



## Limitations and Progress of Hukou System Reform in China's First-Tier Cities: Migrant Populations' Service Demands and Policy Supply

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### ABSTRACT

The *Hukou* system remains a major barrier to migrant integration in China's first-tier cities, restricting access to education, healthcare, housing, and social security. While reforms have introduced points-based residency acquisition and expanded service access, they remain selective, favoring high-skilled professionals over low-income workers who sustain urban economies. Fiscal and political constraints further limit full *Hukou* liberalization, reinforcing social inequality. This study explores the progress and limitations of *Hukou* reforms, highlighting the need for policies that prioritize long-term residency, social security portability, and equitable urban welfare. A more inclusive *Hukou* system is essential for sustainable urbanization and social stability in China's megacities.

### KEYWORDS

Hukou; migrant integration; first-tier cities; urbanization; public services; social security portability

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### 1. Introduction

The *Hukou* (household registration) system in China is a unique socio-political mechanism that has played a crucial role in shaping the country's urbanization and economic trajectory. Originally established in the 1950s, the system

was designed to regulate internal migration, ensuring population control and resource allocation by categorizing individuals as either rural or urban residents. This classification profoundly affects an individual's access to social services such as education, healthcare, housing, and employment opportunities. While the *Hukou* system was instrumental in

maintaining social stability during China's planned economy era, its rigid structure has increasingly come under scrutiny in the context of modernization and market-driven economic reforms. Over the past four decades, China has undergone an unprecedented urbanization process, with millions of rural migrants moving to cities in search of better economic prospects. First-tier cities—Beijing, Shanghai, Guangzhou, and Shenzhen—have become economic powerhouses, attracting vast numbers of migrant workers who contribute significantly to urban economies. Despite their indispensable role in industries ranging from manufacturing and construction to services and technology, many migrants remain classified under their original rural *Hukou*, effectively denying them full access to public services and social welfare in the cities where they reside and work. This systemic exclusion has created a socio-economic divide, reinforcing inequalities between local urban residents and migrant workers. Recognizing the need for reform, the Chinese government has introduced a series of policy adjustments aimed at easing *Hukou* restrictions. Various initiatives, including the relaxation of *Hukou* rules in lower-tier cities and the implementation of a points-based system in megacities, have sought to address these disparities. However, progress remains uneven. While some cities have made headway in expanding social benefits for migrant populations, first-tier cities continue to impose stringent barriers to permanent urban residency. The high thresholds for obtaining an urban *Hukou*—often tied to income levels, educational qualifications, and property ownership—have disproportionately benefited highly skilled professionals while excluding low-income migrant workers, who constitute the majority of the floating population. This ongoing disparity underscores the broader challenge of balancing economic growth with social equity in China's urbanization strategy. Migrant workers not only demand access to education and healthcare but also seek greater social inclusion, labor protections, and affordable housing. Meanwhile, local governments, constrained by financial and political considerations, are reluctant to fully integrate migrants due to concerns over public

service burdens and fiscal sustainability. This paper explores the progress and limitations of *Hukou* system reforms in China's first-tier cities, critically analyzing how policies have evolved to accommodate migrant service demands while identifying persistent challenges that hinder equitable access to urban welfare. By examining policy adjustments, implementation gaps, and future reform directions, this study highlights the complexities of integrating migrant populations into the fabric of China's largest and most developed urban centers.

## 2. Progress in Hukou System Reform

### 2.1 Gradual Relaxation of Hukou Restrictions

In response to increasing social and economic pressures, the Chinese government has gradually introduced reforms aimed at relaxing *Hukou* restrictions. While lower-tier cities have been more aggressive in loosening *Hukou* regulations to attract residents and skilled labor, first-tier cities remain highly selective due to concerns over population control and public service burdens. Nonetheless, even in major metropolitan areas like Beijing, Shanghai, Guangzhou, and Shenzhen, local governments have implemented a points-based system that allows qualified migrants to obtain urban *Hukou*. This system evaluates applicants based on factors such as educational background, employment stability, tax contributions, and social security payments. Those who accumulate sufficient points can apply for *Hukou* conversion, granting them access to a wider range of social benefits.

Despite these reforms, the relaxation of *Hukou* policies primarily benefits high-skilled professionals and university graduates, aligning with China's broader strategy of transitioning towards a knowledge-based economy. In cities like Shanghai and Shenzhen, special talent programs have been introduced to fast-track *Hukou* acquisition for individuals working in high-tech industries, finance, and research sectors. However, for lower-skilled migrant workers who form the backbone of urban service and construction sectors, obtaining *Hukou* remains an elusive goal. The reform efforts, therefore, have largely been selective rather than

universal, favoring certain groups over others and reinforcing socio-economic divisions in urban centers.

