



Foreign direct investment, fiscal decentralization and land conflicts in China



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ABSTRACT

Land disputes have been an important risk to social stability in China since the turn of the century. This paper uses provincial data on illegal land uses during the period 1999–2010 as a proxy for the intensity of land conflicts to investigate the effects of foreign direct investment (FDI) and fiscal decentralization on jurisdictional land conflicts. The results show that the FDI growth rate has a positive and significant impact on the growth rate of illegal land use when there is a high degree of fiscal decentralization. We thus provide evidence supporting the hypothesis that regional competition for FDI, as shaped by fiscal decentralization, tends to raise conflicts over land in China.

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1. Introduction

Land has been a major source of conflict in China over the last decade. As Cao, Feng, and Tao (2008) report, there were approximately 17,900 cases of “massive rural incidents” in the first nine months of 2006. Among these, land acquisition-triggered conflicts accounted for approximately 80% of all incidents. In the recent work of Kung and Chen (2014), land revenue windfalls are found to have led to increases in corruption, as measured by the size of the bureaucracy and the amount of administrative expenditure. Cui, Tao, Warner, and Yang (2015) investigate the impacts of land requisition on farmers' perceptions of the government. Unsurprisingly, they find that land taking increases political distrust between villagers and local officials.

Although it is widely recognized that land disputes increasingly contribute to social instability in China, few studies attempt to investigate the underlying causes of land conflicts. A lack of reliable data on land conflicts is probably the main reason for this research gap. In this study, we propose to use available data on illegal land uses as a proxy for land conflicts. Data on illegal land uses are collected and reported periodically by the Ministry of Land and Resources. The ministry and its sub-branches play a major role in supervising land use behavior and the implementation of land use administration laws in contemporary China.

We focus on two mechanisms identified in the literature as major causes of land conflicts in China. Both mechanisms originate in China's fiscal decentralization policy. One explanation comes from the literature on regional competition in China. It emphasizes that land is an important instrument of local governments in attracting foreign direct investment (FDI) and stimulating local

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economic growth. The other is that land can be leased out in the urban land market to the real estate sector and other tertiary-sector businesses for prices that far exceed those paid to farmers for expropriated land; this so-called land finance serves as an important source of revenues for local governments (Cao et al., 2008; Tan, Qu, Heerink, & Mettepenningen, 2011; Tao, Su, Liu, & Cao, 2010).

Guided by the literature, we examine the effects of FDI, land finance and fiscal decentralization on land conflicts using a provincial-level panel data set for the 1999–2010 period. The results suggest that: (1) regional competition for FDI has positive (short-term) effects on the growth of illegal land use when there is a relatively high degree of fiscal decentralization. (2) Land finance, as a share of local fiscal budgetary revenues, does not significantly affect land conflicts.

Our findings are consistent with the literature on FDI and its impacts on host economies. For example, Robertson and Teitelbaum (2011) show that FDI leads to increases in labor protests, especially when the host economy has inadequate labor rights protections. Our sub-national study similarly finds that the combination of outside capital and deficient protection of land rights can generate serious predation of farmers' land. The results confirm that local conditions in the host country are determinative.

The remainder of the paper is organized as follows. Section 2 discusses the use of illegal land use as a proxy of land conflicts in China. Section 3 presents our analytical framework and main hypothesis. Section 4 describes the empirical strategies and the data set. The main results and sensitivity checks are then discussed in Section 5. Section 6 concludes.

2. Land conflicts in China

Many studies contend that land-triggered conflicts have become a primary cause of social unrest. For example, Lu, Li, and Chen (2012) report that approximately half of China's mass incidents (protests involving more than 100 participants) in 2012 were caused by land disputes.¹ The rise of land disputes is also reflected in the growth of land-related petition letters (Meligrana, Li, & Zhang, 2011; Pils, 2005). Estimates based on petition letters received by the People's Congress of China in 2012 show that over 50% of petitions concerned land issues such as unfair compensation following land acquisition.² These findings, however, are mainly based on incomplete statistics on mass incidents and petition letters at the national level. Data of this type are only released occasionally in government documents and do not allow for quantitative analysis of the variations in land disputes across jurisdictions and over time. To gauge land conflicts and systematically investigate their causes, we propose to use data on illegal land use areas as a proxy for the local intensity of land disputes. We introduce the data and explain their suitability in this section.

2.1. Illegal land use as a proxy

Land use in China is mainly governed by the Land Administration Law (LAL) that was first promulgated in 1986. It was significantly revised in 1998 to meet the challenges posed by the rapid loss of farmland and fast increase in government requisitions of rural land. The revised law defines rules for land requisition and leasing and thereby governs the allocation of land between the rural (mainly agricultural) and urban sectors (Cao et al., 2008; Tan et al., 2011).

During the period 1999–2008, on average, more than 171,000 ha of farmland per year was expropriated for (mainly urban) construction purposes (Table 1). After expropriated farmland is transferred from rural collectives to urban governments, it can be leased through the urban land market via the public land leasing system, with a maximum lease term of 40 years for commercial use, 50 years for industrial use, and 70 years for residential use. Government revenues obtained from land leasing through the urban land market reached more than 2,746 billion yuan in 2010 (Table 1).

Following the LAL revision in 1998, the Ministry of Land and Resources and its sub-national branches began to document incidents of illegal land use. MLR (2000–2011) distinguishes six categories of illegal land use: illegal transfer, damage to cultivated land, encroachment on land without approval, unlawful approval of land occupancy, granting of land at reduced prices, and others. Among these categories, the encroachment on land without approval accounts for the largest share (Table 2). It refers to the occupation of land without legal approval or the occupation of more land than the approved area. As anecdotal evidence illustrates, illegitimate land occupation by land users and illegal approval of land conversion have been important reasons for land disputes among farmers, investors, and local governments.³ Because the amount of land involved in illegal land use cases has been systematically documented at the province level since 1999, we can use its variation across provinces and over time to examine its causes in detail. In our view, it is the best available proxy for the intensity of land conflicts that can be used for an empirical examination of their causes.⁴

¹ Mass incidents refer to “planned or impromptu gathering[s] that [form] because of internal contradictions”, including mass public speeches, physical conflicts, the airing of grievances, or other forms of group behavior that may disrupt social stability. A typical example of a mass incident triggered by land is the Wukan case (see http://en.wikipedia.org/wiki/Wukan_protests).

² Petitioning is a commonly used instrument by Chinese citizens to lodge complaints when their rights are infringed upon as a result of the abuse of power by authorities, public institutions, enterprises, or civil groups.

³ Two typical examples of illegal land use can be found at: http://www.chinadaily.com.cn/china/2011-10/26/content_13977191.htm
http://www.chinadaily.com.cn/bizchina/2010-10/18/content_11423012.htm

⁴ The sub-type “damage to cultivated land” mainly refers to houses built on farmland or trees planted on farmland instead of crops, which has little to do with FDI and fiscal decentralization. The total number of illegal land use cases of this type is very small, and its impact on our analysis is therefore likely to be negligible. We decided to focus on the data on illegal land use as a whole, as data collection is considerably less demanding under that approach.

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