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## **Shantytown Redevelopment Projects: State-Led Redevelopment of Declining Neighbourhoods under Market Transition in Shenyang, China**

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**Abstract:** Since 1978, market transition in China has significantly influenced the roles of the state, the market and the residents in urban restructuring. Since 2008, the central government has initiated Shantytown Redevelopment Projects (SRPs) to improve the living conditions of low-income residents. Between 2008 and 2012, about 12.6 million households were involved in SRPs, and forced to move as their dwellings were demolished. This paper investigates how SRPs are implemented by revealing how different stakeholders interact in SRPs in the city of Shenyang, China. Through in-depth interviews with various stakeholders and analysis of policy documentation on SRPs, the paper reveals a complex interplay between different stakeholders, which is characterized by the centralization of the inception of SRPs, the decentralization of actual SRP implementation, changes in the role of market forces, and decreasing housing affordability and multiple deprivation of residents in SRP target areas. Various stakeholders have consensus on the need for improving the living conditions in deprived neighbourhoods and on boosting the housing market.

However, conflicts arise due to frictions between the central and local governments regarding the implementation of SRPs. We also find evidence of an entrepreneurial paradox in the relationship between local governments and developers. Finally, a mismatch occurs between the scope of the SRP policy and residents' attempts to improve their socioeconomic situation.

**Keywords:** Shantytown redevelopment; Declining neighbourhoods; Market transition; Governance; Demolition; China

## 1. Introduction

Since 1978, China has undergone the process of market transition, which has led to a commercialized housing provision system in which urban residential redevelopment has become strongly market-oriented (Shin, 2009; Wu, 2001). Developers and entrepreneurial local governments have embarked on extensive urban housing demolition and redevelopment on profitable locations, featuring large-scale forced rehousing of residents (He and Wu, 2007). Neighbourhoods with low land values have not received much attention from the state or the private sector. In 1998, the central government enacted a regulation to suspend the public housing provision system. From then on, low-income residents who are not eligible for state (or state-owned enterprise) housing subsidies have very limited access to dwellings (Chen *et al.*, 2014; Lee, 2000).

In 2008, parallel to the local government-initiated residential redevelopment projects, the Chinese central government initiated the first round of national Shantytown Redevelopment Projects (SRPs, Peng-hu-qu Gaizao in Pinyin). SRPs aim to improve the living conditions of low-income residents and to stimulate the depressed housing market. In China, the term shantytown (Peng-hu-qu) is widely used in government policies and refers to the dilapidated housing or illegally-constructed shanties in old inner cities, *danwei*<sup>1</sup> communities, or run-down villages in (sub)urban and rural areas. There are some differences in what the term shanty(town) represents in the Chinese context and in other countries with regard to the concrete structure, construction

materials, development history and the formal position of the shanty. For instance, regarding the development history and legality of the shanty, some of the shantytowns in China were planned and legally constructed by state-owned enterprises to reside their employees' family members, sometimes temporarily, in the socialist era. Due to a shortage of housing, these areas were retained, but a lack of maintenance caused them to become dilapidated. However, shantytowns in China and in other countries also share similarities, such as poor dwelling quality, the lack of basic infrastructures, social disorder issues, etc. In line with the discourse, policies and context of shantytowns in China, this paper uses the term shantytown to refer to neighbourhoods or areas with a high concentration of physically run-down dwellings, which lack basic infrastructures such as gas and water (MOHURD, 2013a). While the year 2008 witnessed a new policy turn to shantytown redevelopment projects, these are by no means new. Since 1980s, some local governments such as Beijing have initiated neighbourhood redevelopment projects in the inner city which are featured by upgrading the physical conditions of the neighbourhoods (Fang and Zhang, 2003; Leaf, 1995). During the end of the 1990s and in the early 2000s, such redevelopment projects have evolved into larger-scale demolition of dwellings and forced relocation of residents from the inner city to sub-urban areas (Fang and Zhang, 2003; He, 2012).

Current SRPs in China involve the demolition of run-down neighbourhoods and the forced relocation of the residents. Between 2008 and 2012, about 12.6 million households were involved in the national SRPs (MOHURD, 2013a); their dwellings were demolished and they were forced to move. In 2013, the central government triggered a second round of SRPs, which focused especially on improving the living conditions of vulnerable residents in undesirable small scale urban areas. From 2008 to date, the neighbourhoods targeted for SRPs have changed from large-scale and well-positioned desirable locations to small-scale neighbourhoods in undesirable locations from a housing market point of view (MOHURD, 2013b).

Under recent market transition, urban redevelopment in China involves complicated interactions between different stakeholders, such as entrepreneurial local governments, emerging market forces and self-enterprising individuals (He and Lin, 2015; Lin *et al.*, 2014; Ong, 2007; Zhu, 1999). These stakeholders behave differently in response to 'the gaming between formal institutions (laws, rules, regulations) and informal institutions (norms/values, and traditions and routines)' (He and Lin, 2015: 2759). Some studies argue that while local governments and developers dominate urban redevelopment as land and capital providers respectively (He and Wu,

2005; Shin, 2009; Zhang, 2002), residents and communities are becoming more disadvantaged and marginalised (He and Wu, 2007; Ren, 2014; Shin, 2014). Other studies and media reports reveal conflicts between local governments, developers and sitting tenants because of fundamental disagreements over urban redevelopment projects (He, 2012; Hin and Xin, 2011; Sichuan News, 2009). Meanwhile, evolving regulations for the urban housing demolition and relocation are changing the interrelationships between different actors in urban restructuring (Shih, 2010; Ren, 2014).

Most studies investigating urban restructuring projects in China have focussed on neighbourhoods with high land values in the context of a prospering housing market. Developers and local governments are highly motivated to take part in these redevelopment projects, because such projects have been very profitable. However, few studies have been conducted on urban restructuring and residential upgrading projects in less popular areas for low-income residents, especially since the recession in the Chinese housing market after 2013. Also, most of the urban redevelopment projects examined in empirical studies were initiated by local governments or developers, and carried out within a certain time period. These studies document the position of different stakeholders in one particular institutional, economic and social context, and do not investigate changes in stakeholders' roles over time.

