A Case-based Analysis of the Drivers and Challenges for Implementing Government Led Urban Village Redevelopment Projects in China: Evidence from Zhejiang Province

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Abstract: This paper analyses urban village redevelopment projects (UVRPs) in contemporary China using a case-based analysis method. Based on the data collected from 394 UVRPs in Zhejiang province, we reveal that the top-down institutional arrangement is the dominant method for redevelopment of urban villages. Wenzhou city is picked as an example to explore the drivers, policies and barriers for UVRP implementation under the top-down institutional arrangement. According to the secondary data of government policies and documents, striking the balance of social, economic, and ecological benefits to achieve more sustainable and new-type urbanization is found to be the main stimulus. Grounded in the original fieldwork conducted in 26 urban villages in Wenzhou, this study unravels how the policies for UVRPs are formed and implemented. As for the barriers, from the perspective of villagers, social disputes are caused by the unclear definition of legal property rights, the demand for the construction of temporary relocation housing for the elderly, and the high construction costs of relocated high-rise buildings. The government blames the unruly villagers or nail householders for their excessive requests which increase the transaction costs for settling these issues. Besides, poorly-designed policies impede policy implementation. In view of the high costs of policy

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alteration, the lock-in effects or policy continuity preferred by the government echo the institutional equilibrium put forward by North.

**Keywords:** urban village; urban renewal; property rights; urbanization; institutional arrangement; transaction costs

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### Introduction

An urban village, also known as a ‘village-in-the-city’ or *chengzhongcun* in Chinese, is a unique spatial environment that has emerged in China since the mid-1980s during the country’s rapid urbanization ‘enclosure’ movement (Lai et al. 2016; Wu & Wang 2016). The rapid urbanization is an interactive process between urban and rural development (Tang, Zhao, & Gu 2017), during which the emergence of urban villages is also a product of the urban-rural dual system (Buckingham and Chan 2018). With the high demand for urban land, farmlands located near cities were usually expropriated first due to the relatively low compensation and transaction costs involved (Hao et al. 2011). Rural building plots (*zhaijidi*) for settlement and commercial land (*ziliujingjiyongdi*) reserved for commercial development purposes were left to the villagers (Lin et al. 2014). Consequently, the remaining land and buildings in villages are geographically surrounded by modern skyscrapers. Under the urban-rural land system, the informality of urban villages has consequently emerged (Wu et al. 2013). In view of the excessive reduction in arable land due to extensive farmland expropriation in previous years, the Chinese central government set 1.8 billion *mu* (or 1.2 billion hectares) as the bottom line for preservation of farmlands. China’s urbanization has thus entered a new era in which land redevelopments target at building plots in urban villages (Guo, Xiao, & Yuan 2017). The local governments, especially in eastern coastal regions, have begun to expropriate rural building plots in urban villages through urban village redevelopment projects (UVRPs) to meet the surging need for new development land. In these projects, local governments assembled sub-
optimally used rural land in urban villages and then subdivide the consolidated land into land parcels for different uses. Some parcels of land are sold to offset the costs of redevelopment projects while the remaining plots are employed to relocate the affected villagers (Yau 2009; Yuan, Yau, & Li 2017). Through such a process, Chinese megacities have been characterized by top-down planning and large-scale urban development and redevelopment (Chen & Qu 2020).

President Xi Jinping has vigorously promoted the China Dream, meaning “a great rejuvenation of the Chinese nation”, in his various public speeches since 2012 when he first invoked the term at China’s National Museum of History (Xinhua 2012). UVRPs have played a substantial role in economic growth and modernization; therefore, UVRPs, being one component of China’s urbanization, are also very relevant, if not critical, to the achievement of the China Dream (Taylor 2015). However, in the transitional phase to modernization, they breed not only stability but also instability (Huntington, 2006). Because of land deprivation and infringement of economic interests, a large number of violent conflicts and social disputes are resulted in the process of physical and landscape transformation through UVRPs (Wu and Zhou 2005). Land requisition, for example, produces an increasing number of land-lost farmers who, despite some turning to self-employment in economically advanced regions, are often incapable of integrating themselves into urban life and are confronted with a wide range of potential risks (Bao et al. 2016; Yuan et al. 2017). Nail households (dingzihu), that is the last householders who refuse to give up their property rights, have emerged. Sometimes, they have been relocated involuntarily or even forcibly, ultimately triggering tensions or even fatal incidents between governments and villagers (Tang et al. 2008). Conflicts over land and informal settlements have become a severe source of social instability (Barry et al. 2007). Some blame government entrepreneurial behavior for failing to consider social implications during the process of urban village redevelopment (Cheung and Leung 2008).
Therefore, the social consequences of UVRPs should not be ignored by academic researchers and public administrators. In this light, this study addresses the following four questions: 1) Do local governments still play a dominant role in UVRPs? 2) What are the driving factors prompting the implementation of UVRPs? 3) What are the policies implemented for encouraging villagers’ participation? 4) What are the main challenges encountered during the redevelopment process? These questions have been rarely explored comprehensively in the existing literature. The answers to these questions are crucial for us to understand the practices of urban village redevelopment in mainland China. The research is also particularly relevant to the goals of China’s new-type urbanization and people-oriented urbanization. This study employs case studies and in-depth interviews in Zhejiang province. The theory of new institutional economics is also embedded in the analysis process.

