

Urban Village Redevelopment Projects in China

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The dual land system that resulted from the 1982 land reform makes the Chinese land situation unique. A dichotomy has existed between the state ownership of urban land and public ownership of rural land ever since. Urbanization in China often takes place by penetrating spatially into rural villages, where land is collectively owned. Urban villages are often regarded as temporary entities with undesirable urban planning and governance. Combined with the negative social externalities that urban villages emit, the Chinese government has implemented large-scale urban village redevelopment projects (UVRPs) in recent years to replace shabby entities with formal urban neighbourhoods. This phenomenon is in line with Kochan's argument that urban planners will ultimately eradicate urban villages in urbanization. UVRPs have stimulated rapid urban development, which plays a great role in economic growth and modernization.

Keywords: urban village ; transaction characteristics ; institutional arrangements ; informal housing ; informal settlement ; urbanization ; rural-urban transformation ; transaction costs

1. Introduction

The end of urban villages is a complicated land development, including property exchange and property reallocation ^[1]. Defining property rights is the foundation of property economics and property theory. Property rights usually consist of rights to use an asset, earn rental income from an asset and alienate or sell an asset ^[2]. The characteristics of property rights include exclusivity, inheritability, transferability and enforcement mechanisms ^[3]. Property rights play an essential role in abating transaction costs and stimulating economic growth ^[4]. Ullrich argued that in terms of property rights, transactions include exchange transactions, contract transactions and transactions with externalities ^[5]. Property rights can increase certainties in human interaction, but this does not mean that property right regimes are economically efficient in practice ^[6]. In terms of property rights in urban villages in China, indigenous villagers do not own the land, but they have the right to use certain areas of land allocated by villagers' committees (VCs). Therefore, villagers are entitled to build a house for self-living. The legality of self-built housing is not well defined, especially for housing constructed in earlier years. VCs have the right to allocate some parcels of land to indigenous villagers but have no right to sell the land use rights to outsiders to earn profits. Phrased differently, transferring land use rights for collectively owned rural land is prohibited on the market ^[7]. Therefore, the property rights to collectively owned rural land are ambiguous and incomplete in China during urbanization ^[8].

New institutionalists have argued that when property rights are not well defined, transaction costs will increase. Property rights that are not well defined create rent-seeking activity amongst village cadres during land reallocation ^[9]. Although much literature has focused on the redevelopment of urban villages, including the beneficial functions that urban villages serve as social communities ^{[10][11]}, the institutional arrangement for urban village redevelopments ^{[12][13]}, the driving factors to redevelop urban villages ^[14] and the power relations during the urban village redevelopments ^[15], academic papers rarely discuss UVRPs through the perspectives of transaction cost economics to evaluate the efficiency of urban village redevelopment. A well-designed institutional arrangement for urban village redevelopment must consider transaction costs.

2. Urban Village Redevelopment Projects

The relationship between institutions and transaction costs is often overlooked by Pigouvian welfare economics ^[16]. Transaction cost economics has evolved to compensate for this limitation. The basic analysis unit of such theory is the transaction ^[17]. Transactions take various forms of activities, from private to public sectors ^[18]. The attribute of transactions affects the size of transaction costs. The concept of transaction cost was first used by North to introduce the firms in the market ^[19]. However, a theoretical consensus on the definition of transaction costs remains lacking. Researchers from different perspectives have suggested various explanations. For instance, some researchers regard transaction costs as the costs of exchanging ownership titles ^[20], so the costs associated with defining, transferring and

securing property rights should also be included ^{[21][22]}. Some scholars argue that transaction costs are not restricted to the transactions involved but also comprise the costs of monitoring and enforcing agreements ^[6]. Others even extend the definition of transaction costs to the ex-ante costs of searching for a partner with whom to exchange and negotiating with potential co-operators to reach an agreement ^{[17][23]}. Therefore, transaction costs consist of the costs of arranging a contract ex-ante and monitoring and enforcing that contract ex-post ^{[24][25][26]}. Later, the concept of transaction cost was extended to institutional analysis in the public sector ^[27], and it can be defined as the costs of the resources utilized to create and apply policy ^[22].