This paper aims to investigate how the state-led SRPs are implemented in Shenyang and what this means to different stakeholders by revealing how different stakeholders interact with each other, and how their roles have changed over time against the changing context. The paper is based on semi-structured interviews with different stakeholders involved in SRPs in Shenyang, including experts, governors, developers and residents. Shenyang is an old industrial city in Northeast China and is the capital city of Liaoning Province. The city is considered as a pioneer of SRPs in China. In 2005, Liaoning Province firstly initiated the SRPs at the provincial level in China. As the capital city of Liaoning Province, Shenyang had initiated large-scale demolition and forced relocation of residents during the years 2005-2006, which involved about 130,000 households and accounted for 37.7 per cent of the total share of affected households in the Liaoning province (LNJST, 2008). During the current round of SRPs (2014-2016), about 81,500 households are involved. The Ministry of Housing and Urban-Rural Development of PRC (MOHURD) has promoted 'Shenyang Mode' nationally due to its success on SRPs (Shenyang Daily, 2016).

The remainder of this paper is structured as follows. The next section locates different stakeholders within the context of market transition and urban restructuring in China. Then the research area, data and methods are described. Following this, the paper discusses the implementation of SRPs, and the changing roles and interaction between different stakeholders in SRPs in Shenyang. The last two sections present the discussion and conclusions respectively.

## **2. Urban Restructuring under Market Transition in China**

State-led redevelopment of declining (inner-city) neighbourhoods with a large social housing segment is often designed by governments around the globe to tackle issues such as segregation, disorder, poverty concentration and physical decline (Kleinhans and Kearns, 2013; Lel vri r, 2013; Uitermark et al., 2007). Governments often declare that such redevelopment contributes to economic growth, social mix and social equality, via introducing middle-class households to declining neighbourhoods or by relocating minority or low-income households into more affluent neighbourhoods (August, 2016; Lel vri r, 2013). However, such efforts have been criticized for marginalising low-income residents and maintaining their limited influence on the decision-making of redevelopment (Goetz, 2016; Lees, 2012), although social housing tenants throughout Europe enjoy some level of rent protection in the context of urban redevelopment (Korthals Altes, 2016). While low-income households in the United States are often displaced due to sharp increases of rents and living costs after redevelopment, middle-high income households, private developers and local governments usually benefit from gentrification and revalorization of urban land (Goetz, 2016; Lees, 2012). Both in Europe and the United States, neo-liberalisation has greatly affect the governance of urban redevelopment policies (Brenner and Theodore, 2002). Due to fiscal austerity and public deficits, national governments cut down social housing subsidies and invite private developers into social housing redevelopment, which can substantially moderate the outcome of social welfare delivery as the interests of low-income residents are often marginalised for the achievement of general economic growth (Goetz, 2016; Marom and Carmon, 2015). Although some collaborative governance between governments, residents, and private developers is promoted in Western European countries such as the UK and

the Netherlands, the national state often still plays a significant role in shaping and implementing the policies and redevelopment (Dodson, 2006). Compared with the Western cities, the role of the state on urban (re)development in East Asian cities might be even more apparent and outstanding (Shin *et al.*, 2016). In East Asia, the strong state intervention both exists in economic development and social welfare policy delivery, and it cooperates or mobilises market forces to achieve capital accumulation via space reproduction such as ‘slum’ clearance and forced relocation or residents, under the joint effects of East Asian histories (e.g. colony or socialist legacy) and the recent global economic and political trends such as democratisation, decentralization, neoliberalization, etc. (Shin *et al.*, 2016). This has led to the disparities of the position of different actors during urban redevelopment, featured by the advantaged position of the state and capitalists and the disadvantaged position of the affected residents on mobilising urban resources such as land ownership, institutions, policy practises, etc. (Shin *et al.*, 2016; Weinstein and Ren, 2009).

Under market transition, the aforementioned contradiction between economic growth and social equality has also been manifest in urban governance and neighbourhood redevelopment in China. Since 1978, China has been undergoing significant market transition. The central government has adopted privatization, deregulation and decentralization to establish a more market-orientated economy (Harvey, 2005; He and Wu, 2009; Wu, 2010). Some scholars have claimed that China has been experiencing a process of neo-liberalization, with the state changing its style of governance: from governing a ‘totalitarian society’ or ‘authoritarian society’ to ‘ruling from afar’ (Wu, 2008; Zhang and Ong, 2008). However, other scholars argue that the term neo-liberalization cannot be applied to the Chinese context, because the political and economic developmental path of China has never included liberalisation, and hence there cannot be neo-liberalization (Nonini, 2008). Regardless of the dispute about whether China has become neo-liberal or not, the process of market transition has influenced the logic, processes and governance arrangements between different actors in urban redevelopment projects (Lee and Zhu, 2006; Lin, 2014; Lin *et al.*, 2014; Zhang, 2002; Zhu, 1999). In the socialist era, the state took public housing provision as an inherent duty, and state-owned enterprises or other state organizations provided their employees with highly subsidized housing. In the post-reform era, a commodity housing market was established. Currently, access to housing in China is largely dependent on a household’s income and status and whether people qualify for subsidized housing provided by

the state or work units (Chen *et al.*, 2014; Lee, 2000; Stephens, 2010; Wang *et al.*, 2012). Some scholars pointed out that this excludes vulnerable social groups that can neither afford commodity dwellings nor obtain access to subsidized housing, which shows that the marketization of the Chinese housing market is dysfunctional (Chen *et al.*, 2014; Lee, 2000; Meng, 2012; Ni *et al.*, 2012). This inequality in housing has been further enlarged by the sharp increases of housing prices.

Despite these market transition, the Chinese central government has retained its strong influence on urban governance, through strong control on resource allocation, national policies, and public service delivery (Cartier, 2013; He and Wu, 2009; Ong, 2007; Wu, 2008, 2010; Stephens, 2010). The central government has adopted social and political stability and economic development as the underlying principles for the formulation of policy direction, and it will intervene the market transition process if market failure erodes social stability (Chen *et al.*, 2014; He and Wu, 2009; Wang *et al.*, 2012). This is reflected in the resurgence of public housing projects led by the Chinese central government since the global financial crisis, such as the SRPs. The state aims to establish a 'harmonious society' by addressing income gaps, reducing social inequality, and boosting the economy (Chen *et al.*, 2014; Stephens, 2010).

At the same time, within the one-party system, the relationship between the central and local governments in China has shifted. Generally speaking, local governments are supposed to follow the central government's directives for projects such as public housing construction (Wang *et al.*, 2012). Despite hierarchical governance, there is asymmetrical decentralization of power and responsibility, and local governments are reluctant to invest in public housing sectors which has caused public housing projects to lag behind (Lin, 2014; Stephens, 2010; Xu and Yeh, 2009). Fiscal and economic reforms have given local governments more autonomy in economic activities, and also increased the pressure to generate more fiscal revenue for the provision of public services (Chen *et al.*, 2014; Chien, 2007; Lin, 2014). Motivated by economic growth, the need to upgrade urban image and career aspiration of governments cadres, some have found that many local governments have transformed from social welfare providers to acting like 'developmental', 'localism' and 'entrepreneurial' states (He, 2012; He and Wu, 2005; Su, 2014; Yang and Chang, 2007; Zhang, 2002; Zhu, 1999).

