

# Institutional interplay in China's economic system on the example of hukou

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**Abstract:** **Background:** The introduction of the 14th Five-Year Plan (2021–2025) re-emphasizes the transformation of China's economic order and draws the hukou system back into the limelight. Hukou, a system of population registration and movement control developed since the 1950s, has experienced several reform waves. It is worth examining its new strategic role as a supporting element of the evolving Chinese economic system in interaction with other institutions.

**Research objectives:** The article aims to examine and assess the evolution of the hukou and its interaction with other formal (meta)institutions: the labour market, welfare system, and education system, as well as its institutional support for China's economic model.

**Research design and methods:** We based the study on qualitative research using our two-level model for analysing the relationship between selected institutions and the evolution of hukou.

**Results:** The changes in the household registration system go in line with China's evolving economic strategy. The hukou's relationship with individual institutions has been effective or ineffective depending on the period.

**Conclusions:** Hukou has played a major role in supporting the Chinese economic model in terms of the supply of cheap labour, local economic development, and talent selection.

**Keywords:** hukou, labour market, China's economic system, institutional change

**JEL Codes:** I24, I38, J21, J42, P25, O53

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## 1. Introduction

Sixty-five years have passed since the Chinese government introduced the hukou system in 1958. It is a nationwide institution aiming to regulate and restrict population movements (Chan & Buckingham, 2008, p. 587). During the communist economic era, hukou was a central tool to prevent the movement of 'undesirable' rural populations to the cities when the government actively pursued industrialization (Chan, 2010, p. 358). Indeed, the hukou system was, is, and will be crucial to China. In particular, in the released 'Outline of the 14th Five-Year Plan (2021–2025) for National Economic and Social Development and Vision 2035,' hukou's key institution is closely related to the demographic strategy, the strategy of expanding domestic demand and the strategy of science, technology and innovation therein, which reinforces hukou's importance in China's future economic model.

Since China's reforms and opening up in the last century, it has gradually developed into an export-oriented open economy, and as the World Bank (2008, p. 22) puts it, in the past, China insisted on 'importing what the rest of the world knew and exported what it wanted.' Following this economic model, the Chinese government chose to ease restrictions on population movement through several reforms of hukou. Consequently, the Chinese government could rapidly build up its industrial base and participate in the world market backed by its abundant cheap labour. Meanwhile, China has managed to maintain high economic growth for decades by imitating, learning from, and adapting technologies, institutions, and industries from the developed world at low cost and risk, with the advantage of 'latecomers.' The slowdown in China's economic growth started in the 2010s and the government's new strategic plan suggests that the Chinese government is developing a new economic model. Simultaneously, the reform of the hukou system has become increasingly profound. However, it remains a challenge to resolve the complex legacy of reform and opening up, involving education, the labour market and social welfare.

In sum, the changes in China's hukou system are closely related to the evolution of China's economic model. Its shape and outcomes will have a significant impact on the global economy, therefore changes in the hukou system that affect these processes are issues worth exploring. As Ostrom (1990) argues, institutions are nested in multiple layers. This means that it is not only necessary to analyse the mechanisms of change in individual institutions but also to capture the interactions between institutions concerning other elements of the economic order (Moszyński, 2016, p. 379). Therefore, this paper focuses on the institutional context in China's economic model from the perspective of institutional economics, in particular how the hukou system interacts with other Chinese formal 'rules of the game' and plays its supporting role in China's economic strategy.

The article consists of five parts, including an introduction and conclusions. The literature review will define the concept and nature of hukou and present current research on the institution. Next, we will present the research methodology and research process. The main body of research will contain the analysis of interactions of hukou with the chosen formal institutions and end with conclusions.

## **2. Literature review**

Economists provide various definitions of an institution from different perspectives (Commons, 1931; Hayek, 1973; Hodgson, 2006; Veblen, 2005). North presents one of the most broadly accepted definitions of the institution (1990, p. 3): 'Institutions are the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction.' Meanwhile, in the vast body of research in institutional economics, many scholars have presented different perspectives on how institutions change. Generally, it can be divided into three categories based mainly on research approaches. The first is the view that institutional change is centralised and based on collective choice; the second one treats the process of institutional change as an evolutionary (bottom-up) process; and the third is the view that institutional change is due to the changing expectations rather than rules (Coccia, 2018; Kingston & Caballero, 2009). Due to the lack of space for a deeper analysis of the theory of institutional change, we will limit ourselves to stating that the changes in the hukou system were top-down and that its shape influenced the other studied elements of the institutional system

more spontaneously. Given the long research period, we will also use the term 'evolution' to describe the gradual reforms of the hukou system.

