

# HOUSING INEQUALITY IN CHINESE CITIES: HOW IMPORTANT IS *HUKOU*?

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**A**lthough vast differences in standard of living exist among the native-born residents of Chinese cities, the distinction between all urban natives and rural migrants runs deeper. It is, in fact, the fundamental social division in Chinese cities for several reasons, including labor market segmentation that sees migrants doing dirty, dangerous, and low-paying work; institutional rules that favor urban residents in everything from health care access to university entrance exams; and cultural ideas about the backwardness of rural areas and rural people.

In the housing sector, it is therefore not surprising that migrants' housing quality is quite low in an absolute sense and relative to that of other urban residents. What is less clear is the source of these differences. Research that we recently completed for the Lincoln Institute leads us to question the conventional wisdom that institutional rules linked to the *hukou* system are primarily responsible for the differential (Li, Duda, and Peng 2007). We believe that *hukou* status is only one of several factors responsible for migrants' differential housing outcomes, and that the research literature has not spent enough time assessing the relative importance of these factors. While not definitive, our empirical results provide several reasons to question a *hukou*-centric model of the sources of urban housing inequality.

## The *Hukou* System

The *hukou* system is a form of official residential registration introduced in the 1950s to support an urban industrialization policy that extracted a surplus from the countryside by keeping agricultural prices low. Capping rural incomes made it necessary to develop residence restrictions—the *hukou* system—to keep the poorly paid rural labor force from relocating to urban areas. Since the late 1970s, however, demand for workers to fill physically de-

manding, low-skill jobs has increased dramatically, and city officials have largely been obliged to tolerate the presence of migrants.

Nonetheless, for many years *hukou* status was used to enforce quotas and restrictions on migrants in some jobs and employment categories in order to maintain preferences for urban residents. As more migrants came to cities and played an ever-growing role in the urban economy, such quotas became increasingly untenable. Since 2000, the central government has sought to reduce institutional discrimination against rural migrants by eliminating national-level policies that prevent migrant workers from enjoying equal treatment in cities.

Today, the *hukou* system's role in regulating residence has largely ended, and migrant workers now live and work legally in urban areas without the need for urban/permanent *hukou*. However, local-level rules limiting migrants' access to many social benefits, such as health insurance, schooling, and public sector rental housing, persist. As a result, the *hukou* system remains a source of urban inequality due to local-level policies that deny migrants access to social benefits available to native-born residents, or require them to pay substantially more for these benefits.

## *Hukou*, Housing Choice, and Housing Quality

In looking at the potential ongoing impact of *hukou* status on housing inequality, the most important comparison is between low-income natives and rural-to-urban migrants in the low-cost segment of the urban housing market. Yet, no study has conducted such a comparison using data that reflects the impact of the substantial housing reforms of the late 1990s, which introduced cohort effects that strongly influence housing consumption even between native urban households formed before and after this period.

These reforms engendered a wave of privatization of public sector housing units and transferred resources from work units to their employees via



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housing allocations during the so-called “catching the last train” period. In seeking to determine if *hukou* status influences relative housing quality between migrant and native households, the focus should be on those households formed during roughly the last five years.

The mechanism most commonly proposed by which *hukou* status may continue to negatively affect migrants’ housing quality is by denying them access to public sector rentals (Huang 2003). The argument is that if migrants are indeed denied access to this type of housing, and if this housing stock tends to be of higher quality than private rentals at the same price point (i.e., if public rentals are meaningfully subsidized), then migrant housing quality is lower on average as a direct result of migrants’ inability to access the subsidized pool.

Assuming that public sector rentals actually are of higher quality at a given price point, the challenge is to determine whether migrants are indeed denied access to them. The extent to which this is the case

is not clear, despite the existence of city-level rules prohibiting or limiting migrants’ access to public sector rentals. Wu (2002), for instance, shows that the share of migrants in public sector rentals in her Beijing sample (18.7 percent) was nearly as high as the share of urban natives (24.7 percent).

Yet, it is not possible to determine whether migrants in public sector housing are renting directly from public sector work units or housing bureaus, are subletting from urban native households that are renting directly from these entities, or are renting from owners of privatized public housing. As a result, we do not know the extent to which the migrants benefit from any subsidies on such units relative to urban natives. The larger point is that, on this key issue linked to an important potential source of housing inequality between low-income migrants and natives, the research literature has nothing definitive to say.

A second problem with a *hukou*-centric explanation for housing inequality is that it is not clear

**Migrant workers rest under a sign that says, “Representative construction project designed by the modernist architectural masters.”**



Photos: © Guy Mayraz

**Migrants prepare meals and run small businesses on the street.**



**Residents play pool in a migrant housing community surrounded by temporary structures that they built.**

whether migrants who do not occupy public sector rentals have been denied access to them or have simply chosen alternative housing. In Tianjin, highly subsidized

public housing built specifically for migrants has seen limited use (Xiao 2006), and another migrant housing project in Chengdu had a similar outcome (Song 2007). In both cases, the problem seems to be that the housing is not located near jobs. As discussed below, this is consistent with our findings that employment concerns dominate migrants' housing choices, and that migrants are reluctant to spend money on transportation to work, which limits the distance they are willing to commute.

