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### The Cost of Urbanization: A Look into the Transformation of Mao Era Reforms

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# **The Cost of Urbanization:**

**A Look into the Transformation of Mao Era Reforms**

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APS 650: MAPS Capstone Project  
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May 22, 2022

**Abstract**

Mao Zedong has played an influential role in Chinese society, whether for better or for worse. His policies have caused ripples throughout contemporary Chinese society, but nothing stronger than his desire for urbanization and economic land reform. Utilizing Mao's drive for urbanization and economic reform as essential historical context, this paper connects how the contemporary governmental push for urbanization has been unyielding, and, in some ways, counterproductive as decade-old Mao era institutions reverberate in an echo chamber with cracks that allow darker forces to seep in. Real estate and urban development companies and local governments are given monetary incentive to redevelop land, convert rural land to urban, and build something, *anything*, in its place, often to the detriment of the people. While Mao strove for economic reform through his initial desire for urbanization, this movement has since lost its original meaning; urbanization for urbanization's sake has now led to a system driven by the need for modern-day record-breaking profits that is verging on potential economic collapse. While most studies focus on a single era, this paper integrates a diverse array of secondary sources along with first-hand accounts in order to trace the reforms of the *hukou* system and land development from the 1950s to 2021. This trajectory forms a winding trail that leads to clear explanations—as to how China's world renowned economic policies have taken shape and the impact they have had on the country's people.

**Keywords:** *Mao Zedong, China's urbanization, China, Chinese, economy, hukou, housing, Great Leap Forward, urban and rural housing*

## Introduction

The Zhang family in Taizhou could trace their family lineage back 300 years and had been living on their property for decades with four generations living under one roof. The land their house occupied had been sold by the local municipality in 2009, and they were sent a letter indicating how much money they would receive if they were to move. Though this was a veiled command, the family stayed put and watched the development company come in and knock down every house and apartment around them. They sat inside a lone building while bulldozers and men in construction hats began preparing the site for a new set of apartment buildings that would cater to the upper middle class. The development company watched the family day and night with surveillance cameras and guards posted to see if they ever left, which they never did. Groceries had to be delivered, and someone was always occupying the home. Within a week, an eviction squad of a hundred police arrived at 3am, dragging the family out as they were forced to watch a bulldozer demolish what was left of their home and their belongings, with no compensation.<sup>1</sup>

Headlines like *Houses Demolished Without Warning in Beijing* or *Violent Forced Demolition in Nanchang, Residents Holding Gas Tanks and Threatening to Jump Off* are commonplace, so the story of the Zhang family losing their ancestral home is not unique, but why? What reasoning could justify the demolition of houses without warning or the act of dragging a family from their home in the middle of the night? The answer to that is simple: urbanization. The drive to push economic reform, to have the numbers reflect globally that China

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<sup>1</sup> Wade Shepard, *Ghost Cities of China: the Story of Cities without People in the World's Most Populated Country*, London, UK: Zed Books Ltd., 2015.

has a growing and fruitful economy, has been a primary governmental motivator since 1949. After World War II and during Mao Zedong's rush to increase China's economic success, we see that urbanization, land reform, and the *hukou* system were critical in shaping the path to the actions of present-day government and corporations; together, they have managed to build incredible profits from land and housing at the expense of the people.

Following a historical analysis of Mao's drive for urbanization and economic reform, this paper connects how the contemporary governmental push for urbanization has been unyielding, and, in some ways, counterproductive as decade old Mao era institutions continue to reverberates in an echo chamber with cracks that allow darker forces to seep in. Real estate and urban development companies and local governments are given monetary incentive to redevelop land, convert rural land to urban, and build something, *anything*, in its place. Companies have been able to continuously borrow money for these ventures in order to build mass scale urban housing, but with their prices continuing to rise, the people either cannot afford or simply do not want to move into these urban settings. In the end, it is the people who pay the highest price. With nowhere to go but a temporary home, or to the outskirts of a place, they wait for their real home to be built as companies go under, unable to fulfill their obligations and pay their debts.

### **Mao: From Beginning to End**

In order to understand the present-day housing and *hukou* system, it is important that we trace examine some of the most impactful moments in Mao Zedong's history. By looking at various historical events, we better comprehend the factors that compelled Mao to create land reforms. Before the Japanese invasion of China in 1937, that would inevitably kick off World War II, Mao Zedong and the People's Liberation Army (PLA) were considered rebels in the

Nationalist government, or the Kuomintang (KMT), whose power had been handed off to Chiang Kai-shek in 1926. The KMT had previously united a majority of China between 1923-1928 when it had been fragmented under warlord rule, but Chiang Kai-shek was alarmed at the expanding influence of the Chinese Communist Party (CCP). With China having been exploited by foreign powers with the unequal treaties that they were forced to sign, he took actions that seemed to support this view: in order to have a strong united China that could fight against this foreign aggression, internal conflicts needed to be handled first. His solution was to focus on exterminating the CCP, driving them into the north, despite all of the alarming signs starting in 1931 that the Japanese were planning an invasion. Chiang Kai-shek was then forced to make a truce with the remaining members of the CCP when the Japanese did inevitably begin their invasion in 1937. During this time, Mao Zedong and the CCP were able to recoup their numbers from the devastating losses they had encountered and build more rapport with the people as they traveled and fought against the Japanese.<sup>2</sup>

When World War II ended in 1945, the KMT and CCP were on near equal footing in terms of power and influence, and a civil war erupted over which party was to take control over China. But the PLA had gained more influence in the countryside with the peasants, which made it nearly impossible for the KMT to carry out successful attacks on the PLA. After years of battle, by 1949, the Mao-led CCP had taken control over the majority of China. The KMT fled the mainland and attempted to recoup power from their base in Taiwan, where they were given continued support by countries like the United States—a country that hoped that the KMT would return to gain political rule of China, but Chiang Kai-shek and the KMT would never return to

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<sup>2</sup> Charles A. Desnoyers, *Patterns of Modern Chinese History*, (New York; Oxford: Oxford University Press, 2017).

China again. Unfortunately, because many foreign powers supported the KMT, they would not recognize the CCP rule of China—something that would take the United States until 1979.

Taking this as a snub of Chinese power, Mao immediately began to enact a multitude of reforms and policies to bring China's people and the economy onto the world stage as something that could not be ignored.<sup>3</sup>

As we can see, Mao has long played an influential role in Chinese society, whether it be for better or for worse. His policies have caused ripples throughout contemporary Chinese society, but nothing stronger than his land reform. The Great Leap Forward was an economic and social campaign that was active between 1958 to 1962 and de-privatized land in the hopes that entire communities could live in communes and work together in a self-sustaining way and that the change of rural land to urban would catalyze the urbanization of the country. This race to achieve Westernized levels of urbanization is a driving force that continues to exist and that has not yet disappeared in modern day policies.

