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中国－欧盟社会保障合作项目

The social and economic situation of farmers who have lost their land in China (Jilin, Shandong and Sichuan provinces)

Component 2 EUCSS

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1. Introduction

Major reforms over the last two decades in China and the entering of WTO have resulted in rapid economic growth, but also challenges in social consequences. Income and human development disparities have widened considerably: within urban areas, between urban and rural areas and in general between the coastal areas and the hinterland of China. The challenge for China is to pursue economic transition whilst at the same time integrating the concept of sustainability into economic growth and guarding itself against social instability. China needs to stabilise the economy, develop a sustainable financial system and address the income disparities by creating more employment opportunities and develop a sustainable social security system.

There are two Components of the EU-China Social Security Reform Co-operation Project. Component 1 of the Project is to support policy-oriented co-operation in priority reform areas. Component 1 will promote and support policy capacity-building activities and an exchange of good practices as well as build up a policy dialogue between China and the EU.

Component 2 of the Project entails the implementation of selected pilot reform initiatives at the level of participating Provinces. The Component provides technical assistance and other capacity-building services included in the pilot projects. Results of the activities under the second Component will serve as a basis for advice and an action plan on possible replication of the improvements achieved.

The Old Age Insurance field of Component 2 focussed initially on the issue of farmers who had lost their land (hereafter land lost farmers or LLFs). One of the key activities was the preparation of three Situation Analyses on the position in three pilot provinces: Jilin, Shandong and Sichuan (You, 2009; Lin et al., 2009 and Wu and Yuan, 2009). In order to make the findings of these analyses available to a wider audience, their findings have been summarised in this report.

2. Land acquisition and its impact on farmers in China

The issue of compulsory land acquisition and its impact on the rural population and farmers is an important policy issue in China. Firstly, unlike the position in the EU, farmers do not generally own the land they work: rather they have a right to use the land. Article 10 of the Constitution of the People's Republic of China provides that land in rural areas is, with certain exceptions, owned by collectives (see Asian Development Bank, 2006, 2007a and b; China Australia



Governance Program, 2009; Zhu et al., 2006).

Due to the scale of industrial development and urbanisation in China, there is a high level of compulsory land acquisition to meet the needs of projects such as industrial zones, housing, motorway construction and hydro-electricity. It has been estimated that there are at least 40-50 million farmers in China who have lost some or all of their land and a recent survey indicates that the scale of acquisition is accelerating (Zhu et al., 2006). Some estimates put the figure as high as 80 million farmers affected since 1978 and it has been indicated that the number of affected farmers is rising by about 4 million per annum. Although some compensation is provided, in comparison with EU countries, this is at a relatively modest level. In the absence of any general rural pension scheme, LLFs are not necessarily covered by any social security scheme and this has led to the introduction, on a pilot basis, of a range of different pension schemes for LLFs at local level. The issue of LLFs must also be seen in the context of overall rural-urban migration in China. It has been estimated that in 2006 the total number of rural labourers working and living outside their original townships was over 130 million (Li, 2006).¹

In order to complement recent reports such as those published by the Asian Development Bank and China-Australia Governance Program, the focus on the Situation Analyses was on the impact of these issues at a local level in the three provinces concerned.

3. The pilot provinces

Component 2 of the EUCSS operates in six pilot provinces in China. Three of these provinces – Jilin, Shandong and Sichuan – participated in the research concerning land lost farmers. As can be seen, the three provinces involve a broad sample of China's population and include both a relatively wealthy Eastern province (Shandong), a northern province (Jilin) and a poorer Western province (Sichuan which was, of course, also affected by the recent tragic earthquake).

¹ On the difficulties faced by migrant workers in accessing social security see *Appraising the Current Patterns of Social Security for Migrant Workers in China*, EUCSS at http://www.eucss.org.cn/fileadmin/research_papers/policy/social_security_for_migrant_workers/AppraisingMigrationSocialSecurityChina.pdf



Shandong

Population: 91.8 million (2004)
Area: 157,800 km²
GDP: 1,846.8 RMB billion (2005)
Local Partner: Shandong Social Insurance
Affairs Bureau

Jilin

Population: 27 million (2004)
Area: 187,400 km²
GDP: 424.9 billion RMB (2006)
Local Partner: Jilin Provincial Labor and Social
Security Department

Sichuan

Population: 88.15 million (2007)
Area: 485,000 km²
GDP: 1,050.5 RMB billion (2007)
Local Partner: Sichuan Provincial Social
Insurance Bureau

The Situation Analyses focussed on three cities in the provinces: Changchun (capital of Jilin),



Chengdu (capital of Sichuan) and Qingdao (one of the major cities in Shandong). The three cities are at varying stages of industrialisation and urbanisation.