The research related to the hukou institution is abundant. Economists explored the origin and development of hukou (Chan & Buckingham, 2008; Cheng & Selden, 1994; Young, 2013), what roles hukou played in the economic system, many studies analysed this area from the migrant workers' point of view (Cui & Cohen, 2015; Kuang & Liu, 2012), and others explored the institutional interactions between hukou and other institutions like the education system or the land system (Xiao & Bian, 2018; Lu & Wan, 2014). To our knowledge, no scholars have thus far investigated the parallel relations of hukou with the labour market and China's urban welfare and education system.

### **2.1. Introduction of hukou**

We may trace hukou's history back to the 1950s. During 1949–1957, the Chinese government was preparing to build the hukou system but it did not spread to the whole country. Initially, in 1951, its official purpose was 'to maintain social peace and order, safeguard the people's security, and protect their freedom of residence and movement' (Cheng & Selden, 1994, p. 662). In fact, the implementation of the hukou resulted in strict restrictions on people's freedom of residence and movement, as we will show in the following sections. In 1955, the government extended the hukou from cities to rural areas (Lu & Wan, 2014, p. 671).

Three years later, the Chinese government issued Regulations on Household Registration in the People's Republic of China introducing the hukou system and it has remained influential to this day. Hukou not only served as a recording system, but also worked as a state institution that artificially interfered with the movement of people through regulations and restrictions and contributed to the country's industrialization as a key instrument in the Mao era (Lin et al., 1998). The hukou system required the government's approval for all internal movements, which meant that Chinese citizens lost their freedom to reside and move within the country since then (Chan, 2010, p. 358). Meanwhile, the hukou system distinguished between citizens living in urban and rural areas (urban and rural hukou), using geographical location and workplace as the basis for dividing units for the first time, replacing China's previous units defined by kinship (Cheng & Selden, 1994, p. 663). Specifically, every Chinese citizen receives an individual hukou after birth according to the division classification criteria. The classification is based on two main components (the hukou dual classification), which are 'socio-economic eligibility and residential location.' The former determines whether an individual's hukou is of an 'agricultural' or 'non-agricultural' type (also known as rural or urban hukou) and the latter determines the official or 'permanent' residence of the individual's hukou (Chan & Buckingham, 2008, pp. 587–589). Clearly, hukou's purpose contradicts the government's initial declarations. 'Freedom of residence and movement had long since disappeared from the list of state-guaranteed rights' (Cheng & Selden, 1994, p. 662).

The hukou system has played an important role in China's rapid growth in the past (Chan, 2010; Watson, 2009), but it has also become an important institutional obstacle limiting the healthy development of Chinese society and social equity and national economic integration (Young, 2013). Song (2014) found that the hukou system is not conducive to economic efficiency and equity.

The actual impact of the hukou system on Chinese society is controversial and some scholars have strongly criticised it. As Perry and Selden (2010, p. 90) mention, in the late 1990s, most of the critiques were about the distortions that the hukou system brought to the economic

system since the restriction of the labour movement was unbeneficial to the economy due to blocking the inflows of talented people. In the new century, more and more scholars began to criticise the hukou system from the perspective of human rights and citizenship. Some articles directly state that the hukou system is essentially a 'China's caste system' or a cornerstone of 'apartheid' (Chan & Buckingham, 2008; Donzuso, 2015; Freeman, 2015; Perry & Selden, 2010). We believe that despite the economic role the hukou has played and continues to play in China's development, its cruel and harsh divisions have blocked an important dimension of civil liberties. This is unacceptable from an ethical point of view. Today, the pace of reform of the hukou system in China has not stopped. The future of the unequal and divided Chinese dualist socio-economic structure caused by the hukou system needs further discussion.

## **2.2. *Hukou's interplay with other institutions***

As mentioned above, different institutional arrangements interact with each other to form different institutional systems and their interplay can cause institutional change. Moreover, studying changes in the hukou system requires attention to its interactions with other institutions.