Mao's transition into power in 1950 was one that was celebrated by a vast majority, as farmers, who had suffered years of oppression by their landlords, had heard the promises of land reform and were excitedly awaiting what their support of the PLA and CCP would yield. Immediately, the Agrarian Reform Law (1950)<sup>4</sup> was put into place. Land was confiscated from landlords and redistributed to landless peasants, including land from monasteries and religious institutions. The law stated that "the land ownership system of feudal exploitation by the landlord class shall be abolished and the system of peasant land ownership shall be introduced in

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<sup>3</sup> Maurice Meisner, *Mao's China and After: A History of the People's Republic*, 3rd ed. (New York: Free Press, 1999).

<sup>4</sup> Cairns, Rebecca, and Jennifer Llewellyn. "Agrarian Reform." Alpha History. Alpha History, September 21, 2019. <https://alphahistory.com/chineserevolution/agrarian-reform/>.

order to set free the rural productive forces, develop agricultural production, and thus pave the way for new China's industrialization."<sup>5</sup> Suddenly, landless peasants who had never once owned land had property that they could call their own. The support that the countryside residents had for the CCP was growing en masse. At the same time as land was being seized, so too was Mao weakening the power and wealth of landlords, because many of them still supported the KMT. By redistributing their land, he attempted to suppress any capitalist ideologies that would potentially rise up against his socialist and communist reign.

To maximize its control, the government enacted the Speak Bitterness campaign, where landlords would be "struggled" against or brought out to the town square where people of the town would verbally and physically abuse them, reprimanding them for their crimes. Landlords were often executed or lynched by their former tenants, and it is estimated that around 2 million of their lives were taken.<sup>6</sup> These scary conditions are underscored by Rebecca Cairns who states, "If CCP cadres discovered any indifference to *fanshen*,<sup>7</sup> it was interpreted as resistance to reform and dealt with through indoctrination, intimidation and violence."<sup>8</sup> "Patriotic landlords" were those who voluntarily gave up their lands and were often treated with leniency, but their history as landlords would be kept in records for decades to come, which could potentially be used against them at a later time. In towns where landlord-tenant relationships were good, party officials still made a point of making an example of a landlord.

By 1952, the land reform was thought to have been completed, and peasant land ownership created a boom in agriculture. The people were generally happy, and trust in the new

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<sup>5</sup> Cairns.

<sup>6</sup> Desnoyers.

<sup>7</sup> *Fanshen*: the name given to the transformation happening with the Agrarian Reform.

<sup>8</sup> Cairns.

government was so high that when the government asked for the peasants to create “agricultural producers cooperatives” in 1953, few resisted. Villages came together to share tools and machinery, and were able to receive tax breaks in these cooperatives, but private property was still maintained. By 1955, almost two-thirds of the population worked together in cooperatives, but Mao and his inner circle were impatient with the pace of collectivization. They wanted these cooperatives to give up their land and move into collectives where everyone lived together and tilled the land as one. Agricultural output had bounced back from its stunted numbers during World War II, but there was fear that this production level could not be maintained, and individual family farms could not produce enough. China had borrowed a lot of money and materials from Soviet Russia to help with agriculture and industrial production during this time, and the country was under pressure to pay this back while still increasing its GDP.

The Great Leap Forward campaign was launched in 1958. The entire rural population of the country was pushed to communalize agriculture into self-sustaining units. The private property that was given to individual landless peasants only years prior now had to be returned to the government, along with any farm animals and tools they possessed. Farmers who were a part of cooperatives did not want to work with entire villages, since some farmers were making more money on their own than they had their entire lives and would lose a significant chunk of their income if they joined one. However, party officials pressured people to join these collectives whether they wanted to or not, through constant campaigning, visits to individual farms and homes, and by being overall nuisances.<sup>9</sup> Within months, the entire peasant class was working in

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<sup>9</sup> *China: A Century of Revolution. The Mao Years 1949-1976.* USA: Ambrica Productions, 1994. <https://youtu.be/fsh2FHq0tUA>.

collectives of around 100-300 family households controlled by the government.<sup>10</sup> The government also controlled the price of grain and how much the peasants could keep.<sup>11</sup>

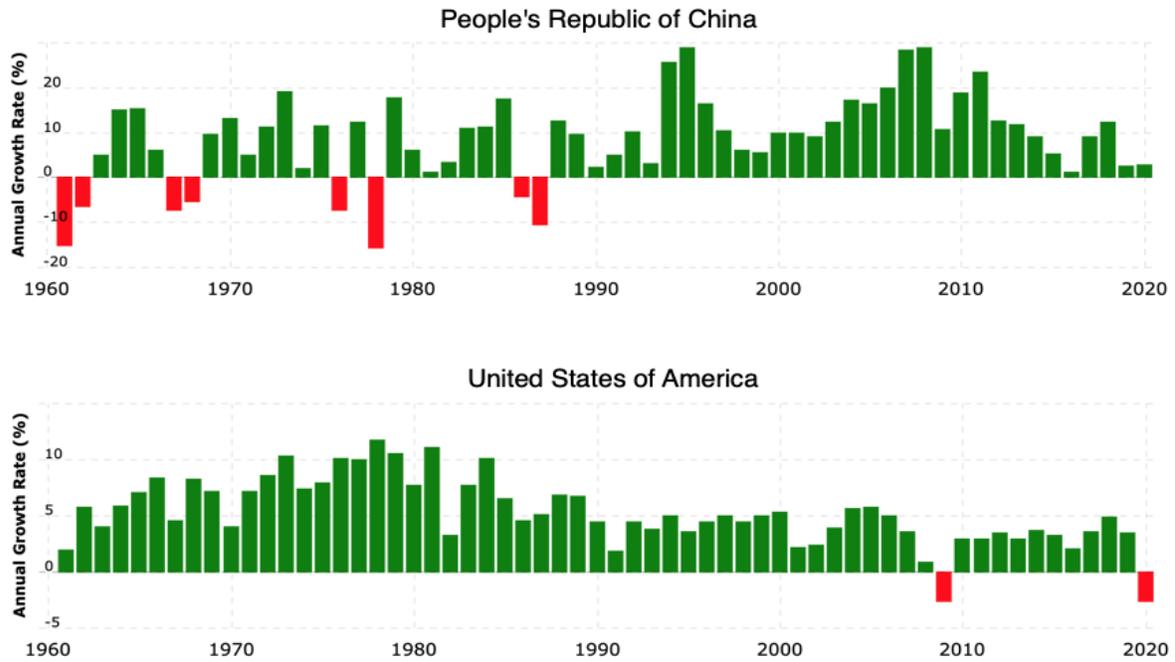
As mentioned above, that one of the goals was to increase China's GDP. "Gross Domestic Product (GDP) is the market value of all finished goods and services produced" annually in a country, and this number increases with more valuable goods and services. While there is a correlation between a higher GDP and a higher standard of living and economic success within a country, GDP does not consider how that wealth is distributed. By controlling the price of grain, Mao hoped this<sup>12</sup> would vault China into socialism and eliminate distinctions between urban and rural, and agricultural and industrial communities, by combining them into one. Goods produced in agricultural areas were undervalued, selling for a quarter of what they were worth, while urban areas with more industrial production were overvalued in hopes of increasing the GDP. The government next asked this: why not try and bring urbanization to these collectives in order to umbrella them under industrial production? But despite having the rural peasants in these collectives, the peasants were no better off nor did it increase production.

