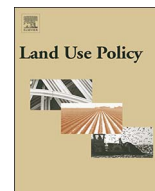




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# How does nonfarm employment stability influence farmers' farmland transfer decisions? Implications for China's land use policy

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## ABSTRACT

This paper examines the impact of nonfarm employment stability on migrant workers' farmland transfer decisions. Using data on 1148 migrant workers extracted from the Chinese General Social Survey (CGSS), our structural equation model determined a significant positive impact of employment stability on migrant workers' farmland transfer behaviour. Results show that the employment stability of migrant workers has a significant positive impact on their farmland transfer behaviour. In particular, their willingness to settle in the city is an important, although incomplete intermediary factor, accounting for 42.15% of the overall employment stability effect. These findings imply that creating a fair and inclusive employment system in urban China and expanding the urban welfare system to include migrant workers are likely measures to develop land rental markets in rural China.

## 1. Introduction

Since economic reform in the late 1970s, China has been undergoing rapid transformations and structural changes from a central-planned to a market-oriented economy and from a largely agrarian to a more industrialised society (Li et al., 2015). Along with China's rapid economic development, these transformations have induced drastic changes in land use patterns (Deng et al., 2010). On the one hand, a large area of farmland was converted into non-agricultural use, rendering farmland a scarce resource for agricultural development. On the other, the rapid development of nonfarm sectors in China has influenced many farmers to leave their land. For example, according to official statistics, the number of migrant workers working in cities grew steadily from 242 million in 2010–277 million in 2015, accounting for 46% of China's total rural population. In this context, the traditional model of small-scale, household-based farming becomes less attractive to Chinese farmers (Long et al., 2007; Liu et al., 2010). Thus, how to efficiently cultivate and manage the farmland left behind becomes crucial for China's agricultural and rural development as well as the sustainable development of the country.

Under China's household responsibility system (HRS), each rural household manages a small plot of farmland allocated from the rural collective to which it belongs, averaging 0.5 ha per household (Ni, 2015). However, as China's nonfarm sectors develop over time, increasingly accessible nonfarm employment opportunities attracted

many rural residents to quit farming (Li, 2013). Consequently, abandoned or inefficiently cultivated farmland became more common place throughout rural China (Liu et al., 2014). In reaction to this problem, the Chinese government recently promoted farmland transfer and large-scale farm operations as important means to approach China's agricultural development and modernisation in the context of massive rural-to-urban labour migration. The policy enables transferring smallholders' land to certain farmland managers, agricultural companies, or agricultural cooperatives to achieve economies of scale in agricultural production and farm management. However, farmland transfer is not easily promoted, unless migrant workers are willing to transfer their farmland to others (Luo et al., 2012a, 2012b). In fact, despite considerable government efforts to promote farmland transfer (Zuo et al., 2015), many migrant worker households remain reluctant to transfer their land, limiting the scale of farm operation in rural China (Wang et al., 2015). To develop China's land transfer market and better reform the country's land use policy, knowledge of key determinants of the land transfer decisions of migrant worker households is needed.

Thus far, many scholars have investigated the determinants of farmland transfer in rural China (Li et al., 2009; Xu and Shi, 2012; Gao et al., 2014; Guo et al., 2016; Yan and Huo, 2016). However, this issue has always been controversial, and thus far, no consensus has been reached. One stream of studies highlighted the role of the employment status of migrant workers. For example, in Jiangxi Province, Chen et al. (2010) found that household members' migration to cities positively

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impacted the land transfer behaviour of rural households. Huang et al. (2012) further examined households' rent-in and rent-out decisions. They found that the emergence of off-farm employment opportunities had a significant positive impact on households' rent-out decisions, but a less prominent effect on rent-in decisions. Echoing Huang et al., Che (2016) found that households with more members participating in migratory or local off-farm work were more likely to rent out their land and less likely to rent-in land. On the other hand, not all scholars agree on the role of migrant workers' employment status. You and Wu (2010) found no evidence of a complementary in-function attenuation of farmland and its transfer. Luo et al. (2012a, 2012b) argued that farmland transfer is not only an economic mobility issue or trade-off between expected return and opportunity cost, but also a psychosocial issue pertaining to farmers. While willing to perform nonfarm work in the city, many farmers have an agriculture complex, which has made them reluctant to transfer their farmland. Furthermore, although some studies touched upon the influences of nonfarm employment stability, none subsumed migrant workers' willingness to settle in the city, a potentially important intermediary factor, in their analytical framework.

Therefore, the present study attempts to deepen understanding of how employment stability affects migrant workers' farmland transfer decisions by incorporating their willingness to settle in the city into the analysis. Using data on 1148 migrant workers extracted from the Chinese General Social Survey (CGSS), our structural equation model (SEM) indicates that migrant workers' willingness to settle in the city is an important intermediary factor in driving the positive impact of employment stability on their farmland transfer behaviour, explaining 42% of the total impact of employment stability.

