



Identifying livelihood strategies and transitions in rural China: Is land holding an obstacle?

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ABSTRACT

Using nationally representative rural survey data from 2010 and 2014 in China, this paper quantitatively investigates the factors determining Chinese rural households' livelihood strategies and dynamics in transitions. Using a multinomial probit regression and ordered logit regression (OLR), we find that human assets and transport facilities are the most important factors in improving the livelihood strategies of rural Chinese households. These factors also encourage upward livelihood mobility. However, factors such as land endowment, land renting-in, and land expropriation have a negative effect on rural Chinese households' upward mobility in livelihood strategies.

1. Introduction

With economic reforms, China has gradually transformed into a market economy. Economic liberalization and transition to markets have become the basic principles of resource allocation. This market transition has led to a rapid growth of the non-agricultural economy, resulting in changes in the livelihood strategies for rural Chinese households. For example, the National Bureau of Statistics reports that the share of rural workers in the off-farm sector increased from less than 34% in 2000 to more than 75% in 2015 (Zhang et al., 2018). Although small farms still dominate China's agricultural production, rural households now continually look for off-farm diversification strategies (such as small business ownership, wage employment, and migration) to increase and stabilize household income. In 2016, income from off-farm wage employment of China's rural households accounted for more than 40% of the total household income, while the share of agricultural income decreased to less than 38% (National Bureau of Statistics of China (NBSC, 2017). The benefits of livelihood diversification¹ in the off-farm economy in many developing and developed countries have been well-documented in the literature (Barrett et al., 2001; Reardon et al., 2001; Khanal and Mishra, 2014).

Studies related to rural livelihood diversification can be classified into three types. First, literature focuses on a single livelihood diversification strategy such as labor migration (Zhao, 2002; Uchida et al., 2009; Mullan et al., 2011). The second strand of literature focuses on a combination of

livelihood strategies—migration and off-farm work (Shi et al., 2007; Demurger et al., 2010; Liu and Liu, 2016). The third strand focuses on several livelihood strategies, using clustering methods and quantitative analysis (Jansen et al., 2006; Nielsen et al., 2013; Jiao et al., 2017; Waleign et al., 2017). Note that the first two strands of livelihood classification strategies have been widely studied. However, due to a lack of micro data and techniques, only one study has investigated livelihood strategies (Jiao et al., 2017) including income-generating strategies (on- and off-farm) and the income-generating capacity of household assets. Compared to a single livelihood strategy or a combination of strategies, the clustering methods and quantitative analysis (CMQA) treats households' assets as the basis for determining rural livelihood strategies. Additionally, CMQA provides a comparison of welfare effects and the sustainability of different livelihood strategies (Jansen et al., 2006; Jiao et al., 2017; Waleign et al., 2017).

However, a household's livelihood strategy is changing over time (Waleign et al., 2017). For instance, rural Chinese households may pursue an initial livelihood strategy, but such a strategy may move (also called livelihood transition or mobility) rural Chinese into one of the three categories—higher welfare, lower welfare, or the same welfare level—in the next stage (Den Berg, 2010; Jiao et al., 2017). Assessing the factors affecting rural livelihood transitions has strong policy implications for reducing poverty and achieving livelihood sustainability in the long run. Unfortunately, limited studies have examined livelihood transitions (Liu and Liu, 2016) in developing economies in Asia.² These works mainly focus on

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¹ These include increase in income, income smoothing, higher consumption expenditures, risk reduction and welfare improvement.

² Jiao et al. (2017) identified factors affecting mobility of livelihood strategies in rural Cambodia. Waleign et al. (2017) investigated livelihood transitions among small sample of Nepalese rural households.

the effect of family assets in shaping livelihood mobility, but none focuses on the role of institutional and market effects. During China's transition period, institutional change and market liberalization have important influences on resources allocation and efficiency. Therefore, it is meaningful to study the role of some of these institutional and market factors affecting livelihood transitions in rural China.

The objective of this paper is threefold. First is to determine the characteristics and choices of livelihood strategies of rural Chinese households. We use the combined income and assets measure to classify livelihood strategies. Second is to identify the factors affecting the choices of livelihood strategies by adopting a multinomial probit model (MNP). Third is to assess the factors affecting rural households' transition (mobility) in livelihood strategies by using ordered probit (OP) regression. We use a nationally representative survey from rural China, the China Family Panel Studies (CFPS). The survey was conducted for 2010 and 2014.

Findings from this study show the importance of human assets (e.g., education and availability of labor) and transportation facilities (e.g., roads and railway) in determining whether rural Chinese households are able to engage in better livelihood strategies and upward mobility in livelihood strategies. On the contrary, land endowment, the most important natural resource for Chinese rural households, is found to have significantly negative effect on livelihood strategies and hinders upward mobility in livelihood strategies. Finally, factors such as land leasing and land expropriation is found to have a negative effect on the upward mobility of rural Chinese households.