**Research design**

To answer the research questions, it is essential to select some Chinese cities that are representative for data collection. Since large-scale UVRPs have been implemented in Zhejiang province for years, we selected five cities – Wenzhou, Taizhou, Yiwu, Ningbo and Hangzhou in Zhejiang province as the field sites to mitigate the temporal and geographical impacts. Zhejiang province is located on the eastern coast of China, as shown in Fig. 1. The fieldwork and desk study were conducted from 1 June 2017 to 1 November 2017. In total, 394 UVRPs were finally studied. Among these projects, 87, 40, 52, 100, and 115 came from Taizhou, Ningbo, Yiwu, Wenzhou, and Hangzhou, respectively. This study answers the first research question based on these 394 UVRPs from the perspective of new institutional economics. Basic information of these projects were collected from various sources such as government documents and websites. Wenzhou city was then selected for a in-depth case study to answer the second question which is about the driving factors to stimulate the local government to implement UVRPs. Wenzhou was picked for the case study because it is a representative example of Chinese city
experiencing rapid urban transformation. In addition, most UVRPs in Wenzhou were implemented after 2016.

[Fig. 1 about here: Geographic locations of the five cities]

To answer the third and fourth research questions, both primary and secondary data were collected for the analysis. For the third research questions, primary data were collated from semi-structured interviews with ordinary villagers, the village committees (VCs), and government officials from various departments, including the city land resource bureau, city construction committees, the district government, and the sub-district government (jiedao). Due to the limitations of time and financial resources, it was impossible to visit every UVRP for data collection. Therefore, to unpack how the policies were formulated and implemented actually and what challenges were there during the redevelopment process, this study focused on UVRPs implemented in two districts in Wenzhou city, namely Longwan district and Ouhai district. In total, 26 urban villages in these two districts were visited. In each visited village, two or three affected villagers were interviewed. A total of 36 interviews were recorded and transcribed. The recorded primary data were mainly used as evidence to support our arguments.

For ordinary villagers and VCs, frequently asked questions include: What strategies did village cadres or government officials adopt to persuade you to participate in the UVRP? What strategies did you use to persuade affected villagers to participate in the UVRP? What challenges did you face when implementing the UVRP? Were there holdout problems in your village? If so, why? Why did you want to be a nail householder? Has there been any violent conflict during the UVRP? If so, how did the conflict arise? Since urban village redevelopment is a sensitive topic in mainland China, acronyms were used for the names of the villages reported in this paper to protect the identities of the interviewees.
To further understand the barriers to the redevelopment, we needed to hear the voices from government officials. Since it is impracticable to access a large number of government officials in the two districts in Wenzhou, we expended the interviews to cover government officials from the other four cities in Zhejiang province to maintain the robustness of the research. In total, we visited 63 government departments in five cities. Government officials were asked: What principles did the local government use to determine whether a UVRP should be implemented or not? What was the process of policy formulation? How was the policy finally determined? What was the compensation and relocation policy to implement a UVRP? What were the main objectives in implementing a UVRP? What were the funding sources to implement a UVRP? As for the secondary data for answering the third and fourth research questions, official policy and planning documents were retrieved from the government officials interviewed. Fig. 2 summarizes the design of this research.

[Fig. 2 about here: The roadmap for research design]

**Dominant role of the state in UVRPs**

Recently, large-scale UVRPs have been initiated by the governments at the district or city level. The affected villagers’ willingness to participate in the projects has become a very important factor to determine the pace of the redevelopment process. Some projects are implemented very smoothly while others face delays because of villagers’ resistance. New institutional economists often analyze social phenomena by exploring the relationship between the institutional arrangements and the transaction costs involved. Institutions consist of formal rules and informal rules. Formal rules include political (and judicial) rules such as constitutions, regulations, laws, economic rules and contracts while informal rules comprise conventions, moral rules and social rules (North 1990). China’s urban growth demonstrates neoliberal urbanism. One of its key characteristics is the existence of diverse administrative or
bureaucratic forms with different levels of transaction costs incurred (Li et al. 2014; Yuan et al. 2019). The disparity of policies regarding urban village redevelopment across different localities reflects the heterogeneity and flexibility of institutional arrangements. Institutional settings are designed to influence actors’ decisions and to structure the roles of the actors involved in the process of UVRPs. In this study, we define the institutional arrangement of UVRP from the perspective of decision making. A ‘top-down institutional arrangement’ refers to an UVRP led by local authorities that have the power to decide relevant policies. On the other hand, a ‘bottom-up institutional arrangement’ refers to an UVRP led by village committees (VCs) that have been empowered to decide the relevant policies, demonstrating true community participation. The main difference between the top-down and the bottom-up approaches lies in who holds the actual power over the formal rule formulation (e.g. compensation and relocation policies) for the UVRP implementation.

With reference to the 394 UVRPs in Zhejiang province under investigation, the mean value of the projects’ initiating years is 2014 (SD = 4). This indicates that most UVRPs were initiated in the period between 2010 and 2018. Based on the institutional arrangement dichotomy aforementioned, we found that 360 UVRPs (91.4 percent) were implemented with a top-down institutional arrangement and 34 (8.6 percent) with a bottom-up one. Fig. 3 clearly shows that the majority of UVRPs in Zhejiang province are government-led. These findings offer some insights for the answer to the first research question – governments are playing a dominant role in the implementation of UVRPs. In the top-down institutional setting, the governments bears the costs of policy formulation, policy persuasion, negotiation, contracting, contract enforcement, and monitoring. The bottom-up institutional arrangement has only been implemented in a few experimental cities like Yiwu city. Since UVRPs in contemporary China are predominated by the government-led arrangement, the remaining part of this study will focus on government-led UVRPs only. In the next section, the factors that drive the
governments to implement government-led UVRPs is analyzed using the official policy and planning documents relevant to the UVRPs in Wenzhou city.

