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## Meet the need for inclusive urbanization in China: Migrants' urban housing demand along their socio- economic transition

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# Meet the Need for Inclusive Urbanization in China: Migrants' Urban Housing Demand along their Socio-Economic Transition

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# **Meet the Need for Inclusive Urbanization in China: Migrants' Urban Housing Demand along their Socio-Economic Transition**

**Sören Gottschalch**

## **Abstract**

China's central government has rightfully recognized that successful urbanization will be decisive for the nation's future development. However, most city regions in China are not yet enjoying the net benefits that agglomerations in metropolitan regions can initiate. In this regard, following the latest discussions around the necessity of inclusive urban growth in China, the paper calls for a housing strategy that accommodates the surging waves of rural to urban migration, one of the main drivers of urbanization, and that provides migrants with greater urban socio-economic opportunities, improves migrants' urban prospects in order to facilitate a growing urban middle class as well as directing urban growth. Therefore, migrants' characteristics and their exposure to the immediate urban socio-economic environment are elaborated upon in order to understand migrants' housing priorities along their rural to urban transition. These housing priorities are the result of coping strategies in the face of distinctive urban opportunities and threats. In the context of migration, they form the underlying forces of housing demand development along the rural to urban transition. Eventually, when identified, these forces can be triggered in a way that enables urban growth to contribute to agglomeration benefits. This paper adds to the previous IPE working paper: "Urbanization in China and how urban housing demand can be met", by specifying the underlying forces of evolving migrant housing demands.

**Keywords:** Urbanization, Migration, Migrant Groups, Transition, Urban Housing Demand

**JEL classification:** D03, D14, D63, J61

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## 1. The next great leap forward

The new president of China, Xi Jinping, is evoking the vision of a Chinese dream, which may be “A dream of a strong nation...a dream of a wealthy people” (Economist, 2013). To put his words in context of China’s stage of transition, he reflects the country’s next step of development. The World Bank (2009) has rendered an illuminating verdict on just how important urbanization is in this regard: “No country has grown to middle income without industrializing and urbanizing. None has grown to high income without vibrant cities.” Cities account for most of a country’s economic growth, to the benefit of the households who live there and the firms that operate in them. The largest cities in developing and transition countries account for a disproportionate share of national GDP, and more highly urbanized countries produce more GDP per capita. Globally, the largest 100 cities produce nearly 25 % of the world’s GDP (IHC, 2009).

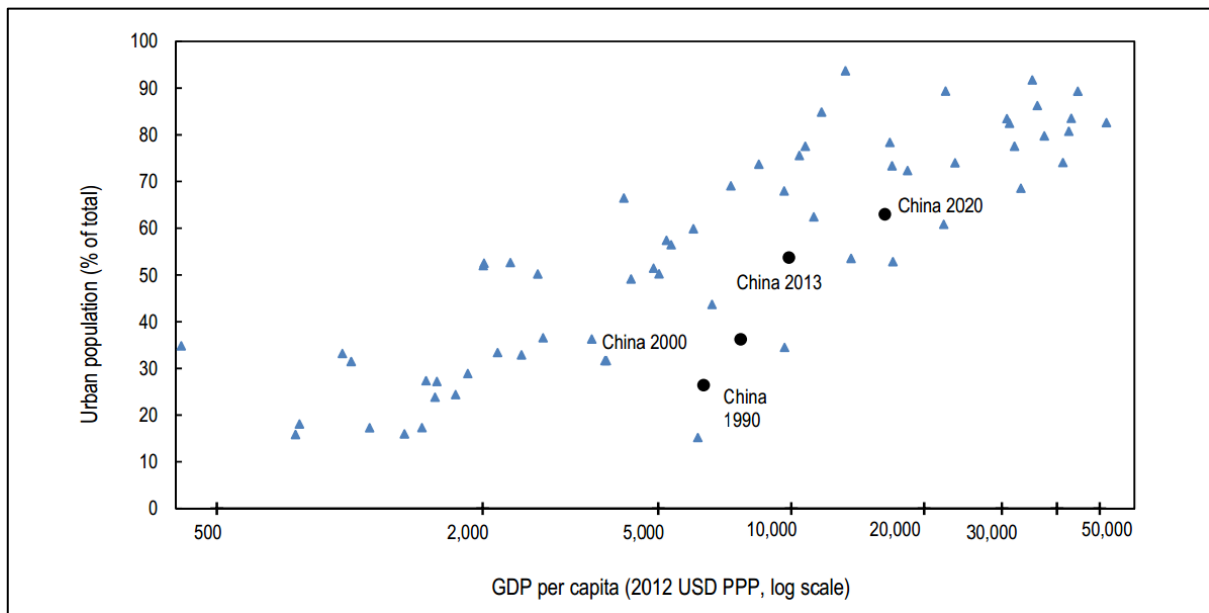
Urbanization in China has occurred at an accelerating pace since the transition has been initiated. During the reform process, cities have played a central role in the country’s social and economic development. In 2001, cities accounted for half of the national industrial output, 70% of GDP, 80% of national tax revenues and about 90% of higher education and scientific research resources locations (Yeh/Xu/Liu, 2011). China’s 53 metropolitan regions have been growing in economic importance,<sup>1</sup> accounting for a 55% share of GDP, in 1998 and 64% in 2004, while having just fewer than 30% of China’s population. Between 1998 and 2004, they accounted for 77% of China’s overall GDP growth (OECD, 2010). Thus, since the 10<sup>th</sup> Five Year Plan (2001-2005), the central government has promoted urbanization and rural-urban integration as part of China’s overall development strategy. Urbanization is now the next great leap forward.

China bets heavily on urbanization to bolster the economy and develop the country to generate wealth (OECD estimations in figure 1). It is planning to move around 250 million rural residents into newly constructed towns and cities over the next decade.

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<sup>1</sup> The definition used in this context refers to commuting areas as defined by the OECD Metropolitan Database, which takes into account population density, net commuting rates and type of region. These are typically large cities comprised of a number of administrative and adjacent areas where economic relations are intense. Thus, it does not necessarily follow the official definition of urban population and urban settlements in China which has been largely based on administrative designation.

**Figure1: China's level of urbanization (OECD, 2004)<sup>2</sup>**



The government, often by force, is replacing small rural homes with high-rise apartment buildings, enhancing urban infrastructure by paving over vast areas of farmland, thereby drastically altering the lives of rural dwellers. The ultimate goal of the government's modernization plan is to fully integrate 70 % of the country's population, or roughly 900 million people, into city living by 2025 (China Daily (a), 2013). Currently, only half of that number lives in cities.

This will decisively change the character of China, where the Communist Party insisted for decades that most peasants, even those working in cities, remained tied to their tiny plots of land to ensure political and economic stability. The main motivation for pushing urbanization is to find a new source of economic growth by restructuring the economy. Growth is to be based on domestic demand rather than relying so much on export. "If half of China's population starts consuming, growth is inevitable" said Li Xiangyang, vice director of the Institute of World Economics and Politics, part of a government research institute. "Right now they are living in rural areas where they do not consume" (New York Times, 2013). Thus, a growing urban population would mean vast new opportunities for socio-economic development.

However, the vision of modernity that drives the government's rush to urbanize may have failed elsewhere. In Brazil and Mexico, urbanization was also seen as a method to bolster economic growth. But among the results were the expansion of slums, pollution and a stubbornly unemployed underclass.

<sup>2</sup> Blue triangles refer to the level of urbanization in every country or territory with a population over 15 million.