The rest of this paper is organised as follows. The next section reviews the evolution of China's farmland transfer policy. Section 3 develops a conceptual framework to analyse how employment stability affects migrant workers' land transfer decisions. Sections 4 and 5 describe our empirical methodology and data. Section 6 reports and discusses our empirical results. In the final section, conclusions are drawn and implications highlighted for China's land use policy.

## 2. Background: evolution of China's farmland transfer policy

The transfer of farmland along with the simultaneous transfer of the embedded land contracting rights has been the core of rural China's land policy reforms. The existing land contracting rights system was initiated after the bold attempt of 18 farmers to allocate collectively owned land to individual households in Xiaogang Village in Anhui Province on the Eve of China's rural reform. After a few years of policy experimentation, the HRS was formally established, creating a land contracting rights system in rural China (Lin, 1988).

Under the initial HRS, each rural household was endowed with the right to use the land plots allocated by the rural collective, although the collective still legally owns the land. However, due to lingering legacies of the central-planned economy, sales and rentals of the land use right and the use of land as collateral for loans were prohibited. In the early 1980s, spontaneous transfers of the land use right among rural households emerged as a way to overcome the difficulties they encountered in operating the spatially separated land plots allocated to them. However, at this stage, land transfers were still characterised as illegal, undercover, and disorganised.

In 1984, farmland transfer was officially proposed for the first time in the 'No. 1 Document' issued by the Central Committee of the Communist Party of China (CCCPC). The Document stipulates that rural households can transfer their land use right to other households with the permission of the corresponding rural collectives. In 1986, the government started to encourage concentrating farmland from smallholders to households with strong farm production and management skills. In the years that followed, a series of policies on farmland transfer were issued, aiming to improve the benefits to smallholders.

The continuously updated policies greatly enriched and expanded the models of farmland transfer. They now include land transfer, land exchange, and the use of land as collateral for loans, which is crucial in stimulating China's agricultural and rural development (Jin and Deininger, 2009).

These policies have contributed greatly to the marketisation of land rights transfer in rural China. However, the benefits of land-transferring households were not fully guaranteed, because of several problems in the policy. In reaction, the government enacted the *Rural Land Contracting Law* in 2003 to provide more security to farmland users. Later, the *Property Right Law* of 2007 officially recognised rural households' land contracting rights as property rights. In addition, the *Arbitration Law of Rural Contracted Land Disputes* issued in 2008 provided further protection for households' land transfer rights.

To further implement these newly enacted laws, in accordance with the order from villages to provinces, the contracted land rights confirmation, registration, and certification was launched as a trial from 2009 in rural areas. Recent official reports have increased the number of pilot provinces from 3 to 28 of 34 provinces. Based on this foundation, China has advanced the separation of the three rights of rural land (ownership right, contract right, and management right) in the reform. These new reform measures helped pave the way for farmers' land contracting rights to gain official recognition and protection in China's legal system. Furthermore, the measures provided the base for the transfer of land management rights.

## 3. Conceptual framework

For Chinese farmers, farmland is key for agricultural production and an important source of livelihood. However, the function of farmland changes as nonfarm jobs become increasingly available. There has been continuous academic interest in the impact of out-farm migration and rural-urban interactions (Inwood and Sharp, 2012; Bertoni and Cavicchioli, 2016). In particular, a branch of the new economics of labour migration pioneered by Stark and Bloom (1985) examines how labour migration affects the agricultural development of source communities in terms of agricultural productivity (Taylor et al., 1999), rural income (Taylor et al., 2003), and land use (Feng, 2008; Feng and Heerink, 2008) in China. It was found that in China, the employment status of members greatly affects a rural household's land transfer decision (Chen et al., 2010; Deng, 2010; Huang et al., 2012; Che, 2016). A secure nonfarm job, along with the stable income stream it generates, may provide migrant workers with the assurance of livelihood as well as career and social security in their cities of work. This increases their willingness to settle in these cities, which may affect their households' land use decisions. However, the influence of nonfarm job stability on households' farmland transfer is theoretically ambiguous. To see this, consider the following two scenarios:

- (1) *Farmland transfer decision when nonfarm employment stability is low.* If the income stream from nonfarm employment is unstable, then the livelihood of a migrant worker's family is still highly dependent on farm production. Those left behind including women, the elderly, and children, have to keep farming. In this case, household members' out-migration may discourage a household from transferring its farmland to others for two reasons. First, members left behind, who are capable of farming their land efficiently, would prefer to manage their land by themselves, rather than transfer it to others. Second, when the foreseen risks of nonfarm employment are high, households with all members working and living in the city would be unwilling to give up their land. This is because they expect to return to their home villages—rather than living in the city—in the future to resume farming when stable nonfarm jobs become difficult to find. Note that in theory, these households can transfer their land out in the short term. However, in reality, it may not be easy to find short-term renters for their land. Even if they can, there is no

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