[Fig. 3 about here: Institutional arrangements of the UVRPs in the five cities]

Driving factors to implement government-led UVRPs: An example of Wenzhou city

Background of Wenzhou city

Wenzhou is located in the mountainous southeastern corner of the coastal Zhejiang province and is an important contemporary harbor and commercial city in China. The previous rapid economic development in Wenzhou can be attributed to privatization, marketization, and local deviation from state policies (Liu 1992). However, Wenzhou’s growth in recent years has faced a series of challenges. Local development has slowed down, and there have been calls for the ‘scaling up’ of regional development (Wei et al. 2007). The quality of the ecosystems and the living environment is also decreasing. For example, Sanyang Wetland in Ouhai district has largely deteriorated, and an estimated 89.5 percent of its value—derived from wetland functions (e.g., food production and biodiversity support), recreational and educational opportunities, aesthetics, spiritual enrichment, and market-based goods and services (Daily 2007)—needs to be restored to reach its potential value (Tong et al. 2007). The local water system (the Aojiang River watershed) has been heavily polluted by the leather industry (Li et al. 2010), and the living environment of urban villages is also worsening. The quality of self-built housing is also diminishing due to physical depreciation of the houses (most were constructed in the 1980s/1990s) and the destructive impact of typhoons; the public facilities around urban villages are deteriorating. There are ubiquitous illegal buildings due to family-based economic development under the acquiescent attitude of the government toward the semi-legal or illegal practices involved. The current transportation system is still underdeveloped. Moreover, the increasing population pouring into Wenzhou is leading to increased demand for urban land use
and public facilities. Thus, there is a potential institutional lock-in situation in Wenzhou city (Ye & Wei 2005).

In response, the Chinese central government has issued a series of new planning schemes setting out requirements to transform Wenzhou into an important city that aims to connect the Yangtze River Delta and the Western Taiwan Straits Economic Zone. In addition, a pilot financial reform scheme will be initiated in the near future. These kinds of national strategies provide great opportunities as well as challenges to optimize a variety of resources to improve Wenzhou’s current situation. Hence, Wenzhou’s development model needs to be amended to cope with these emerging problems.

Land provides the foundation for development – it yields production and promotes economic development (Liu et al. 2018). UVRPs are also an important method for readjusting land use functions to utilize land resources more intensively. Prior to 2016, UVRPs were not implemented smoothly in Wenzhou. However, on 10 October 2016, four self-built houses collapsed suddenly in ZYT village caused by the poor housing condition, resulting in the deaths of 22 individuals (Baidu Baike 2016). If the government had redeveloped ZYT village earlier, the collapse could have been avoided. Such accidents have reinforced local governments’ determination to speed up the process of UVRPs to avoid any possible recurrence of similar accidents. Why the Wenzhou government was determined to accomplish over 80 UVRPs in the main urban area (zhuchengqu) is discussed below.

Driving factors for implementing UVRPs

It has been argued that the rationale for the local governments to initiate UVRPs is to gain massive land transfer fees (Cao et al. 2014). This could be a result of the rise of entrepreneurial local governments who strive to maximize land revenue (Hubbard 1995). However, merely maximizing land revenues without proper urban planning can easily lead to the evolution of
ghost cities in which local residential demand and economic growth cannot substantiate rapid urban development (Jin et al. 2017). Therefore, local governments begin to enhance the city’s comprehensive competitiveness to attract more high-end immigrants into the cities through shifting from the previous land-based mode of urbanization to a people-based one. This study argues that the initiation of UVRPs is very relevant to governments’ urban planning at the city and district levels to reinforce cities’ attractiveness and competitiveness to face continued interurban competition. More specifically, UVRP implementation in a city is driven by the governmental need to increase the city’s competitive capacity, which practically demonstrated in the following four aspects: sustainable economic development, public facilities construction, environmental restoration, and city image enhancement.

As for economic development, the Wenzhou government intends to cope with declining economic development in recent years by building the Technological Town of South Zhejiang (Zhenan kejicheng), comprising a building area of 28 kilometers, to upgrade the traditional industry. According to the official online plan, the intended industry construction needs to expropriate the land and housing of 16 urban villages under the jurisdiction of three sub-district governments. A sub-district is the local government unit in the urban area, according to the Chinese administration system (Xu et al. 2018). The self-built housing in the affected urban villages needs to be expropriated and demolished first, the transferred land then being used for industrial purposes. The plan is for one parcel of land to be reserved for the construction of a high-rise building to relocate the affected villagers. Construction of adjacent public facilities such as the railway S1 line, parks, highways, and subways is also planned to improve public accessibility. The transformed high-technology industry is expected to create spillover effects that will stimulate local economic development and urban growth in the long term. Investors and workers can produce social product. As Buckley (2008, 19) states, “urbanization is
inextricably linked to industrialization and modernization, both historically and among rapidly growing developing countries today”. In the 1990s and early 2000s, for example, there was a boom in development zones or industrial parks planned by the local government to attract external investors with a low rental price (Deng and Huang 2004; He 2007). Industrial parks then were mainly connected to traditional industries and exerted a negative impact on the environment. However, in the 2010s, district governments started to construct high-technology industrial parks in the new wave of industrial upgrading to increase their capacity to attract external high-end investors.