In this regard, strengthening inclusive urban growth in China is increasingly being discussed internationally, by the World Bank (2014), International Monetary Fund (2013) and the OECD (2014) as well as nationally (i.a. Xinhua (a), 2013; Xinhua (b) 2014), within academia (i.a. Igbatayo/Awoyemi, 2014; Min/Xaolin, 2012; Henderson, 2009) and has been further addressed by the central government's 12<sup>th</sup> Five Year Plan (2011-2015) calling for "inclusive growth" (Xinhua (c), 2010) and the "National New-Type Urbanization Plan" for the 2014-2020 period (Xinhua (d), 2014).

The World Bank defines urbanization as inclusive when it "provides all people access to equal opportunity to benefit from urbanization - to use their labor where they are most productive, to accumulate assets and savings, and to use public services of similar quality across China" (World Bank, 2014).

The paper follows this argumentation and adds concrete indications of how the surging masses of rural to urban migrants, one of the main drivers of urbanization, have to be differentiated regarding their housing requirements in order to facilitate their socio-economic rural to urban transition. In this way, housing can support a more equal distribution of benefits derived from urbanization and thus contribute to a growing urban middle class

## **2. Urbanization in China**

Urbanization can be referred to as the process, where rural areas become urbanized as a result of economic development. In demographic terms, it constitutes the redistribution of populations from rural to urban settlements.

China's urban areas are the result of a multi-dimensional process, largely explained by the context in which the transformation of the Chinese economy occurred as well as by other historical, political and institutional factors. The following provides a brief outline of specific Chinese urban characteristics in order to introduce the key challenges of inclusive growth.

### **Metropolitan regions' layout**

Since the 1980s, a major force behind urbanization has been the rapid expansion of built up city areas, with which local governments convert agricultural land into suburban areas and transform local towns and villages into integral parts of the urban area. This suburbanization

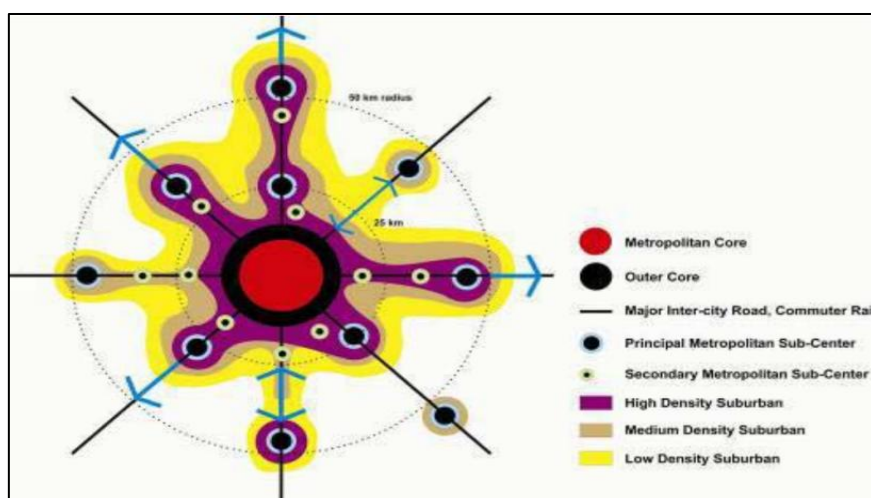
has accelerated, particularly since 1999, and is consistent with China's compulsory land acquisition known as 'zhengdi'.<sup>3</sup>

Residential growth has been principally supported by the informal rental sector which has emerged over the last decade in many suburban towns and villages due to inner city housing limitations. Firms also faced inner city constraints and reacted by settling at the periphery (Kamal-chaoui et al, 2009). Hence, the growth of most cities has increasingly been centrifugal resulting in large scale suburban sprawls. Traditional urban communities have been joined by newly transformed and emerging urban villages, which traditionally were rural communities.

As the urban population grew at around 4% annually from 1981 to 2008, the corresponding figure for urban built-up areas was 6%. This rapid expansion meant a fivefold increase of urban areas during the respective years (Yeh/Xu/Liu, 2011). The result of rapid urban expansion is that cities have significantly changed their layout, away from city based urbanization to sprawling cities and to less clear distinctions between urban and rural settlements.

Chinese cities or municipalities function, as in other countries, as administrative units. In China, typically, the city's boundaries encompass an urbanized core, a high density built area, surrounded by various towns and large rural areas usually inhabited by dense farming populations. These cities can extend to very large dimensions, which eventually can be referred to as regions.

**Figure 2: Structure of metropolitan regions (Leman Edward, 2005)**



<sup>3</sup> Article 10 of the Chinese Constitution states that "[the] state may, in the public interest, requisition land for its use in accordance with the law." (Chan, 2003) Under the authority of the constitution, there are separate laws governing the acquisition of farmland and urban land. The acceleration of land acquisition surged with the land reforms of 1998.

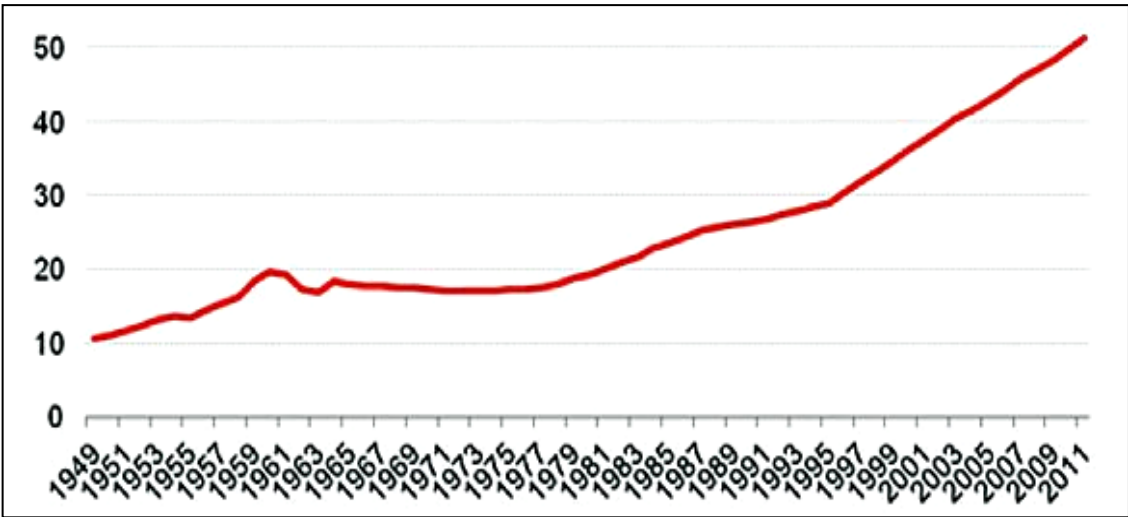


The agglomeration benefits in many city regions in more advanced economies are experienced in only limited ways in China. The unmanaged and uncontrolled metropolitan growth is having negative impacts in the respective regions, affecting suburban and central areas, which include pollution, congestion and distortion of land and labor markets. Most city regions in China are not yet enjoying the net benefits that agglomeration in metropolitan regions can initiate in productivity improvements, trade, innovation and employment and thus wealth generation, but rather face mounting costs (including opportunity costs) of incomplete, inefficient, and ineffective agglomeration. The problems are being borne by all major stakeholders: governments, enterprises and households, but particularly by more vulnerable suburban town and township governments, small and medium size enterprises (especially in suburban areas), migrants, and suburban landless farmers.

**Urban population consistency**

After decades of urban expansion, the urban population has increased from 185 to 681.5 million between 1979 and 2011. City dwellers now account for over 50% of the country’s total population (UN, 2012).

**Figure 3: China urbanization rate (%) (Business Insider, 2012)**



However, currently more than 70% of the population of China is still officially registered as rural resident. However, of the rural workforce, 22% are working in urban areas (Meng, 2012).