The GDP of Qingdao is growing rapidly with an annual growth rate of above 14%. By 2007, the per capita GDP has reached \$5,900 (41,000 RMB). Based on Chenery's categorisation (Chenery et al., 1987), this would place Qingdao at the second (later) stage of industrialization. A similar picture is gained by looking at the share of agriculture, industry and services in Qingdao's total output. In 2007, agriculture made up only 5.4% of the city's GDP, while industry made up 51.6% and services 43%. Based on an evaluation of the role of agriculture in GDP and the proportion of agricultural employment in the total employed population, Qingdao would be classified as being in the mediate stage of industrialisation (based on the fact that (1) the share of agriculture is less than 10% but industry still makes up a higher proportion than services and (2) the proportion of the workforce employed in agriculture is between 30-45%) (see Chen et al., 2006). In terms of urbanisation, Qingdao is now at the 'advanced' phase with 64% of the population living in urban areas (Wei, 2006).

In Changchun, the level of economic development (in terms of GDP per capita) is somewhat lower at \$3,850 (28,100 RMB) in 2007 but also at the second stage of industrialisation by Chenery's measure. In terms of the shares of agriculture, industry and services, Changchun has now just moved into the mediate stage of industrialisation as the agricultural share of GDP has recently fallen below 10% while 39% of the working population are employed in agriculture (also putting Changchun in the mediate phase). In terms of urbanisation, Changchun is now at the 'accelerated' phase with 44% of the population living in urban areas (Wei, 2006).

In Chengdu, the level of GDP per capita is similar to that of Changchun at \$4,517 (30,855 RMB) in 2008. In 2007, the service sector in Chengdu accounted for half of the total GDP (48%). Secondary industries account for 44% of the total GDP with less than 10% coming from primary production. Chengdu is primarily the high-end services centre for western China providing business, government, financial, aviation, and tourism services and thus, unlike the other two cities, services form a larger part of Chengdu's GDP than industry placing it in the later phase of industrialisation. Data also indicates that Chengdu is at an accelerated phase of urbanisation (about 43%).

4. The impact of land acquisition in the provinces

Despite the widespread recognition of the problem of land lost farmers, limited data is available as to the extent of this problem. One of the difficulties is that farmers may lose all or only some of their land and the impact which land acquisition will have in individual cases will obviously depend on the extent of the loss. It has been estimated that those who lose all their land may



account for 35-40% of all affected persons (ADB, 2007b, thematic report No. 3).

The Situation Analysis for Changchun reported that the acquisition of land had accelerated in the last five years. The total amount of land acquired in that period was 12,600 hectares (1 hectare = 15 Chinese mu) of which almost half was for industry and 27% for infrastructure. Despite this, however, the area registered as cultivated in Changchun has actually *increased* from 2,043,450 hectares in 2002 to 3,655,466 in 2006. Thus there are clearly other factors at play in the overall determination of the availability of cultivated land. There is also the issue of how compulsory land purchase interacts with large scale rural-urban migration. It has, for example, been argued that this process had left a large amount of land to remaining households enabling them to enlarge the scale of agricultural production (Wu, 2008).

Notwithstanding these broader issues, land acquisition clearly has a significant impact for those farmers affected. As the Changchun report points out, land forms the basic means of livelihood for farmers. The loss of land means that employment become much more important but many farmers face important barriers in finding worthwhile jobs due to age, health status, lack of employment skills and lack of education. In addition the loss of land increases the living costs of the families concerned (e.g. need to purchase more food items) and they have to change their model of life into an urban model.

6. The policy measures adopted and their impact

6.1 Changchun

In Changchun, the Situation Analysis (with particular reference to a survey carried out in the Kuancheng area) reported a number of difficulties in implementing measures for LLFs. Firstly, it was found that, despite the loss of land, pressure on employment measures was not large. This appeared to be caused by a number of factors. First, many farmers retain some land and thus can continue their activity as farmers. Second, government prioritises employment for farmers when land is acquired. Finally, it was suggested that some farmers, given the compensation provided, were not motivated to seek training and employment.

There were also a number of difficulties in implementing social security measures for LLFs. Some farmers are willing to participate in old age insurance but the pension they would obtain is too low to meet their post-retirement needs. Others are not willing to participate because they cannot afford the contributions. Again a number of factors contribute to these difficulties. Firstly, many farmers have a low level of awareness of the need for social security. This is



exacerbated by the fact that many face current income problems relating to issues such as their health or children's schooling and they cannot, therefore, plan ahead. In addition, the contributions required from the farmers appear relatively high while the benefits provided appear low compared to that granted under urban insurance.

Similar problems exist concerning medical insurance. Research indicates that many farmers would like to participate in medical insurance but they are not satisfied with the medical insurance in hospital for township dwellers due to (i) restrictions on participation by rural dwellers, (ii) the annual contribution of 240 RMB is considered to be a heavy burden; and (iii) because many prefer to opt for the rural cooperative medical insurance (at a cost of only 10 RMB) seeing this as more suited to their circumstances.