The various definitions of transaction costs offer opportunities for formulating various research programmes ^[28]. For instance, Alexander used transaction cost theory to account for land use planning and development control in Israel ^[18]. Reeves demonstrated that a substantial degree of conflicts occurring in some school–contractor relations are caused by the sources of transaction costs ^[29]. Cho used the transaction cost framework to analyse the housing redevelopment in Korea, in which hybrid forms of governance are aligned with the relevant transactions ^[16]. Hastings and Adams posited that the low usage of the Land Ordinance Cap 545 phenomenon in Hong Kong could be attributed to the high transaction costs incurred during land assembly ^[30]. For the four cases of transferable development right programmes that occurred in the US state of Maryland, some scholars analysed the effects of transaction costs arising at each stage of this process to improve policy design and implementation ^[31]. Williamson's theory often assumes that institutions should be the dependent variable, and transaction costs should be the independent variable ^[32]. Such a viewpoint echoes the findings of some researchers that high transaction costs can lead to ineffective institutional design when studying urban redevelopment in Taipei City ^[1]. However, North asserted that institutions respond to transaction costs and are subject to transaction costs that he calls transformation costs ^[6]. North's viewpoint echoes the findings that the state-led institutional arrangement of urban village redevelopment in Shenzhen has resulted in a large number of time-consuming transactions and impeded redevelopment ^[33]. Other scholars prove that institutions considerably affect transaction costs by using project duration and conflict levels to assess the efficiency of institutions of UVRPs ^{[34][35]}.

Despite its wide application in the public sphere, criticism has also arisen because no consensus exists on the proper approach to evaluating transaction costs ^[36]. The reasons for the difficulty in measuring transaction costs may be attributed to the lack of proper data ^[37] or the unclear empirical validity of transaction costs ^[38]. However, whether measured or not, transaction costs shed a heuristic light into the analysis of the efficiency of institutions ^[39]. In essence, every story about the reasons for market failures is relevant to transaction costs, as high transaction costs can further impede voluntary trades between parties ^[40]. Therefore, relevant transaction costs need to be considered and identified when evaluating the efficiency of institutional arrangements ^[31]. Some scholars analyse urban village redevelopment from the perspective of discourse politics ^[41]. Others used the theory of growth coalition to explain urban village redevelopment by analysing different local political structures in three villages in Zhuhai, China ^[42]. However, such theories cannot evaluate the efficiency of policy design and policy implementation processes. Researchers must identify the transaction costs of urban village redevelopment under different contexts and institutions (e.g., policies); as Arrow asserted, 'it should be a major item on the research agenda of theory of public goods and indeed of the theory of resource allocation in general' ^[43]. To identify the concept of transaction costs, Buitelaar summarized different costs in the production process and designed an effective method to determine the concepts of transaction costs by distinguishing them from production costs ^[39]. Similarly, transaction costs involved in the process of UVRPs can be identified by differentiating them from the production costs involved. The classification of transactions can differ when applying the transaction cost approach to different studies. The typology of transaction costs is essential for measurement and policy design ^[22].

3. Transaction Characteristics of UVRPs in China

The characteristics of transactions can be described as asset specificity (independence), frequency (timing) and uncertainty ^[44], which may entail the involved parties facing various hazards ^{[18][45]}. Transaction costs are raised to enhance the information available and abate uncertainty for the involved parties. In the process of UVRPs, these three dimensions have specific characteristics that will be elaborated as follows.

Asset specificity is a 'specialized investment that cannot be redeployed to alternative uses or by alternative users without a loss in productive value' ^[32]. Phrased differently, asset specificity often leads to non-standard contracting and idiosyncratic exchange ^[46]. Thus, high asset specificity entails involved parties spending more time and effort learning new knowledge or acquiring new information to make a specific contract. Moreover, highly asset-specific services are difficult to adapt to other uses ^[47]. Some scholars posit that asset specificity can be categorized into site specificity, information specificity and resident specificity when studying urban renewal decision making ^[48]. Similarly, in the process of UVRPs, there is site specificity; every piece of land and housing is distinctive and immovable, which makes it almost irreplaceable by other pieces of land. Urban planning sometimes requires a specific site for development. The location of

affected urban villages cannot be changed. Moreover, the number of participants, such as local authorities, private developers and affected villagers, is often limited. Therefore, UVRPs involve a high level of asset specificity. Some scholars argue that the compensation and relocation policies of UVRPs are heterogeneous in China, which indicates high asset specificity during redevelopment [34]. High asset specificity entails government staff being knowledge specific. Affected villagers and VCs often only engage in one UVRP, so they also lack the experience to deal with government staff and private developers. The unfamiliar relationship may require more time to collect information and negotiate with them to achieve a consensus contract. Taken together, the asset specificity of UVRPs is high, which easily leads to the large size of transaction costs.

