

After



Will the Hukou Reform Promote Economic Growth in China? 戶口改革可以促進中國經濟發展嗎?

What is the Hukou System?

The *Hukou* system is a household registration system implemented by the Chinese Central Government to control internal migration. It determines where an individual has access to the social welfare system.

Result of the Fixed-effect Regressions

Regressor	1	2	3
hukou	0.403* (0.169)	0.370* (0.169)	0.267* (0.124)
yq_num	-0.174* (0.016)	-0.151* (0.173)	-0.150* (0.013)
consumption		0.108* (0.346)	0.062* (0.025)
tertiary			0.364* (0.031)
_cons	9.750* (0.113)	8.417* (0.440)	5.528* (0.405)

Summary Statistics

Number of obs	176	173	172
Number of groups	11	11	11
R-sq: overall	0.292	0.381	0.595

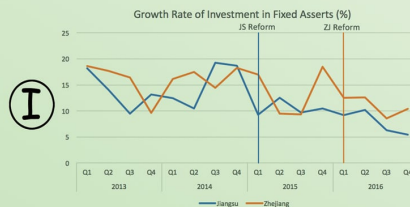
*The individual coefficient is statistically significant at the 5% significant level using fixed effect regression.

The *Hukou* reform had a positive and statistically-significant correlation with GDP growth rate.

How does the Hukou Reform Promote GDP Growth?



The *Hukou* reform had a positive effect on consumption. Relaxing the *Hukou* control could raise migrants' incentive to stable living condition, which increased consumption on durable goods.



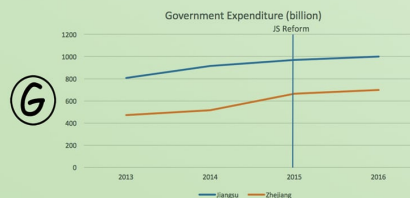
The impact on the total investment was less obvious. Although the reform reduced pressure on labor shortage and increased investment in labor-incentive industry.

Limitation of the Hukou Reform

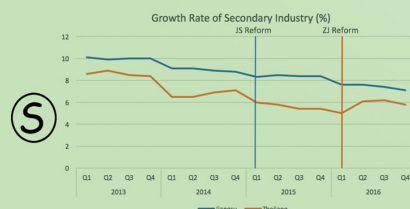


Results in different regions which have implemented the *Hukou* reform were not same. To find out the relationship between regional disparities and the effect of the *Hukou* reform, Jiangsu, Anhui and Guangxi respectively from eastern, central and western regions were chosen, because they carried out the reform almost at the same time. It was more pronounced in the developed regions, while less obvious in underdeveloped regions.

Different provinces are competing for labor force; one province's increase means other provinces' decreases. It is worth noting that the benefits brought on from the *Hukou* reform would disappeared when all regions relaxed the *Hukou* control. Therefore, the *Hukou* reform is not a long-term strategy to speed up the process of urbanization if there is a huge gap in economic development among different regions.



The benefit on government expenditure was less obvious. Although the reform led increase in population and social services expense, it did not add huge burden to the government.



The reform optimized industrial structure and promoted secondary industry. With high skilled and sufficient labor supply, the growth rates of secondary industry remained at a high level

Conclusion

Based on our research, we can draw the conclusion that the reform of the *Hukou* system was able to improve China's economic development. Especially through the case study of Jiangsu and Zhejiang, we found that the *Hukou* reform could promote GDP increase and industrial structure optimization. On the other hand, by comparing Jiangsu, Anhui and Guangxi, which represent different economic development levels, it is obvious that regional disparities affected the outcome of the *Hukou* reform.