Apart from the central state, which is responsible for making guidelines and balancing conflicts between social stability and the economy, stakeholders in the market and society (such

as developers and residents) are also involved in urban restructuring. In many cases, local governments and developers have held a dominant position in urban redevelopment (He and Wu, 2005; Shin, 2009; Zhang, 2002), while residents are more disadvantaged and marginalised (Ren, 2014; Shih, 2010; Shin, 2014). Sometimes even the compensation criteria have not been transparent to local residents, and residents have often been excluded from the decision-making process (He and Wu, 2005; Yang and Chang, 2007: 1822). Conflicts between local governments or developers and homeowners constantly arise due to disagreement on urban redevelopment projects and compensation (He, 2012; Hin and Xin, 2011; Si-chuan News, 2009; Shao, 2013).

SRPs are generally initiated and implemented by governments to improve the living conditions of low-income residents of declining neighbourhoods. Local governments select the targeted neighbourhoods for SRPs. These neighbourhoods are demolished and residents are forced to move. They can usually get two types of compensation<sup>2</sup> from governments: monetary and/or in-kind compensation. To some extent, SRP embodies the attribute of public housing projects as residents can get compensation from the government. Simultaneously, it is also market oriented as it aims to boost the housing market and, in some cases, transform the urban function and social class of target areas. Since 2008, the central government has initiated two rounds of SRPs. Meanwhile, the institutional, economic and social context in China has been evolving, featured by the recession of the housing market, the amendment of land expropriation regulations, appeals on the standardization on capital raising and urban (re)development, and the growing significance of social equality. This raises questions about how the SRPs are implemented with changing roles of different stakeholders in a changing context. Before delving deeper into these questions, the next section describes our research approach, data and methods.

### **3. Research Area, Data and Methods**

Most of the research on urban redevelopment in China focuses on eastern coastal cities such as Beijing, Shanghai, and Guangzhou. Our case study is Shenyang in Northeast China, a typical old industrial city. Shenyang has a population of 5.25 million (Shenyang Statistic Bureau, 2014), making it the largest city in Northeast China and the 11<sup>th</sup> largest city in the whole country.





Figure 1. The internal dwelling condition of a *danwei* community



Figure 2. The main road of a urban village

Source: authors

Shenyang has been called the ‘Ruhr of the East’, and was deeply affected by the planned economy. The city has a large proportion of state-owned enterprises, industrial workers and *danwei* communities. However, since the 1980s, Shenyang has suffered from a major economic depression because of its maladjustment to the market economy. Many enterprises went bankrupt and workers were laid off. Urban areas, especially those traditional industrial areas occupied by state-owned enterprises and *danwei* communities, became problematic areas. Shenyang, had – and still has – a lot of industrial workers and *danwei* communities. In addition, there are many urban villages located in the suburban areas. The physical conditions of these neighbourhoods have severely deteriorated (see Figure 1 and 2). Since the 1990s, the municipal authority of Shenyang has implemented several SRPs to improve the living conditions of its citizens. Shenyang is the capital city of Liaoning Province, which is the first province to implement SRPs at the provincial level, a development strategy pursued by Premier Li when he was the Governor of Liaoning Province. As the capital city of Liaoning Province, Shenyang has been a pioneer in SRPs in the province (see also section 1). Shenyang is therefore a very interesting case study for investigating changes in governance arrangements in SRPs over time. Table 1 shows the housing conditions in Shenyang in 2010. There are still thousands of households living in dwellings that lack basic facilities such as tap water and private bathroom and toilet. Also, lower-story buildings

accounts for almost 63% of all buildings in Shenyang. These low-story buildings which lack basic facilities are very likely to become the targets for SRPs.

**Table 1. Housing conditions in Shenyang (2010)**

	Housing facilities				Floors	Building Years
	No private Kitchen	No tap water	No Bathroom	No Private Toilet	1-6 floors	Before 1980
Absolute Number (household)	2913	31510	114426	25422	177061	23582
Proportion (household)	2.1%	11.1%	68%	9.5%	62.6%	8.3%

Source: Based on the Population Census Data in Shenyang 2010 (Shenyang Statistic Bureau, 2010) .

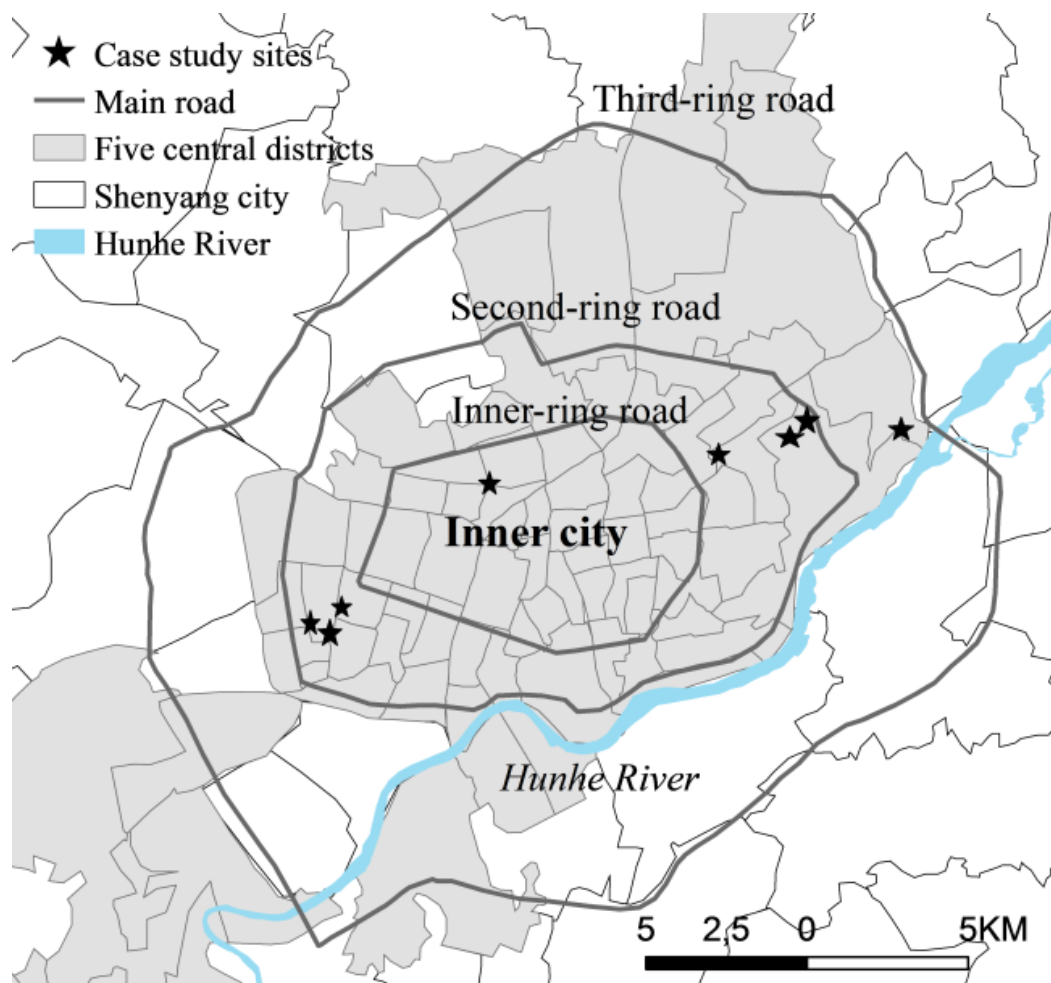
The empirical basis for this paper consists of (analysis of) policy documentation and in-depth, semi-structured interviews conducted in March, April, May, September and October 2015. We approached governors, planners, developers and scholars via email, personal introduction or the local government’s official channels (see Table 2). As part of a larger research study on SRPs in Shenyang, we also interviewed residents living in a selection of shantytowns, which are among the target areas of the SRP plans of Shenyang (Figure 3). Both *danwei* communities and urban villages were involved in the field work (see Figure 4 and 5). We recruited these resident respondents through a combination of snowball sampling and door knocking. Some respondents were approached more than once to obtain supplementary information.