Frequency generally refers to how often transactions recur. Frequent and recurrent transactions can reduce transaction costs because the redeployment of relevant knowledge and skills can enhance the capacity to standardize processes and contracts [49]. Although UVRPs are implemented widely in contemporary China, it does not mean that the involved parties, especially the initiating party, have accumulated the experience and knowledge to facilitate an efficient, smooth process. The outcomes of social disputes, conflicts and delays during redevelopment often occur in practice. Once again, most participants in one UVRP are different from those in another. Once a project is complete, most participants will never have the chance to participate in another. Even though some private developers and government staff participate in several UVRPs, the asset specificity of UVRPs entails an amount of effort to collect information equal to or more than that of the previous project. Asset specificity and frequency interact with each other; Coggan et al. stated that 'Frequency will only reduce transaction costs if repeatable rules and processes can be developed, which is difficult when transactions are asset-specific' [50]. Together with the complexity and some historical problems, sometimes the standard rules and policies (e.g., compensation and relocation policies) within one district can produce different levels of transaction costs in different UVRPs. Therefore, the low frequency of UVRP transactions could instead increase transaction costs for administrators.

Uncertainty is related to the bounded rationality and opportunism of involved parties [39]. Bounded rationality means that individuals have limited ability to foresee all contingencies even if they are rational [51]. Opportunism emerges as selfish individuals offer false or incomplete information to redirect profits from vulnerable partners [52]. Bounded rationality and opportunism lead to uncertainty prevailing over most transactions. All these increase the costs of information collection and the effort required to draft complete contracts or necessitate increased monitoring to cope with hazards arising from uncertainty [50]. Construction projects are confronted with uncertainty, which has a positive effect on transaction costs [53]. UVRPs always involve multiple parties, and the total number of participants is vast. The incomplete or asymmetric information and bounded rationality of the involved parties (e.g., policymakers and private developers) and the opportunism of affected villagers increase the uncertainty of the project. However, the institutional arrangements of UVRPs decide which parties (generally denoted as the government or VCs) are empowered to implement the project, so the empowered parties need to verify and approve all the trades [13]. In contrast, the empowered parties generally bear the costs of minimizing the uncertainty produced by opportunism and bounded rationality.

Figure 1 shows that the transaction characteristics of UVRPs in China during redevelopment have high asset specificity, high uncertainty and low frequency, which easily leads to a high level of transaction costs.

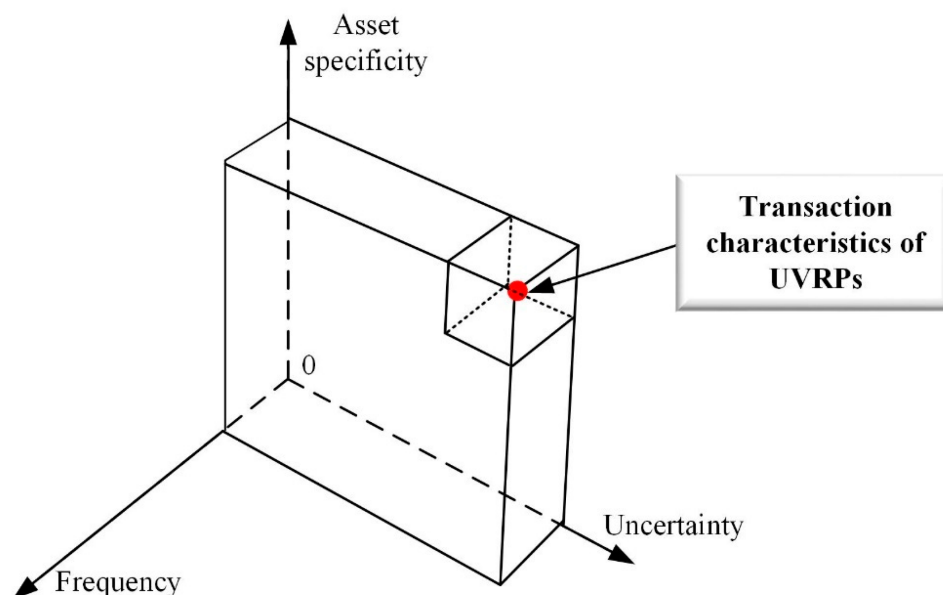


Figure 1. Transaction characteristics of UVRPs.

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