

China: Relaxing residency restrictions positive for ageing economy

China has announced a new policy to relax some of the existing residency restrictions (hukou). In the long term, this will release a "new" workforce from rural areas and it's positive for the ageing economy. The policy will also lead to an upgrade of the industry value chain in the mega-cities. But there are short-term challenges



A busy road in Shanghai

New policy: Relaxing residency restrictions

Under China's residency system, citizens born in a rural city can only enjoy social benefits in that city alone. These benefits include education for children and family medical services. Even if citizens move to an urban city for work, the residency restrictions (hukou), in most cases, cannot be lifted, and hence these citizens can't enjoy the same social benefits.

The hukou policy has been relaxed slightly for a few years but there has been no significant reform. That's about to change.

On 8 April 2019, the government announced [a new policy](#) to remove the hukou restrictions in some cities.

No flood of labour in mega cities

The [policy](#) will remove residency restrictions completely for cities with a population of between one to three million (including citizens moved from rural cities). It will also relax some residency restrictions for cities with a population of three to five million.

Following the [definition](#) set by the government, cities with a population of one to five million are considered "big", five to 10 million "very big" and over 10 million are "mega" cities.

With these population sizes in mind, we note that these cities are not the first-tier cities (i.e. not Beijing, Shanghai, Guangzhou and Shenzhen) and aren't even the second-tier cities. As a reference, Shanghai's population is 24 million. A city with a population of three million would be Qinhuangdao City, located in Hebei province.

The big cities have common characteristics; they are either manufacturing hubs with factories or are famous for cultural and scenic tourism. These characteristics make them potentially attractive to workers from rural areas.

The idea is to give social benefits to people in the cities where they work without flooding first-tier mega cities with extra workers.

A new workforce for mid-size cities

We believe that with this new policy, there will be more rural citizens moving to the big cities where they can enjoy more social benefits. This could create a new workforce for the manufacturing and tourism industry.

It's also positive for the ageing population. With better social benefits, younger people from rural cities can raise children in the places they live and work. This could encourage younger couples to raise more than one child, as living costs will fall.

"On 8 April 2019, the government announced a new policy to remove the 'hukou' restrictions in some cities....This is positive for the ageing population. "

This will lead to an upgrade of mega-cities

The policy could also encourage rural labour currently working in mega-cities to move to the big cities where they can get social benefits. Factories could then potentially relocate to chase the labour supply. This happened around 10 years ago when some factories in Shenzhen (then a low-end factory hub) moved to the inner area of the Mainland, and some moved to south-east Asia.

We believe that this policy is an attempt to repeat the Shenzhen story by relocating low- to mid-end factories in larger cities to mid-size cities. This would free up land in the larger cities to cater to higher value-add companies.

Short-term challenges

There are at least two short-term challenges.

1. The success of the policy relies on how many jobs are immediately available in the big cities that remove the residency restrictions. If factory relocations from larger cities to mid-size cities are slow then the policy impact will also be slow.
2. Housing prices and rentals in those cities will rise when more citizens move from the rural areas to the cities. The higher rental costs will offset some of the benefits created by the policy, making the policy less attractive.

Residency reform to continue

We recognise that this is a meaningful milestone in reforming the residency restriction (hukou) system. If successful, the policy will bring the rural workforce to manufacturing and tourism industries in the big cities, which goes some way to addressing the ageing workforce. But the reform progress is slow, this policy only relaxes residency requirements for cities with a population of between one to five million. There is still a long way to go before the hukou system is removed nationwide allowing full labour mobility within the country.

Author

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com