### Excursion migration in China and the hukou system

In China's pre reform era, migration was strictly limited. With the gradual reformation of the household registration system (hukou) and the introduction of market reforms in combination with rising rural urban inequality and a huge rural labor surplus, migration started to accelerate. The regional disparities determine the direction of migration flow. Thus, labor transfer from low productivity to high productivity sectors was and continues to be predominant, resulting in large migration flows from rural to urban areas.

The hukou system, after fundamental reforms, rather than stopping migration, currently works as an entitlement distribution system. It separates the two aspects of internal migration: the actual movement; and the granting of full community membership at the destination. Rural as well as urban migrants are allowed to move to, and work in the/another city or town. However, in general, for an ordinary person it is very difficult to change hukou registration from rural to urban areas or from smaller to larger cities (Chan, 2013). Thus, a vast majority are not eligible for a hukou at their migration destination, excluding them from respective hukou benefits and entitlements (policy barriers), thus are denied access to urban public health and education services, as well as government supported housing. They are considered as temporary residents and often described as a floating population (renkou liudong), indicating a temporary stay, which is indicated to be at least 6 months according to National Bureau of Statistics China (NBS) definition. Because of the floating population's nature, it is only measurable as stock.

The other category of migrants are receiving local residency rights (bendi hukou), usually only accessible by a small privileged group (rich, highly educated or certain family relations) and can be measured as flow. Their migration rate has declined slightly in relation to the Chinese population, with about 17 to 21 million people annually since the early 1980s (Chan, 2013).

The floating population, on the other hand, has grown rapidly in numbers, rising from about 6-7 million in the early 1980s, to around 20 million in the early 1990s to about 221 million in 2010. The number may reach 400 million by 2025 (Hays, 2012).

**Table 1: Trend of floating population in China between 1982 and 2010 (Liang, 2012)**

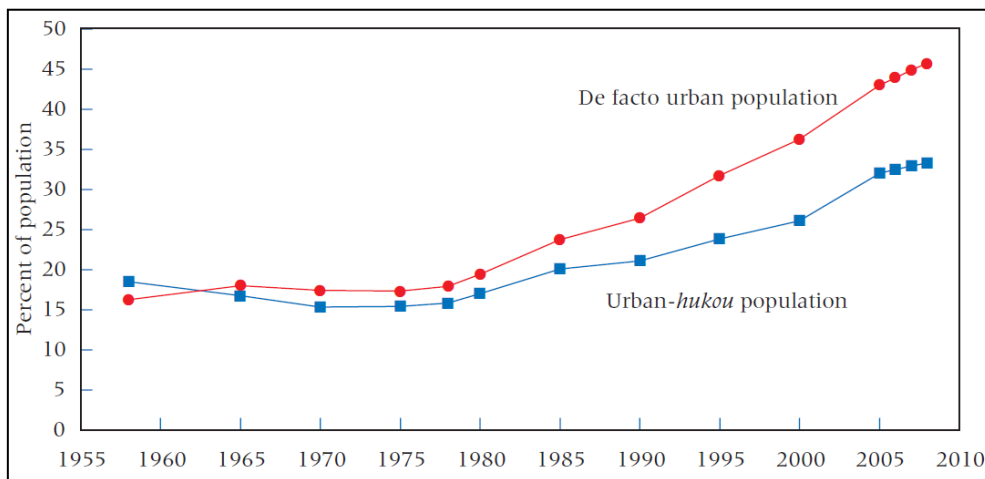
1982	1990	1995	2000	2010
6.6 mio	21.6 mio	43.1 mio	78.8 mio	221 mio

Simultaneously, the proportion of China's total population identified as floating population has increased significantly from 6.34% to 16.58% between the years 2000 and 2010 (Liang, 2012).

The biggest proportion of the floating population is made up of rural urban migrants. Their numbers have increased greatly in recent years. In 2010, the number of rural migrant workers stood at 160 million (Xinhua, 2011), which accounts for 72.4% of the floating population.

China's economic reforms enabled rural people to work in urban areas while still retaining their rural hukou status, meaning the state's social obligations remain minimal. Many of the floating population are de facto urban residents but go not through the urban registration process.

**Figure 4: Percentages of urban population in China, 1955-2008 (Chan, 2010)**



The floating population's volume, hence labor mobility, is steadily increasing but urban hukou quotas failed to properly expand to include migrants. Hence, for most rural migrants, urban opportunities are very limited. Among urban residents, various hukou registrations reflect status difference rather than residential variance. The dual urban structure results in huge differences in economic opportunity and social position which may also raise questions of discontent (Li/Chui, 2011). As a result of urbanization, rural urban migrants became marginalized and a vulnerable group. The prospects of upward mobility, acceptance and integration appear to be possible solely for migrants that are rich, highly educated or have certain family relations. In this regard, the opportunity structure remains largely defined by the social stratification that has emerged during the socialist period and persisted in the reform era, which highlights a socio-economic divide in the cities.

## **China's key challenges for inclusive urbanization and the housing problem**

China's economic growth has been increasingly driven by investment rather than productivity, and investment has become less effective in generating growth at the national as well as the city level due to inefficient urban sprawls, barriers to migration underutilizing people's potential and unequal access to urban services that hinder mobility.

China is in need of a more inclusive urbanization strategy. Currently, the level of urbanization is artificially high considering economic indicators: real purchasing power, recognition of rural migrants' urban status and rural urban emotional and physical barriers. Hence, the lack of real transformation in the urbanization process appears to be the core conflict. In this regard, the crucial characteristic of urbanization is the transformation through population flows: (i) the spatial flow from rural to urban areas through employment and (ii) transferring marginalized groups to mainstream society. China's massive floating population still does not have access to urban public infrastructure, public services, nor equal status with urban hukou. Many live isolated lives outside mainstream society and this affects their self-perception (Yumin/LeGates, 2013). Marginalized communities form a passive attitude towards integration as well as show doubt and hostility about the future, low-end consumption and short-term and extreme actions. Human capital is barely accumulated effectively and a growing urban middle class is not attainable.

Reforming the hukou system can support the transition of the floating population to urban society and stimulate their urban consumption habit. Reform of the social security system can convert household income to effective purchasing power. Providing education and training to every resident can facilitate the accumulation of human capital and increase industrial efficiency, salaries, household income and consumption capacity. Human capital accumulation that supports the improvement of manufacturing technology and the expansion of the service sector, facilitated by social transformation, will continue to shift rural populations to cities spatially and from low-consumption to high consumption groups.

At present, migrants account for nearly 25% of the urban population and will contribute about 80% of future growth (Asian Development Bank, 2007). As indicated above, urbanization requires effective inclusion of rural to urban migrants, addressing their concerns on many levels: labor market as well as social services and public services, such as education and housing. The latter can either support urban integration or lead to an enforcement of socio-economic stratification. A current migrant housing pattern supports the latter.