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<sup>10</sup> *China: A Century of Revolution.*

<sup>11</sup> *China: A Century of Revolution.*

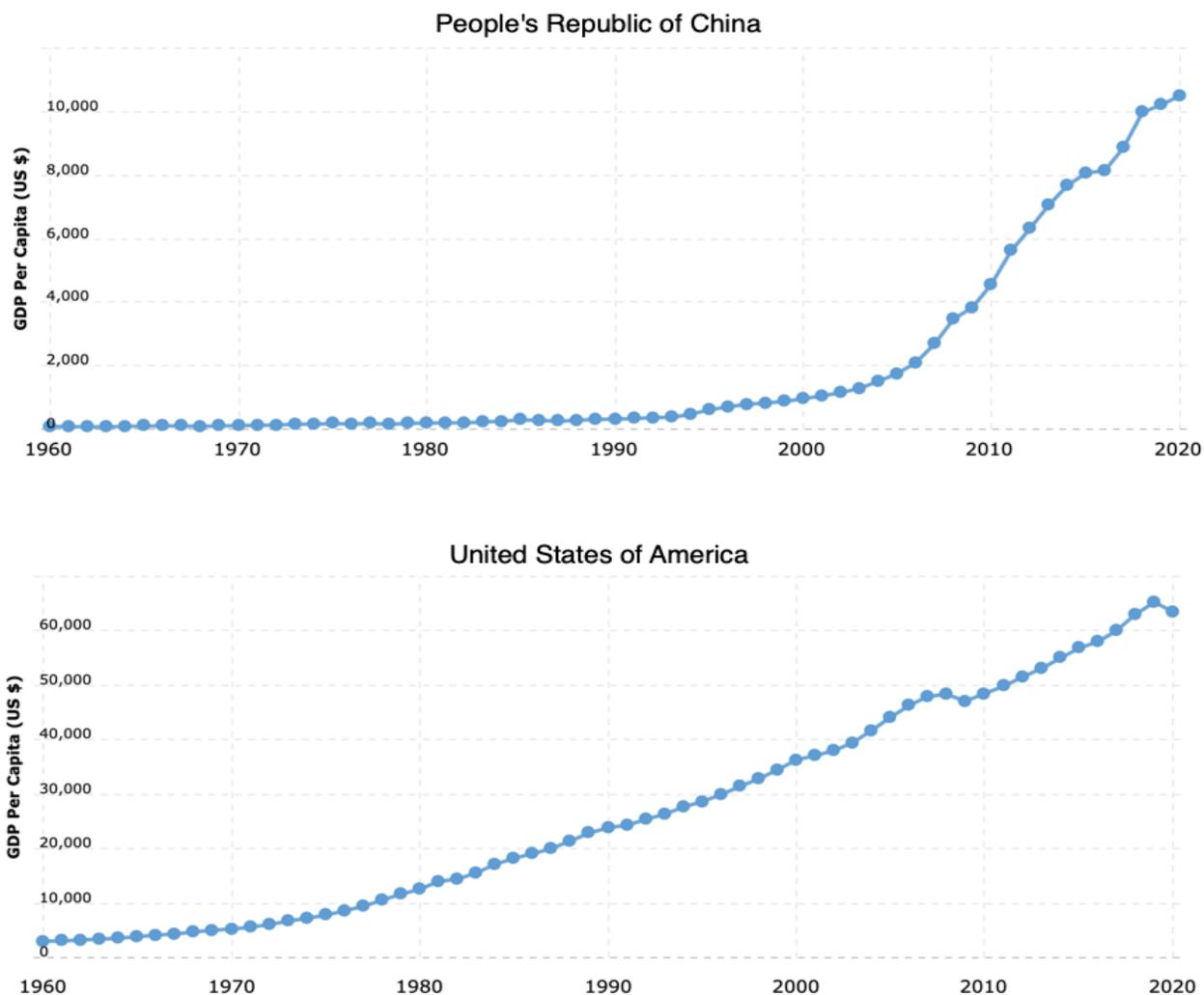
<sup>12</sup> Desnoyers.



(Figure 1: Comparison of the PRC and USA Annual Growth Rate % for GDP) <sup>1314</sup>

<sup>13</sup> "China GDP per Capita 1960-2022." MacroTrends.  
<https://www.macrotrends.net/countries/CHN/china/gdp-per-capita>.

<sup>14</sup> "U.S. GDP per Capita 1960-2022." MacroTrends.  
<https://www.macrotrends.net/countries/USA/united-states/gdp-per-capita>.



(Figure 2: Comparison of GDP Per Capita for the PRC and USA)<sup>1516</sup>

A campaign was put into place under the umbrella of the Great Leap Forward, promising that all of China would be as industrialized as the West within only 15 years; if the people worked day and night refining steel, they would be able to catch up to the United States and Great Britain. Peasants were required to surrender all forms of steel and iron, ranging from pots, pans, metal chopsticks, and farming tools, then smelt them down; because of the Anti-Rightist campaign, no effective dissent rose from the populace, and many of China's intellectuals

<sup>15</sup> "China GDP per Capita 1960-2022."

<sup>16</sup> "U.S. GDP per Capita 1960-2022."

were either silenced or lived in fear of speaking up. Those who understood how to properly smelt steel and iron were nowhere to be found because of the constant ridiculing of the educated class. People who knew the process were unwilling and scared to speak up lest they be put on trial for belonging to an upper class.<sup>17</sup> As a result, the quality of the smelted materials that were produced was virtually worthless, brittle, and useless. Moreover, in sacrificing their tools and kitchen utensils, farmers no longer had the ability to till the land or do their everyday chores. Within one year of the Great Leap Forward in 1959, agricultural production in China had plummeted, and over the next several years, the country faced “its worst famine in modern times.”<sup>18</sup> A number of factors contributed to the famine, ranging from the lack of agricultural tools, a drought, and locusts, but regardless, 36 million<sup>19</sup> people are estimated to have died during this time, though no official number has been agreed upon. In 1959, Mao stepped down as president of the CCP, but maintained other top positions within the government.

During this time of struggle, the ability to move about the country in search of better resources was limited by the *hukou* system, a form of internal domestic passport that was instituted at the beginning of the Great Leap Forward in February. To restrict the free flow of labor between urban and rural areas, or, in other words, industrial and agricultural areas, the state categorized individuals based on their geographic area, and designated them as either “urban” or “rural.” Once this was done, the individual was only allowed to travel between other areas under specific conditions and was not allowed access to jobs, healthcare, or education outside of their

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<sup>17</sup> *China: A Century of Revolution.*

<sup>18</sup> Desnoyers.