**Table 2. Basic information of professional respondents**

ID	Professional Role	Function of Department	ID	Professional Role	Function of Department
1	Governor	SRPs and Land Expropriation Department	10	Developer	Private Real Estate Company
2	Governor	SRPs and Land Expropriation Department	11	Developer	Private Real Estate Company
3	Governor	Land Expropriation Department	12	Expert	Land Expropriation Company
4	Governor	Land Expropriation Department	13	Expert	Land Expropriation Company
5	Governor	Land Expropriation Department	14	Expert	Scholar
6	Governor	Land Expropriation Department	15	Expert	Scholar
7	Governor	Land Expropriation Department	16	Expert	Scholar
8	Planner	Urban Planning and Design Institute	17	Expert	Scholar
9	Developer	Private Real Estate Company			

All the interviews were conducted face-to-face using a semi-structured interview schedule which varied according to type of respondent. The questions posed to governors, planners, developers and scholars focused mainly on (1) how the SRPs in Shenyang were implemented in terms of financial issues, land expropriation, and governance arrangements; (2) how and why different actors took part in the SRPs; (3) the interrelationships between different stakeholders and implementation problems. During the interviews with residents, questions were asked about their perceptions of the SRPs, impending demolition and neighbourhood changes, their family and moving history, their moving intentions, residential satisfaction, etc.

**Figure 3. Shenyang and the locations of the case study areas in Shenyang**



*Source: Authors*

In total, 81 interviews were conducted, including 17 interviews with scholars, governors, planners and developers, and 64 interviews with residents. Among the interviews with residents, 33 were conducted in *danwei* communities and 31 were conducted in urban villages. The interviews with governors, developers, planners and experts were recorded by making notes. The interviews of residents, with the exception of four (because the author did not get permission to record the interview), were recorded and subsequently transcribed verbatim, enabling content analysis of the transcriptions. Table 3 shows the descriptive statistics of the resident respondents. Most of them have been living in their declining neighbourhoods for more than 20 years. The interviewed residents who are older than 55 are retired and can get a pension ranging around from 1800-3000 RMB/month. Those respondents who are aged between 30 and 55 either have part-time jobs or are self-employed. Many of them are homeowners who can rent out rooms to migrants and earn around 200 RMB per month per room. Many young and more affluent residents have moved out of these neighbourhoods. The stayers are mostly middle-aged residents with a low or middle income. There are also many migrants living in these neighbourhoods. In 2015, the annual average disposable income for the lowest and lower income households are 14679 RMB and 23944 RMB respectively (Shenyang Statistic Bureau, 2016). However, the average selling price of commercialized residential dwellings is 6416 RMB per square meter (National Bureau of Statistics of China, 2015). In general, it is relatively difficult for these lowest – and lower income residents to afford the dwellings.

**Table 3. Basic information of the resident respondents**

Category	Gender			Age (Year)				Length of Residence (Year)				
	Male	Female	Un-known	30-60	60-80	≥80s	Un-known	<20	20-40	40-60	≥60	Un-known
Absolute Number	29	29	6	21	28	4	11	8	22	17	9	8
Proportion	45%	45%	9%	33%	44%	6%	17%	13%	34%	27%	14%	13%

Before using Atlas.ti to analyse the transcriptions, the notes and recordings were read and listened to several times. To guarantee the anonymity of respondents in the analysis, the quotes of residents are accompanied by gender, age category, fictitious names, and interviewing date. The quotes of scholars, governors, planners and developers are indicated by a number (to distinguish different respondents), their respective function and interviewing date. Alongside the interviews, we analysed relevant policy documentation on SRPs in general and their implementation in our

case study area in particular. Figure 3 shows the map of Shenyang as well as the case study neighbourhoods (involved in SRPs).



Figure 4. The external dwelling condition of a *danwei* community



Figure 5. The main road of a urban village

*Source: Authors*

## **4. Implementation and Changes in Roles of Stakeholders in SRPs in Shenyang**

### ***4.1 The centralization of the inception of SRPs***

There is a tendency towards centralization in Shenyang's SRPs with regard to initiating projects, raising funds and expropriating land. As Table 4 shows, SRPs in Shenyang used to be initiated by the municipality. The central government has taken over this role from 2013 onwards. Since the 1980s, Shenyang has seen some local-state initiated residential redevelopment projects (Guo and Sun, 2010). In 2000, Shenyang municipality initiated a large-scale SRP, and emphasized redeveloping shantytowns and land at market prices (Guo and Sun, 2010: 110). In 2005, the then Governor of Liaoning Province launched a provincial-wide SRP programme, incorporating SRPs into its provincial-level development strategy for the first time. Shenyang was encouraged by the policies of the provincial authority, to implement larger-scale SRPs in the following two years (Guo and Sun, 2010). The centralization process of SRPs did not stop at the provincial level. During the period 2005-2008, central government officials visited the relocation neighbourhoods of SRPs in Liaoning Province and spoke highly of the SRPs in Liaoning. SRPs were first mentioned by the central government in 2007, when it announced its national policy "Solve the housing problems of urban low-income social groups". However, from 2008 to 2013, Shenyang

launched few SRPs because there were hardly any shantytowns left in the inner city (Respondent 8, 18-03-2015 ).