A third factor undermining the primacy of *hukou* status as the cause of urban housing inequality is the fact that many migrants do not search for housing in the conventional housing economics sense. In our study, half of respondents got their housing from their employer and, of this group, less than 20 percent paid rent. This implies that roughly half of all migrants never had the chance to be denied access to public sector rentals. Further, while employer-provided housing tends to be of low quality, it has compensating advantages in terms of being free

or low cost, and close to work. In our sample, 41.4 percent actually lived at the job site and those renting from employers paid an average of 80 RMB (US \$11) monthly, compared to 200 RMB (US \$27) for those renting in the private market (see note).

A final reason that *hukou* status may not be the key to migrants' low housing quality is because many migrants do not plan to stay in the city over the long term. Zhu (2007) asked a sample of migrants to five cities in Fujian if they would settle permanently in the city if they could have their *hukou* status changed, and only 35.2 percent said they would. Zhu argues that other factors—household-level risk diversification strategies and the inherent demand of the Chinese economy for labor flexibility—are responsible for the temporary nature of migrant behavior, which is related to their low housing quality.

Zhu (2007) shows that some migrant families who have no intention of permanently relocating divide their labor between urban areas and the countryside in order to maximize earnings or minimize the risk that they will fail to earn anything due to bad harvests, agricultural price fluctuations, and rising input costs. In our sample, 85.1 percent of respondents still held property rights to land in their home place, indicating that their migration is intentionally temporary.

Likewise, factory hirings are linked to the fluctuating volume of international orders, making the demand for migrant labor in the manufacturing

sector inherently unstable. Marginal workers in these industries will be continually hired and fired, or will see their work hours change dramatically in response to changes in external factors, leading many to conclude that it is unwise to spend more than a minimal amount of their wages to improve housing quality.

Although no study has ruled out *hukou* as the primary source of housing inequality between migrants and others, there are far too many unanswered questions to necessarily rule it in. Presenting definitive support for *hukou*-based or alternative explanations of inter-group housing outcomes requires a new round of research that controls for important cohort effects; investigates the influence of factors that work in the same direction as the *hukou* system; and intentionally sorts migrants into temporary or seasonal and permanent subgroups. Our study is not this ambitious, but it does offer support for those who would argue that it is too early to locate the cause of housing inequality between migrants and natives primarily in the *hukou* system.

### Empirical Results from Tianjin

Our study sampled 800 rural-to-urban migrants in Tianjin. By design, none of the respondents has permanent Tianjin residency and none are homeowners, thus focusing on the most policy relevant group of low-wage, low-status workers. Tianjin currently experiences substantial in-migration due to its size and its status as the home to the ambitious Binhai New Area development project. At the end of 2006, the estimated long-term population (i.e., residents who had been in the city as least six months) was 11.0 million, up 320,000 from a year earlier. Some 1.4 million, or about 10 percent, were migrants, and all but 200,000 of them were temporary (i.e., without Tianjin *hukou*).

One of our principal findings is that many migrants do not exercise housing choices, but rather face certain housing options as a result of their employment choices. Table 1 supports this claim, showing cross-industry variation in the share of migrants that pay rent and the share that get housing through their employer. The share of respondents who pay rent varies dramatically, from a low of 15.0 percent in the construction industry to a high of 87.1 percent for those with street businesses.

Similarly, although most construction and manufacturing workers receive housing through their employer, only about one-third of those in the service sector and one-tenth of those in various forms of street business do so. Among those who receive housing from their employer, very few of the respondents in the construction industry pay rent, while half of those in manufacturing do pay rent. In this context, we argue that housing outcomes are simply a function of prior, or perhaps simultaneous, employment choices.

These results suggest that a substantial share of migrants obtain housing independent of the effects of *hukou* status. That is, if 85 percent of construction workers live in housing provided by their employer for free or low rent, on or near the job site, their housing situation would seem to be a function of their decision to work in the construction industry, rather than of their *hukou* status.

Table 2 shows how this employment decision is reflected in inter-group comparisons of housing inequality. The data show that housing quality in the construction industry is generally much worse than average. In comparisons of housing quality across urban groups, the construction sector—which provides more than a quarter of migrant employment in large cities and almost no such employment

**TABLE 1**  
**Source of Housing by Industry Sector in Tianjin**

Industry	Respondent Pays Rent		Employer Provides Housing to Respondent		Respondent Pays Rent for Employer-Provided Housing	
	(#)	(%)	(#)	(%)	(#)	(%)
Construction	31	15.0	176	85.4	2	0.6
Manufacturing	133	63.9	147	70.7	74	50.3
Services	173	67.8	71	34.6	6	8.5
Street Business	108	87.1	12	9.7	4	33.3
<b>Total</b>	445	56.1	406	51.2	86	21.2

Note: Denominator for 'Respondent Pays Rent for Employer-Provided Housing' is 'Employer Provides Housing to Respondent.'