<sup>19</sup> Jisheng Yang. *Tombstone: The Great Chinese Famine, 1958-1962.* Edited by Edward Friedman. Translated by Stacy Mosher. New York: Farrar, Straus and Giroux, 2008.

assigned place,<sup>20</sup> but because most funding was going towards cities and urban areas, rural zones were left lacking in many social services. Moreover, the countrywide famine was most dire in the countryside, where the state continued to underprice and undervalue agricultural goods in favor of overpriced urban and industrial goods. It wasn't until the effects of the famine began to hit the cities where the production was valued most that the government finally eased its campaign for the Great Leap Forward, finally ending in 1962.

The communes that were left behind from the Great Leap Forward did not entirely disappear after the campaign ended. Slowly these communes were broken down into smaller units, maintaining their presence in the countryside, but put under the direct control of local government instead of self-governing autonomous entities that they once were. Any economic responsibility they once held was now taken away, small private family plots were restored, and a free market emerged as the government released its grip on the control of agricultural goods. Peasants were permitted to reclaim uncultivated lands and work them on their own, and by 1962, the agrarian economy stabilized from the years of famine and the economic chokehold. Despite signs of progress, for nearly two decades, the country experienced massive political turmoil that put a pause on economic reform.

When Mao stepped down in 1959, the presidency went to Liu Shaoqi who struggled with the consequences of the Great Leap Forward. When he finally ended the campaign, Liu publicly denounced the program, claiming it was a primary reason for the famine and mass deaths in China. This, along with his frustration at the decline of the communes and the fact that the CCP was using more capitalist and less socialist ideology, were among the catalysts for Mao

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<sup>20</sup> Tiejun Cheng and Mark Selden. "The Origins and Social Consequences of China's Hukou System." *The China Quarterly*, no. 139 (1994): 644-68.  
<http://www.jstor.org/stable/655134>.

to emerge from his political seclusion in 1962. Mao's push for a strictly socialist and communist country driven by his belief that this would rocket China into a powerhouse utopia led to the fervors of the Cultural Revolution (1966–1976), in which the “goal was to preserve Chinese communism by purging”<sup>21</sup> capitalism and traditionalism by any means. Liu was labeled a capitalist traitor and removed from office, where he was kept under house arrest from 1966 to 1969 and inevitably died from lack of consistent medical care. In 1966 the presidency was taken up by Lin Biao, who died in a plane crash with his family in 1971 after a speculated failed coup against Mao for power.<sup>22</sup>

### **Economic Recovery**

Economic recovery, however, was on the horizon, when Deng Xiaoping took political power in 1978 following the 1976 death of Mao. The ravages of the Cultural Revolution began to wither, and soon Deng would come to be known as the grandfather of China's economic boom, praised for the reforms he put into place after a politically charged decade of economic stagnation.

Housing was a remnant of the CCP welfare program, which was implemented in rural areas where communes were pushed the hardest. Under Deng's direction, the central government took the opportunity to step back from public housing and pass their control off to the local government, while still providing policy guidelines. Although the government did allow peasants to reclaim farm land after the Great Leap Forward, the land itself was still considered to be under government ownership; at the same time, allowing rural communities to have more power and

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<sup>21</sup> Meisner.

<sup>22</sup> Meisner.

responsibility over their own production had historically sparked an increase in output. In 1982, Deng implemented the Household Responsibility System, where “farming households were granted the rights to make their own production decisions and earn residual income from their land by selling crops in burgeoning markets.”<sup>23</sup> The government also attempted to re-privatize some land, especially in urban zones, in hopes of creating a housing market that could boost the Chinese economy:

In 1983, the SC [State Council] issued an Ordinance on managing urban private housing. This policy paper officially recognised the role of private housing in meeting people’s housing needs: ‘the state will protect citizens’ rights over their private housing. No units or persons can confiscate or destroy urban private housing’ (SC, 1983) The 1983 directive provided legal protection for owners of private property and this helped enhance the confidence of the public in the idea of home ownership.<sup>24</sup>

The hope was to facilitate a profitable housing market in urban areas and the Household Responsibility System was meant to allow farmers more autonomy. Although many farmers saw an increase in production within the first two years of the Household Responsibility System, the overall implementation of these housing policies was a complete failure. More power was being given back to the people with more rights and autonomy over how they used the land they occupied, but what Deng had not considered was the amount of control that local governments had over their land and what they would do with it.

The central government provided private housing activity funds to local governments in order to subsidize the creation of more urban housing and offer more social services to the

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<sup>23</sup> Bryan Tilt, “Smallholders and the ‘Household Responsibility System’: Adapting to Institutional Change in Chinese Agriculture,” *Human Ecology* 36, no. 2 (2008): 189–99. <http://www.jstor.org/stable/27654274>.

<sup>24</sup> Chan, Chak Kwan, King Lun Ngok, and David Phillips, *Social Policy in China: Development and Well-being*, Bristol: Bristol University Press, 2008. doi:10.2307/j.ctt9qgs5.

people through state-owned enterprises (SOEs). The local government was supposed to allocate public housing land to build these SOEs that were meant to be “legal entities” that undertook commercial activities on behalf of the government—such examples included local owned clinics, public housing, or government offices that helped to jumpstart local economies. Many local officials, however, claimed ownership of a business or even an empty store front, and then pocketed the funds for themselves. The program only lasted about two years until the central government caught wind and put an end to the program, but then instituted the leasing process.<sup>25</sup>

The government (central or local) still has complete ownership of the land where they can clear it, build on it themselves, lease to a developer, or use it for loan collateral. With the leasing process, usage rights would be given to companies and individuals for a certain amount of time. Farmed rural zoned land would be leased out for 30-year blocks, while urban zoned land was broken into three parts: residential for 70-year leases, commercial for 50-years, and industrial for 40-years.<sup>26 27</sup>

Echoing Mao’s early desire for urbanization, the government put certain policies in place. It is important to point out that land was zoned as only urban or rural, which affected how land was leased and where people could migrate within the *hukou* system. Dense urban zones have a strict quota per year of who and how many can change their *hukou* status from rural to urban; during the 1980s and 90s, economic reforms caused areas to shift constantly between rural and

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<sup>25</sup> Tilt.

<sup>26</sup> Sui-lee Wee. “China Reassures Homeowners Worried About Land Rights.” *The New York Times*. *The New York Times*, December 26, 2016. <https://www.nytimes.com/2016/12/26/business/china-wenzhou-land-lease.html#:~:text=Much%20of%20China's%20residential%20land,before%20they%20could%20sell%20them>.