In 2013, Shenyang commenced a five-year SRP (2013-2017) in response to the central government's promotion of a second round of SRPs. In order to motivate local governments and get them involved in SRPs, the central government repeatedly stressed the importance of SRPs as the key to economic growth and the welfare of residents in the current situation of slow economic growth (Li, 2015). The central government set clear plans for the SRPs regarding financial arrangements, land acquisition, and compensation schemes for residents (Chinajsb, 2015a; MOHURD, 2013a). Also several national-level meetings were organized between officials from different provinces and municipalities to exchange experiences with SRPs (Chinajsb, 2015a, 2015b). The central government has also monitored and supervised the use of state-supported funds, to promote the pace of SRPs uptake (MFPRC, 2012). Shenyang had stated that there were no urban shantytowns left within the inner city after 2008. However, in response to the central government's strong promotion of SRPs, Shenyang has extended the targeted neighbourhoods from inner-city neighbourhoods to shanty villages at the urban periphery (Respondent 8, 18-03-2015; Respondent 1, 30-03-2015).

Through other related interventions, the central government controls the crucial factors for the implementation of SRP: capital (funds) and land, which ensures that local governments align their development strategies within the agenda of the central government to obtain more financial and policy support. Since 2011, the central government has enacted several policies related to funds, urban space and land expropriation. We explain three policies in more detail.

The first policy concerned the land (re)development patterns. It emphasized compact land development and stressed the redevelopment of land already in use rather than uncultivated land (MLRPRC, 2014). Consequently, local governments have had to increase land use efficiency via redeveloping inner cities if they require more land. Therefore, local governments take the redevelopment of urban shantytowns as an important option for increasing land use efficiency (Respondent 8, 18-03-2015).

The second policy is related to the funding resources for local developments. The central government published the regulation 'Control on the risk of the local governments' debt' in 2014, which sought to limit local governments' risk in raising capital by pledging urban land to banks for loan (Respondent 1, 15-04-2015 and 2, 07-04-2015). The depressed housing market and low

financial capacity of residents in shantytowns worsen the funding of SRPs. Local governments have to rely on financial support from the central government to promote SRPs. Funds for Shenyang’s SRPs originate from different-level governments and the China Development Bank (CDB<sup>3</sup>). Up to 2015, Shenyang has received RMB 73.11 million (around €10 million) in funds from the central government, intended for compensating residents in SRPs. The CDB further provided Shenyang RMB 12.2 billion for SRPs in 2015 and 2016, which accounts for almost 80 per cent of the total investment that Shenyang requires.

Third, the central government instructs local governments to regulate the land expropriation process through legislation and regulations. In 2007, the central government enacted the Property Rights Law which highlights the protection of private properties. In 2011, the central government abolished the No. 305 regulation on land expropriation (issued in 2001) which implies the legality of forced demolition on private properties, but contradicts the Property Rights Law (The State Council of PRC, 2001; Weinstein and Ren, 2009). At the same time, the new regulation on land expropriation (No. 590) was issued to standardize the conversion of property ownership and land-use rights from homeowners to local governments in public-use projects. These changes show the centralization in local urban (re)developments.

**Table 4. The centralization process of SRPs in Shenyang**

<b>Year</b>	<b>Main actor</b>	<b>Related projects and policies</b>	<b>Feature of neighbourhoods</b>	<b>Strategy adopted in Shenyang</b>
2001-2004	Shenyang City	City-level residential upgrading projects; the pace of SRPs was accelerated since the central government launched the “Revitalization of the Northeast old industrial bases programme” in 2003	Large scale; spatially concentrated, relatively good location from a housing market perspective	Projects are operated according to market mechanisms, and supported by the various governments
2005-2008	Liaoning Province	SRPs listed as the chief project of Liaoning Province’s development strategy; “Urban shantytown redevelopment” was first mentioned in the national policy and on the agenda of national public housing; involving a RMB 4 trillion worth of investment in infrastructure construction since the global financial crisis.		
2009-2012	The central government			-
2013-2017	The central government	Shantytown redevelopment projects have become more independent projects	Small scale; spatially scattered; relatively poor location	Government oriented, and district-level governments are responsible

Sources: based on own interview materials and policy documents referenced in section 4.1.

#### **4.2 The decentralization of SRP implementation**

Parallel to the centralization of the inception of SRPs, the *implementation* of SRPs has become more decentralized over time. This is partly due to the institutional arrangements of the central government and Liaoning Province. In China, the administrative structure in urban areas is multi-layered: municipal government, district-level governments and sub-district governments. District-level governments are a lower level than municipal governments. In turn, municipal government is affected by the regulations from the central and provincial governments.

In 2011 the central government abolished the old regulation (No. 305) on demolishing urban housing, and issued a new one (No. 590) emphasizing the expropriation of state-owned land for public use. The new regulation highlights the district-level governments' duty in urban redevelopment (see Figure 6.1 and 6.3). The decision-making on land expropriation therefore has devolved from the Shenyang municipal-level government to the district-level governments. In 2013, Liaoning Province introduced a policy to devolve more power to district-level governments with regard to project management, urban planning, land-use management and land expropriation. At about the same time, Shenyang municipality adopted a policy which emphasized the leading role of district-level governments in implementing SRPs. Due to the above changes, district-level governments are empowered with more autonomy on decisions about the duration of the transitional period, the criteria for compensation and the procedure for the selection of rehousing dwellings during SRPs.

