LAND DOCUMENTS, TENURE SECURITY AND LAND RENTAL MARKET IN CHINA

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Introduction

- Secure land tenure is an important element for rural development and growth.
- Three channels for tenure security to improve economic development: 1) raise owners' incentives to make land-related investments; 2) transfer land to more efficient uses through markets; and 3) use land as collateral for credit.
- Documentation of rural land use right is an important way to consolidate land rights in China as elsewhere.
- The objective of this article is to assess the impact of tenure security, especially the issuance of land documents, on household behavior in the rural land renting market in China.

Hypotheses

1. Land documents issuance encourages land transfers between parties who are not relatives, while the occurrence of land adjustment discourages such transfers.
2. Having both land use rights documents is more encouraging of transfers between non-relatives, and the contract document is more helpful than the certificate.
3. With implementation of the 2003 Rural Land Contracting Law, the effect of tenure security on non-kin land transfers is stronger in 2008 than in 2000.

Background on China's Land Policy

1950S
- Collectivization
- Requiring farmers to surrender land to collectives
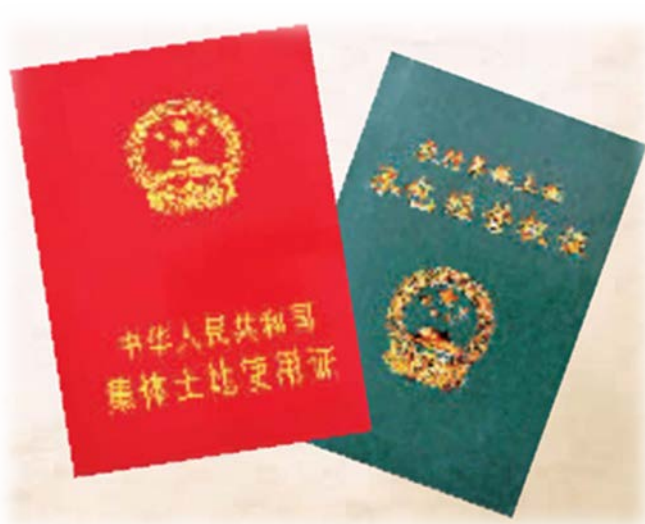
1978
- Household Responsibility System
- Household claim residual of output
- 15-year land use rights for rural household

1998
- Land Management Law
- Farmer receive 30-year land use contract

2003
- Rural Land Contracting Law
- Defining farmer's land rights more as property rights

Background on China's Land Market

Table 1 Household land rental market participation

	2000	2008
1.Participation in rental markets		
Share who renting in land now	16.95	27.2
Share who renting out land now	11.93	18.97
2.Area transacted per household (mu)		
Area actually rented in	0.61	2.1
Area actually rented out	0.33	0.65
number of obs	1089	1046

Econometric Approach

- The probability of choosing a non-relative lessee for some plot is a probit link function of household characteristics (x_{ijt}), plot characteristics (w_{it}) and tenure security (z_{it}):

$$\Pr\left(y_{ijt}=1\right)=\Phi\left(\beta_0+\beta_1 x_{ijt}+\beta_2 w_{it}+\beta_3 z_{it}+\beta_4 t_{00}+\beta_5 w_{it}\_t+\beta_6 z_{it}\_t+u_{it}\right)$$

- Chamberlain-Mundlak Method, allowing correlation between unobserved individual effects C_i and means of a subset of the right-hand-side variables at the household level:

$$C_i=\gamma_0+\gamma_1\overline{x_i}+\gamma_2\overline{z_i}+\varepsilon_i$$

- Robustness check: village level fixed effect model

Results

Table 2. Determinants of non-kin land transfer (pooled probit and C-M method)

	doc		cert		contract		rdoc	
Variable	pooled probit	C-M	pooled probit	C-M	pooled probit	C-M	pooled probit	C-M
area	0.02	0.03*	0.01	0.04	0.02	0.04**	0.02	0.03*
tenure	-0.01***	0.00	-0.01***	0.00	-0.01***	0.00	-0.01***	0.00
distance3	0.06	-0.06	0.06	-0.04	0.03	-0.03	0.04	-0.04
quality2	-0.11**	-0.01	-0.1*	0.00	-0.1*	-0.01	-0.1*	0.00
irrig2	0.11**	0.19**	0.09	0.21**	0.09	0.23**	0.11*	0.17**
hhsize	0.05***	0.41***	0.05***	0.39**	0.05***	0.29***	0.05***	0.31***
hhchange	-0.18**	-0.69***	-0.18**	-0.65**	-0.14*	-0.65**	-0.16**	-0.66***
nrooms	0.02***	-0.05**	0.02***	-0.06	0.02***	-0.02	0.02***	-0.04*
nplot	-0.03***	0.05	-0.03***	0.06	-0.03***	0.08*	-0.03***	0.06*
educ3	0.02**	-0.02	0.02**	-0.01	0.02***	-0.01	0.02**	-0.02
t00	0.02	0.24**	-0.08	0.03	-0.08	0.22*	-0.02	0.31***
majoradj5	-0.24	-0.44	-0.29**	-0.59	-0.26*	-0.57*	-0.25*	-0.67***
major5_t	0.21	-0.41*	0.27*	-0.05	0.23	-0.07	0.22	-0.06
minoradj5	-0.06	-0.48*	-0.06	-0.46*	0.07	0.04	-0.04	-0.27
minor5_t	0.28*	-0.20	0.27*	-0.08	0.16	-0.45	0.26*	-0.17
doc	0.33***	0.14**						
doc_t	-0.27**	-0.24*						
cert			0.22***	0.17				
cert_t			-0.22**	-0.02				
contract					0.24***	0.15*		
contract_t					-0.16	-0.46***		
rdoc							0.11***	0.14***
rdoc_t							-0.09**	-0.16***
N	591	591	587	587	595	595	591	591

legend:* p<.1; ** p<.05; *** p<.01

Table 3 Robustness check with village fixed effects

	doc	cert	contract	rdoc
majoradj5	-0.605***	-0.631***	-0.601***	-0.596***
major5_t	0.421**	0.466***	0.426**	0.424**
minoradj5	0.105	0.109	0.275	0.143
minor5_t	-0.111	-0.143	-0.329	-0.138
doc	0.332***			
doc_t	-0.336**			
cert		0.165*		
cert_t		-0.182		
contract			0.211***	
contract_t			-0.2*	
rdoc				0.109***
rdoc_t				-0.113**
x_it	Y	Y	Y	Y
w_it	Y	Y	Y	Y
N	547	543	545	547

legend: * p<.1; ** p<.05; *** p<.01

Conclusions

- First, as a measure to improve land security, the issuance of land documents raises household's probability of renting their land to non-relatives rather than relatives, and this effect is stronger in 2008 than in 2000.

- Second, more law compliant documents have more incentive effects on non-kin land transfer. However, a recent survey in 17 provinces in China found that, although a large majority of the issued documents are technically effective, only a minority can be considered strictly compliant with legal requirements.

- Third, land readjustments would discourage household to rent their land to non-relatives.

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