## 2.2 Expanded Access to Public Services

One of the most significant aspects of *Hukou* reform has been the attempt to expand public service access for migrant populations. In the past, migrant workers and their families faced severe difficulties in accessing basic education, healthcare, and social security benefits in first-tier cities, leading to a dual-class urban structure. Recognizing the need to address this issue, local governments have introduced policies that provide partial access to these services for long-term migrant residents.

In the education sector, some reforms have allowed children of migrant workers to enroll in public schools without requiring local *Hukou*. However, these policies are often limited in scope, with restrictions still in place for higher education and public high schools, where students from non-local *Hukou* backgrounds face additional barriers. Many migrant families must still resort to private or informal schooling options, which often provide lower-quality education. This lack of full integration into the urban education system not only affects social mobility but also perpetuates the cycle of intergenerational inequality.

Healthcare access has also seen incremental improvements, with more cities allowing non-*Hukou* residents to enroll in local medical insurance schemes. Some first-tier cities have extended basic health services to all residents regardless of registration status, reducing financial burdens for migrants. However, disparities persist, as non-*Hukou* residents often receive lower-tier benefits compared to permanent urban residents, and they may still face difficulties in accessing specialized medical treatments and reimbursements. The gap in social security benefits remains a significant concern, as migrant workers who contribute to local economies continue to experience exclusion from pension schemes and unemployment insurance, limiting their long-term financial security.

## 2.3 Pilot Programs and Regional Policy Experiments

Recognizing the complexities of *Hukou* reform, several first-tier cities have initiated pilot programs and special policy experiments to test different approaches to integrating migrant populations. Shenzhen, for example, has pioneered a "talent-based" *Hukou* program that prioritizes high-skilled professionals in industries deemed crucial to the city's economic development. This initiative provides a streamlined process for qualified applicants to obtain residency, as well as access to housing subsidies and other incentives. Similarly, Beijing has experimented with special economic zones where residency restrictions are eased to attract investment and skilled labor.

Beyond talent attraction programs, some cities have introduced regional *Hukou* policies that allow for easier migration within specific urban clusters. For instance, the Greater Bay Area (which includes Guangzhou, Shenzhen, and Hong Kong) has been exploring policies that facilitate freer movement of skilled workers across city boundaries. While such measures aim to create more dynamic labor markets, they remain largely restricted to high-income professionals and exclude the broader working-class migrant population.

Despite these pilot initiatives, the challenges of *Hukou* reform remain deeply entrenched. Local governments continue to face financial constraints in expanding full social benefits to non-*Hukou* residents, and political considerations often limit the scope of reform efforts. As a result, while these experimental policies represent progress, they have yet to lead to a fundamental transformation of the *Hukou* system that ensures equitable access to rights and benefits for all urban residents.

## 2.4 The Role of Economic and Political Incentives in *Hukou* Reform

The motivations behind *Hukou* reforms are not purely humanitarian; they are also driven by economic and political considerations. As China transitions from an export-driven economy to one that emphasizes domestic consumption and innovation, cities are under pressure to attract and retain a highly skilled workforce. This has

led to targeted *Hukou* liberalization for professionals in sectors such as technology, finance, and healthcare.

At the same time, local governments are cautious about fully opening *Hukou* access to lower-income migrants due to concerns over public service burdens. Cities rely heavily on land sales and taxation to fund their social programs, and the addition of millions of new *Hukou* holders would place immense strain on urban infrastructure, healthcare, and education systems. The reluctance to provide universal access to *Hukou* is, therefore, as much a financial decision as it is a social one.

Moreover, *Hukou* reform is closely tied to broader governance and stability concerns. The Chinese government has historically used the *Hukou* system as a mechanism for social control, ensuring that migration patterns remain manageable and that urban centers do not become overpopulated to the point of destabilization. Any major overhaul of the *Hukou* system would require a careful balancing act between economic growth, social stability, and political feasibility.

## 2.5 Looking Ahead: Future Directions for *Hukou* Reform

As China continues to urbanize, the pressure for more comprehensive *Hukou* reform will intensify. Future reforms will need to address the inequalities inherent in the current system while balancing economic and political constraints. Some potential directions for future *Hukou* reforms include:

Expanding eligibility criteria for *Hukou* conversion to include not just high-income professionals but also long-term contributors to the local economy, including service and construction workers.

