

Tenure security, social relations and contract choice: Endogenous matching in the Chinese land rental market

Xianlei Ma, Yuepeng Zhou, and Xiaoping Shi

College of Public Administration, Nanjing Agricultural University, Nanjing, China (maxianlei@njau.edu.cn)

In China, land rental transactions have increased considerably since the 1990s, but there exists a high degree of segmentation and informal features. The rental transactions between partners with close social relations and the use of informal contracts remain a common phenomenon in many regions, which strongly reduce the potential of the land rental market to enhance productivity and equity.

The current literature postulates that the insecurity of land property rights may restrict land transactions between members of same social relations. Studies conducted in China show that the land rentals between partners with closer social relations prefer informal contracts because these contracts are self-enforced based on trust and reputation. However, little literature has jointly examined the effect of land tenure security and social relations on joint decisions of partner and contract choice in the Chinese land rental market. Based on household data collected in Jiangxi and Liaoning provinces in 2015, this paper aims to examine the relationship between land tenure security perceptions, social relation and land rental contract choices in China. We differentiate between formal and informal contracts of land rental activities because they have different enforcement mechanisms and thus different risk-sharing strategy. With regards to social relations, we differ among relatives, villagers living in the same village and strangers according to social distance. In order to reduce estimation bias without accounting for endogenous matching between landlords and tenants, we investigate the joint partner and contract choices in the land rental market using a nested logit framework.

The paper contributes to the literature on the effect of tenure security and social relations on land rental contracts by (i) taking into account endogenous matching between landlords and tenants, and estimating the joint decisions of partner and contract choice, and (ii) examining the effect of perceived tenure security, instead of de jure rights, on households' contract choice.

The empirical results show that landlords are more likely to rent out land to tenants who live in the same village, instead of relatives and strangers. This kind of partner matching is based on consideration of both land tenure security and flexibility of rental relationships. Insecure land tenure encourages landlords to select informal contracts, because informal contracts seem to protect better protection than formal contracts as landlords are willing to match villagers.

Policy implications are twofold based on our findings: 1) Land tenure reforms should put more emphasis on enhancing households' perception on tenure security and further reducing land market segmentation; 2) Measures that may be taken to stabilize rental contractual relationships may focus on the improvement of rural pension system and unemployment insurance for rural-urban migrants.

Key Words: land rental market; contract choice; tenure security, social relations