



# Land documents, tenure security and land rental development: Panel evidence from China



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## ABSTRACT

We use household and farm-plot level data from a two period panel survey covering six provinces in China to explore how tenure security, especially issuance of land documents, affected people's behavior in China's rural land rental market. A correlated random effect model is used to account for the endogeneity of document issuance and land reallocations. The econometric analysis shows that possession of documents and fewer major land reallocations encourage households to engage in land renting to non-family members, and the effects of land right documents are stronger in 2008 than in 2000.

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## 1. Introduction

The current literature in development economics postulates that institutions have a central role in facilitating economic growth (North, 1990). Secure property rights are viewed as an important element of an institutional environment conducive to growth (de Soto, 2000). For rural households, their key asset is land. Understanding land rights formation and measuring its effects on productivity are two central issues of the political economy of development (Eggertsson, 1990; Besley, 1995).

Despite China's impressive record on economic development and urbanization over the past three decades, agriculture remains an important source of income and employment for a large segment of its rural population. The most recent agricultural census data indicate that as of 2006, 32% of rural household residents worked full time in farming, and more than 96.6% of rural household residents were engaged in farming activities for at least 1 month a year (NBSC, 2007). Improving tenure security and land access is not only critical to the hundreds of millions whose livelihoods are directly dependent on agricultural production, it is also crucial for China's overall economic development and rural transformation.

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Economic theory holds that tenure security is expected to improve economic development (Besley, 1995). Documentation of rural land use rights is an important way to impart greater security to land rights. Through land documentation, governments confirm the land rights of individuals, households, or communities. The process can identify the holders of land use rights and the content of the rights at issue, as well as specify relevant information regarding the affected land parcels.

In China, rural households possess 30-year use rights to the land they farm according to the 2003 Rural Land Contracting Law (RLCL) and other central policy directives. To document these rights, farm households should be issued land use rights contracts and land use rights certificates (Prosterman, Li, & Zhu, 2006). Land use rights certificates are designed by provincial governments and affirmed by the seals of county governments. Such certificates are required to be issued to farmers under the terms of China's Land Management Law, as revised in 1998. Under the terms of the 2003 RLCL, land use rights contracts are to be issued to rural households, in addition to land certificates. A land use rights contract is designed by a local people's government at or above the village level. The contract is completed at the village level: a representative of the village collective enters the relevant information onto the contract document and that official and the farm household sign the contract.

Land use right contracts symbolize greater security of tenure than land use rights certificates because the contracts contain the signatures or seals of both parties whereas the certificates generally do not. Current Chinese law requires the issuance of both land use rights certificates and land use rights contracts. Possession of both documents thus reflects greater compliance with the law. In turn, households receiving both documents should have greater security of land tenure than households receiving only one of the two documents. Among the latter households, those receiving land use rights contracts should have a greater sense of tenure security than those receiving only land use rights certificates. We expect that these differing degrees of tenure security should be associated with differing patterns of behavior on the part of rural Chinese households.

According to the literature more secure and better-enforced tenure security can improve economic development through three main channels: 1) increase owners' incentives to make land-related investments; 2) increase incentives to transfer land to more efficient uses through markets; and 3) facilitate the use of land as collateral for credit (Besley, 1995; Deininger, 2003; Feder & Feeny, 1991). Under current circumstances, there are few instances where secure land rights provide access to a formal credit market in China. Thus only the first and second channels for economic development would seem to be relevant to China.

The importance of a possible investment incentive effect that comes about through secure land tenure has long been studied both at the theoretical level (Haavelmo, 1960; Jorgenson, 1967) and at the empirical level (see Besley (1995), and Deininger and Jin (2006) in the context of Africa; Alston, Libecap, and Schneider (1995); Lopez (1997), and Lanjouw and Levy (2002) in the context of Latin America; and Feder (1988); Jacoby, Li, and Rozelle (2002), and Do and Iyer (2003) in the context of Asia). On the other hand, much less attention has been devoted to studying the impact of tenure security on the functioning of land markets (Deininger & Jin, 2005; Holden, Deininger, & Ghebru, 2009). Yet, improved functioning of land markets can have a profound influence on productivity growth. First, land transfers between producers through land markets will help to allocate land to labor more efficiently (Deininger & Jin, 2005). Second, with a well-functioning land market, owners working off-farm can continue enjoying the benefits of land ownership (Otsuka & Hayami, 1988). In turn, more laborers are freed to perform off-farm work. A well-functioning land rental market in China will promote development of the rural economy and emergence of greater opportunities for off-farm employment. It will also be critically important in facilitating industrialization and the structural transformation of China's rural economy (Jin & Deininger, 2009; Kimura, Otsuka, Sonobe, & Rozelle, 2011).

Our research on land tenure security gives special attention to its effects on the quality of rural land markets. Existing research investigating the effects of tenure security on land markets has typically focused on the effect of tenure security on raising participation in land rental or sales markets (Deininger, Ali, & Alemu, 2011; Deininger & Jin, 2005), while ignoring the quality of those markets. One exception is the study by Macours, de Janvry, and Sadoulet (2010). Based on survey data from the Dominican Republic, they show that insecure property rights cause segmentation in the tenancy market along socioeconomic lines, severely restricting the choice of lessors for lessees with considerable efficiency loss. Beyond the low participation rate in the market, the informal features of the market (such as transactions predominantly between relatives) in those transition economies with less tenure security warrant more research attention. While land markets include sales markets and rental markets in much of the world, only the land rental market is relevant in China because land sales by individual farmers are not allowed.

Our study also introduces a more refined measurement of land tenure security. Previous research investigating the effects of land tenure in China has used administrative readjustments of land use rights or the issuance of land use rights documents as their indicator of land tenure security. With more information, we will examine these two factors separately. We also compare having two land use rights documents versus only one document. Finally, we compare the effect of having a land use rights contract versus a land use rights certificate.

The objective of this article is to assess the impact of tenure security, especially the issuance of land documents, on the choices lessors make in selecting their lessees in the rural land renting market in China. Specifically, the following three hypotheses are being tested:

First, the issuance of land use rights documents encourages land transfers between parties who are not relatives, while the occurrence of administrative land readjustments discourages such transfers.

Second, having both land use rights documents encourages transfers between non-relatives, and the land use rights contracts are more helpful in this respect than the certificates.

Third, with the implementation of the RLCL beginning in 2003, the effect of tenure security on land transfers between non-relatives is stronger in 2008 than in 2000.

To meet our objectives, the rest of the paper is structured as follows: Section 2 provides background on China's land policy as well as the history and current situation of its land rental market. Section 3 describes the data and the econometric approach used in this paper. Section 4 provides some summary statistics based on our data to describe the weak tenure security and immature rural land

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