This paper contributes to the literature in several ways. First, to our knowledge, this is the first study to assess transitions (mobility) in the livelihood strategies of rural Chinese households. Second, our data covers all of rural China, better reflecting the characteristics and choices of livelihood strategies of rural Chinese households. Third, unlike previous studies, we include property rental income³ as a source of income. Finally, we quantify the impact of land expropriation and farmland leasing policies on transition in livelihoods strategies.

2. Background

With rapid industrialization and urbanization, rural households in China have undergone significant changes in livelihood strategies in recent years. Although most rural Chinese households still engage in agricultural production, the rural labor force is widely employed in all kinds of off-farm jobs, including self-employment via business ownership, off-farm work and migration (Shi et al., 2007). Although agriculture's contribution to rural households' income has declined, the share of labor employed in the agricultural sector still stood at about 28% in 2016 (National Bureau of Statistics of China (NBSC, 2017)). Land is an important factor affecting livelihood strategies for rural Chinese households. Family land endowment has effects on off-farm employment, and these effects could be positive or negative. On the one hand, land as an asset provides financial support for households that rent out land and where the land rental market is well-developed (Feng and Heerink, 2008). On the other hand, members of wealthy rural households with large land holdings may be less inclined to work in off-farm jobs (Bhandari, 2004; Shi et al., 2007). Land scarcity also may push rural Chinese laborers to work in off-farm markets (Shi et al., 2007).

In transition China, family human assets are important factors affecting livelihood strategy choices and transitions. For example, the ages of operators and family members, education levels, social networks, and off-farm income (Zhao, 2002; Shi et al., 2007; Glauben et al., 2008) may affect rural Chinese livelihood strategies. Rural Chinese households participating in off-farm work have higher total income and assets (Zhao, 2002), which translates into mobility in livelihood strategies through asset accumulation. During urbanization, the expansion of cities and

increase in housing needs, many rural farmlands were converted⁴ into land for housing buildings, shopping centers, roads, and other infrastructures. Readers should know that all land in China is publicly owned. Village collectives own rural land, and the State owns urban land. Constitutionally, in the interest of the public, the government has the right to take land from farmers with proper compensation. The most popular form of compensation is monetary compensation, followed by providing jobs or support for entrepreneurship (Bao and Peng, 2016). Therefore, land expropriation can affect rural livelihood strategies. Land expropriation may have a positive effect on off-farm work because of land constraints and substantial cash compensation from the government. On the negative side, farmers who lost land assets and agricultural sources of income may be induced to take more leisure time or to live off their compensation from the government.

China's land rental markets are still underdeveloped, which has hampered expansion of farm size and the exit from farming. Under a series of land tenure reforms and government intervention, land rental markets have gradually developed in recent years. Land rental in China increased from about 4 million hectares in 2006 to about 23 million hectares in 2013. As a result, the ratio of rented land to total cultivated land increased from about 5% in 2006 to about 26% in 2013 (Huang and Ding, 2015). The impact of land rental markets on agricultural production and household income has been studied (Deininger and Jin, 2005), but the influence of land rental markets on the choice and transition of household livelihood strategies has not. Finally, regional location in rural China has important implications for finding off-farm work. One can say that economic development in China has a regional bent (Cai et al., 2002). For example, the eastern part of China is the most economically developed, followed by the central region, and the western region is relatively lagging. Rural Chinese households in the eastern and central regions have more job opportunities and therefore are more likely to have diverse livelihood strategies. Furthermore, China's *hukou* system—which is an institution controlling the movements of Chinese residents and defines people by birthplace as either urban or rural, has restricted rural migrants to settle in the developed cities where they worked in (Liu, 2005). And rural residents born in backward areas cannot move freely to developed areas.

Livelihood strategies are shaped by household assets, natural forces, socio-economic factors, and institutional factors, and livelihood strategies are dynamic in nature (Winters et al., 2001; FAO, 2005). Households may change their livelihood strategies over time either to enhance existing financial security and wealth or to reduce vulnerability and poverty, according to asset accumulation, contextual factors and internal stress (Jiao et al., 2017). The stock of assets, broadly defined as natural, human, physical, social, and financial assets (FAO, 2005), at the individual, household, community, and societal levels can be stored, exchanged, or invested to generate income (See Walegign et al., 2017) and other benefits (Rakodi, 1999). Natural assets consist of land, water, and other environmental resources; human assets include the two dimensions of quality and quantity. Family laborers and effective labor time are the quantity aspect of human assets, and educational level, health, knowledge and skills are the quality component (Rakodi, 1999). Physical assets include households' productive and non-productive assets, such as equipment, basic infrastructure, and real estate (FAO, 2005). Social assets are defined as regulations, norms, obligations, and trust in social relationships and social structures (Rakodi, 1999). Belonging to a formal organization, expenditures on gifts, and social trust are all proxies for social assets (Chen et al., 2013). Finally, financial assets include savings, cash, credit availability, and insurance.

The external context generally includes natural forces and human forces. Natural forces such as weather, natural disasters, and diseases are shocks that can undermine livelihood choices and may cause

³ Farmland rental income has become a major source of income for some rural households (Zou et al., 2018).

⁴ Local government takes away farmland from farmers by local government, a process referred to as land expropriation.

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