### Migrant housing situation

*Migrants' contributions and sacrifices ease transitional tensions, but make them a very vulnerable group. In cities, they face socio economic stratification, discrimination in the urban employment market and exclusion from urban public and social services. Without permanent residency status (urban hukou), they are largely excluded from government subsidized housing and cannot afford commercial housing.*

*According to the 'blue stamp hukou' program based on the principle of "local need, local benefit, local responsibility, local validity" (Chan/Zhang, 1999), local governments are enabled to 'legalize' a part of the de facto urban population with the granting a formal blue stamp hukou. Eligibility is primarily based on the assessed contributions to the urban economy and usually is attainable for only a few privileged migrants, comprising three groups: investors, property buyers, and professional or skilled workers. The higher the administrative status of a city, the higher the price for a blue-stamp household registration will be. In Shanghai, for instance, migrants can obtain a blue stamp hukou with a cash purchase of housing units worth 100,000 yuan or more. The stamp can become permanent after five years, transferring rural hukou holders to urban. However, this group remains rather small (Wu, 2002).*

*For the vast majority, the housing situation mirrors their miserable status. Being denied government support, many live at their workplace on construction sites, in sheds or low quality dormitories and in overcrowded accommodation without basic facilities (Abramson, 2002; Mahadevia, 2010). Neighborhoods have turned into 'migrant enclaves' where living conditions are grim. Housing conditions of migrant households are significantly inferior to those of urban households, in terms of the size and type of dwelling, privacy, and access to public utilities (Chan, 2006). The surge of migrants in urban areas coupled with a lack of coordination of their housing has resulted in urban development that is forcing segregation. Gottschalch (2013) provides a more detailed view on migrants' urban housing situation and the spatial features of China's housing policy.*

The social importance of housing has recently been confirmed with a survey conducted by the Renmin University of China investigating the top concerns of the Chinese public. 13.1% of respondents listed housing as the most urgent problem (China Daily (b), 2013).<sup>4</sup>

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<sup>4</sup> Second comes medical care with 12.4% and commodity price as third with 12%. Other issues, like children's education, food safety as well as retirement and pension, also received more than 10% of the vote. Researchers surveyed urban and rural

With China's transition, the housing system underwent a process of fundamental change. The changes have resulted in a rapidly developing urban housing market and fueled urban redevelopment, expansion, delimitation of housing areas as well as ever rising market prices. China's government has reacted with social housing programs, which, however, largely exclude migrants due to their hukou status. Exposed to these developments, the vulnerable position of migrants has pushed them into poor housing conditions and reinforced socio-economic stratification (Gottschalch, 2013).

Given migrants' importance for future urban growth, and the necessity of a substantial and growing urban middle class in the process of a society's modernization, future urban planning has to explicitly include the needs of migrants and rural residents on the urban fringe, especially in terms of housing, to achieve inclusive urbanization.

Integration has to be triggered in a thoughtful manner, in a way that migrants' prospect of an urban life is improved and urban growth contributes to agglomeration benefits. Housing policy must not solely serve top down planning approaches reflecting local authorities' as well as economic and financial requirements, but also address migrants' needs and concerns in order to develop a functioning urban society with upwards mobility. To investigate how housing can provide a platform for integration and inclusive growth, it becomes essential to highlight migrants' housing requirements.

### **3. Migrant housing demand**

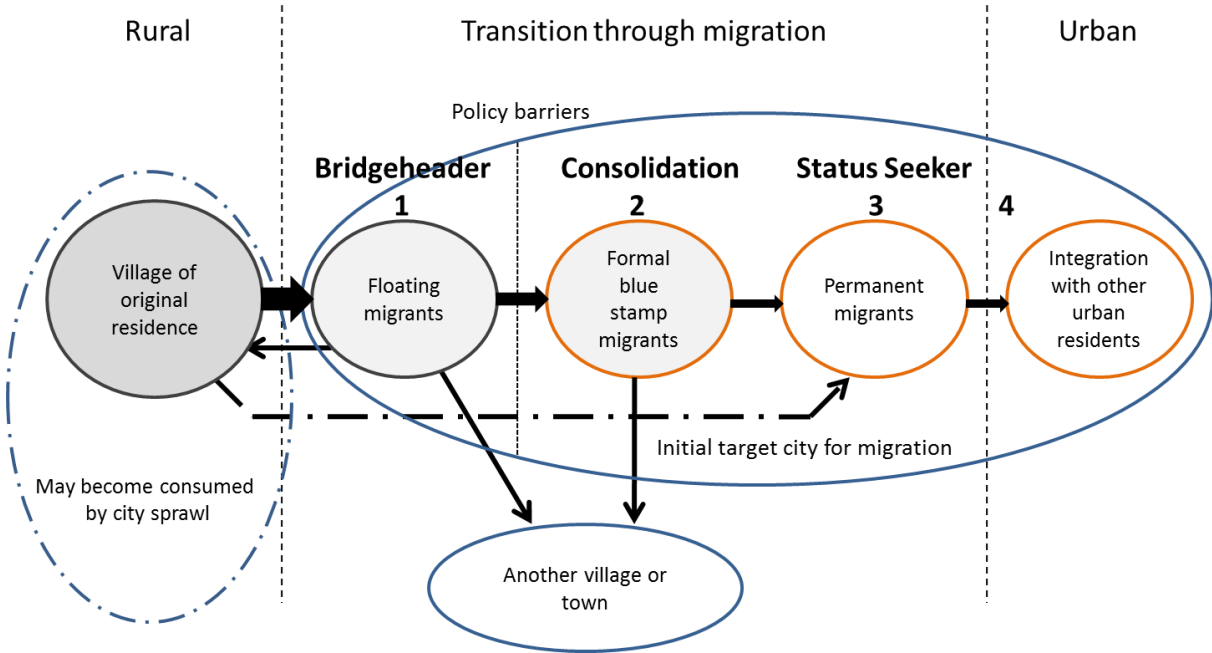
The current housing situation does not necessarily reflect the actual housing needs and demands of migrants, but rather an outcome of socio economic stratification. Migrants are a very vulnerable group and can do very little to nothing when it comes to an unacceptable housing situation and in most cases simply accept it as a sacrifice. Nevertheless, in their current form, migrant housing conditions mirror the lack of prospects in the city. In this way, inclusive urban growth that facilitates migrant integration will not be achieved.

To meet migrant's housing demand, it is crucial to analyze what characteristics and patterns can be assigned to them and thus drive their housing preferences.

To be addressed properly in the dynamic environment of China’s socio economic transition, migrants have to be put in context with the progress of their transition into the urban society.

Regarding migration and the following rural to urban transition of migrants three levels of housing and household life cycle can be identified: “...the lowest is that of the ‘bridgeheader’ seeking a toehold in the urban system and hoping to achieve the intermediate level of the ‘consolidator’, who has obtained a relatively firm foothold but is in danger of losing it unless he can consolidate his newly achieved socio-economic status; the third level is that of the higher income (insured or professionally secure) ‘status seekers’...” (Wang, 2004). The following figure constitutes an adjusted model according to China’s migration and urbanization patterns.

**Figure 5: The process of rural urban migration in China (Based on Wang, 2004)**



Along the model, different housing priorities and needs emerge dependent on the immediate stage resulting in distinctive migrant groups. Considering the variety of migrant characteristics and housing priorities, distinctive migrant groups with their respective housing demands can be introduced. Initially, the floating population is introduced from which two migrant groups with respective housing priorities are derived. Additionally, another migrant group is presented. These three groups and their respective housing demands are specified below.

## **Floating population**

The floating population is detached from their place of origin. This population continually migrates between towns and cities as well as rural and urban areas. Rural to urban mobility dominates the migration patterns.

The crucial characteristic of the floating population is the temporality of stay. Significant proportions of migrants periodically return to their place of origin to visit family and relatives and continue circulating between work in the city and their rural home. Migrant laborers may also return and cease circulating because of unfulfilled employment expectations, marriage, to take care of parents or because of being expected to live in the countryside. Migrants may also move to another town or city in pursue of job opportunities. However, people tend to live at places of arrival much longer and increasingly settle at their arrival destination. The total number of the floating population that stay longer than 5 years has increased from 7 million in 1987 to 46 million in 2005 (“985” Program, 2008).