Enhancing social security portability so that migrant workers can access healthcare and pensions regardless of their *Hukou* status.

Encouraging private sector involvement in public service provision to alleviate the fiscal burden on local governments.

Developing more integrated urban clusters that allow for easier cross-city migration and residency rights within metropolitan regions.

While reforms have made significant strides in certain areas, true equity in *Hukou* policy remains a long-term challenge. Achieving a fair and inclusive urbanization model will require not only policy adjustments but also a shift in governance philosophy to prioritize social integration alongside economic development.

## 3. Limitations and Challenges of *Hukou* Reforms

### 3.1 High Barriers for Low-Skilled Migrants

Despite ongoing reforms, the *Hukou* system in first-tier cities continues to impose significant barriers for low-skilled and low-income migrant workers, who make up a substantial portion of China's urban labor force. The implementation of a points-based *Hukou* application system in cities like Beijing, Shanghai, and Shenzhen has only reinforced existing inequalities. This system prioritizes individuals with high educational qualifications, stable employment in specialized industries, and significant financial contributions through taxation and social security payments. As a result, the vast majority of low-skilled migrants, many of whom work in construction, manufacturing, domestic labor, and the service industry, are left without realistic opportunities to obtain urban residency.

The exclusion of these workers from full urban citizenship perpetuates a cycle of economic and social marginalization. Without local *Hukou*, migrants struggle to access stable housing, healthcare, and education for their children, pushing them into informal living arrangements and precarious employment. This not only affects their quality of life but also limits their ability to integrate into the urban social fabric. The *Hukou* system, in its current form, thus serves as a structural mechanism that reinforces class divisions, creating an urban underclass that remains economically vital yet institutionally disadvantaged.

### 3.2 Limited Access to Education and Healthcare

One of the most critical challenges for migrants in first-tier cities is the limited access to essential public services, particularly education and healthcare. Although some reforms have allowed the children of migrant workers to

enroll in local schools, significant barriers remain. Public schools in major cities often impose residency requirements, school quotas, or additional fees for non-local students, making it difficult for migrant families to secure high-quality education for their children. Furthermore, even when children are allowed to attend public schools, they often face restrictions when it comes to accessing high school and college entrance exams, which are typically tied to *Hukou* status. This places migrant children at a distinct disadvantage compared to their urban-born peers, limiting their social mobility and future opportunities.

In terms of healthcare, many migrants remain outside the coverage of local urban medical insurance schemes. While some cities have made efforts to extend healthcare benefits to non-*Hukou* residents, disparities persist in terms of affordability, quality, and accessibility. Non-*Hukou* migrants often have to pay higher out-of-pocket costs, and many are unable to access specialist care or advanced medical treatments that are available to local *Hukou* holders. Additionally, rural healthcare insurance schemes, which many migrants remain registered under, offer far fewer benefits and are not easily transferable to urban centers. These systemic exclusions place migrants at greater health risks and financial vulnerabilities, particularly in times of illness or economic downturns.

### 3.3 Social and Economic Segregation

The *Hukou* system contributes to deep-rooted social and economic segregation in China's first-tier cities. Migrants without urban *Hukou* often find themselves confined to low-paying, labor-intensive jobs with minimal legal protections. Many of these workers lack access to labor unions and face higher risks of exploitation, wage arrears, and unsafe working conditions. While urban *Hukou* holders enjoy more stable employment opportunities with better wages and benefits, migrant workers remain at the lower end of the economic hierarchy, with limited avenues for upward mobility.

Housing policies further reinforce this segregation. Many first-tier cities have strict housing regulations that exclude non-*Hukou*

residents from affordable public housing programs. As a result, migrants are often forced to live in overcrowded, substandard housing on the urban periphery, sometimes in informal settlements or converted factory dormitories. The rise of "urban villages" (城中村), densely packed neighborhoods inhabited primarily by migrants, is a direct consequence of these restrictive policies. These areas often suffer from poor infrastructure, limited public services, and heightened risks of eviction due to urban redevelopment projects.

Social exclusion also extends to political and cultural life. Migrants without local *Hukou* have little to no representation in local governance, as they are ineligible to participate in urban community organizations, local elections, or policymaking decisions. This lack of representation means their concerns are often overlooked in city planning and development strategies, further entrenching their marginalized status.