However, these changes pose multiple challenges to district-level governments. First, district-level governments need to deal with relocatees' multiple deprivation situation (usually including a combination of poverty, unemployment, low-income, disability, etc.) and their decreasing housing affordability in the context of the second-round national SRPs (see section 4.4). Current SRP merely focuses on the physical improvement of residents' living conditions and adopts single compensation criteria. Therefore, it has limited influence on alleviating these relocatees' multiple deprivation in relation to poverty, unemployment, disability or chronic disease related to ageing. Second, local governments need to adapt themselves to the new institutional context in relation to land expropriation process. The newly enacted regulation on land expropriation makes district-level governments responsible for the land expropriation



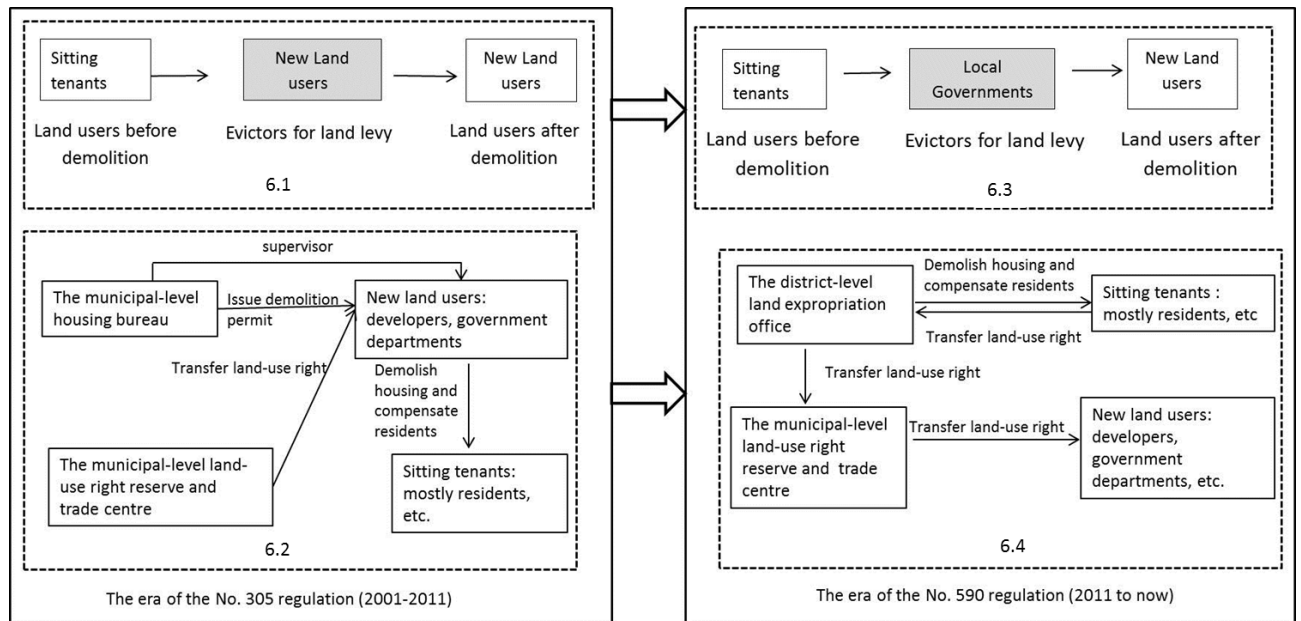
process. It also empowers residents to be involved in the decision-making of SRPs. For instance, before the actual redevelopment starts, local governments have to make sure that residents sign the redevelopment agreement. Residents are also allowed to choose the real estate assessment company which sets the compensation criteria by assessing the value of residents' dwellings, whereas local governments used to nominate these companies. These changes have become necessary procedures required by current land expropriation policy. District-level governments therefore have to make efforts to adapt their governance and redevelopment strategy to accommodate relocatees' appeals, which might lead to the delayed pace of SRPs (SYG, 2014; Respondent 3, 02-04-2015). However, local governments try to limit these changes on a nominal level and residents have limited influence on the redevelopment process. Finally, district-level governments face a higher financial pressure. During the earlier SRPs in Shenyang, developers are the main source of funding for SRPs (see section 4.1 and 4.3). Local governments mainly play an intermediary role, which enables the land to transfer from residents to the developers. However, due to the housing market recession and low financial capacity of relocatees, local governments have to rely on different types of loans and subsidies from the central, provincial and municipal-level of governments and the CDB. Nevertheless, the central government recently published a regulation to control the risk of the local governments' debt, which makes it difficult for local governments to raise funding by pledging urban land to banks (Respondent 1, 15-04-2015 and Respondent 2, 07-04-2015).

Despite the above challenges, district-level governments adopted different strategies in practice to accommodate their economic interests with the public interest involved in SRPs. For instance, a district-level government in Shenyang consolidated small-scale projects into larger ones in the redevelopment of a small scale and spatially scattered shanty neighbourhood (People's Daily, 2013). Also, district-level governments can select which neighbourhood to be redeveloped in addition to the criteria set by the municipality, which makes profitable projects a priority for redevelopment.

Against the changing institutional, economic and social context mentioned above, local governments are more likely to be stimulated (by the central government) to take part in SRPs on the basis of a top-down administrative and political order. Their internal motivation is now suppressed due to the lack of economic incentives from SRPs. Therefore, this mismatch between local governments' internal and the external motivation can lead to an inefficient implementation

of SRPs. This also appears from the reports of many interviewed residents, who felt grateful about central government’s policy on SRP, but were dissatisfied with the implementation of SRP by the local governments. They remarked the policy and its implementation as ‘the central government has good policies, but the local government have their own policy implementation’.

**Figure 6. Changes in the land expropriation process: Regulations No. 305 & No. 590**



Sources: regulations No. 305 (The State Council of PRC, 2001) and No.590 (The State Council of PRC, 2011)

### 4.3 The dynamic changes in the role of market forces

In the second round of SRPs in Shenyang, market forces (impersonated by developers) have largely become marginalised with regard to initiating, financing and expropriating land. Market forces used to play a significant role in investing in SRPs. The booming real estate market has enabled land to become the main financial resource for SRPs (Shenyang Statistic Bureau, 2004, 2007, 2008). During 2005-2008, Shenyang municipality raised its funding for SRPs mainly through the market, that is, by transferring the land-use rights from the government to developers at market prices or by pledging land to banks for loans (Guo and Sun, 2010). A report about Liaoning Province’s SRPs during 2005-2006 shows that about RMB 1.9 billion (about €195.6 million) was invested in Shenyang’s SRPs, almost all of these funds were raised through the market (RGDUFE: 53). This clearly echoes the “market functioning, government initiating”

strategy. However, the housing market has gone into a recession since 2013. Developers are less keen about investing in real estate and obtaining more land, which is illustrated below:

“Currently developers are faced with more challenges and difficulties. This is because of the entire housing market situation [recession], rather than the [increasing] difficulty of land expropriation ... The ‘golden decade’ of real estate development is over, and now it is the ‘silver era’ ... Developers are less motivated to acquire more pieces of land.” (Respondent 9, 01-04-2015).