Many studies revealed hukou's impact on the labour market. In particular, the situation of migrant workers has drawn a lot of attention, because the loosening of labour mobility regulations has not been accompanied by the improvement of welfare, public service, and resource allocation. The expression 'migrant worker' – also referred to as *nongmingong* – generally means a specific category of urban workers who still possessed a rural hukou even though they have already worked and lived in the cities for a long time (Donzuso, 2015, p. 1). The hukou system has brought about inequality in social status between the urban and rural populations and made institutional discrimination against migrant workers its most prevalent type (Kuang & Liu, 2012). Moreover, many economists define hukou as the main obstacle to the mobility of migrant workers in China and the main reason for their low wages (Wu & Zhuoni, 2014; Qiao, Xueya, & Xianguo, 2009, as cited in Cui & Cohen, 2015). Furthermore, the hukou system impacted the urbanisation level in China which was incomplete, because a large proportion of urban residents (without local hukou) did not enjoy urban benefits and were excluded from urban society (Lu & Wan, 2014, p. 672). Xiao and Bian (2018) examined the interactions between university education, hukou and type of workplace and noted that university education provided institutionalised hukou transfer opportunities for rural-born people. One study found that the point system and residence permit system introduced by the 2014 hukou reform brought about new forms of education and social stratification rather than social equality (Dong & Goodburn, 2020). Chen (2019) highlighted the importance of the interaction between the hukou and the economic system and argued that before 1978, the inequality between urban and rural areas was related to the nature of work, which was more important in the industrial sector than the manual labour in the agricultural sector, and that hukou was not a barrier to mobility, but the communist economic system was. It was not the reform of the hukou that lifted the restrictions on rural-urban mobility during market economy reform, but the government's step-by-step adjustment of the whole economic system. Lu and Wan (2014) examined the barriers to labour mobility in China's urbanisation process by combining the hukou system with the land property institution.

### 3. Research method and materials

We employed institutional analysis to examine the process of change in the hukou system after the 1980s, to interpret its relations with the three other (meta)institutions or subsystems: labour market, urban welfare system, and education system as well as to assess its function in China's economic model. Helmke and Levitsky's (2004) institutional adaptation model inspired our qualitative study. Helmke and Levitsky developed a typology of institutional adaptation to capture the interaction between formal and informal institutions. We applied this approach to analyse the relationship between selected formal institutions, as other researchers have also previously done (Wang, 2020). We developed a two-level model to analyse and interpret the relationship between hukou and selected formal institutions (Table 1).

The first level concerns the relationship between hukou and a given formal institution in isolation from the economic system as a whole. From the perspective of a specific institution, such as the labour market, we asked how hukou affects its functioning. A given relationship can support the operation of the given institution and make it perform better or worse. This produces a twofold relationship: effective or ineffective.

The second level of consideration refers to the relationship between hukou and a particular institution from the perspective of the entire economic system and the state's economic strategy. Consequently, we classified and evaluated institutions by asking to what extent the relationship between the hukou and the selected institution generates an appropriate outcome in terms of the growth and development strategy of the Chinese economy. For the sake of simplicity, we assumed that a relationship can be of two types: effective (if it corresponds to the overall logic and fits the current strategy) or ineffective. Noteworthy, we took the word 'effective' from Helmke and Levitsky's model, knowing that sometimes 'efficient' may fit better. We did not analyse the ethical side of the political process. It is governed by its logic and, in the final instance, political arguments prevail over others.

**Table 1. A two-level model of the relationship between hukou and selected institutions**

The level of analysis	Labour Market	Urban welfare system	Education system
Meso (1st level)	A given relation with hukou can be effective or ineffective in terms of supporting the functioning of the institution in question		
Macro (2nd level)	A given relation can be effective or ineffective in terms of the overall logic of the economic development strategy of the state		

Source: own elaboration.

We assumed that the analysed rules of the game are largely formal and – due to the specificity of the Chinese political system – the state may easily shape and modify them to fit the logic of long-term economic strategy. Therefore, the Chinese government treats them as tools, hence, we may interpret hukou's reforms and change of its relations to a given institution as institutional policy, the reconstruction of the institutional environment at the second level in Williamson's schema, or the policy of economic order in the ordoliberal nomenclature.

We applied a long-term analysis dividing the research period 1978–2022 into three sub-periods related to hukou reforms. This enabled us to explain changes within China's institutional order, reforms of specific elements of it, as well as modifications to the overall development strategy. It enabled us to understand that purely economic inefficiencies in some areas

can be tolerated from a political point of view because they fit the government's agenda. However, if the inefficiencies are too great or socially unacceptable, they may force reforms of specific elements of the system and a shift to a new institutional equilibrium.

## 4. Results

In this section, we will analyse the evolution of the hukou institution since 1978 and explore its interactions with three important elements of the Chinese economic order: the labour market, the welfare system, and the education system. The secondary data from the official sources helped us explain the hukou's institutional support for China's overall economic strategy.