In addition to economic development, a people-oriented, low-carbon, green, and ecological path of new-type urbanization and sustainable urbanization has increasingly been emphasized by the Chinese central government in recent years (Wang & Wang 2015). The past rapid economic growth has led to environmental degradation in Wenzhou. This deteriorating environment has, in turn, increased local people’s awareness of the importance of environmental protection and restoration (Kahn 2006). Consequently, the Wenzhou government decided to restore the local ecosystem with the construction of the Sanyang Wetland in the Ouhai district. The land and self-built housing of nine urban villages thus needed to be deconstructed, and the affected villagers needed to be relocated to another area in SLQ village in Longwan district. The municipal government aims to construct the largest relocated new community in that region. The clustered high-rise buildings (HRBs) involved are termed the ‘concentrated village’. This practice was initiated in Jiangsu province in 2001 (Ong 2014). Later, it was widely implemented in other cities, including Wenzhou, during the urbanization process. Clearly, the motivation to redevelop these nine urban villages in Wenzhou is a manifestation of the goals of environmental protection and restoration.

The third driver is attributed to the negative impacts of urban villages; for instance, poor planning and the failure of urban governance have led to a disordered physical space and site
coverage (Xu et al. 2018). The self-built houses, or ‘handshake buildings’, are in close
proximity to one another (Zhang et al. 2003). These high-density urban villages are often
associated with living environments and social problems such as declining infrastructure, crime,
drugs, public health, fire hazards, and prostitution (Barnes et al. 2006). The dominant neoliberal
urban development regime regards urban villages as a social, spatial, economic, and political
problem, and as a temporary and improvisational entity that will ultimately be eradicated by
urban planners in the urbanization process (Kochan 2015). Therefore, local governments are
keen to replace dilapidated urban villages with modern high-rise buildings, together with their
objectives of enhancing land-use efficiency and city image. Naturally, the orthodox city
planning theory includes the Garden City, Vertical City, and City Beautiful ideas which are
accepted by city planners across the world (Corbusier 1970; Howard 1985) and not exclusive
for China. UVRPs driven by city image enhancement are often located in the city center, like
the case of Lucheng district.

Governments worldwide have begun to promote slum demolition since UN-Habitat’s (2003)
agenda called for “cities without slums”. The urban village has been described as a pervasive
form of “enclave urbanism” during the urbanization process (Douglass et al. 2012). Some
studies argue that the entrepreneurial behavior of local governments always places urban
growth and profit as priorities in their policies (Jin & Doloi 2008). Local governments initiate
UVRPs through collaborating with private developers to gain vast land transfer fees (Lin 2001).
Yet, this argument was established from several cases in metropolitan areas and may be
applicable to projects developed for commercial purposes only. Its applicability to those
projects developed for public interest missions or for economic development purposes is
doubtful. According to Article 3 of the Regulations for the Requisition of Housing on State-
owned Land and Payment of Compensation, private property may be requisitioned by the
government for the public interest for the following seven purposes: 1) for construction of
national defence facilities; 2) for delivering public services supported and planned by the state, including energy, transportation and water supply; 3) for meeting the needs of public utilities supported and planned by the state, including science and technology, education, culture, health, sports, protection of environment and resources, protection of cultural relics, social welfare and municipal utilities; 4) for improving the living conditions of low-income families with housing difficulties, to construct social housing, such as economically affordable housing (*jingji shiyong fang*), etc; 5) for redeveloping dilapidated housing; 6) for constructing office buildings for state organizations; and 7) for other projects in accordance with laws, administrative regulations, and other requirements for public interest as prescribed by the State Council. To avoid stirring unnecessary debates, ‘public interest’ in this study refers only to the first six specific purposes elaborated in the law.

On the other hand, in recent years, sustainable development has been emphasized in the urbanization process of many cities (Tan et al. 2016). Policymakers worldwide are beginning to initiate various projects to create better environmental, social, and economic conditions, and enhancing cities’ attractiveness and competitiveness (De Jong et al. 2015). Analysis of the drivers for implementation of UVRPs in Wenzhou echoes the view of achieving sustainable urbanization. Land assembly for environmental restoration indicates that local governments are also beginning to introduce more socially inclusive policies and transform the previous land-centered urbanization into a more sustainable form of urbanization. The initiation of large-scale UVRPs is very relevant to urban planning strategies for a range of purposes, including industrial upgrading, the sustainability of ecosystems, the construction of public facilities, and the enhancement of cities’ image. The example of practice in Wenzhou suggests that the contemporary objectives of local governments are to redevelop urban villages to maximize and balance the social, economic, and ecological benefits. Similar practices are common in other transforming cities in contemporary China. After illustrating the main reasons for implementing
UVRPs, the next section introduces how UVRPs are implemented in contemporary China.

**Policy formulation and implementation**

The Wenzhou municipal government adopts top-down institutional arrangements to implement UVRPs, wherein the district government is responsible for policy formulation based on upper-level guidelines, and the sub-district governments are responsible for policy implementation. The affected villagers are empowered only to select one suitable compensation and relocation method from a set of designed policies. Policy choices and policy design, being among the formal institutions, need to take account of transaction costs to increase the efficiency and sustainability of policies. A supporting policy is assumed to be implemented more smoothly when the affected villagers are willing to participate in the project, leading to a low level of transaction costs and thus a short project duration. If the villagers are satisfied with the policies, the property right exchange contract is soon signed, indicating a smooth redevelopment process.

However, it is not easy to formulate a successful policy, especially when various interests are involved, and disputes can easily occur when property rights are not clearly defined. Most householders have not registered a certificate for their self-built housing in urban villages for historic reasons and due to traditional values. Some villagers told us:

As far as I know, some villagers believe that, as they have already had a house in which they can live all the time, there is no need to spend tens of thousands of yuan [CNY] to register a certificate to prove that the houses are theirs (an interviewee from XL village).