### Characteristics

While investigating the housing orientation of migrants, it is crucial to identify the floating population’s characteristics that determine their scope of socio-economic capabilities, which includes income, education, social and health provision as well as family situation: According to a new survey conducted by the NBS the real monthly wage of migrant workers was 1221 yuan in 2009, 90% higher than in 2001 (Cai, 2014). The income of migrant workers has gradually become the main source of income for rural residents and now accounts for more than 50% (Yancheng, 2011). In general, migrant income falls between that of rural and urban households, whereas wages converge between migrants and urban resident workers (Fang/Meiyan, 2010). As migrants mostly remain bound to their rural hukou, they have, on average, considerably less schooling than the urban workforce. However, an upwards shift in education attainment can be perceived, with a decreased share of only basic 6 year education and an increase in college attainments (Yang, 2010). The coverage of social and health insurance lags behind urban insurances. Health care development remains unbalanced between rural and urban regions and individual affordability is still a major concern (Freeman III/Boynton, 2011; Liejun, 2010; Liqung et al, 2010). Regarding family migration, according to a World Bank report of 2009, less than 10% of migrants moved with their entire family (Lee/Park, 2010). In 2011, the head of the National Population and Family Planning



Commission stated that almost 60% of the floating population is now moving with their children and usually stay longer in one city (Xinhua (e), 2011).

### Reasons for migration

Eventually, reasons for migration will provide the greatest evidence on housing orientation. China's industrialization, market reforms, urbanization and hukou reformation, have stimulated classic push and pull factors for migration (OECD, 2010).<sup>5</sup> Economic gains from wage differentials and job opportunities in urban areas are now the most important driving forces.

The older generation tends to be driven more by push factors such as land shortage or difficult living conditions. Rural women are also often driven by push factors determined by difficult social and work environments (Tuñón, 2006). The migrants from the younger generation, in particular those from rural areas, tend to be more influenced by pull factors, including higher earnings, urban lifestyle and personal development aspirations. They have been directly influenced by China's rapid urbanization and reform policies, inspiring many to a city life. Young migrants do not only migrate for higher earnings, but increasingly desire to develop careers at their place of destination. For many years, the older generation has been associated with the image of being tolerant to any work. The younger generations are more reluctant regarding accepting overloaded work and are tired of being looked down upon. A 2007 study about young migrants in rural Guangzhou and Bozhou r even indicated that a considerable share of them do not remit to their families at home, but instead receive financial aid from their parents (Hu, 2012). Although they do not send money home, many still spend all their monthly salary as they are not able to save because "everything in the city is expensive" and they have "low salaries" (Newsweek, 2012).

The younger generation's aspirations of a future in the city may change some aspects of migration floating patterns, with longer durations of stay at one destination and with more dedication and dignity regarding being a part of the urban society.

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<sup>5</sup> Rural to urban migration is characterized by a combination of both "push" and "pull" factors. In emerging and less developed countries the most common "push" factors are: famine, drought and natural disasters; war and conflict; agricultural change; unemployment; poor living conditions (i.e housing, education and health). Among the "pull" factors are: better employment opportunities, higher incomes, better healthcare and education facilities, urban facilities and way of life, protection from conflicts, etc.

## **Migrant groups**

In the following, distinctive migrant groups and their respective housing priorities that emerge along Turner's model are elaborated upon. Two migrant groups emerge from the floating population at Turner's 'bridgeheader' stage: (i) transition and (ii) pre consolidation migrants. One other group establishes through the process of expanding cities and rural settlements affected by it, producing (iii) urban peasants as permanent migrants at the 'status seeker' stage. All three groups and their respective housing priorities and demands are introduced in the following.

### Transition migrants

Housing priorities of new migrant arrivals are different from those of the local urban residents, and are grounded in their current stage of transition at a 'bridgeheader' position in Turner's transition model. Many migrants come to the city with the intention to work for one or more years and then return to their home place or remain in a circulation pattern between the two. Even though having migrated for an increasing time period, their housing priorities barely change. They remain in the form of transition and continue circulating. Generally, they are less educated and are largely informally employed for little salary and thus have fairly limited socio-economic capabilities. To cope with their uncertain status, they predominantly have separated family households. A case study in Fujian Province found that the migrants 'sojourners' mentality, the double residential status and the resulting circulation pattern, is identified as the most significant factor causing the differences between permanent resident's and migrant's housing conditions in the city (Liyue/Yu, 2008). Many studies refer to the reluctance of migrants to spend their income on housing, thus they tend to endure poor quality housing in order to save more money to send home (Li, 2007). They are unwilling to spend money on housing as they do not have a sense of belonging to the cities they are working in and have little incentive to invest in stable and higher quality housing in the destination city. For instance, migrants who stay for a shorter period of time are more likely to be accommodated by housing provided by the employer in dormitories and construction sites (Abramson, 2002). In the long run, they return to their home region building or buying their own housing. Overall, in urban areas they remain in a form of transition. These migrants can be included in the transition group.

There is little literature on the underlying forces that determine migrant demand for housing. An important contribution to this field was given by Li et al (2009), which studied

housing behavior and choices among a sample of migrants in Taiyuan in relation to housing outcome. A set of preferences that reflect both, migrant coping strategies in the face of enormous change and uncertainty about the future, and the perceived temporary nature of many opportunities. These four transition priorities include:

a. *employment priority*, i.e. migrants tend to make certain types of combined housing-employment choices, such as living in the housing offered by an employer, in order, for example, to maximize time available for work;

b. *savings priority*, i.e. diversifying risk across urban and rural income sources in the transitional economic environment; migrants work in the city but consume in the country, or minimizing current consumption for the future;

c. *mobility priority*, i.e. in pursuit of employment opportunities, migrants are mobile; migration affects migrants' propensity to buy homes and makes them unwilling to commit to long term rental contracts, both of which tend to reduce the quality of the housing they occupy relative to that of urban natives who are more connected to particular locations;

d. *family life priority*, i.e. housing decisions of migrants are highly attuned to and reflective of choices related to family situation.

There are conclusions that can be developed based on these priorities. First, employment is closely linked to housing decisions made by migrants. Further, the propensity to improve housing conditions due to increased income is low, because of savings priority. Moreover, migrants tend to live in housing linked to employment to the extent that it is available. Finally, migrant families are either left at home, meaning the migrant worker can act independently, or the migrant family has moved together to the new destination, in which case migrants tend to live in the privately provided rental housing (Li et al, 2009).

In the transitional economic environment, most migrants do not consider long term housing commitments at their place of destination and remain in a very unsettled state without being covered by urban public and social services. Most households are split between place of origin and work. The high level of social and economic uncertainty features a very vulnerable transition group with housing priorities as stated.

**Table 1: Housing priorities of transition migrants**

Characteristics	New arrivals, remaining in circulation pattern, less formal employment, less educated, low income, separated households
Housing priorities	
a	Employment priority
b	Saving priority
c	Mobility priority
d	Family life priority

Pre-consolidation migrants

Besides migrants remaining in transition, the increasing duration of the stay of migrants has also been referred to. A general increase in migrant income has been shown. Studies decomposing migrant income indicate that with improved basic urban labor skills and longer duration of stay, earnings increase (Zhang/Meng, 2007).<sup>6</sup> Others show a continued increase in migrant worker's wages along with increasing participation in formal labor (Guifu/Shigeyuki, 2009). Migrant's education continues to improve which makes them less likely to return home as a result of social inferiority. Migrants with improved education and skills, higher income and participation in formal employment tend to remain longer than other migrants at their place of destination and may even move with their family.

They may refer to a specific growing group which shows more dedication to the destination it is working in, as the group finds more socio-economic opportunities. As stated in Turner's model, they may pursue formal integration and status, leaving behind circulation patterns of the floating population. The transition priorities of this group shift to housing choices grounded in consolidation priorities. In this sense, saving priority changes to investment priority and mobility priority to integration priority, while employment and family priorities experience a shift in interpretation.