### 4.1. *The hukou reforms*

Chinese government gradually modified the hukou system in three main phases: 1978–2002; 2003–2013, and from 2014 to the present. The analysis of its changes focused on these three key periods.

During the period 1978–2002, the reform of the entire Chinese economic system proposed by Deng Xiaoping brought about the idea of reforming the hukou institution. After 1984, the Chinese government gradually relaxed restrictions on the movement of people (Q. Zhang & Hoekstra, 2020, p. 3). Firstly, the Chinese Ministry of Public Security officially introduced the temporary residence permit system and the identity card system in 1984, which relaxed the strict controls on migration that had been in place from 1958 to 1979. Then, the government introduced the 'Blue Stamp Hukou System' in cities such as Shanghai in 1992. Moreover, some cities began experimenting with a residence permit system in 2000, but these did not spread to the whole country (fully implemented in 2016). Finally, in 2002, the government discontinued the transitional hukou types at the beginning of the hukou reform, such as the blue-stamped hukou. Consequently, China's migrant population rose from 6.6 million in 1982 to 121 million in 2000 (UNICEF, 2018). While complementary measures like the temporary residence permit system allowed for the so-called floating populations to stay in the city for a short period, the welfare system linked to the hukou continued to make a strict distinction between local and non-local hukou. The design and operating mechanism of the hukou system in the Mao period was in fact aligned with China's early economic strategy of rapid industrialization (the socially disastrous Great Leap Forward) (Chan, 2010, p. 358), but it has also become the cornerstone of the problem of uneven urban and rural development in China in the later years. The reform and opening-up policy that started in 1978 enabled the release of a large amount of ultra-low-cost rural labour created during the communist economy through a series of measures represented by the hukou system, resulting in a 'reserve army of labour'. Simultaneously, the adoption of a labour-intensive and export-led growth strategy created a large number of jobs in China (Chan, 2010, p. 358). The interplay between the hukou system and the national strategy led to rapid economic growth. However, although the hukou system underwent a few reforms after 1984, the distinction between urban and rural areas remained in force. The type of hukou and permanent residence inherited from the parents can only be changed if certain conditions are met. The process of changing from a rural (agricultural) hukou to an urban (non-agricultural) hukou is still complex in more developed cities in China (J. Zhang et al., 2019, p. 2). As a result, many rural residents without a local hukou are often worse off than urban residents with a local hukou in terms of employment opportunities, income, and benefits, and face a widespread form of social discrimination (Q. Zhang & Hoekstra, 2020, p. 3).

China's hukou institution has evolved from an 'internal passport system' that controlled the movement of people to achieve rapid industrialization to a welfare exclusion tool used to protect urban welfare resources and reduce local financial pressures during the transition of the economic system. The focus of the division of the hukou system has also changed from agricultural and non-agricultural hukou to local and non-local hukou.

In 2003, the Sun Zhigang incident sparked concern in Chinese society about the hukou system and soon afterwards China abolished the 'custody and repatriation law.' With the central government's decentralisation of financial and administrative powers, local authorities received more decision-making power over hukou policy. The hukou system underwent the second round of reform, dominated by economic rationality. Fearing that the relaxation of the hukou policy would lead to financial pressure, the local authorities granted hukou to their preferred groups, such as businessmen who invested heavily, by setting high standards of hukou policy (Fangmeng, 2018, p. 191). At this point, the local hukou policy had become a system similar to Western immigration policy (Li et al. 2010, as cited in Fangmeng, 2018, p. 190). Some scholars compared the hukou registration policies of Chinese cities and found that there are several channels provided by local authorities including investment, tax payment, and house purchase to get a local hukou. For example, the amount of investment in hukou in first-tier cities (Beijing, Shanghai, Guangzhou, and Shenzhen) is 43.59 times higher than in fifth-tier cities (less developed) (J. Zhang et al., 2019). During this period, the mobile population rose from 147 million in 2005 to 245 million in 2013 (UNICEF, 2018). In 2011, Guangdong Province, a major labour-importing province in China, took the lead in implementing a points-based household registration system, providing new ideas for reforming China's hukou system. It is a new framework adopted by some cities that gives newcomers full urban membership (Losavio, 2019, p. 111). Generally, authorities use this point system to manage international migration. Governments create a list of attributes and assign a point value to it and when individuals earn enough points they obtain a work visa (Dong & Goodburn, 2020, p. 3). The difference is that in China, people use sufficient points to apply for household registration. The hukou institution has begun to evolve as a tool for local authorities to promote economic development, but the welfare exclusionary effects of the hukou institution remain.