I have not registered because our family could not afford to pay such a high registration fee at that time. After housing construction, we had spent all our money and even incurred some debts. Later, when we could afford such a sum of
money, property registration had become very difficult. Therefore, we gave up.

Once it was announced that our village was to be redeveloped, the local government refused to register our property (an interviewee from ZZ village).

With the continued urban growth, most householders added further illegal floors to their original housing to maximize their rental income. The Wenzhou government always adopted a relaxed attitude toward those illegal behaviors because the expanded housing helped to accommodate a large number of migrants and provide room for production, which benefited the area’s rapid economic development in previous years. Such rebuilt illegal housing, or additional floors, increases the difficulty of defining legal property rights. Neo-institutional economists argue that property rights that are not clearly defined can lead to high levels of transaction costs. Increased certainty can reduce transaction costs. Defining the legal property rights of self-built housing efficiently has become an intractable problem for policymakers. After Wenzhou experienced a huge typhoon in 1994, the government took aerial photographs to evaluate the damage. The municipal government finally determined to use the 1994 aerial photographs, containing aerial views of self-built housing in urban villages, as the time watershed for the definition of legal property rights—that is, houses (including floors) built before 1994, as evidenced by the aerial photographs, are defined as legal property, while those built after 1994 without government approval are defined as illegal. This can reduce the costs of information requisition and the opportunism of villagers in reporting false information, because the government has photographic evidence. The costs of repeated negotiation and possible disputes over the area of housing before and after 1994 can also be avoided, and this is presumed to be a good approach to minimizing social disputes over the ambiguous legality of property.

However, the situation is more complex in reality. Merely having a one-size-fits-all policy (yidaoqie) does not produce an incentive effect, especially for impoverished householders who
built only one or two floors before 1994 and many-storied housing after 1994. As a response, the principle of socialist equality is applied in the form of a policy of three times the area of legal building plot (yisan luodi): this means that householders can be allocated three times the legal building plot (the ground floor area of their self-built housing) even if their original housing contained fewer than three stories. The legal area-based relocation policy, therefore, enables the affected villagers to be allocated an area at least three times that of their original building plot (see Eq. 1 and Fig. 4):

\[
\text{Relocation area} = \begin{cases} 
\text{original legal housing area,} & \text{floor } \geq 3 \\
3 \times \text{original legal building plots,} & \text{floor } < 3 
\end{cases} 
\]  
(Eq. 1)

This policy has also met with resistance, leading to holdout problems. This situation is reflected by the information provided by an interviewee from HB village:

One nail householder in our village has ten family members and his self-built housing reconstructed six floors [after 1994]. According to the policy, his family can be allotted an area with a maximum of three times the building plot [i.e. three floors]. They refuse to exchange their property rights because the area allocated to them is much smaller than their original one. They believe that the redevelopment will make them worse off (an interviewee from HS village).

To smooth the implementation of the policy, the government compromised and created a family size-based relocation principle, according to which collectively owned rural land entitles villagers to an equal share of land resources, and so land allocation, including farmland and building plots, is based on the population growth in villages (Kung 2000). The governments in Hangzhou and Yiwu also use this method to relocate villagers. To avoid the holdout problem,
the Wenzhou government also created a third relocation method, the ‘sanwu diding’ policy, whereby each person can be allocated a maximum of 50 m² when the area of their legal self-built housing is debatable.

In sum, three methods are used to relocate villagers, from which villagers are empowered to choose one to gain the optimal relocation area. Clearly, the latter two relocation methods indicate that the government uses the increased relocation area as its bargaining power to persuade villagers whose original legal housing area is small or whose family size is large to participate in the UVRP. The increased bargaining power reduces the costs of policy persuasion and repeated negotiation, which can smooth the redevelopment process.

However, the displaced villagers need to pay the construction fees for HRBs. These construction fees can be divided into two parts. According to the interviewees from 26 urban villages in Wenzhou, the first part, A, is based on the original legal area, which ranges from CNY 3000/m² to CNY 4500/m². This means that, after offsetting the housing demolition compensation, the displaced villagers still need to pay around CNY 300–1500/m² to the government. The second part, B, is based on the ‘supportive area’; it costs around CNY 5000/m² to purchase the supportive area. The term ‘supportive area’ denotes the ‘area beyond’ (locally called fankong mianji), which is the value of the actual original housing area subtracted from that of the relocation area. Accordingly, despite the preferential policy of providing a supportive area for impoverished villagers, they still face a huge financial burden to fund HRBs, and unaffordable construction costs can lead to holdout problems in some UVRPs. This view was confirmed by the last nail household in XB village:

We have no money… I also support the UVRP so I can exchange the dilapidated house for a residence in a new high-rise building. After all, my son needs a new apartment to live in but I have no money to buy the ‘supportive area’. The
purchase price is CNY 5,000/m². Our self-built house occupies a 170m² building plot. This site has one floor and another has two floors. According to the compensation policy, the relocation area allocated to us is 510 m² \([170 \times 3 = 510]\) and the shared area (gongtan mianji) is equal to 127.5 m² \([510 \times 0.25 = 127.5]\) with different amounts of construction costs. This means I need to provide around CNY 3 million to purchase the exchange area. Please tell me how I could provide such a sum of money (an interviewee from XB village).

This is an extreme case. Since most self-built houses were higher than three floors before 1994, the construction fees that the householders need to pay are much lower than in this case.