**TABLE 2**  
Housing Quality Indicators by Industry Sector

Industry	Respondents (#)	Tap Water		Indoor Toilet		Permanent Structure		Very Noisy		No Heat	
		(#)	(%)	(#)	(%)	(#)	(%)	(#)	Share (%)	(#)	Share (%)
Construction	206	62	30.1	77	37.4	65	31.6	36	17.5	38	18.4
Manufacturing	208	163	78.4	146	70.2	174	83.7	13	6.3	12	5.8
Services	255	217	85.1	119	46.7	217	85.1	12	4.7	29	11.4
Street Business	124	109	87.9	27	21.8	94	78.3	8	6.5	15	12.1
Total/Average	793	551	69.5	369	46.5	550	69.4	69	8.7	94	11.9



**Migrant children are now allowed to attend city schools to obtain a formal education.**

for urban natives—will therefore substantially diminish the observed level of migrant housing quality. Since virtually no migrants employed in the construction industry have urban/permanent *hukou*, the construction sector heavily influences the likelihood that researchers will detect quality differences between migrants and natives, and that these will be linked to *hukou* status in multivariate models.

Our study also allows us to examine Zhu’s (2007)

argument that housing conditions vary among migrants because migrants, even within the low-wage/low-skill subset, are in urban areas for different reasons and that these different strategies translate into different housing outcomes. Table 3 uses household structure as a proxy for household strategies of permanent migration versus income maximization or hedging their bets. The indicator is whether, among respondents with children, those children reside in Tianjin or remain at home in the countryside. This variable allows us to distinguish households that have chosen temporary migration (children live in home place) to diversify earnings across urban and rural labor markets, and those that have decided to move to the city permanently (children live in Tianjin).

Table 3 shows how the family structure variable is related to the two housing outcomes discussed above, and to a housing quality index constructed from six quality indicators: having an indoor toilet; being very damp; having interior tap water; being in a temporary structure; having no heat source; and being in a building also used for business purposes. Among respondents whose children have joined them in Tianjin, nearly all pay rent, whereas only about one-third of others do so, in large part

**TABLE 3**  
Family Structure and Housing Outcomes

Respondents with Children (n=509)	Pay Rent (%)	Employer Provides Housing (%)	Housing Quality Index	
			Median	Mean
Children live in Tianjin	92.3	5.5	5	4.7
Children live in Home Place	36.6	67.6	4	4.0

Note: The Housing Quality Index is simply the inverse of the number of quality problems (having an indoor toilet; being very damp; having interior tap water; being in a temporary structure; having no heat source; and being in a building also used for business purposes). Having all six problems results in a score of zero, while having no problems results in a score of six.

because they get housing through their employer (67.6 percent). Employer-provided housing is typically of low quality, and is often in a dormitory setting or temporary structure that is particularly unsuitable for children. Table 3 also shows that housing quality is significantly higher for households with children in Tianjin (an index score of 4.7 versus 4.0, with t-statistic for difference of means of 6.35).

These results suggest that not only do households pursuing different migration strategies experience different housing outcomes, but those who have committed to settling in the city invest in better living conditions. The fact that having children in Tianjin is associated with improved housing quality supports the notion that factors in addition to *hukou* status influence observed levels of migrant housing quality. That is, our results are consistent with the claim that migrant housing quality is in part a function of migration intention, with those committed to settling in urban areas permanently occupying higher quality housing.

## Conclusion

Our fundamental argument is that very little is known about important aspects of rural-to-urban migrants' engagement in the urban housing sector. Given the range of unexamined alternative and complementary explanations for observed housing quality differentials between migrants and urban natives, we are not ready to accept the *hukou*-centric explanations offered in the literature. This is not to argue that *hukou* is unimportant, or that we think removing *hukou*-linked rules governing access to various urban social entitlements would be a mistake. Rather, we are saying that we have not seen sufficient evidence indicating that *hukou* reform will "naturally" lead to improvements in migrant housing quality or a reduction in housing inequality between migrants and urban natives to focus policy development in this single area, particularly given the often profound difference between rights and access to various social entitlements in today's China (Li 2005; forthcoming).

In addition, our research shows that housing outcomes are quite different across households with different migration strategies. It also shows that the housing situations of many migrant workers appear to be independent of the *hukou* system because they are the direct result of employment choices that are not linked to *hukou* status in the current environment. Taken together, intra-group differences, combined with occupational segregation suggest that factors in addition to *hukou* are responsible for migrant-native

housing quality differentials in the transitional economy.

It is important to point out that, although our data are more recent than those underlying other studies, they come from a single large city in a particular region of the country, with a specific industrial mix and housing market conditions. It is clearly possible that some specific findings from our study would differ in other contexts. Nevertheless, we feel it is unlikely that research will emerge that challenges our fundamental claims that the migrant housing sector has not received sufficient attention and that the current policy-making framework around migrant housing policy development is not well developed. **L**

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- NOTE:** Conversion is based on an exchange rate of 7.4 RMB to 1 US dollar (values rounded to the nearest whole dollar).