<sup>27</sup> Shepard, “Ghost Cities”

urban, which have shaped more modern-day issues. If a development company leases urban land, they are not allowed to sit on the empty space. Something, *anything*, must be built on the land within a very short time at the beginning of the lease, so in order to stay compliant, empty shells of apartment buildings start to appear with little to no intention of having anyone move into them. These are often referred to as ghost cities, but it is not always the case that these remain empty. This was the case with the rather famously known ghost city of Zhengdong, featured in a weekly American TV documentary *60 Minutes* segment in March of 2013. Although it had been paraded as the largest ghost city in the world, it is now fully populated with a bustling urban center, metro system, and 15 universities bringing in hundreds of thousands of students and staff.<sup>28</sup> Ghost cities are but temporary and are the product of anticipation for the increase in population and desire for more urbanized land, but the future of these projects comes into conflict with developers who buy this land in order to create more housing than people can actually afford. The desperate push for urbanization would eventually lead to a housing market that was ready to implode.

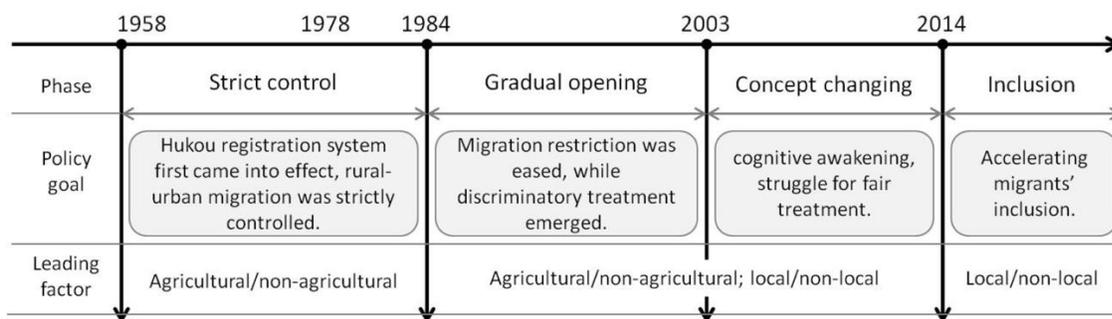
### ***Hukou and the Continued Drive for Urbanization***

The value of urban zoned areas was still engrained in peoples' consciousness during the 1980s, when urban areas were the focus of government funding, and this drove a mass migration of people from rural areas. It is important to reiterate that under the initial definition of the *hukou* system, *individuals are only allowed to travel between other areas under specific conditions and are not allowed access to jobs, healthcare, or education outside of their assigned place*. This was

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<sup>28</sup> Wade Shepard. "Banishing the Ghost," *South China Morning Post*, May 26, 2015. <https://www.scmp.com/presented/topics/go-china-zhengzhou/article/1802853/banishing-ghost>.

a way to directly control urbanization and the flow of people within the country. Being able to strictly control the numbers in certain areas would increase the GDP of the country—or so the government initially thought. Ensuring that people were not constantly shifting between urban and rural settings at the beginning of Mao’s economic reforms was important, but, with the same goal in mind, Deng Xiaoping shifted the country’s view, easing the harsh rigid system through a series of reforms (figure 3). This initial reform sparked the mass migrations that began in the 1980s and 90s.



(Figure 3)<sup>29</sup>

In 1949, only 10.6% of China’s population was living in urban settings, but this relatively low percentage is nothing to scoff at when we consider that this accounted for nearly 57.6 million people. By 1983, the number had doubled to 20.8% with 211.3 million people living within urban zones. Although the urban population alone exceeded the populations of places like the USA, USSR, and India, the relative percentage of urban population was significantly lower than that of most developing countries.<sup>30</sup> The Great Leap Forward was meant to eliminate the

<sup>29</sup> Boquen, Antoine. “China's Hukou System [What Is the Hukou & How It Works].” New Horizons Global Partners, June 28, 2021. <https://nhglobalpartners.com/the-chinese-hukou-system-explained/>.

<sup>30</sup> Chen, Junhua, Fei Guo, and Ying Wu. "Chinese Urbanization and Urban Housing Growth since the Mid-1990s," *Journal of Housing and the Built Environment* 26, no. 2 (2011): 219-32. <http://www.jstor.org/stable/41261680>.

gaps between urban and rural populations and thrust China into a new industrial era, but it was a catastrophic failure with a population still trying to recover economically into the 1980s, “By the 1990s, more than 100 million peasants left the farms seeking employment in the cities each year. The total net migration in the 1990s is almost equal to the sum of the previous four decades.”<sup>31</sup> Increasing the urban population by 10% over the course of 33 years was but a drop in the bucket of Mao’s overall plan, one that he never saw to fruition, and with the *hukou* system in place, it would be far easier to bring urban settings to the countryside than it would be to shift rural populations into already densely filled cities.

Additionally, the removal of restrictions for foreign investment and enterprise ownership fueled this phenomenon, since suddenly there was a strong demand for cheap labor.<sup>32</sup> The speed at which land could become more urbanized slowed, and rural residents found it far more lucrative to migrate into the cities for these new jobs. In favoring urbanization and urban zoned areas, the government undercut rural resources to the point that in 2002, when China joined the World Trade Organization, it was reported that “70 percent of rural households were unable to sustain their livelihoods.”<sup>33</sup>

This migration had so much impact that in 1997, in order to help shift the economic and social development of the central and western regions of China, the city of Chongqing in the province of Sichuan was turned into a municipality. A municipality is defined as a *city or town that has corporate status and local government*,<sup>34</sup> and Chongqing, now roughly the size of

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<sup>31</sup> Chen.

<sup>32</sup> Cheng.

<sup>33</sup> Cheng.

<sup>34</sup> Definition from Merriam Webster Dictionary

Austria, was the largest area of urban zoned land in the country in both population and landmass. In total, there were around 31 million people living within the municipality, but only around 8 million people lived within the central city area.<sup>35</sup> By turning this entire area into an urban economic zone as a municipality, some hoped that it would ease the pressure of rural migration on the city infrastructure. Whether or not that succeeded has yet to be seen.

In an effort to continue to increase urbanization and ease the effects of the *hukou* system, the government began the National New-type Urbanization Plan in 2014. The plan aimed to increase the urbanization rate from 53.7% to 60% by 2020 and to give at least 45% of all new urban residents an urban *hukou*. This New-type Plan also aimed to ease access to schools and hospitals for at least 100 million migrants,<sup>36</sup> but these goals were not met. In fact, not only were these goals not met, but also the social benefits gap increased from 15% to either 18% (data provided by the Ministry Public Security) or 26.6% (data provided by yearly census), meaning fewer and fewer people had urban *hukou*. But why? Prior to the 2000s, it seemed as if everyone was desperately trying to move into the cities and get the urban *hukou*. What changed?

One criticism of the National New-type Urbanization Plan was that it did not address how local governments would be able to raise the funds to accommodate and upgrade social benefits (schools, hospitals, etc) for the new influx of residents or how few people were vying for these once coveted applications. “‘The essence of the *hukou* reform is to make sure migrant workers live comfortably in cities and their children attend good public schools,’ said a Beijing-based

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<sup>35</sup> Larson, Christina. "CHICAGO ON THE YANGTZE." *Foreign Policy*, no. 181 (2010): 136-48. <http://www.jstor.org/stable/20753996>.