In fact, the local government actively encourages villagers to choose monetary compensation, as this can both stimulate local real estate development and mitigate the financial burden involved by providing monthly temporary relocation fees (TRFs)—approximately CNY 15/m². Furthermore, the local government bears the high level of stress involved in constructing the HRB within the planned time (from interviewees working in the government departments). If the government fails, it will need to double the TRFs every three years. Therefore, the local government prefers the displaced villagers to choose monetary compensation, which begs the question as to whether the affected villagers actually do so. The fieldwork revealed that the results are mostly influenced by the location of the villages: in situ or nearby replacement in a privileged location leads to a low proportion of villagers choosing monetary compensation, and the reverse is also true. For instance, over 90 percent of villagers chose in-kind compensation in ZY village with a favorable location (from an interviewee from ZY village), while only around 20 percent of villagers chose in-kind compensation in DLX village with an unfavorable location (from interviewees from DLX village).
However, the local government seeks to expedite accumulation of the rural land with minimal social disputes; therefore, a series of incentive policies have been designed to encourage villagers to move out of their original housing. For those who choose monetary compensation, approximately 25 percent of the total monetary compensation (comprising 10 percent for purchasing accommodation, 12 percent for signing the contract, and 3 percent for vacating) is provided as an incentive, provided that they move out of their self-built house within the period required by the local government. Similarly, for those who choose in-kind compensation, the incentive policies include an additional 50 m² of relocation area and specific monetary compensation used to offset part of the construction costs, as shown in Table 1.

[Table 1 about here: Incentive policy for in-kind compensation]

**Challenges encountered during the redevelopment process**

After reviewing the policies and practices of UVRPs implemented in Wenzhou, this study attempts to explore the barriers for redevelopment of urban villages. As mentioned above, Wenzhou government adopts a top-down institutional arrangement to implement UVRPs, under which the government is responsible for policymaking and implementation. Since villager representatives are absent in the policymaking process, their voices are hardly heard by the policymakers. Relevant issues that the policymakers ignore can easily result in increased transaction costs associated with settling problems at a later stage. Grounded in the original fieldwork, the challenges are summarized as follows, based on the voices of the villagers themselves. The first challenge is related to disputes over the legality of property rights. Most villagers said that using aerial photography from 1994 is not a sufficient basis to define legality. One of the interviewees said:

The provincial government in Zhejiang has issued Zhezhengbanfa [2017] No. 43 and Zhezhengbanfa [2014] No. 73 notifications on the registration of residential
certificates for self-built housing on collectively owned land. The notifications reveal that we can register residential certificates for the unapproved area of self-built housing constructed from 1 January 1987 to 27 March 2014. Clearly, the provincial government wants to protect our property rights. However, the district-level government in Wenzhou does not follow this policy. It has formulated its own policy, Wenlongzhen [2017] No. 15, which states that the provincial policy is not applicable to UVRPs. So, those without residential certificates still cannot register and the state in 1994 is the only basis for the determining the legality of the property rights (an interviewee from XB village).

This kind of district government response has produced a series of social disputes and discontentment among the affected villagers, echoing O’Brien and Li’s (2006) ideology of ‘rightful resistance’, in which villagers often use high-level government policy to fight the ‘misconduct’ of low-level government. As noted before, the district government is empowered to design the local policy for UVRPs, so its implementation of local policy cannot be regarded as illegal behavior and the resistant voice is soon suppressed. However, the suppression of rightful resistance reduces the government’s credibility and devastates its image in the eyes of the public. In addition, the use of 1994 aerial photography to determine legality is not omnipotent and sometimes creates dysfunction. One interviewee commented:

Our self-built house had three floors before 1994 but the third floor was destroyed by a typhoon. Thus, the house had only two floors on the 1994 aerial photograph. According to that photo, the local government only counts two floors as legal, which is unfair ... I will not sign on the contract if the local government does not count the house as having three floors (an interviewee from SJ village).
Another conflict regarding a self-built house rebuilt after 1994 occurred in one of the surveyed villages. One indigenous villager told us the whole story about the conflict:

I knew one elderly male householder in my village whose two-story self-built house was demolished and rebuilt with five floors without a residential certificate around three years ago. His family is not wealthy… According to the prevailing policy, the legality of the relocation area is based on the 1994 aerial photographs. Thus, the upper three floors were regarded as illegal property with the paltry compensation of CNY 200/m². The deadline for the contracting date set by the local government was 25 June 2017, and the government told him that if he did not sign the property right exchange contract, the three illegal upper floors would be forcibly demolished first. Due to the great stress exerted by the local government, the property owner compromised and reluctantly signed before the deadline to enjoy the aforementioned incentive policies. However, he felt very upset afterwards, always muttering ‘where can I live after the demolition … where can I be buried when I die?’ The situation became even worse when he tried to rent a house but was refused by the landlord who was afraid that the old man would die in her house because of his age. After this rejection, he was shocked and felt even more depressed... In the afternoon of 28 June 2017, he hanged himself in his room and was found dead by his wife when she returned home. More than 20 of his relatives protested on the street and put his dead body in front of the demolition office to signify that his death was attributable to the behavior of the local government in coercing his signature. However, the protesters were soon arrested by the police. Ultimately, the government provided CNY 20,000 and the VCs provided CNY 30,000 as a condolence to the elderly householder’s family. To date, the government still claims that it has no fault and denies that the death of
the householder was the result of the government’s forcible demolition. The excuse given by the local government is that the elderly householder’s death occurred after the date he signed the contract, which indicates that he agreed to the content of the contract. Thus, his death has nothing to do with government behavior (an interviewee from SB village).