*Shift from saving to investment priority:* Instead of extracting financial capital from housing, the potential of financial commitment in housing increases because initial uncertainty of the transition diminishes. The marginal propensity to invest in housing rises. The trigger may be more secured basic living conditions and improved future prospects such

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<sup>6</sup> Migrants who stay longer do experience a statistically significant narrowing of the gap between migrant workers and their urban hukou counterparts, though not a complete catchup. Besides, with labor market liberalization, compensation of skilled labor became more important. Hence, return on education is increasingly defining earnings. (Zhu/Luo/Zhang, 2007)

as improving living conditions, social status and wealth accumulation at the place of destination.

*Shift from mobility to integration priority:* As has been stated, the migrants’ propensity to buy homes has shifted. Their commitment to long term decisions became less reluctant. Additionally, in pursuit of employment opportunities, migrants become less mobile due to participation in formal employment, including longer contract agreements and more stable work relations. In this regard, long term rental contracts may be no longer considered as undesirable. Overall, they tend to be more connected to particular locations. This circumstance tends to increase the quality of housing they occupy.

*Shift in interpretation of employment and family priority:* Employment remains as a top priority when considering housing. Migrants still compromise their housing decision greatly when considering accessibility to work and commuting time. However, working conditions may have changed as labor has moved to industries that do not require on site accommodation, leaving more housing choice. Further, households that are initially split between rural and urban areas may be consciously united, when it is determined that migrants can survive as a family in the city and schooling for migrant children can be provided.

Findings from the Beijing and Shanghai migrant study (1998/99) show that long term migrants who plan to stay are more likely to have families living with them in the city, make a better living, and enjoy better housing conditions (Wu, 2004).

The pre-consolidation group strives for greater integration because of improved socio economic conditions.

**Table 2: Housing priorities of pre-consolidation migrants**

Characteristics	Longer duration of stay, higher educated, more formal employment, increased income, tendency to family settlement
Housing priorities	
a	Employment priority
b	Investment priority
c	Integration priority
d	Family life priority

Urban peasants group

Next to the two groups that emerged from the floating population there are rural hukou holders that become urban permanents due to the force of urban sprawls. Usually, permanent

migrants are migrants who have changed their registration to the place of residence. Hence, their stay is not temporary but permanent. They are more skilled, higher educated and have high income. They managed to consolidate in the city and strive for full urban assimilation. Urban permanents by the force of urban sprawls, however, differ greatly from the usual permanent migrants. They become urban residents at the stage of a ‘status seeker’ in Tuner’s model without any time of acclimatization and (human) capital urban hukou receivers usually have, and in many cases must have, to integrate properly in the urban labor market and social environment. Therefore, in the following they are addressed as urban peasants.

Urban peasants are rural people that became a part of urban areas during the process of expanding cities into the countryside. Rural people have received less education than urban locals and have lower incomes. With the approach of the city sprawl, urban villagers face significant change with modifications of labor opportunities and urban cultural influences. The following points provide distinctive features of urban peasants.

*Income and employment:* With the beginning of the market transition, economic reforms first focused on rural areas and the agricultural sector. During the 1980s, rural residents benefited from de-collectivism, implementation of the household responsibility system, improved agriculture prices, and the rapid growth of the agriculture industry, lifting hundreds of millions out of poverty (McMillan/Naughton, 1992; WHO, 2005).<sup>7</sup> However, further reforms mainly benefited urban areas and rural regions were increasingly left behind. People in China who engage in off-farm activities have a much higher income level than people working on farms (Su/Heshmati, 2013). For rural residents in China, net business income is still the largest income source of the total income, and farming income is the largest contributor to net business income (National Bureau of Statistics). Thus, rural residents earn much less than urban residents. According to studies, farm activities income share for the years 2000, 2004, 2006 and 2009 accounts for 64.5%, 62.3%, 71.8%, and 56.6% of the total urban-rural income gap respectively (Wu/Perloff, 2004). Using different measures of income and inequality, many studies cite an increasing rural urban disparity (Chaudhuro/Ravallion, 2006; Chen/Wang, 2001; Zhu/Luo/Zhang, 2007). The rural urban income gap is currently over 3.00 (Xinhua, 2012).

*Education:* With financial and administrative decentralizing reforms of education, inequality of access to quality education has increased, often due to rural government’s lack of capacity to manage and fund. Furthermore, rural families are often unable to bear direct

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<sup>7</sup> The rapid income growth of the poorest in rural provinces could be attributed mainly to the prosperity of Township and Village Enterprises and other non-farm activities. Internal migration and remittance also play a role.

and indirect expenses related to sending their children to school (Postiglione, 2006).<sup>8</sup> Educational inequality is particularly evident in attainment and enrollment in upper secondary level and beyond, as well as in educational resources, while urban education budgets by far exceed rural budgets (Cheng, 2009).

*Social and health provision:* Despite the rapid expansion of basic social insurance coverage and the impressive expansion of health care coverage in rural China since 2003, the initiated health care programs so far remain rather non effective (Lei/Lin, 2011).<sup>9</sup> For instance, in case of a catastrophic illness and insufficient funding of the New Cooperative Medical Scheme, which depends largely on local government revenues, out of pocket expenses can amount to 80% for rural residents (Barber/Yao, 2010). Health care development remains fairly unbalanced between rural and urban regions and individual affordability is still a major concern, due to remaining high financial barriers to accessing health care and the out of the pocket costs burden (Freeman III/Boynton, 2011; WHO, 2005).

A case study in the Chengzhong district of Liuzhou City in 2010 has questioned farmers whose land was appropriated, either having been resettled or received monetary compensation, about their concerns and needs. Stable income was shown to be the most urgent, followed by high costs of living and employment (Ling-ling/Yong-ming, 2010). Their concerns mirror the need for ensured living conditions while facing great socio-economic challenges and insecurity. Besides the challenge of approaching city sprawls, the crucial difference between urban peasants and other migrants are their locality ties as they become part of the urban area. Naturally, their housing priorities are strongly connected with their immediate environment, where they occupy their own housing, generate their income and have their social network and ties. With regard to their living condition concerns and focus on their original living space their housing priorities have to be considered.

*Employment priority:* Housing must ensure access to work. Employment is mostly related to their rural origin. In other cases, they have already been absorbed by the labor market of the sprawling city. In any case, employment priority remains connected with the circumstance of availability and accessibility to the more immediate surrounding of their original stay.

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<sup>8</sup> Rural education is characterized by “rundown schools, inadequately prepared teachers, unattractive teaching materials, inefficient school management, inadequate community participation and support” making rural poor and migrants to “have the monopoly on low enrollment and high dropout rates, leaving the urban middle class with dominion over the major indicators of school success.”

<sup>9</sup> In 2003, when over 80% of rural people were without health insurance, China adopted a new health insurance system, the New Cooperative Medical Scheme, which had expanded coverage to 86% of all rural counties by end 2007.

*Family life priority:* Housing must support family settlement. Family priority is closely related to the original location, due to families staying together in one house and possible nearby relatives and other social networks.

*Investment priority:* To the extent that it contributes to improved socio-economic capabilities and living comfort. Frequently being left without farmland, village residents have little choice but to lease their houses to make a living. Historically, rural residents have had more flexibility in building their own houses, compared to urban residents who relied on public housing (Changqing et al, 2007). Many peasants illegally build more houses to lease to migrants and generate revenue (Deng/Huan, 2004). Other investments may focus on family businesses or education and work training.

*Integration priority:* Integration is pursued to the extent that it supports the first three priorities, hence is not necessarily aspired to. When finding a reasonable outcome as a landlord or with a business within an urban village, there may not be much urban integration. However, urban integration may become essential when inner urban village socio-economic opportunities diminish or vanish.

