

# Cities of dreams

**Kam Wing Chan** says China's attempt to build a new class of urban consumers will falter unless it also dismantles the rigid household registration system that keeps migrants poor

**D**reams are in vogue in mainland China. During a widely publicised tour of Shenzhen, the new head of the Communist Party, Xi Jinping (习近平), called for the realisation of the "Chinese dream" – a great national revival. Right after that, the Chinese character *meng* (dream) was voted "character of the year" in an online poll of 50,000 people.

The new year also began with a political storm over a censored article dreaming of Chinese constitutional reform. Whether those dreams are more like a fantasy than realistic hope remains to be seen.

As China age enters the urban age (more than half its population now lives in towns and cities), a critical part of the Chinese dream is the "urban dream" – the promotion of urbanisation to generate household consumption to put the economy on a sustainable footing. This would steer China away from the current export- and investment-driven growth model, which is now considered, even by the government, as "unbalanced" and "unsustainable".

Urbanisation, when done right, would better shield the economy from possible blackmail by foreign, particularly Western, protectionists and the wasteful drag from an orgy of construction.

Premier-designate Li Keqiang (李克强) has championed urbanisation for years. Some media are excited by his talk of a new type of urbanisation, though specifics are scant. Can he do it right and help China reach its urban dream?

Some say China is already on the way to fulfilling the dream, just counting the number of people relocated to cities and the tens of thousands of new buildings erected and roads built in recent years.

But others have countered, and I agree, that it's not real urbanisation, only an incomplete version of it, based on the fact that a third of the 700 million Chinese urban dwellers today are not truly "urbanised". They do not have an urban *hukou*, or household registration, a little red booklet that entitles the bearer to truly live like an urbanite.

About 230 million migrants now work in the city but are denied a local *hukou*, preventing them from getting social security entitlements and access to public housing, and their children from gaining admittance into a public school. Many jobs also call for a local *hukou*. Without that paper, migrants live a precarious existence.

This gargantuan Chinese labour force without urban residency rights has sup-

plied the global economy with the largest ever army of super-exploitable labour; it has also driven the country's boom over the past 30 years. Without the *hukou* system, there would be no China as we know it today. Some have said that it is China's most potent dirty, secret weapon.

While the arrangement has made China a global economic power by seizing the world's low-end manufacturing market, it has also locked a large segment of Chinese into permanent impoverishment by turning them into an underclass. And



## That narrative of the magic of urbanisation leading to prosperity cannot be readily applied to China

since the *hukou* status is hereditary by law, this underclass position gets passed on to the next generation. This caste-like system is what has made China's urban story so complex. Regrettably, this important dimension is missing in many narratives and forecasts of consumption trends. For example, a popular argument, put forward by financial gurus such as Stephen Roach, contends that China's large number of rural-urban migrants will soak up the housing supply, and turn the ghost towns full of empty apartments into "thriving metropolitan areas". This cannot possibly

happen. Study after study has shown that very few rural migrant workers can afford to buy an urban flat; most can't even afford to rent a decent place.

Neither will China add 500 million people to its middle class between 2010 and 2020, as the rosy forecast by the Brookings Institution's Homi Kharas has it. Indeed, considering the continuing super-low urban fertility rate, that figure sounds like an urban legend in the making.