Although there seems to be no clear causal relationship between the UVRP and the elderly householder’s death, it is likely that the redevelopment greatly stressed him. After demolition, the relocation area was much smaller than the area of his self-built house. It also aggravated the financial burden on this family because of the high construction costs involved, added to the debt that the family owed previously and the rental income that it would lose after the demolition. From his words ‘where can I live after the demolition …’, we can deduce that the stress also stemmed from the underdevelopment of the elderly temporary relocation housing (ETRH) for people over 70 years old. Other interviewees said:

Although some buildings in the village are planned for the elderly, the living environment is rudimentary, with the absence of private toilet and lift. Such poor provisions are greatly inconvenient for elderly people. The local government should construct ETRH that is suitable for the elderly to live in (an interviewee from SB village).

I think the most important issue during the redevelopment is that the government should pay attention to the living status of elderly villagers. It is very hard for them to rent a house after being displaced. If our elderly parents do not live well, how can we live well and support the UVRP (an interviewee from HB village)?

As villagers also care about their parents’ living conditions, the issues surrounding ETRH are among the main causes of social disputes in most of the Wenzhou villages surveyed.
Sometimes the local government is insensitive to the demands of villagers, leading to resistance at a later stage. However, the construction of ETRH at an earlier stage can mitigate villagers’ concern after demolition, leading to low costs of negotiation and policy persuasion. Low transaction costs generally result in a smooth redevelopment process. For instance, when the sub-district government planned to construct ETRH in CD village located in Wenzhou’s Sanyang Wetland, as shown in Fig. 5, the villagers soon signed the contract for property right exchange.

[Fig. 5 about here: ETRH in CD village (taken by the first author in July 2017)]

The third challenge encountered during the redevelopment process is villagers’ financial burden to fund the construction costs of relocated high-rise buildings. It is unaffordable for impoverished households, especially for those that need to purchase a large supportive area, as mentioned above. Wenzhou is an immigrant city with great opportunities for indigenous villagers to earn extra income by renting out their unused rooms. The family-based economic development indicates that most villagers utilize their ground floor to manage their businesses, such as clinics, supermarkets, drugstores, hotels, and so forth. Obviously, demolition has a negative impact on their business and disrupts their daily life. An interviewee grumbled:

I used the ground floor of our house to run the clinic rent-free, but the UVRP forced me to rent another place for my clinic. Our family relies on this clinic to support our long-term livelihood so I could not lose it. Although I can continue to run my clinic in another place temporarily, I feel sad that I have to pay approximately CNY 50,000 per year to rent an area of 50–60 m². This means some of my work does not have real payoff (an interviewee from HS village).

As revealed in the fieldwork, the construction fees in Hangzhou and Taizhou are much lower than in Wenzhou. The difficulty is increased further by the government policy—that is,
villagers can only choose either monetary compensation or in-kind compensation, but they cannot choose both. Therefore, when impoverished householders want to choose in-kind compensation but cannot afford the construction fees, then a dilemma is created. Such a situation could be avoided if the government allowed affected villagers to choose both at the same time. Sometimes, the production costs and transaction costs are intertwined. High production costs, such as construction fees, can increase transaction costs, such as negotiation costs. Although villagers also need to submit construction fees in Hangzhou, Yiwu, and Taizhou, they are allowed to choose both to mitigate their financial burden. Through this approach, impoverished villagers can use monetary compensation to fund the construction fees of relocated high-rise buildings. In addition, other practices include transferring the construction fees from the villagers to the government or a third party. For instance, the villagers in the main urban area, Ningbo, do not need to fund the construction fees but they do not receive any monetary compensation for the decoration of the original housing. This can save the costs of repeated negotiation and conflict resolution during the measurement process. Other examples of transaction cost minimization practices include the bottom-up institutional arrangement—that is, the government in Xiangshan county allows VCs to cooperate directly with the private developer, as a result of which the private developer meets all the costs during the redevelopment.

The above analysis based on villagers’ views is one-sided. To have a deep understanding of the challenges arising during the redevelopment process, the voices of government officials should also be heard. Some government officials blame unruly villagers or nail householders for the mean requirements, which makes the policy difficult to implement. Two government officials interviewed said:
Some villagers grasp this chance to bargain for more benefits from the redevelopment process. This may be their last chance in their life. I will tell you a true story that will make you laugh your head off. In one village, a woman’s uterus was removed because of disease. According to the policy, we should give special consideration to the disadvantaged group so we compensated CNY 50,000 more to this family as condolence. The news was soon disseminated, and some elderly women without any disease within or around the village went to hospital to take their uterus out in order to gain the CNY 50,000 (an interviewee from the government at the province level).

Demolition is one of the most challenging issues in the world. Some unruly villagers impede the redevelopment process. They do not obey the rules articulated in the policy. For instance, we announce very clearly at the beginning that the allocation of the apartment of relocated housing is based on the drawing of lots but the unruly villagers do not move in when they are allocated unwanted floors or directions of apartment (an interviewee from the government at the district level).

However, not all villagers’ demands are unreasonable. Some government officials, especially from the frontline, describe another picture. They argue that the barriers to implementing UVRPs are caused by the policy itself. More specifically, the policy is unfair or overlooks the interests of some villagers. A sub-district level government official told us:

I am the frontline policy implementer. I have to admit that sometimes the policy is very difficult to implement because the policy itself is not well accepted by the villagers. The policymakers are often from the upper level but they rarely directly participate in the UVRPs. Therefore, they do not know what villagers
really want... We have so many policies we need to refer to and some of them are in conflict with others (an interviewee from the government at the sub-district level).

