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Sidestepping the Goal of Turning Migrant Workers Into Urban Consumers

China's plenum fell short in addressing urban household registration. Phasing out the hukou system over 15 years would transform China's 230 million migrants into a wave of urban consumers, without major disruptions or stress on local budgets.

China's top leaders see urbanization as a key tool to raise household income, generate higher levels of consumption and put the economy on a sustainable footing. This would steer China away from its current export- and investment-driven growth model, long considered unbalanced and unsustainable.

Key to that agenda is reforming the creaking system of urban residence — known as the hukou — that excludes China's 230 million rural migrants from the mainstream of urban opportunity.

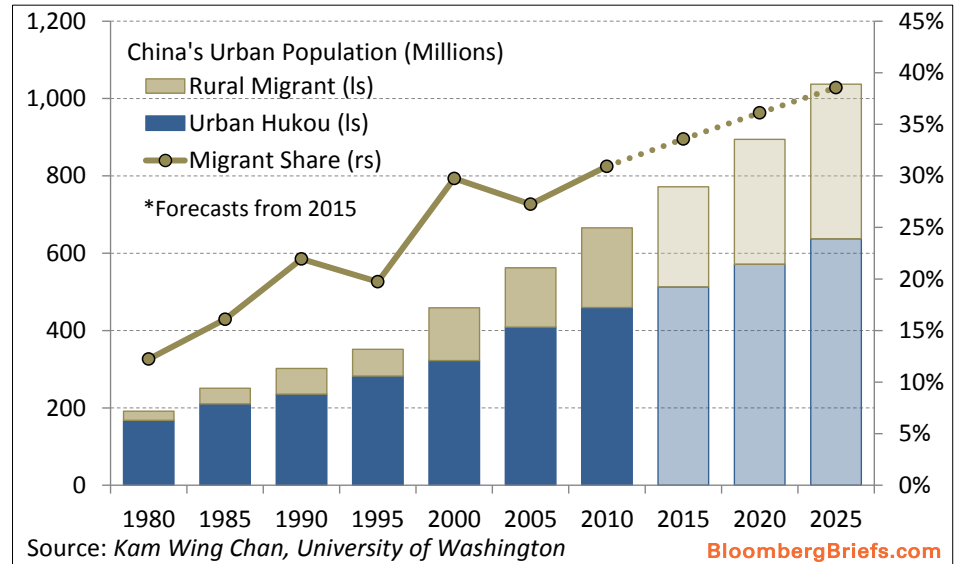
In this respect, the communique of the third plenum falls short and may even backtrack on past commitments. It contains no indication of hukou reform, even though the aim of "accelerating hukou reform" was included in the 18th Party Congress Report — an important planning document published last November.

At first sight, China appears to be urbanizing fast. In reality, a third of the 700 million city dwellers today are not truly urbanized as they do not have an urban household registration. Without it, they cannot receive social security entitlements and access to public housing, and their children have to pay extra fees to attend public school in the city.

As a result, China's migrants have become the world's largest army of cheap labor. That enabled China to seize the world's low-end manufacturing market and become a global export power. It also locked a large segment of Chinese citizens into poverty. With exports now fading, that crimps the consumption the government wants to see powering growth.

Seen in this light, optimistic forecasts for China's economy based on a massive and growing middle class appear little more than urban myths. The reality is that for the existing urban middle class, fertility rates are super-low. Growth in the

Rural Migrants Make Up Growing Share of China's Urban Population



urban population will come mainly from migrants, who earn low wages, have few benefits and are hardly likely to fuel a consumption boom.

The hukou system cannot be dismantled overnight. Phasing it out over 15 years is a viable option. That would steadily transform a sizeable group of migrants every year into China's next wave of urbanites, boosting domestic consumption and alleviating social instability. A gradual approach would also avoid major disruptions from massive population movements and overburdening local budgets.

Meaningful progress would require strong leadership from the central government. Benefit portability — allowing migrants to access public services and welfare in their host city — has far-reaching implications for the fiscal system that could not be resolved without Beijing's financial and political heft. Local govern-

ments cannot be left to try piecemeal reforms in their own jurisdictions or, at times, hijack central policies.

The plenum communique contains little indication that the central government is prepared to play this strong leadership role. It does make a clear statement that the rural-urban divide is the major obstacle to China's development and commits to equal treatment of farmers and the rural sector. If that translates into effective measures to end discrimination against rural migrants, China's transition to a consumption-driven economy will receive a boost. If it does not, rebalancing might remain an urban legend.

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