In July 2014, China's State Council issued 'Opinions on Further Reform of the Household Registration System,' which set the development goal of establishing a unified urban and rural household registration system. The government lifted the restrictions on household registration in small and medium-sized cities and small towns with an urban permanent residents population of less than one million, relaxed the conditions for household registration in large cities, and China's megacities (Beijing, Shanghai, Shenzhen, Guangzhou) began to implement a points-based household registration system. Cui and Cohen (2015) stress that this policy was an important element in the transformation of the hukou system from a system that distinguished between urban and rural residents and separated the population into a system that managed the population and benefited the working class. In 2019, the National Development and Reform Commission (NDRC) of China issued New Towns' Planning and Construction, emphasising the need to continue the reform of the household registration system, and in the '14th Five-Year Plan for New Urbanization Implementation Plan' for 2022, the authorities removed further restrictions. Moreover, various cities in China introduced policies for attracting talents to complement the hukou system in an effort to stimulate urban innovation. Arguably, the reform of the hukou experienced a major step forward in 2014. While the points system seems to offer migrant workers hope of obtaining a local hukou more transparently, the ease

of their settlement remains firmly in the hands of local authorities (J. Zhang et al., 2019, p. 19). In 2016, the residence permit replaced the temporary residence permit, offering the hope of breaking down the barriers that separated the local population from the outside population that had dominated the welfare system.

After 2015, the changing political situation in the world including the rise of trade protectionism, the deterioration of Sino-US relations, and the war between Russia and Ukraine severely hampered China's technological and economic exchanges with the world. Moreover, as China's economic growth slows, many economists are concerned about the sustainability of China's economic model, which is beginning to face a decline in external demand, a demographic problem, environmental protection, and rising labour costs. In fact, the government is also eager to develop a new version of the Chinese economic model. As early as 2015, it proposed the 'Made in China 2025' strategy, which places technology at the forefront of future economic development and is committed to industrial upgrading of manufacturing industries and increasing the added value of exported goods, so as to escape the role of 'the world's workshop' in the international division of labour. In 2022, the Chinese government issued 'Guideline on expanding domestic demand' (2022–2035). This shows the importance of technology, the domestic market, and the capacity for innovation in China's future development. The further abolition of restrictions on population mobility under the reform of the hukou system will facilitate the integration of China's segmented labour markets. The points-based hukou system, with education, skills and innovation as the main criteria, will also fit in with the future development of China's economic model.

In 2022, with the introduction of the 14th Five-Year Plan, China's hukou system may turn out to be a talent selection tool used to achieve the transformation of an efficient and consumption-driven economy. Probably, it is one of the systems that will serve China's future economic goals of urbanisation strategy, developing a domestic demand and innovation capacity.

Concluding, this section clearly showed the relationship between the hukou system and China's economic strategy. Changes in the hukou system are closely related to China's development strategy and also demonstrate the important role it plays in the country's economic model. Thus, we took the transformation of China's economic model as a baseline for analysing the interaction of the hukou system with other institutions since the 1980s and its supporting role in the economic system.

#### **4.2. *Hukou's interactions with the labour market***

China's operating labour market only gradually emerged after the 1978 reforms (Freeman, 2015). Previously, the government allocated all the workers' jobs, and the peasants were tied to the land. Simultaneously, the hukou system prevented migration between urban and rural areas. With the rise of a market economy and a change in the economic model, coupled with the reform of the hukou system which increased the population's mobility, the Chinese government gradually established a labour market in the true sense of the word.

The increased population mobility led to a large number of surplus rural workers moving to the cities and mostly to the labour markets in the eastern regions where employment opportunities are plentiful, especially the Pearl River Delta region, the Yangtze River Delta Region, and the area around the Bo-Hai Sea, including Beijing and Tianjin (Xizhe, 2014, p. 100). Based on data from UNICEF (2018), the number of migrants in China rose from 6.6 million in 1982 to 244 million in 2017, accounting for 17.6% of the total population. As the majority of the migrant population, the total number of migrant workers in China was 220 million in 2008, with the



eastern regions absorbing 71% of the total number of migrant workers leaving the province. The total number of migrant workers in China in 2022 reached 295 million, of whom 154 million worked in the eastern region (National Bureau of Statistics [NBS], 2023).