However, even when the low-level government reports those policy problems to the upper level of government, some problems still could not be settled. Furthermore, the cost of changing the policy is high. According to their experience, policymakers believe that what villagers care most about is fairness, which is a valuable concept in Chinese traditional culture. As Confucius stated, inequality rather than want is the cause of trouble. Therefore, in government-led UVRPs, the policymakers prefer to ‘policy continuity’—that is, policymakers keep most of the content of old policies when designing a new policy. Because the policy credibility and consistency can influence the transaction costs of the policy implementation (Shahab, Clinch, & O’Neill 2018).

An interviewee said:

We admit that the policy itself has some problems, but the cost of changing the policy is very high. I will give you an example so that you can understand. Different urban villages evolved in different years. Ten years ago, some urban villages were redeveloped following the old policy, and some villagers still have not been relocated. As time goes by, when a new urban village needs to be redeveloped, if a new policy is much better than the old one, villagers affected by redevelopment projects following the old policy will resist and demand the same treatment… It might even cause social unrest that we also do not want to see. Generally, we allow the sub-district governments to design their own policies, called ‘local policies’, according to their own special situations to calm conflicts (an interviewee from the government at the province level).
Therefore, a potential lock-in effect is resulted from the implementation of the UVRPs. This dilemma of implementing policy continuity echoes what North (1990) called institutional equilibrium. In such a situation, North (1990, 98) argues that “it does not imply that everyone is happy with the existing rules and contracts, but only that the relative costs and benefits of altering the game among the contracting parties do not make it worthwhile to do so.”

**Conclusion**

This research contributes to the holistic understanding of the drivers and barriers for the government-led UVRPs in contemporary China. From a new institutional economics perspective, it first provides evidence that the government’s role in UVRPs is still dominant based on an analysis of 394 UVRPs collected in Zhejiang province. In addition, the analysis of the UVRPs in Wenzhou city reveals that the needs to enhance cities’ comprehensive capacities to attract external investors and high-end immigrants in the face of increasingly fierce competition among cities and to avoid becoming ghost cities are key drivers for UVRP implementation. We argue that the objective of local governments is no longer simply to obtain high land transfer fees through cooperation with private developers, but rather to redevelop urban villages to maximize and balance the social, economic, and ecological benefits to achieve people-oriented sustainable urbanization and new-type urbanization.

The redevelopment needs the affected villagers to participate voluntarily in the project. Based on the fieldwork conducted in 26 urban villages in Wenzhou, this study explores how policies of urban village redevelopment are formulated and implemented to encourage villagers’ participation. Transaction costs should be accorded due consideration when designing policies. Under the top-down institutional arrangement, the government at the upper level is responsible for policy formulation but the policymakers rarely directly participate in the UVRPs. Therefore, the challenges arise during the redevelopment process. To identify the barriers, this study
conducted in-depth personal interviews with both villagers and government officials. According to the villagers, the first challenge is related to the definition of legal property rights. Since land and housing property rights in urban villages are ambiguous and incomplete, the area between the legal and the illegal has often become the source of disputes when implementing UVRPs, leading to high costs of repeated negotiation, information requisition, and conflict resolution. Sometimes the policies designed by the low-level government deviate from the policies of the upper-level government. The affected villagers use the upper-level government policies to resist the policies designed by the lower-level government to maximize their interests, demonstrating a kind of ‘rightful resistance’. The second challenge is related to the construction of ETRH. If the government does not construct ETRH, the uncertainty involved in searching for temporary rental housing for elderly villagers will increase. The increased uncertainty will generate a high level of transaction costs for uncertainty reduction. The villagers normally use the property rights contract as their bargaining power to negotiate with the local government to settle the problem; otherwise, holdout problems will arise. The high costs of repeated negotiation are more likely to produce a long project duration and forced eviction is likely to provoke resistance or even violent conflicts. The third challenge is related to the high construction fees for relocated high-rise buildings. The findings may present evidence that production costs and transaction costs are intertwined. High production costs—namely high construction fees—can also induce high transaction costs.

According to the government officials interviewed, some challenges are attributed to the unruly villagers or nail householders whose demands are beyond comprehension. This will increase the unexpected economic and transaction costs to settle the relevant issues. The government officials at the frontline admit that some problematic policies impede the implementation of the UVRPs. If policies are not grounded in the needs of villagers, the transaction costs used to settle disputes in the later stage of policy implementation will increase. When a dilemma occurs, the
policy implementers have no right to decide to alter the policy, but instead call for instructions from the upper-level government through a time-consuming administrative process. Sometimes, policy implementers choose to enforce the policy strictly, leading to a high level of violent conflict. However, policy alteration is also related to social costs. Thus, the lock-in effects occur and the upper-level government prefers the policy continuity due to the high costs of policy change, which echoes the concept of institutional equilibrium put forward by North (1990).

Data Availability Statement

All data used during the study are confidential in nature and may only be provided with restrictions. All interview response data for this study are not shared in order to protect anonymity of the interviewees.

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Table 1. Incentive policy for in-kind compensation

| Signature and vacation rate | Three or five nearby households | 70%–95% | 95% or above |
|-----------------------------|--------------------------------|---------|--------------|
| Incentive                   | CNY 600/m²                     | CNY 800/m² | CNY 1000/m²  |

Fig. 1. Geographic locations of the five cities

Fig. 2. The roadmap of research design
Fig. 3. Institutional arrangements of the UVRPs in the five cities

Fig. 4. Compensations for legal and illegal property rights
Fig. 5. ETRH in CD village (taken by the first author, July 2017)