Figure 6 shows how the position and interaction between developers, residents and different-level governments have changed due to the changes in land expropriation regulations. In the era of the old regulation (Figure 6.2), developers got involved in land expropriation after obtaining the demolition permit from related municipal-level departments. Under the current regulation (Figure 6.4), developers are ‘excluded’ from the land expropriation process, and only local governments are responsible for compensating and rehousing residents. The institutional changes mentioned above have marginalized developers’ role in SRPs, and developers no longer directly initiate or finance SRPs as they did before. Since land expropriation is the most controversial part in SRPs, this marginalisation might be beneficial for developers as they can get land directly transferred from local governments. Local governments seem to pave the way for developers by their directly taking part in the land expropriation process.

However, whether developers benefit from this will depend on the profit that they can get from participating in SRPs. Currently, both the central government and Shenyang municipality promote public private partnerships to get more market actors involved into SRPs. Developers are hesitant in taking part in SRPs considering the complex homeownership issues in declining neighbourhoods and the uncertainty of local governments’ project management. Moreover, neighbourhoods targeted for current SRPs are in poor locations and small-scale, making developers’ profit margins much less favourable compared with redevelopment of inner-city areas:

“Now developers are not interested in the [redevelopment of] shantytowns. [Developers] only focus on earning money” (Respondent 10, 01-04-2015). “If the location of

shantytowns is good then it is good for developers... It costs too much to redevelop shantytowns [in poor locations]" (Respondent 9, 01-04-2015).

However, developers are not totally excluded from SRPs. They are indirectly taking part in SRPs, through local government's purchase of their dwellings for rehousing relocatees. This has come about because one of the key targets of SRPs is the stimulation of local housing markets. The central government encourages local governments to buy commodity dwellings for relocatees, so as to consume the redundant housing in stock and boost the housing market (Respondent 12, 30-05-2015).

#### ***4.4 Multiple deprivation and decreasing housing affordability of residents***

The land expropriation process is the most controversial part in SRPs, as it requires intensive interactions between relocatees and local governments, which can easily cause conflicts. Disparities between the expectations of residents and local governments on the compensation occur frequently. The interaction between residents and local governments and developers has also been affected by the evolution of the meaning of the home in China. During the earlier SRPs in Shenyang, most relocatees had been living in declining neighbourhoods for many years. For these residents, SRP meant a chance to release and fulfil their suppressed housing demands, due to the underdevelopment of housing market and the lack of access to housing in the socialist era. Their housing needs and the compensation they were able to get from local governments and developers, and the relatively low housing price at that moment together boosted the pace of their relocation, because they were able to quickly secure alternative housing.

However, in the second round of SRPs, the social, economic and institutional context has changed, and so as the meaning of home for residents. Currently, dwelling not only means home, but also an asset of growing financial importance because of rising housing prices. Home thus represents the resources and social status of an individual or a household. For instance, in current urban China, a dwelling is required for a marriage in most cases, which was also reported by several interviewed residents.

Residents who feel trapped in declining neighbourhoods are desperate for redevelopment. Some interviewed residents complained that "you cannot find another place as worse as here in Shenyang", "we have been looking forward to the redevelopment", and "You see, they are living

a happy life [after moving into relocation neighbourhoods]...”. These residents who currently stay in the shantytowns are among the most deprived social groups. They encounter many hardships, such as unemployment, ageing, disability, etc. They can barely afford alternative housing, as the housing price in Shenyang has increased greatly.

Also, developers have become cautious about investing in SRPs. Local governments have become the overriding actor that these residents can rely on to improve their living conditions. Some respondents reported that they had visited the district-level governments to make an appeal for redevelopment for several times. For example, Qiang (58, male, disabled, with basic living allowance, 26-03-2015), who has been living in a shantytown for about 20 years, said that:

“I am alone now. My parents have passed away. I do have two sisters, but they have to take care of themselves. How could they really help me... I am happy with the forced relocation... [because] at least, whatever they [local governments] compensate me..., my future living condition definitely will be better than this...”

For such reasons, many of the interviewed resident facing relocation are willing to accept SRPs. However, in the actual redevelopment process, some residents have an ambivalent attitude towards SRPs due to their deprived situation. That is why while Qiang (58, male, 26-03-2015) appreciated the state-led SRPs (as is reflected by his above quoted statement), he is simultaneously cautious about the possible disruptions that redevelopment cause to him::

“...you [the government] have to save the residents from our sufferings... I am disabled... I make a living as a moto tricycle driver... [we] all want to cooperate [with the government]. But it is also quite important [the government] considers [our] real [difficult] situation, isn't it?...”

Even if respondents now perceived SRPs as an opportunity to change their housing situation, many reported similar worries about the uncertainty of their life during and after SRPs (see also Li *et al.*, 2016). These residents have developed living strategies over the long length of residence in their declining neighbourhoods. For instance, their neighbourhood can support them with an income by running small business or renting out rooms to migrants. They also retain their strong

social networks within their neighbourhoods. These social and economic resources embedded in their neighbourhoods are significant resources for them to make a living. Partly for this reason, they regard their neighbourhood as their home. Therefore, neighbourhood demolition and forced relocation involved in SRPs can be highly disruptive to these residents, because it amplifies the aforementioned ambivalent perceptions regarding SRPs. On the one hand, residents regard SRPs as congruent with their strong preference on improving their living condition via the redevelopment. On the other hand, the impending demolition and forced relocation may painfully emphasize the importance of their strong dependence on and attachment to their neighbourhoods with regard to coping with their life constraints.

## **5. Discussion**

The complex interactions between various stakeholders in SRPs in Shenyang illustrate the multifaceted issues surrounding governance under market transition in China: a market mechanism combined with strong state control, and the increasing role and appeals of society (Lin and Zhang, 2014; Wu, 2010). The central government still plays a dominant role in guiding national activities of market transition in China. Since 1978, economic growth has become the overriding priority for different levels of governments. Poverty and heavy social burdens (e.g. housing, education and medical care) have been challenging social equality and social stability (Stephens, 2010). From the resurgence of public housing policies and the two rounds of SRPs since 2008, we can see that on the one hand, the state has been using investment in the public sector to cope with the global financial crisis and slow economic growth. On the other hand, the state has tried to maintain a balance between economic growth and social equality (Duckett, 2012; Li, 2015). While the concept neo-liberalisation cannot be applied properly to China (Nonini, 2008), scholars have observed a tendency of neo-liberalisation in terms of continuously ‘hollowing out of the state’ and ‘rolling out’ of the market in Western Europe regarding social welfare delivery (Dodson, 2006; Theodore and Brenner, 2002). At first sight, it appears that Western Europe and China are on different paths regarding the post-crisis state’s role in urban redevelopment. However, in Western Europe, some cases show the importance of the state in structuring and governing urban housing restructuring projects, which are especially significant

for disadvantaged social groups and the least desirable residential areas (Dodson, 2006; Uitermark *et al.*, 2007;). Although some Western European countries, such as the UK and the Netherlands, also retain control of public service delivery, most of their interventions are less direct compared with China (Dodson, 2006).