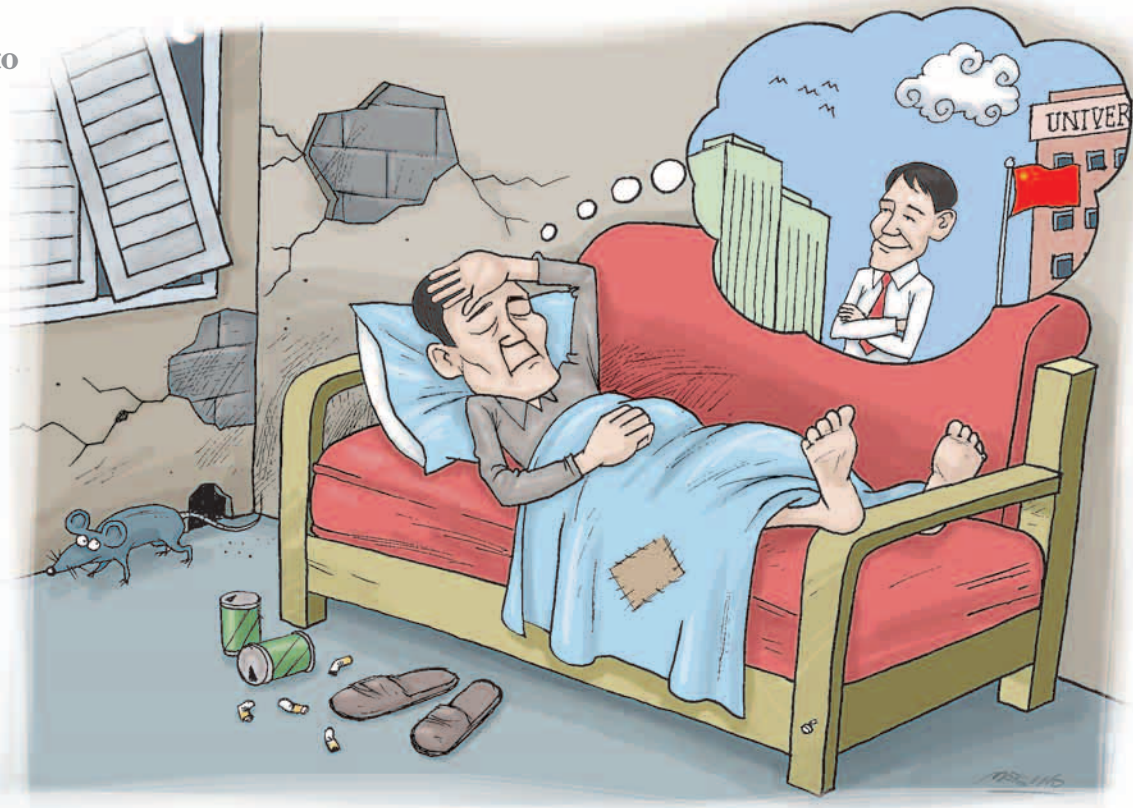
Hence that familiar narrative of rural migrants going to the city, getting a higher-paid job, moving up and eventually joining the middle class – in short, the magic of urbanisation leading to prosperity – cannot be readily applied to China under its present *hukou* system.

Furthermore, the new generation of migrants is more educated than their parents and more aware of their rights. Some are demanding greater equality, and this is contributing to widespread social unrest, which cannot be ignored.

To fulfil its urban dream, China will need to fully undo its discriminatory *hukou* system, beyond recent reforms.

Of course, the system cannot be dismantled overnight. Instead, it should be phased out over, say, 15 years, steadily transforming a sizeable group of migrants every year into the next wave of urban consumers, boosting domestic consumption and alleviating social instability.

Such a plan would mean converting about 15 million migrants to urban *hukou* residents every year. For that to happen, deeper *hukou* reform will be needed in the largest 40 cities, including Beijing, Shanghai and Shenzhen, where most migrants congregate.



Some groups should be prioritised: college graduates first; then skilled migrant labourers with regular employment; and, finally, unskilled workers. China badly needs more educated and skilled workers to help move manufacturing up the value chain. Employers also need them to operate more sophisticated machinery in that upgrade. College-educated and skilled workers make more money, so can help fund social services where they live.

Offering migrant workers local residency will help them settle in the city and become more productive. The equal opportunity bestowed by residency rights will enable them to move up socially and economically.

Beijing must take the lead on this issue. Serious *hukou* reform will inevitably involve inter-regional fiscal, population and administrative issues that require its commitment and co-ordination. Local governments cannot be left to try piecemeal and, at times, distorted *hukou* reform in their own jurisdictions.

China's economic growth in the past three decades has been achieved through a skewed and short-sighted model that has also brought serious social and economic problems. It has come to a point when moving forward requires an overhaul of the *hukou* system to allow migrants to become full urban citizens and participate in the prosperity. That's what is urgently needed to unleash that magical power of urbanisation, and it has to be done right.

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