**Table 3: Housing priorities of urban peasants**

Characteristics	Strong socio economic ties to former immediate environment, compensation demand, family settlement, low income and education
Housing priorities	
a	Employment priority (orientation on original stay)
b	Family life priority (orientation on original stay)
c	Investment priority (orientation on changed environment)
d	Integration priority (supporting first three priorities)

### **Housing demand of migrants**

Currently, migrant housing conditions mirror the lack of prospects in the city. In this way, sustainable urban growth encompassing migrant integration will not be achieved. However, the urban housing market managed to serve migrant housing demand to a certain degree.



Based on migrant groups' housing priorities and considering their urban socio-economic opportunities and threats, the following section considers migrant housing demand.

#### Transition migrants housing demand

Conducting a survey in Shenyang and Chongqing in 2004, it was found that only 20% of the migrants thought their urban accommodation was better than their house back home. For most of them, migration resulted in a reduction of living conditions. However, when asked to compare their situation before and after they moved to the city, over 60% thought their quality of life had improved (14% said improved a lot, and 46% said improved a bit)(Wu, 2004). This is consistent with their high saving priority and the result of relatively little concern towards housing quality.

Another survey in Beijing and Shanghai from 1999 found that in both cities, over 80% of the migrant dwellings in the suburbs had no kitchen or bathroom facilities. Further, migrant housing was largely overcrowded. More than two thirds of the migrants in both cities found their housing was worse in comparison to their housing at home. Less than half were content with their housing size and facilities. However, close to 90% felt happy about their commute distance. The relation indicates the transition migrant's high employer and mobility priority, compromising housing quality (Wu, 2006).

The large proportion of migrants that show general acceptance of the housing situation indicates that many belong to the transition group, which does not intend to consolidate in the city and settle down, but continues in its floating pattern remaining in the stage of transition.

At this stage, referring to the descriptions of their housing priorities, demands for housing can be listed. The transitional group, in accordance with maximizing accessibility and time for work as well as saving opportunities and split households, tends to favor housing provided by the employer as well as lower quality rental housing. When it comes to low-quality housing situations, in most cases migrants simply accept it as a downside to their housing priorities.

#### Pre-consolidation housing demand

The pre consolidation group looks for more urban integration and tends to remain longer at their place of destination. According to a floating population survey from 1997 in Shanghai, homeownership is dependent on whether the migrant wants to settle down in the city

(Abramson, 2002). This, however, is highly dependent on given perspectives. For instance, a truck driver interviewed from Jiangxi “would like to buy a new housing unit primarily to get the blue stamp household registration [that may allow him to settle in Shanghai]” (Wu, 2006).

Thus, in this case, homeownership as well as a permanent stay in the city must be disregarded by them. Many feel that they do not belong to the city and remain as transition migrants.

Different studies have different findings regarding the willingness of migrants to stay. According to a survey conducted by a China Urban Labour Employment and Labour Flow research team, 50% of the floating rural population wanted to stay in the city, and less than 10% wanted to return home. A study conducted in Fujian province indicated that only 20.6% had the intention to settle at their place of destination (Mahadevia et al., 2010).<sup>10</sup> Anyhow, with high commodity housing market entry barriers, homeownership will remain restricted. A national housing survey in China from 2002 shows that when households do not hold permanent residency status, they are 78% less likely to own a home than permanent migrants or locals ceteris paribus (Huang/Clark, 2002). This indicates high remaining barriers for homeownership for migrants, though homeownership is desired by migrants with broadened socio-economic opportunities.

*Perception of not belonging to the city*

*Most migrants feel that they do not belong to the city. A middle aged nanny stated: “as the saying goes, farmers are always farmers. I do not dream of becoming a Shanghainese”. As a result, many migrants tend to invest savings at home, as concluded by a shipyard worker in Shanghai: “eventually I will go home to Shandong and will remodel and decorate my house at home rather than [the] one [in Shanghai]” (Wu, 2006).*

*Urban village residents’ perception of their place of staying is also mixed. On the one hand, staying close to fellow migrants can provide a supportive social environment and a sense of community. However, mixing with locals provides possibilities of interaction, learning and adapting, more suitable for the process of urban integration, as stated in a young Sichuan woman’s reasoning: “Staying with other migrants will not help my own career growth because I will not blend into the local culture and social connections” (Wu, 2006).*

<sup>10</sup> Regarding the study in Fujian, migrant’s “lack of desire to settle down in the destination areas was because of their unsteady jobs [and their] incomes being low, the migrant population were incapable of living an average life in a city and hence were not willing to move their whole family to the city”, which shows the importance of employment for long term city orientation.

A study among low income migrants in Shenyang and Chongqing in 2004 shows the migrant's tendency of housing choice with improved financial background and opportunities. With increased income and greater opportunities, such as being able to apply for government subsidized homeownership, migrants shift their priority from rental to purchasing housing. For 54% (affordable 20% and commercial housing 34%) a housing purchase would be ideal, as shown in table 4.

**Table 4: Housing preferences (Wang, 2004)<sup>11</sup>**

Rank order	With the current income, what type of housing suits you best?	(%)	If income is increased and the restrictions on migrants removed, what type of housing will be ideal for you?	(%)
1	Current housing	45	Affordable housing	20
2	Private rental	20	Cheap commercial housing	19
3	Subsidized rental	16	Good commercial housing	15
4	Affordable housing	6	Private rental	13
5	Secondary market housing	5	Secondary market housing	9
6	Cheap commercial	4	Cottage	8
7	Suburban farmer house	3	Suburban farmer house	7
8	Good commercial	1	Subsidized rental	5
9			Current housing	3

It indicates a marked increase in the marginal propensity to invest in housing when transitional uncertainty is reduced by increased income and opportunities of choice.

Moreover, other results from a floating population survey in 1997 in Shanghai indicate that the mean income for those migrants who own housing is almost twice that of an average migrant (1,002 vs. 623 yuan). It shows a positive correlation between migrant income and homeownership, supporting the findings in table 9 (Wu, 2002).

With their intention to further integrate and participate in the urban environment with family/relatives, the pre-consolidation group particularly considers homeownership as an option as well as improved housing conditions in the rental sector. Their housing priorities may align with those of permanent migrants.

<sup>11</sup> Regarding 'Current housing' type of housing: "The main tenure in the study areas was private rented housing, which accounted for over 80% in both cities, though the location of housing areas in the two cities differed, as did the landlords, suburban farmers in Shenyang and poor urban households in Chongqing. The proportion of other tenures, such as ownership, renting from employers, staying with relatives or friends, was very small." 'Affordable housing' refers to the government subsidized homeownership program (jingji shiyong fang 经济适用房). 'Commercial housing' refers to market priced homeownership, and 'Private rental' to renting accommodation at market price. Secondary market housing is defined as homeownership bought at market price not newly build from a developer but from housing stock that has already been in use.

However, the pre consolidation group remains rather small which confirms a socio economic divide that hinders the rural to urban transition process and a wider further development of migrant housing demand in the cities.

### Urban peasants housing demand

It is estimated that, in the entire process of urbanization, 600 million farmers will lose their land. The urbanization will generate a large number of unemployed farmers. Therefore, peasant resettlement and transition will become a major concern of the communities. Having only known farming, they now lack other skills, amounting to a situation of no farm, no employment and no minimal safeguard (Qi, 2004).

At present, once off compensation limited to life support functions is the most usual compensation for farmers whose land is consumed. The compensation standards for resettlement payments are low, scientific methods of calculation are lacking and situation related compensation is also missing, which leads to the peasants being disadvantaged in many cases. Compensation rarely involves pensions, health care, employment and other social security functions (Qi, 2004). Once off, compensation makes it difficult for farmers to sustainably maintain their lives during their transition when social welfare cannot be guaranteed.