Most of the employment opportunities in the labour market for the migrant population come from the manufacturing and construction industries, because China's strategy prioritizes the development of labour-intensive industries and foreign trade. Meanwhile, in the 1990s, the government stopped forcing companies to provide housing, medical, and pension benefits for their employees. Moreover, the government abolished the work distribution system and companies received the freedom to employ their own staff. This meant that the market rather than the state determined the distribution of a large amount of labour liberated from the rural land. In 2022, in terms of the main employment sectors of migrant workers, the share of migrant workers working in manufacturing was 27.4%, the average monthly income was 4694 RMB. The share of those engaged in the construction industry was 17.7%, the average monthly income was 5358 RMB. The proportion of those engaged in wholesale and retail trade was 12.5%, the average monthly income was 3979 RMB (NBS, 2023). Thus, the relaxation of the hukou system balanced the supply and demand in the labour market. In the prism of the research model, we may interpret hukou as an obstacle, the removal of which gradually improved the operation of the labour market.

The interaction between the labour market and the hukou system led to the successful operation of the primary labour market in China, with many migrant workers flowing into the secondary labour market to take up jobs in the lower end of the manufacturing, service, and construction sectors. In 2021, labour productivity in China was only USD 13.53 per hour (ILOSTAT, 2022). Wages are market-determined and low-skilled migrant workers have little bargaining power. Between 2003 and 2006, the average monthly wage for migrant workers was below USD 1000 (Watson, 2009). Just as the hukou system was a powerful instrument during the Maoist industrialisation, it was also an effective tool for China's rapid economic transformation and the engine of China's foreign trade development during the construction phase of the market economy from a macro point of view. Without a market-oriented labour system with high labour mobility China would be unlikely to increase productivity so rapidly and successfully redistribute labour across sectors (Freeman, 2015, p. 110).

Since 2014, with the deep reform of the hukou system, the Chinese government removed the restrictions on the movement of people in small and medium-sized altogether. The points-based hukou system attracted high-quality labour to the labour markets of larger cities. With the establishment of the Labour Law in 1994, the Labour Contract Law in 2006, and the minimum wage system in 2004, China's labour market became well-institutionalised. In 2022, the average monthly income of migrant workers was 4615 RMB (NBS, 2023), which is higher than the minimum wage set by the state. However, although the hukou system no longer strictly restricts free movement as it did before, China's labour market remains occupationally segregated. There are long-standing policies that discriminate against the migrant population and urban employers are often biased against people of rural origin (Guo et al., 2017) tying migrant groups to the secondary labour market. Summarizing, in this subperiod, the outcomes between China's hukou system and labour market are ineffective as they work together to discourage factors mobility within the labour market, which is an obstacle to Chinese urbanisation strategy and building an economy based on internal demand.

The number of people of working age (15–59 years) has been declining since 2012 (Xizhe, 2014). With the depletion of surplus rural labour and China's manufacturing technology catch-

ing up with that of developed countries, China must rely on innovation to shift to an efficiency-driven growth model if it is to continue its high growth rate (Jinglian & Shitao, 2014, p. 70). This means that the existing Chinese economic model is no longer efficient and the state needs its new version. In fact, we may observe further hukou reform in the economic goals set by China in recent years.

### **4.3. China's urban welfare: How does it relate to hukou?**

We have mentioned the link between hukou and welfare in previous sections. Between 1984 and 2002, during the temporary residence permit system, cities did not have to pay for the benefits of non-local migrants, such as pensions, health insurance, housing, etc. The relation was ineffective, because it excluded migrant workers from the benefits of urban welfare and exacerbated the inequality between urban and rural hukou.

Since the 1990s, local authorities received the power to set hukou access policies and a few transitional types of hukou like the 'blue-stamp hukou' granted migrants some urban population rights such as eligibility to buy a house. However, local authorities lack the incentive to provide benefits to the mobile population and most of them are excluded from the urban welfare system (Fangmeng, 2018, p. 185). The cost of employing migrant workers was low because, among other factors, employers were not required to pay social insurance, and after 2003, the government relaxed local hukou policies for specific groups of people. The 2008 Labour Contract Law requires all employers to sign labour contracts with employees, including migrant workers, and to provide them with social insurance. However, the government has not strictly enforced the law and many migrant workers with low incomes continue to have no social security. In 2009, the labour contract signing rate for migrant workers was 42.8%, in 2016, it dropped to only 35.1% (China Labour Bulletin, 2021, August 18). Thus, the household registration system helps to maintain the low income and low welfare of migrant workers and provides cheap labour for labour-intensive industries (Watson, 2009). Without access to welfare benefits, a large number of migrant workers need to solve their own housing problems and buy commercial properties; in 2018, the majority of migrant workers (61.3%) lived in rented accommodation, 19% bought their own home, and 12.9% lived in employer-provided accommodation such as factories (China Labour Bulletin, 2021, August 18). Migrant workers build the cities they live in and bring in large amounts of consumption. However, decentralisation and a strong desire for local economic development have made the hukou a powerful tool for local authorities to attract elite groups, while sacrificing unskilled groups. Therefore, while we may speak of an increase in efficiency in a purely economic sense from the point of view of the winning elite, we must assess this relationship as ineffective (in our model) due to the social objectives of the welfare system.