<sup>36</sup> WING CHAN, KAM. “China's Hukou Reform Remains a Major Challenge to Domestic Migrants in Cities,” World Bank Blogs, December 17, 2021. <https://blogs.worldbank.org/peoplemove/chinas-hukou-reform-remains-major-challenge-domestic-migrants-cities>.

policy adviser who declined to be named for fear of repercussions” during an interview with the *Financial Times*, “We have achieved neither of them.”<sup>37</sup> The article continues on to explain how in 2020, the city of Jinjiang in Fujian province, spurred by the coming deadline of the National New-type Urbanization Plan, opened up their application process and eased restrictions for applying for an urban *hukou* registration.<sup>38</sup> Only a tenth of the city’s migrant population had an urban *hukou* registered, and many felt that it was because this held less of an appeal than before. One migrant construction worker would have had to give up his “13 hectares of forestry land” in his hometown of Qianjiang, Hubei province, if he changed his registration, while another said he kept his rural registration because he collects 7,000RMB (~\$1,110USD) from his 0.4 hectares of paddy fields.<sup>39</sup> Many migrant workers and those who hold rural *hukou* are finding that the benefits are not worth the change.<sup>40</sup> Despite the positive intent behind reforms of the *hukou* system, its initial purpose in managing the flow of workers now seems to have backfired.

One major aspect of this system was being able to buy a house in the city of residence with the general appeal being that cities had better social benefits. Many homeowners often get preferential treatment when it comes to sending their children to school, while those children whose parents rent are placed on wait lists,<sup>41</sup> but with declining infrastructure and overpopulated social services, many are choosing to send their children back to their rural hometowns for

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<sup>37</sup> Sen Yu, “China’s Migrant Workers Spurn Cherished ‘Hukou,’” *Financial Times*, June 21, 2020. <https://www.ft.com/content/bb6e6e88-65bc-4742-8d62-d516637ae453>.

<sup>38</sup> Maher, Jack, and Xie Pengfei. “China’s New Urbanization Plan: Obstacles and Environmental Impacts.” *Smart Cities Dive*, 2017. <https://www.smartcitiesdive.com/ex/sustainablecitiescollective/china-s-new-urbanization-plan-obstacles-and-environmental-impacts/246981/>.

<sup>39</sup> Yu.

<sup>40</sup> Yu.

<sup>41</sup> Yu.

schooling.<sup>42</sup> For many migrant workers, this is a familiar story, as buying a home in once coveted urban zones has become costly.

### **The Cost of Land**

At the beginning of this paper, the unfortunate story of the Zhang family was attributed to the cost of urbanization—its purpose during Mao’s era was to jump start the economy, but this movement has since lost its fervor. While the central government may view urbanization as a way to increase the economic power of China as a whole, this concept has since trickled down to the organizations to mean something that is simply **profitable**.

Urban zoned land is incredibly profitable, especially if it is converted from rural land. The State Council ordinance in 1983 protected the private housing rights of the citizens, and it gave citizens the right to be properly compensated for their homes or land if the government wanted to reclaim it, but local governments and municipalities looking to make a profit would try to purchase rural land by pressuring families to take the cheapest price in the hope that they could convert the land into something lucrative. The central government also put pressure on cities to increase their urban land—similar to the story of the city of Jinjiang in Fujian province—and tried to increase their urban *hukou* registration.

The average amount that is paid out to residents living on rural land is around US\$17,580 per acre, but when the local government goes to lease the land to local developers as urban zoned, it can go for an average of US\$740,000 per acre, and they readily pocket the difference.<sup>43</sup> With such financial incentives, local governments will often go to extremes to rezone land, even

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<sup>42</sup> Yu.

<sup>43</sup> Shepard, “Ghost Cities”

if it means developing on the land themselves. The city of Lanzhou in the province of Gansu wanted to expand its urban core, so the city decided that it would move mountains. Literally. Officials attempted twice to create urban development land by getting rid of the mountains that surrounded the valley city, and twice they failed. In 1997, the first attempt to move the mountains failed as money disappeared. The second attempt was scrapped due to “reasons that have never made it to public record.”<sup>44</sup> Not wanting to give up, the Lanzhou officials attempted to fill in a portion of the river that could be sold as construction land, but they didn’t realize until after they had finished that they had turned all of the city’s drinking water saline, and they had to quickly revert the river back to its original state.

With the drive to make money, urbanization has come to exist mainly just for urbanization’s sake. Looking back at figure 1, we see the increase of the country’s GDP starts to improve exponentially starting in the mid 1990s, and while one could attribute this to economic success, such positive implications become meaningless when the government holds the power to redraw the lines and claim massive entire areas as urban municipalities or create urban production zones at the cost of drinkable water. Urban developers such as Evergrande and Kaida Group Holdings Ltd. eagerly waited to purchase more land to develop. More and more of these massive urban development groups borrowed money from government banks with theoretical future profits in order to purchase the land and build homes (remember, they cannot sit on empty plots), and suddenly, there was more property than people could afford. Each company’s perceived value of the land drove costs of housing to exorbitant prices in hopes that they would pay back their loans and make a profit, but fewer and fewer people *want* those homes. The cities

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<sup>44</sup> Shepard, 34.

they are being built in cannot handle the influx of migrant workers. One has to wonder when this sudden housing bubble is going to pop.

### **The Bubble That Popped**

In an interview in a *Nikkei Asia* article, Mrs. Li wanted her son to be more attractive as a marriage partner by owning a home and hoped that her and her family could live in a better house. She borrowed 120,000RMB (~\$18,858USD) to put a down payment on a 700,000RMB (~\$110,007USD) apartment in Huangshi, Hubei Province and makes monthly payments of 12,000RMB (~\$1,885USD). The unit was supposed to be ready to move in between June and September 2021, but the dates came and went with nothing in place but a concrete shell with no doors or windows. Mrs. Li and a few others who had invested in the property have since moved into the shells that were to be their apartments, using solar powered lights and sleeping in tents when it gets too cold. With no functioning kitchens, the families use gas powered camping stoves and wood fires, dumping their trash in buckets on the hill behind the structure. "This puts pressure on the developer," said Mrs. Li, and luckily for her and those residents, the government responded by reaching out to the developer. Construction was meant to resume in November of 2021, but excuses of delays and lack of equipment have her still waiting on the day she'll get to move into her home.<sup>45</sup>

Unfortunately for Mrs. Li, she may never see her new home finished, because as of December 2021, over 11 major real estate companies defaulted on their loans. Kaisa Group Holdings Ltd. is a major real estate company that focused on urban development and is

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<sup>45</sup> "Concrete 'Ghost Towns' Make China's Real Estate Bubble Visible," *Nikkei Asia*, February 9, 2022. <https://asia.nikkei.com/Spotlight/The-age-of-Great-China/Concrete-ghost-towns-make-China-s-real-estate-bubble-visible>.

considered the largest holder of offshore debt among developers. As of December 2021, the company failed to make their principle payment of \$400 million USD and was immediately put into default.<sup>4647</sup> Shimao Group, another real estate company, defaulted on a US\$101 million-dollar project loan as of December 2021.<sup>48</sup>

One of the more well-known companies is The Evergrande Group. They are a privately-owned property developer and home building company that has hundreds of active projects in more than 200 Chinese cities and are considered the second largest publicly traded property developer in China.<sup>49</sup> The company has operated over the years by taking out massive loans from banks and preselling apartments to buy more land and development projects but also use that money to pay out billions of dollars to shareholders, “including the equivalent of more than \$5 billion over the past three years to founder, top shareholder and Chairman Hui Ka Yan.”<sup>50</sup> While this may look like a ponzi scheme, it is very common in China when new developments begin. This was why Mrs. Li was able to pay for a home before stakes were driven into the ground, but such a system puts a lot of trust into the company that they will follow through with construction.