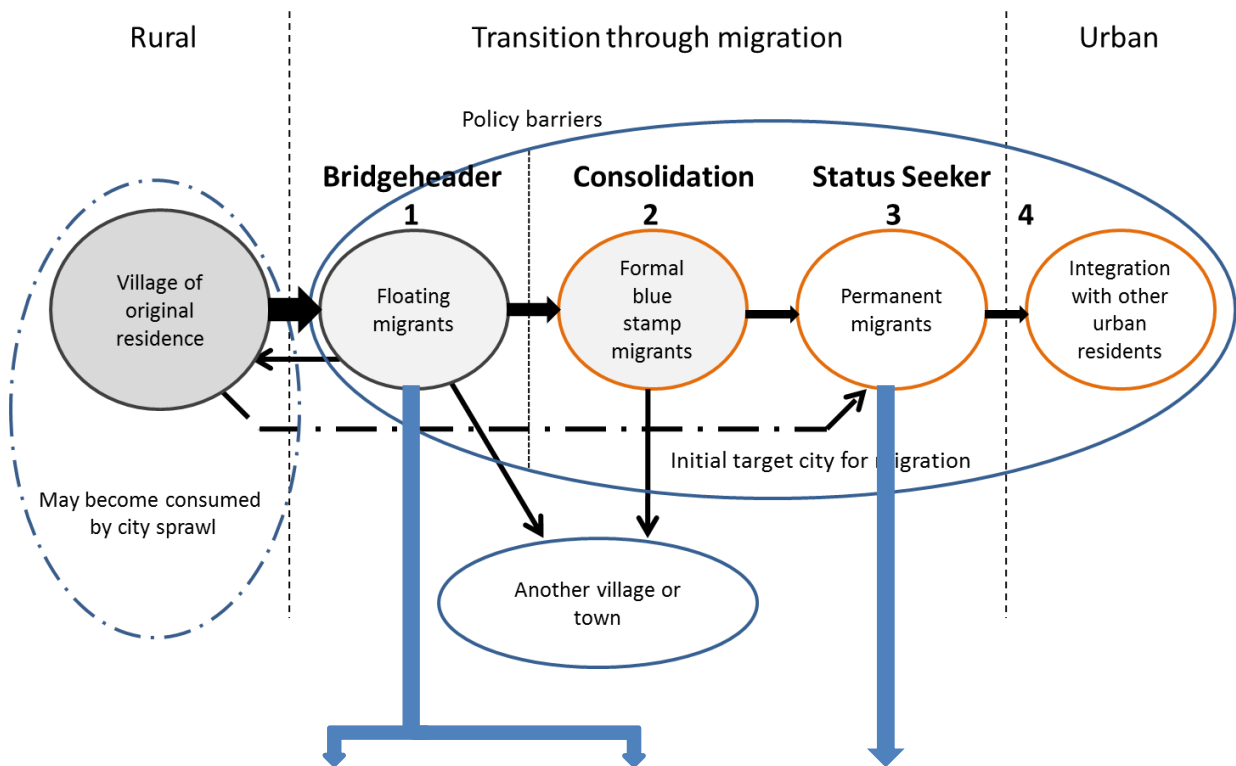
The previously introduced case study in the Chengzhong district of Liuzhou City in 2010, which questioned farmers whose land was consumed and either were resettled or received monetary compensation, investigated the professions that farmers adopted after they had to stop agricultural production and found their main income source was from cash crops (35%), work outside (45%) and starting businesses of their own (52%). Before their land was acquired, typically two laborers went out working; the rest of the household remained home for agricultural production. After the land acquisition, every household had more than three or four migrant workers. They also relied on the compensation payments received. The overall living condition of land losing farmers was generally described as acceptable, though living costs had increased and the households had to adjust to urban labor conditions (Lingling/Yong-ming, 2010).

However, it is indicated that after several years their compensation payment will run out. This implies it will be a great challenge to remain at a certain living standard in the future. It will require even more effort by the households to generate income on the urban labor market. Without further support, they are likely to experience worsening living

conditions. Problems may appear such as in Beijing, where after redevelopment and relocation of dwellers, changes in local employment, education, healthcare and other services, as well as in public security, rounds of dweller's living condition declined (Qian, 2009).

Housing demand of urban peasants differs from the previous groups' demand as they are forced to assimilate. The demand is aligned by compensation claims to counter insecurity as well as the loss of own housing and/or farmland. Hence, a secured outcome and/or reasonable replacement of the former home are desired, which is: replaced homeownership and/or improved housing conditions in combination with provided income opportunities (cash payments or/and job attainability).

## Housing demand overview



	Transition group	Pre-consolidation group	Urban peasants group
Characteristics	New arrivals, remaining in circulation pattern, less formal employment, less educated, low income, split households.	Longer duration of stay, higher educated, more formal employment, increased income.	Strong socio-economic ties to former immediate environment, compensation demand, family settlement, low income and education.
Housing priorities			
a	Employment priority	Employment priority	Employment priority (Orientation on original stay)
b	Saving priority	Investment priority	Family life priority (Orientation on original stay)
c	Mobility priority	Integration priority	Investment priority (Orientation on changed environment)
d	Family life priority	Family life priority	Integration priority (Supporting first three priorities)
Housing demand			
A	Housing provided by employer	Homeownership	Own housing with income opportunities (Compensation demand)
B	Rental housing (basic standard)	Rental housing (medium standard)	Rental housing with income opportunities (Compensation demand)

## 4. Meet the need

The central government wants to fully integrate 70% of the country's population into city living by 2025. Given the current already artificially high urbanization level, this appears to be very ambitious. Urbanization over the last three decades has focused on economic growth, but not social development, on interests and expansion of cities, while neglecting rural areas,

and on urban residents, but not migrant workers. The result is an urban population that has increased rapidly on the one hand, but is not fully integrated in the urbanization process on the other. This paper provides a means to better understand migration dynamics and their consequences on migrants' rural to urban transition. The elaborated housing demand structure provides indications for how China can address migrants' need for accommodation effectively and simultaneously provide a platform for integration and inclusive growth in order to facilitate a growing urban middle class.

Cities are to be encouraged to integrate migrants and equip them with opportunities for upward mobility or pathways to improve their condition in the urban environment. Housing is closely related to life opportunities people receive. Lifting barriers to reasonable housing means that housing demand can develop along migrants' rural to urban transition, thereby stimulating integration. For instance, proper housing of the transition group can facilitate their transition to pre-consolidation migrants with a long term orientation towards urban life. Housing addressing migrants' concerns at their particular transition stage, can make them a less vulnerable, less marginalized group with an active attitude towards integration, being more optimistic about an urban future, higher urban consumption and long-term oriented actions. Human capital can incrementally be accumulated while earnings increase. In this regard, however, housing must be aligned by reforms of the hukou and social security system lifting integration barriers and financial burdens.

Indeed, the central government is already attempting to gradually expand urban services to migrants. Steps include the gradual lifting of hukou restrictions, labor market reforms and increased social and public service provision. Furthermore, migrant incomes have increased steadily over the years and are expected to rise further. Central government's actions and income increases improve migrants' socio economic perspectives, shifting more transition migrants to the pre-consolidation group. In the near future, besides lasting high demand of affordable housing, there will be an increasing demand of homeownership and medium standard housing among migrants.

It has been shown that migrant accommodation cannot be regarded in isolation. To be effective, it must be embedded in a framework considering migrants' transitional living conditions at respective transition stages. If housing is thoughtfully managed in this regard, the spatial flow of rural migrants can be directed more inclusively, in a way that grants socio-economic upward mobility and transfers them to mainstream society.

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