### 3.4 Fiscal Constraints and Policy Implementation Challenges

A major reason why first-tier cities remain hesitant to fully integrate migrants into their *Hukou* system is the financial burden associated with expanding public services. Local governments in China rely heavily on land sales and tax revenues to finance education, healthcare, and social welfare programs. If millions of new *Hukou* holders were granted access to these benefits, municipal budgets would face significant strain. First-tier cities, which already experience congestion and resource allocation challenges, are particularly reluctant to absorb these additional costs.

This fiscal challenge is compounded by the fact that China's social welfare system remains highly decentralized. Unlike many other countries with nationalized welfare programs, China's public services are funded and managed at the municipal level. This means that even though migrant workers contribute to the economy through taxes and labor, their social contributions often do not translate into guaranteed access to urban welfare benefits. Until systemic reforms address the imbalance between fiscal responsibility and social

inclusivity, first-tier cities will continue to limit *Hukou* access to select groups while excluding the broader migrant population.

Additionally, policy implementation challenges hinder the effectiveness of *Hukou* reforms. Many policies that aim to improve service access for migrants face inconsistencies in enforcement, bureaucratic inefficiencies, and resistance from local institutions. Schools and hospitals, for instance, may impose additional administrative barriers or fees despite official policies permitting migrant access. Moreover, corruption and local protectionism sometimes lead to preferential treatment for urban *Hukou* holders, further disadvantaging migrants who lack political and social influence.

### 3.5 Political and Social Stability Considerations

Beyond economic and logistical challenges, the *Hukou* system has long been used as a tool for social control. Chinese policymakers are cautious about fully dismantling *Hukou* restrictions due to concerns over urban overcrowding, housing shortages, and potential social unrest. The central government has historically sought to maintain a balance between economic development and political stability, fearing that an unchecked influx of migrants into first-tier cities could exacerbate social tensions and infrastructure strains.

Although there is growing recognition that *Hukou* reform is necessary for long-term economic sustainability, authorities remain wary of rapid changes that could disrupt urban governance. Many first-tier cities continue to prioritize “orderly urbanization,” a strategy that seeks to integrate migrants gradually rather than granting them full residency rights all at once. This cautious approach reflects broader anxieties about managing China’s massive urban population while maintaining social harmony and economic competitiveness.

### 3.6 The Persistent Rural-Urban Divide

At its core, the *Hukou* system is a manifestation of China’s enduring rural-urban divide, which remains one of the country’s most significant socio-economic challenges. While urban areas have benefited from massive infrastructure

investments, rural regions still lag in terms of development, public services, and employment opportunities. The restrictive *Hukou* policies in first-tier cities indirectly sustain this divide by preventing large-scale rural-to-urban migration, thereby maintaining rural labor supplies and controlling urban population growth.

Without meaningful *Hukou* reform, rural residents will continue to face systemic disadvantages in accessing economic opportunities, social mobility, and public welfare. This imbalance poses long-term risks for China’s economic and social stability, as growing frustrations among migrants could lead to rising discontent and labor shortages in key industries. Achieving true urban inclusivity requires not only reforms in *Hukou* policies but also broader structural changes that address disparities between rural and urban development.

## 4. The Future of Hukou Reform

As China continues its trajectory of rapid urbanization and economic transformation, the reform of the *Hukou* system will be an essential policy challenge. The future of *Hukou* reform must balance economic demands, social equity, and political stability, as the system in its current form has outlived its original purpose of population control and labor management. While targeted reforms have been implemented, fundamental structural changes are necessary to ensure fair and sustainable urbanization, particularly in first-tier cities where migrant populations play a crucial role in economic development.

One of the most pressing issues is the need to lower the barriers to permanent residency for migrants, particularly those who have contributed to urban economies for decades without full access to public services. The current points-based *Hukou* system in first-tier cities is highly selective, favoring individuals with high levels of education, stable employment in specific industries, and property ownership. This has created a class-based hierarchy where low-income, low-skilled workers—who constitute the backbone of cities’ service and manufacturing sectors—remain in a state of semi-permanent exclusion. To address

this, a more inclusive *Hukou* policy should be implemented, recognizing long-term residency and local contributions rather than solely prioritizing economic status or educational attainment. Such a shift would require a rethinking of urban development models, ensuring that city planning accommodates not just elites but also the workers who sustain urban economies.