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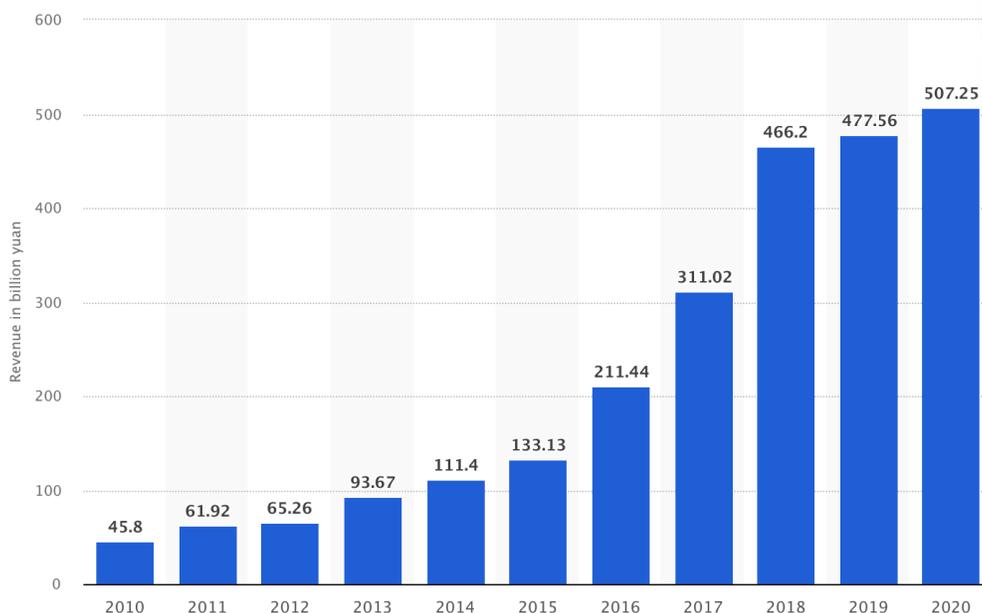
<sup>46</sup> “Chinese Property Developer Kaisa Defaults on \$400 Million Debt,” Daily Sabah, December 9, 2021. <https://www.dailysabah.com/business/economy/chinese-property-developer-kaisa-defaults-on-400-million-debt>.

<sup>47</sup> “Fitch Downgrades Kaisa to Restricted Default After Missing Payment,” Fitch Ratings: Credit Ratings & Analysis for Financial Markets, December 9, 2021. <https://www.fitchratings.com/research/corporate-finance/fitch-downgrades-kaisa-to-restricted-default-after-missing-payment-09-12-2021>.

<sup>48</sup> Iris Ouyang, “Shimao Group's Shanghai Unit Defaults on US\$101M Project Loan,” *South China Morning Post*, January 7, 2022. <https://www.scmp.com/business/banking-finance/article/3162513/shimao-groups-shanghai-unit-defaults-us101m-project-loan>.

<sup>49</sup> “China Evergrande Group Income Statement.” Yahoo! Finance, Yahoo!, <https://finance.yahoo.com/quote/3333.HK/financials?p=3333.HK>.

<sup>50</sup> Mendell, Erin. “What Is China Evergrande, and Why Is Its Crisis Worrying Markets?” *The Wall Street Journal*, Dow Jones & Company, 6 Dec. 2021, <https://www.wsj.com/articles/evergrande-china-crisis-11632330764>.



(Figure 4) Revenue of Evergrande Group from 2010 to 2020 (in billion yuan)<sup>51</sup>

At the start of the 2020 pandemic, property sales began to slow for the company and the billions in revenue they had experienced in the years prior began to fall shorter than they predicted. The desire for houses in these urban areas had declined, a sentiment that was echoed by migrant workers who would rather rent and send their children back home. Those who did want to buy houses, weren't able to afford the new ones that were being built.

Additionally, the Chinese government began implementing a policy called the “Three Red Lines” in August of 2020,<sup>52</sup> which were the three metrics regarding debt that developers would have to meet if they were to borrow more money. The government knew these companies

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<sup>51</sup> Zhang, Wenyi. “Evergrande Group: Annual Revenue 2020.” Statista, January 27, 2022. <https://www.statista.com/statistics/258002/revenue-of-evergrande-real-estate-group/#:~:text=In%202020%2C%20the%20annual%20revenue,to%20almost%20two%20trillion%20yuan..>

<sup>52</sup> Bloomberg News. “What China's Three Red Lines Mean for Property Firms.” The Washington Post, 30 June 2021, [https://www.washingtonpost.com/business/what-chinas-three-red-lines-mean-for-property-firms/2021/06/30/37c2f03a-d987-11eb-8c87-ad6f27918c78\\_story.html](https://www.washingtonpost.com/business/what-chinas-three-red-lines-mean-for-property-firms/2021/06/30/37c2f03a-d987-11eb-8c87-ad6f27918c78_story.html).

were taking advantage of the system, and continued to try to patch it with temporary solutions like a boat full of holes, but they were already sinking. In a study done by Jinyue Dong and associates, they demonstrate how the central government had been knowingly and actively bailing out companies since 2014, specifically focusing on companies that had greater domestic funding than foreign.<sup>53</sup> The government hoped that this new “Three Red Lines” policy would help curb real-estate companies from taking on new debt, but for many of these companies being affected, this was too late. The policy also gives us more context as to why the government was suddenly trying to implement the New-type Urbanization Plan in 2014 as they already saw the incoming defaults. If they could manage to get migrant workers to change their *hukou* status and potentially purchase property, it *could* help in offsetting the debt these companies were taking on.

With Evergrande unable to take out more loans to mitigate their massive debt, they resorted to drastic measures to meet their payment deadline. They paid shareholders with unfinished properties and even asking their employees for loans which were given, only for the company to stop paying them back.<sup>54</sup> Soon it came to light that Evergrande owed over \$300 billion dollars in debt and had lost nearly 80% of its stock market value. On top of that, they

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<sup>53</sup> Dong, Jinyue; Betty Huang, and Le Xia. “China | To Bail or Not to Bail? Understanding the Logic behind Chinese-Style Deleveraging.” *Economic Watch*, n.d. 2021. <https://www.bbvarsearch.com/en/publicaciones/china-to-bail-or-not-to-bail-understanding-the-authorities-answers/>.

