because urban life always has a precarious nature and it is better for a peasant to know that there is a chance to come back in case of failure (Melander & Pelikanova, 2013). In that scenario, contrary to main arguments, people do not want to lose their rights unless they gain more.

Therefore, the best solution to these problems is widely considered to be reform of rural land ownership. Because, if rural residents were given the power to trade or mortgage their land use rights and be fairly compensated for doing so, it would mean to be more willing to swap rural hukou and start urban lives with capital for them.

However, there are also fears that liberalizing the ownership of rural land would endanger self-sufficiency of China in domestically produced crops and thereby threaten its security. As said commonly, every step includes some danger.

Consequence and Efforts of Government

In the paper it is intended to introduce the Chinese Household Registration System, i.e, Hukou System. Firstly, the definition and the historical development of the hukou system which has three phases analyzed. The first phase was for consolidation of socialist system and public interests, the second one was to support rapid economic expansion, and the final stage is to support the matured economy with abolishment or regulation of the system in favor of the urbanization.

Although there are rationales of the system like monitoring of targeted persons, adequate supply of low-cost workers,

¹⁶ The rights are a) right to land and its management, b) the right to a homestead, and c) the right of collective income distribution (Cui & Cohen, 2015, p. 332).

demographic data for planning, and so on, four main problems are caused, which are children, economy, inequality, and urbanization. Because of those problems and issues, the system should be abolished according to many scholars. However, most of the scholars who claim that the hukou is unfair and has to be withdrawn could not foresee the challenges. The first challenge is the question that is asked by almost every local government *"Who pays for the results of the reforms?"* The second challenge is for rural migrants because they wait for the *"Land Reform"* to migrate to urban due to the precarious nature of urban life.

- Nevertheless, even if there are two challenges of reform, government is willing to make some changes as it was claimed at Third Plenary Session of the 18th CPC Central Committee, which will be given as follows.¹⁷
- Accelerate the building of a new agricultural-operation system based on a mix of family, collective, cooperative and enterprise operations. Land-contracting rights will be protected. Farmers are allowed to become shareholders in the agriculture-industrialization via their land-contracting rights. Private capital is encouraged to invest in a modern planting and breeding industry, and for introducing modern production and management methods.
- Farmers will be given more property rights. They are encouraged to develop a shareholding system from which they can realize benefits. Meanwhile, they can also sell a share or take it as collateral or warranty. They also have the right of succession. Moreover, the homestead system in rural areas will be improved, and farmers' usufruct rights of homestead will be ensured. A pilot program will be carried out in some areas to discover other channels for improving farmers' income. A rural property-rights trading market will be established.
- A more balanced allocation of public resources between urban and rural areas will be promoted. Migrant workers should get the same pay for the same job. Farmers should receive a fair share of the profits from land-value appreciation. Deposits in rural financial institutions should be mainly used to finance the development of agriculture

¹⁷ http://www.china.org.cn/china/third_plenary_session/2013-11/16/content_30620736_2.htm (accessed on 14/04/2018).

and rural areas. The agricultural subsidiary system and insurance system will be improved. Social-capital investment is encouraged for construction in rural areas.

- Build a healthy urbanization that puts people at the center. Reform of the hukou (or household registration) system will be accelerated to help farmers become urban residents. The country will relax overall control of farmers settling in towns and small cities and relax restrictions on settling in medium-sized cities in an orderly manner. China should set reasonable requirements for rural residents to obtain hukou in large cities, and strictly control the size of population in megacities. Efforts should be made to make basic urban public services available to all permanent residents in cities, including all rural residents. This includes the affordable-housing system and the social security network.¹⁸

To sum up, this paper tried to show and introduce one of the hardly known system in the world. In order to make the issue more visible, this paper covered as much as it can from definition to phases and to reasons of reform and challenges. Even though the efforts, there are many deficiencies about the topic to talk. Nevertheless, the author of the article evaluate the paper as beginning and hope that upcoming scholars (or those concerned) will contribute.

Before the contribution from upcoming scholars, I want to analyze another issue related to this topic. Besides the reform initiatives mentioned above, the government announced that they would aim to release the hukou restrictions in many small and medium-sized cities according to the 2019 Urbanization Plan (Zhang Z. Y., 2019). The reform issue has really a great promising for China and its main problems as clarified before. However, evaluating the releasing or reform as *liberalization of China* is quite naive consideration because of the programme which is called as '*Social Credit System*'.¹⁹ In other words, regardless of Social Credit

¹⁸ Although the new reform pact covers the issue, some scholars point out that easing in the hukou migration system does not solve the problem of "*true migrants*" because the cities and towns including in the pact are not the ones where migrants can find job and benefits (Chen & Fan, 2016).

¹⁹ According to Sithigh and Siems the system will fundamentally change the life in China (Sithigh & Siems, 2019). Main innovation of the system is that each Chinese citizen will be given a score measuring their sincerity, honesty, and integrity. Besides, this score will be a major determinant for their lives, for instance, whether to be able to get a credit, rent a flat, or buy a plane ticket, or being given preferred access to hospitals, universities and government services.

System and its main objective to create good/bad citizens (*harmonization programme*), it's not well-considered consequences for China to claim that linearization will come soon.

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