Enhancing public service infrastructure is another critical aspect of *Hukou* reform. Even as restrictions have eased in some areas, the uneven distribution of education, healthcare, and housing resources remains a major barrier to migrant integration. First-tier cities have some of the most advanced public services in China, yet they are largely reserved for those with local *Hukou*, exacerbating inequality. Expanding access to schools, hospitals, and social welfare programs for all long-term residents—regardless of *Hukou* status—would reduce disparities and foster a more inclusive urban environment. This requires substantial investment in public goods, as well as reforms in funding mechanisms to ensure that municipal budgets can sustain a larger beneficiary pool. The challenge lies in managing financial constraints while ensuring that cities do not become overcrowded or overburdened by sudden population surges. A phased, strategic approach—such as gradual quota increases for non-*Hukou* residents in public schools and hospitals—could be a viable solution.

One of the most effective long-term strategies for *Hukou* reform would be the implementation of nationwide social security portability. Currently, migrant workers face significant disadvantages when it comes to pensions, healthcare insurance, and other social security benefits, as these systems remain largely tied to local *Hukou* status. Migrants who work in first-tier cities often continue to contribute to social security systems in their rural hometowns, where benefits are minimal and difficult to claim when they retire. Establishing a unified, nationally portable social security system would enable workers to retain their benefits regardless of their location, reducing dependence on *Hukou* as a determinant of welfare eligibility. Some cities have already begun experimenting with cross-regional social

security transfer mechanisms, but full implementation on a national scale remains a complex task that requires coordination between different levels of government.

Encouraging private sector involvement in the provision of education, healthcare, and housing could also play a transformative role in easing the *Hukou* burden. Many of China's largest cities have struggled to expand public infrastructure at the pace necessary to accommodate growing migrant populations, leading to shortages in school enrollment slots, hospital capacity, and affordable housing options. By incentivizing private enterprises to invest in these sectors—through subsidies, tax incentives, or public-private partnerships—local governments could alleviate some of the financial strain while simultaneously expanding service access. Private schools and healthcare institutions could offer more flexible options for migrant families who struggle to access public services, and regulated rental housing markets could provide affordable accommodation alternatives to prevent informal settlements from forming. However, this approach must be carefully regulated to ensure that private entities do not prioritize profit over accessibility, as has been seen in some past cases where private schooling and healthcare led to significant cost inflation, making these services unattainable for low-income migrants.

The future of *Hukou* reform will be defined by the central government's willingness to transition from a population control model to a more flexible, inclusive, and labor-responsive system. While economic incentives may push policymakers to attract high-skilled talent, true urban development requires a broader vision that acknowledges the contributions of all residents. Achieving an equitable *Hukou* system will require a shift in governance philosophy, moving away from exclusionary policies toward a framework that prioritizes integration, mobility, and equal opportunity. If successful, such reforms will not only improve the lives of millions of migrants but also contribute to more stable, sustainable, and harmonious urban development in China's first-tier cities.

## 5. Conclusion

Despite notable progress in *Hukou* system reform, first-tier cities in China continue to grapple with deep-seated structural challenges that prevent full integration of migrant populations into urban society. While policy adjustments have gradually expanded access to public services, these changes remain selective and incremental, benefiting high-skilled professionals while leaving the majority of low-income migrants in a precarious state of semi-urban inclusion. The *Hukou* system, originally designed as a tool for population control and economic management, has become one of the greatest barriers to social mobility in modern China. The persistence of rigid residency policies has created a dual-class urban structure where migrant workers, despite being indispensable to the economic engine of major cities, remain institutionally disadvantaged, lacking access to stable employment protections, high-quality education, healthcare, and social security benefits.

Moving forward, the *Hukou* system must evolve from a restrictive bureaucratic mechanism to a more flexible and inclusive framework that aligns with the realities of China's urbanization and labor needs. Policymakers must recognize that migrants are not temporary laborers but permanent contributors to the social and economic fabric of cities. The current points-based *Hukou* systems in first-tier cities, while a step forward, still impose excessively high barriers for the majority of migrant workers, reinforcing economic disparities rather than reducing them. Future reforms should prioritize long-term residency and local contributions over income level and educational attainment, ensuring that those who have lived and worked in cities for years can access public benefits.

Beyond policy adjustments, broader structural changes in governance and urban planning are needed to support migrant integration. Expanding social security portability, increasing investment in public service infrastructure, and developing inclusive housing policies will be essential to closing the urban-rural divide. Ultimately, true reform of the *Hukou* system requires a shift in perspective—from viewing migrants as outsiders to recognizing them as

integral members of the urban community. Only through a more inclusive approach can China's first-tier cities achieve sustainable development, social stability, and equitable growth in the decades to come.

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