6.2 Qingdao

In Qingdao, farmers who have lost their land and own less than 0.3 mu of agricultural land have been brought within the rural pension scheme. By 2008, 98% of LLFs in selected counties were participating in this scheme. Qingdao has established a social insurance reserve fund to protect funding for LLFs. This is funded by a levy of 10% of income from the sale of land transferred from collective land to state-ownership. When land is acquired from a farmer, the 15 years contributions to the social insurance scheme are charged against the value of the land compensation. If the necessary social insurance funding was not provided, the transfer of land is not allowed to proceed.

Jimo is one pilot county in Qingdao which has particular experience with policies for LLFs. Jimo initially set up a joint investigation team to provide a basis for the establishment of a pension system for LLFs. On the basis of this work, Jimo established pilot regulations which were tried out in some villages. These were then revised in the light of experience. In order to maximise coverage the scheme applied to all LLFs over 18 with land of less than 0.3 mu. In 2006, Jimo held a mobilisation meeting to implement the pension scheme, published the regulations and set up a lead group for pension insurance. It subsequently organised training for operational staff to explain the aims of the pension scheme, and financial and operational work procedures. Jimo also publicised the pension scheme through radio, TV, newspapers and other media. It also organised meeting with affected farmers to explain the policy approach. Jimo established a system of fund management including supervision and inspection and regular auditing. It also improved its business processes concerning financial management and IT to safeguard the interests of insured farmers. Finally, Jimo established measures to ensure that pensions were paid accurately and efficiently. Rural agencies set up a special phone line to answer public queries and resolve problems. Having successfully established the pilot scheme, Jimo then turned to expanding the coverage of the scheme to a series of seven towns.



The lessons from the pilot included the need for flexibility and innovation. For example, migrants of the 'reservoir area' of relevant towns were also included in the scheme. A second lesson was the need for standardised fund management covering issues such as contribution collection, record management, and strict auditing. Jimo also monitored claims to minimise fraud and error. In 2008, 18,000 pensioners were examined for eligibility and 131 cases where the claimant was dead were identified and 350,000 RMB recovered. Thirdly, Jimo has emphasised a service-oriented approach with an emphasis on convenience and quality service. Fourthly, the pilot scheme emphasises the benefits of a planned step-by-step approach. Finally, the pilot highlighted the need for both internal and external publicity regarding the scheme.

The focus of future work will be on further research to establish issues such as the implementation status and extent of insurance in the pilot areas. This will identify and address any issues in implementation. The research will also expand in scope to other qualified farmers so as to facilitate the goal of ensuring that all rural and urban residents are covered by pension insurance. In addition, new regulations will be established to expand coverage, to set out details of financial subsidies, and to improve issues concerning transfer of pension insurance from urban workers. Thirdly, the emphasis will be on bringing ordinary farmers into the pension scheme in order to ensure their basic quality of life. Finally, Jimo will focus on enhancing the level of information network management so as to improve interconnection and information sharing between city, district and county.

6.3 Chengdu

In Chengdu, there are two different approaches for LLFs up to 2003 and for those who lost their land after 1 January 2004. Up to 2003, LLFs could, on a voluntary basis, join the urban social security scheme on payment of a once-off payment (varying according to the person's gender, age and the date when the land was acquired). They then have the same old age insurance and medical benefits as urban workers. For post-2004 persons, the department which acquires the land pays a once-off pension contribution involving for men aged 60 and women aged 50 a payment of 120 times the minimum basic pension of Chengdu urban workers (70% of the basic for those outside the urban districts of Chengdu). The person concerned is then entitled to the minimum basic urban pension (or 70% for those outside the urban districts). A similar arrangement applies for younger age groups but the relevant department pays a lower amount on the basis that the person concerned will be able to contribute to the pension over their working life through participation in the urban scheme (qualifying for pension through payment of 15 years contributions).

The Chengdu government has also piloted a number of different approaches in individual counties and districts) (e.g. Qionglai and Wenjiang). In Wenjiang district, a 2008 reform aims to



integrate urban and rural development and promote rural property right reform. It makes payment to the rural old age and medical insurance much lower than the urban system but provides a benefit close to the urban rate. This is funded by individual contributions, supplemented by the collective and subsidised by government. This approach permits rural residents of working age to take part in the urban old age and medical insurance scheme and encourages rural residents to transfer to non-agricultural industry.

The Situation Analysis identified a number of challenges to the Chengdu approach. These included:

Fiscal support – Bringing LLFs within the urban social security system requires significant government subsidies. Municipal and county level support will continue for about 10 years. The Situation Analysis suggests that, in the context of funding individual accounts, this will create significant financial stress for local government. The report points out that although the growth in value of the land acquired is generally much larger than the support provided to the social insurance system, there is a mismatch in that much of the profit accrues to counties and districts which are not most heavily affected by the need for financial support and, in other cases, land profits are not available for social insurance financing having been placed in a separate ‘development fund’.