In 2014, the government abolished the categories of hukou and unified them as resident hukou and focused the household registration system on the division of local or non-local hukou. It was only in 2016, during the period of the residence permit system, that mobile groups began to gradually gain access to urban public services.

To summarise, a series of reforms to the hukou system attempted to break the rigid urban welfare distribution of the past, but with little success. Because of the nature of the welfare system tied to the hukou, developed cities continue to use the hukou filter mechanism to give the green light to investors and skilled workers, leaving large numbers of unskilled workers excluded from urban welfare (Müller, 2016, p. 60). In terms of outcomes, the interplay of hukou and urban welfare was in line with the reform and opening-up strategy which was based on

abundant low-cost labour. Thus, we may assess it as effective from the macro-level analysis in the model.

#### 4.4. China's education system and hukou

Education is one of the benefits that urban hukou holders enjoy. After the reform of the hukou system, the influx of children into the cities with their migrant parents inevitably conflicted with the previous system of schooling by territory. China's education system is divided into compulsory education including primary schools and junior secondary education, high school level education, and higher education (Ministry of Education of PRC, n.d.).

In terms of compulsory education, as part of the city's benefits, only parents who meet certain conditions can enrol their children in education in public schools free of charge, which generally relates to residence permits, social security, work contracts, or whether they have local hukou. It is difficult for migrant children to access schools because of the hukou issue. To meet the educational needs, private schools for migrant children have emerged in almost every city in China (Liang et al., 2008, p. 29). However, private school fees are high. There are also public migrant schools, but they suffer from poor facilities and low-quality teaching. These factors contribute to the problem of left-behind children. Between 2000 and 2015, the number of children left behind in China increased significantly. In 2000, 30.2 million children were left behind, 27 million of them in rural areas, and in 2015 – 68.8 million and 40.5 million respectively (UNICEF, 2018). In addition to the complicated admission steps, the *jiedufei* system (extra fees for students with non-local hukou) in public schools makes education more costly for the children of non-local household holders. It was as late as 2010 that the Ministry of Education abolished the extra fees at the primary school level. The hukou reduces the educational opportunities for children who move with the family to protect the educational resources of local hukou residents, making the education system unequal. Therefore, we may assess the relationship as ineffective from the point of view of the operation of the education system and its social tasks.

Along with the hukou reform, local authorities adjusted the conditions for the enrolment of children of migrant workers. The conditions vary but basically relate to the length of residence and residence permit as a prerequisite. In general, children of migrants who hold a residence permit and have a certain number of years of residence can attend public schools; otherwise, children of migrants can only attend schools founded by migrant workers themselves. The same criteria for residence permit and point accumulation amounts apply to higher education. In this respect, local governments complicated the administrative procedures for the education of migrant children by requiring hukou eligibility to take the entrance examination (*gaokao*). Thus, the university entrance examination system based on the hukou system relies on an unequal and complex mechanism that prevents many migrant workers' children from pursuing their education (Donzuso, 2015). Moreover, another study found that the return to education in China's higher education expansion was 17% for men compared to 12% for women (Huang et al., 2022). Higher returns to education show a strong link between education and the labour market. To a certain extent, this increases the attractiveness of cities with good educational resources. However, the increased hukou-based selection mechanisms prevent most people from accessing good educational resources. Thus, the hukou is ineffective in terms of the allocation of educational resources.

The hukou system has always played an important role in the interconnection with the education system. In an education system, especially at the compulsory education level where hukou is still an important criterion of consideration, the hukou system continues to be an

important cause of inequity in education resources. According to the National Bureau of Statistics of China, the number of graduates from China's general universities has risen from 147,000 in 1980 to 9.673 million in 2022. Behind the universalisation of education, there is the problem of the distribution of educational resources and opportunities, which remains problematic especially as China has proposed an innovation strategy and is trying to revise its development model. Therefore, we assess the outcome between hukou and education as ineffective.