<sup>54</sup> Stevenson, Alexandra, and Cao Li. “Evergrande Gave Workers a Choice: Lend Us Cash or Lose Your Bonus.” *The New York Times*, 9 Nov. 2021, <https://www.nytimes.com/2021/09/19/business/china-evergrande-debt-protests.html>.

were on the hook for an estimated 1.6 million unfinished apartments that had already been bought.<sup>5556</sup>

The Communist Party had been making efforts to deflate this “bubble” with policies like the “Three Red Lines,” but we see their actions were too little, too late. With the concerning trend as more real estate agencies and land developers failed to meet their payments, the question then becomes: Why is this so common? Why is it that over 11 real estate companies would default?

In *Ghost Cities of China*, Wade Shepard interviewed a real-estate consultant by the name of Marco Zhou from Colliers, another real estate agency in China in 2013. When Shepard expressed his concern about the potential housing bubble popping, Zhou laughed stating, “Don’t worry man, the government will take care of it. The government will lose a lot of money, but we will be fine.”<sup>57</sup> Zhou’s sentiment seems to be a common one that projects blind confidence that the government will bail them out, which had been the case before. Consistently since 2015, the government has bailed out multiple major companies that had defaulted, most of whom had majority domestic debt. “All in all, the Chinese authorities seem fully aware of the vulnerability of financial system and won’t allow the individual failures of financial institutions to transform into a systematic debacle,”<sup>58</sup> but while this aims to prevent an economic disaster, the ones who

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<sup>55</sup> Mendell.

<sup>56</sup> Bloomberg News.

<sup>57</sup> Shepard.

<sup>58</sup> Dong.

lose out are the people.



(Figure 5)

Figure 5 reflects the average housing cost per square meter in RMB in China from January 2016 to January 2022. While there was a steady decline in prices over the prior months leading up to December of 2021, January 2022 saw an immediate plummet. This jarring and foreboding signal indicated that perhaps the housing bubble within China had already popped, and the economic downturn had unraveled fully, barely held together with duct tape reforms. This current situation echoes a familiar trend with urbanization—just as Mao once de-privatized land in the 50s, his predecessor Liu simply reformed it in the 60s, president Deng reformed it again in the 80s, but it seems that while the numbers continue to reflect economic growth, bad players who see the cracks in the system have taken advantage of this situation to the point where a company has let over one million already bought homes go unfinished indefinitely.

A 37-year-old factory worker by the name of “Lin” made a down payment of 260,000RMB (~\$40,860USD) for a new apartment in 2017 that her, her husband, and her husband’s parents had saved up in order to move into. While the family combined made their 2,600RMB (~\$4,086USD) monthly payments, construction on the apartments stopped and the

scheduled move in date of November 2019 was pushed back. Hopeful that construction would be taken over by another company, she along with a few others moved into the shell of the apartment building, hoping that similar pressure will force the government to make construction continue. During this time, her husband's parents passed away, and in December 2020, she returned to the building only to find it sealed with nails and chains. Police were called, and residents were forced out and ordered to delete any photos or video taken of the property. Lin and her family now live outside of the city, still making payments on a mortgage for an apartment she will never see.<sup>59</sup>

## **Conclusion**

A common thread in this research has been the urbanization of China, but there is no data to reflect the numbers over time, and you might be wondering why. Throughout the extensive research done for this paper and the multitude of articles referenced, statistics analyzed, and world census data combed through, I have found no numbers that were the same. The World Bank website, as of April 2022, shows a projected graph of 81% urban population in China as of 2020; Statista.com shows a projected graph of 63% urban population as of 2020; South China Post projected in 2022 that in 2020 the urban population of China was at 53%; the Chinese State Council website states that in 2020 the urban population was only 60%. What *was* consistent in all of the articles, especially pertaining to the National New-type Urbanization Plan (2014), was that in 2020, China had failed its goal to reach a 60% urban population. In order to not convolute matters, I have done my best to provide as much factual information as possible, though I would be remiss to not address the elephant in the room.

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<sup>59</sup> Nikkei Asia, "Concrete 'Ghost Towns.'"

These confusing jumbles of percentages could be considered a reflection of urbanization as a whole in China. As if too prideful or perhaps too worried that the system was built on the backs of these fragile things, the central government knowingly continued on with powerful slogans that supported urbanization for the sake of the numbers. But as in the case of their perception and representation of GDP, they did not account for how that wealth was distributed and who held the most of it, because when you're able to change where, when, and how to get to the finish line, the race seems rather pointless. Changing the zones on a map in order to increase urbanization does not actually increase urbanization.

It is clear that this was not done in malice, but good intentions can often have unintended consequences. Mao's drive to bring China out of the ravages of World War II and be recognized on the universal stage was a pressure that everyone felt, especially those in rural areas. While his initial policies like the *hukou* system and land reform went under a multitude of changes through the Great Leap Forward (1958 – 1962), they were seen as requirements rather than suggestions. Instead of eliminating or completely overhauling these policies, those in power after Mao's death in 1976, continued with them like a ball and chain, slowly reforming them in small ways over time, but by the time a problem within the system is recognized, everyone from the central government to farmers are too far in to turn back.

The people are becoming too familiar with how the system works and have figured out simple ways to avoid being caught up in the whirlwind and attempt to stay safe by simply staying where they are. With local governments siphoning funds in the 80s to urban development companies taking out loans and defaulting in the 2020s, companies may feel comforted that the government will bail them out, but this is at the expense of the people, people who have poured their life savings into the dream of a home only to be forced into temporary, unfinished space or

to live on the outskirts while their home never appears and the company goes under. For decades, urbanization has not been for the betterment of the people, but a movement primarily driven by the need to make sure that the numbers on a graph consistently move upwards.

In 2019, from the balcony of my friend's small apartment in the outskirts of Chongqing, we could see a small field that an elderly couple had been farming. Every day at six in the morning, they would come outside and work until the sun was too hot, and then disappear until the evening, where they would reappear and walk among the rows upon rows of vegetables they had planted, pointing at where they could make improvements or perhaps where they would start again tomorrow. They always seemed incredibly pleased with their work. My friend and I watched them for months, through rain and shine, tilling the land, until one day we heard the familiar sound of construction machinery. Looking out of the window, we saw that two bulldozers had cleared the land, dumping dirt and other debris from nearby construction where the university was planning on building another set of apartments. The garden that had taken up about half the length of the block had disappeared beneath the rubble with only a few roots sticking above the ground to indicate that anything else had ever been there. From then on, the elderly couple would walk past every evening as they had done before to stare at the hill of dirt and concrete in silence and then continue on their way.

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