Participant balance – The current design of the system can lead to inequities as between participants with some tending to benefit much more from the scheme than others. The Situation Analysis estimates that the largest beneficiaries of the current system are those who have already reached retirement age. They pay about 8,000 RMB and with a (conservative) estimate of an average life expectancy of 15 years will receive 37,800 RMB in benefits (not adjusting for inflation). Younger participants are likely to face a much less favourable balance and may face difficulties in affording the insurance contributions for the remaining years necessary to qualify for benefits.

Adverse selection – Because social insurance for LLFs in Chengdu is voluntary, this gives rise to the problem of adverse selection in that those most likely to benefit are most likely to participate while those who are ‘good’ risks (e.g. younger persons) will not. This problem is exacerbated by the issue of participant balance discussed above and, in turn, has a negative impact on fund balance.

7. Policy Issues and Recommendations

The reports highlight a number of issues which require policy attention.



- 1) The level of financial compensation for LLFs – It was argued that the current level of compensation is too low and does not properly reflect the land property right of farmers. Reports suggested that if land compensation falls seriously short of an appropriate level, this is *the* key issue and not the design of social security compensation. It was argued that compensation should be based on the development value of the land and not, as at present, solely on the agricultural value. It was proposed that the structure of land expropriation compensation should be clarified and reformed.
- 2) Assisting the transition to stable employment – All reports highlighted the difficulty for LLFs in making the transition to stable employment. Factors such as low education levels and a lack of employment skills all lower the employability of LLFs. There was a general consensus in the reports on the need for employment-focussed training and the establishment of employment relationships reflecting the employability of LLFs. As regards preferential hiring policies, on the one hand it was argued that preferential access to employment opportunities should be provided for LLFs and their families. However, on the other, it was suggested that while preferential hiring policies might alleviate the specific plight of LLFs, at a more marco level this would simply transfer the unemployment problem to other social groups and would not held to resolve the overall problem. It was also proposed that policy needs to broaden the concept of employment and occupation and to develop new types of work, such as the supply and demand imbalance of ‘nursing workers’ for older persons in cities.
- 3) Co-ordination of policies – It was recommended that the various bodies involved should co-operate on the organisational framework for addressing the needs of LLFs (e.g. labour and social security bureaux, provincial land and resource management departments, provincial ministry of finance, civil affairs department, and other relevant agencies). In particular it is necessary to clarify the lead responsibility and the role of each relevant agency, to improve the efficiency of organisational cooperation, strengthen operational management and supervision and promote a rational and effective system. One report suggested that a special agency should be established at provincial level to address LLF issues.
- 4) Pensions for LLFs – Reports highlighted the need for adequate pensions and medical insurance for LLFs. The main difficulty was to provide an adequate pension given the limited capacity for both farmers and local communities to contribute to the insurance. Reports recommended that this ‘gap’ be met by higher level government resources. One report suggested that it was not practical to establish a special system of social security for LLFs as this would not achieve economies of scale. It was proposed that a more unified approach should be adopted and employed LLFs should be included in the old age insurance scheme for urban dwellers while non-employed LLFs should be included in rural pensions. The higher level of contribution required could be funded (at least in



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- part) from improvements in the level of compensation for land acquisition. The point was made that any successful system of social security must have regard to the affordability of the measure for contributors. While increased compensation could allow LLFs to pay higher contribution, it was argued that government subsidisation will be essential to a functioning system.
- 5) Financial planning and management – One key aspect of the development of policy is financial planning. The need for detailed estimates of financial revenue and demand was highlighted. The requirement for strong financial management of funds invested and for security was also emphasised. For example, it was proposed that funds set aside for social insurance from land compensation should be held in a provincial fiscal account (rather than in diverse county funds).
 - 6) Integrating urban and rural scheme – It was recommended that the long-term development of social insurance for LLFs should facilitate the integration of rural and urban social security systems to allow ease of transfer from rural to urban work and residence.
 - 7) Medical insurance – It was proposed that government should encourage individuals to purchase basic medical insurance based on local conditions (to cover at least severe illness and hospitalisation). The costs should be shared between government, collectives and individuals.
 - 8) Long-term planning and implementation – Finally, reports emphasised the need for a long-term approach to policy and the need to avoid short-term variations in policy arising from, for example, fiscal stress at a local level. In addition, reports emphasised the need for actual implementation of policies at a local level.

Overall, it was recommended that policy on support for LLFs should be developed in detail, explored experimentally on a pilot basis and that experiences accumulated should then inform the development of future policies.



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