## 5. Conclusions

With the help of a developed model, we examined and assessed the interaction of the hukou system with the labour market, the urban welfare system, and the education system since the 1980s from meso and macro level perspectives as well as its institutional role in China's economic system.

We constructed our entire discussion based on three main phases of the hukou evolution, which occurred in 1978–2002; 2003–2013, and from 2014 to the present. According to the results of the meso-level analysis, the interaction between the hukou system and the labour market and the urban welfare system showed a fluctuating nature in terms of effectiveness depending on the period of analysis. Only the education system has remained stably ineffective. According to the results of macro-level analysis, the relationship between hukou and one chosen institution was linked to the economic system and national strategy by generating different outcomes (see Table 2).

**Table 2. The relationship of hukou with chosen institutions during the three phases of reform**

The level of analysis	Labour Market	Urban welfare system	Education system
Meso	P1–2: <b>increasingly less ineffective</b> , relaxation of the hukou system balances supply and demand in the flexible labour market P3: <b>ineffective</b> , migrant groups were tied to the secondary labour market	P1: <b>ineffective</b> , hukou worsens the welfare of migrant workers P2: <b>ineffective</b> , hukou with high qualification requirements block the access of unskilled migrant workers to welfare P3: <b>effective</b> , hukou starts to bring welfare benefits to migrant workers	P1–2: <b>ineffective</b> , hukou worsens the educational chance of children of migrant workers P3: <b>ineffective</b> , hukou's selecting mechanism increased the attractiveness of cities with good educational resources
Macro	P1–2: <b>effective</b> , a large rural labour force supports the reform and opening-up strategy P3: <b>ineffective</b> , obstacles to China's urbanisation strategy	P1: <b>effective</b> , the hukou and welfare systems together contribute to cheap labour in line with the reform and opening-up strategy P2: <b>effective</b> , only open to people who can bring 'good input' for cities to promote the local economy P3: <b>ineffective</b> , the burden on local authorities will increase	P1–2: <b>effective</b> , works with hukou to reduce the financial pressure on the local government P3: <b>ineffective</b> , may result in a loss of educational opportunities for talents, contrary to the innovation strategy

Note: The first phase (P1): 1978–2002; the second phase (P2): 2003–2013; and the third phase (P3): 2014–2023.

Source: own elaboration.

Concluding, the hukou system significantly influences the chosen institutions. Moreover, a combination of effects from the meso and macro levels influenced hukou's evolution. The combination of effectiveness at both levels can be a proxy for the need for, and the likelihood of, reform. For example, effectiveness at both levels implies a good 'institutional equilibrium', no need for change, and a low probability of reform. During the first two phases, the combination between hukou and the labour market gradually reached a good result at the two levels, which means there was no need for significant change. Thus, the gradual reform of the hukou responded to the choice of the national strategy (P1–2). Accordingly, the reform of the hukou system is very probably on its way because of ineffectiveness at both levels after 2014. In the first two periods, the hukou and urban welfare were ineffective at the meso-level but generated an effective relationship at the macro level in line with the country's economic strategy. Such a combination indicates the need for reform, but also its low probability. This means that social objectives are secondary in the national strategy and economic objectives prevail. However, with the introduction of the urbanisation strategy, the Chinese government is gradually enrolling migrants into urban welfare, which is effective at the meso-level and ineffective at the macro level (P3). Thus, a reform is necessary (and probable) as the combination of two levels is suboptimal. The education system is tightly connected to urban welfare and the hukou system makes it more unequal at the meso-level (P1–2). However, for the economic system, the cooperation of the hukou system and education allowed developed cities to successfully avoid the costs of migrant groups, as the local government did not have to bear the increased costs of educational facilities (P1–2). Although the combination of the two levels suggests the need for reform, it is improbable. Furthermore, in the new version of China's future economic model blueprint, both the hukou and education systems are ineffective at the meso-macro level (P3), which illustrates the high probability for the reform of both to fit with the new innovation strategy.

Since 1978, the reform of the hukou system significantly impacted the labour market, the education system, and the welfare system. Based on the results, we suggest that future reforms of the hukou system should focus on improving the occupational mobility of migrant groups in the labour market (geographical mobility underwent significant liberalisation) and on the rational allocation of educational resources.

China built its past economic success on a complex relationship between the hukou, the labour market, urban welfare, and the education system. Having shed some light on these issues, we believe that this nexus remains central to the new transformation China is currently undergoing. We believe that scholars should further analyse this topic, especially in the field of social inclusion, civil liberties, equity, and population structure in relation to the new economic model and new development strategies.

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