There are also differences between China and the USA, which are partly caused by how neo-liberalisation has affected the governance of US urban redevelopment policies (Brenner and Theodore, 2002). In China, local governments are both the implementer of top-down initiatives and also the key stakeholder with their own interest in SRPs. The entrepreneurial local governments have made economic growth and cadres' career development as their priority. Therefore, local governments can mobilise various resources and state power to steer policy implementation for their own interests, which affects the interests of other stakeholders especially the residents (Duckett, 2012; Shin, 2016; He, 2012). Paradoxically, this appears to pave the way for developers to become more selective regarding their participation in urban redevelopment projects. This applies to the USA as well (Jones and Popke, 2010). However, the countries again differ with regard to the denomination of target areas. While this is more needs-based in the USA, Chinese local governments prefer to redevelop neighbourhoods of high profit potential first (e.g. neighbourhoods with good locations), with the risk that severely declining neighbourhoods are left without redevelopment because of their poor location and market prospects.

Another difference between Chinese SRPs versus American and European redevelopment policies relates to residents' perception of the role of government layers. In China, many conflicts between local governments and residents have emerged during urban redevelopment (He, 2012; Hin and Xin, 2011). We found that many interviewed residents simultaneously report gratitude towards central government's SRP policy and dissatisfaction with the implementation of SRP by local governments. This 'split' of the state - the 'benign centre and a predatory local apparatus' - can thus negatively affect social equality and social welfare delivery (So, 2007, p 560). This 'split' seems to be unique for the Chinese situation.

Like in the USA and Europe (Goetz, 2016; Kleinhans and Kearns, 2013), residents involved in SRPs, facing demolition and forced relocation, are entitled to compensation from local governments. However, many scholars have criticized the unfairness of the compensation in some local-state initiated projects in China, blaming it for being too low in financial terms and not taking into account the disruption to residents' living strategies, including job losses, teared

social networks and limited accessibility to good public services (He, 2012; Lees, 2012; Shao, 2013). Even though many residents are willing to accept SRPs, achieving fair compensation and minimizing the disruptions connected to forced relocation have become the key issues for solving the tensions between residents and local governments.

## 6. Conclusions

This paper has examined how SRPs are implemented in Shenyang and what this means over time for the interactions between and changing roles of the central government, local governments, developers and residents during the SRP. It found that the implementation of SRPs showed a tendency towards centralization in providing funds, initiating projects and governing land. At the same time, the implementation of SRPs has become more decentralized and an increasing mismatch appears between the SRPs' focus on physical improvement versus the ability of target area residents to escape worsening living conditions and deteriorating housing affordability. In light of the wider international debate on state-led redevelopment of declining neighbourhoods, several lessons can be learned with regard to the approach in Shenyang.

First, this paper has identified an entrepreneurial paradox in the relationships between developers and local governments in the context of SRPs. At first sight, developers seem to have become largely marginalised with regard to initiating, financing and expropriating land in SRPs. Currently, local governments are responsible for land expropriation, compensation and rehousing of residents and developers are no longer burdened with compensating residents. Paradoxically, by taking over most complex and controversial parts of SRP implementation, local governments, who appear to behave increasingly entrepreneurial (cf. Cartier, 2013; Duckett, 2012; Shin, 2016), have paved the way for developers to be more selective with their participation in redevelopment projects, depending on profit prospects. Against the above backdrop, current SRP target areas, located in the urban periphery and with much weaker market positions, have been experiencing state-led redevelopment. Contrary to general opinions, this approach has much in common with examples of state-led regeneration in many European countries that focus on disadvantaged social groups in the least desirable residential areas (see e.g. Lel vri r, 2013; Uitermark *et al.*, 2007).



Another similarity between redevelopment in China, the USA and Europe concerns residents' entitlement to compensation in case of demolition and forced relocation (Korthals Altes, 2016). However, scholars have criticized the unfairness of the (amount of) compensation in local-state initiated projects in China, blaming them for being financially feeble and ignoring disruptions to residents' ways to make a living (He, 2012; Lees, 2012; Shao, 2013).

A clear difference between Chinese SRPs versus American and European redevelopment policies relates residents' perceptions of the role of various government layers. In China, many conflicts between local governments and residents emerged during urban redevelopment (e.g. He, 2012; Hin and Xin, 2011). While residents report gratitude towards central government's SRP policy, which is supposed to provide them with an opportunity to provide their housing and living conditions, they reveal strong dissatisfaction with the implementation of SRP by local governments. This 'split' of the state, in terms of a "benign centre and a predatory local apparatus" (So, 2007, p 560) has, to our knowledge, no counterpart in European or American neighbourhood redevelopment policies, where residents' opposition is usually targeted towards local governments only (Goetz, 2016; Kleinhans and Kearns, 2013).

In the context of Chinese market transition, governments, and especially the central government, continue to be obliged to provide social services for the public, and to take both people's wellbeing and economic growth into account (Li, 2015). This paper has shown the necessity of making corresponding governance arrangements and design operational practices which boost the smoothness of SRPs, as these are becoming more firmly entrenched in China. Therefore, a comprehensive evaluation system, focussing on the social, economic and physical implications of SRPs for residents, should be established by the central government to assess local governments' performance on SRPs. Not only the pace or the scale of the SRPs should be taken into account, but also fairness of the compensation and the consideration of the post-relocation life chances of the residents.

## Notes

1: “A work unit (*danwei*) generally refers to a special kind of workplace in the context of state socialism where the workplace becomes an extension of the state apparatus and undertakes the function of social organisation and control” (Wu, 1996: 1604). Work units not only took the responsibility of production and offering job opportunities. They also function as a social organization which provided employee services and welfare such as housing, education, hospital, canteen, and sports fields (Bjorklund, 1986; Wang and Chai, 2009).

2: In-kind compensation and monetary compensation: Those who choose for in-kind compensation are moved to so-called relocation neighbourhoods (on site or off site), which are provided by local governments. Residents who get monetary compensation may purchase dwellings from the housing market.

3: China Development Bank is a policy bank of the PRC which is under the direct jurisdiction of the State Council. It is a financial institution, which invests on and supports mid-long term large infrastructure projects in China (CDB, 2017).

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