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Autor(i) / Author(s): Eliška Kačírková
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THE SCHIZOPHRENIA OF THE SOCIO-ECONOMIC MODEL OF CHINA¹

Eliška Kačírková*

ABSTRACT

The study dealt with Chinese socio-economic system transition, specifically with Chinese labour market and social security system transition. The newly implemented social law (2011) tried to introduce market principles into economy. The aim of the paper was to answer the question whether the transition of socio-economic system of China is conducted in accordance with market principles and to what extent the market principles were implemented in the two mentioned fields. The paper and its outcome was based on descriptive analysis of individual institutions of labour market and social security systems comparative study. Based on the description of the labour market and a comparative study of the social security system of China, the study differentiated between instruments or institutions of market nature and those of socialist nature. The study demonstrates, that China is since the 1980s undergoing significant transition processes toward a market economy. The transition is limited by some institutions persisting from the time of the centrally planned economy. Being a socialist market economy, Chinese economy and its segments, including the socio-economic system, is somewhere on the border of the market economy, with certain instruments of centrally planned economy persisting. These instruments were called "socialist" in this paper. Regarding the labour market, China has made great progress in implementation of market principles. The Social Security Law of 2011 has also substantially changed the Chinese system of social security. China's social security system can be described as very developed, highly transparent.

Key words: China, socio-economic model, transition, social security system, labour market, unemployment rate, available income

* Mgr. Ing. Eliška Kačírková is a PhD. Student at Department of World Economy and a lecturer at Department of Business and European Law, University of Economics in Prague, W. Churchill's square 4, 130 67 Prague 3, Czech Republic, e-mail: Elikac@seznam.cz.

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Introduction

The study titled "*The schizophrenia of the socio-economic model of china*" offers insights into the state of the transformation of China's centrally planned economy to a market economy, respective on the social market economy, as China itself called its economic system, mainly after the "transition year" 1978. Specifically, the study addresses the transformation process of the sub-system of economic system, socio-economic system, especially labour market and social security system. The study is an analysis of partial institutes of labor market and social security system, and their comparison with other socio-economic systems, which are found in developed EU countries, although they are based on different principles, trying to answer the question to what extent the transition process in the labor market and social security came to the principles of market economy. A major shortcoming of this study is limited data source because the data needed for the comparison of socio-economic systems in selected countries and socio-economic system of China, are particularly in relation to China very hard to reach, because these are areas that are very "delicate" for China.

1 Historical Context

Knowledge of the historical context is necessary for better understanding of the current form of socio-economic system of China. After **Mao Zedong** and the Communist Party came to power and established the People's Republic of China, the country became a central planned economy and the communist regime took complete control over the economy and the population. Regulations of citizens' lives implemented by the regime were far stricter than in most European socialist countries, including Czechoslovakia. For example, the consumption was controlled, as well as birth rates, employment, and labour force mobility.

Until reforms of 1978, the labour market was completely controlled by the state through state-owned companies. The state ownership was the only legal form of ownership. The companies or factories were marked as work unit (*danwei*), and every worker had to belong to one of these *danwei*. Which company or factory employed you depended on your *hukou*. The *hukou* system is the system of population registration, based on the principle – where you are born, that *hukou* you get. That means that you can get either urban *hukou* or country *hukou*. In addition, the rule is that you can never get the job in the city without having the urban *hukou*.

Employment relations between employee and employer (company) were described by **Ming-Kwan Lee** (2000) in his book *"Chinese occupational welfare in market transition"*. As he stated, *"the relationship between worker and employer is a specific exchange of effort, knowledge and abilities for money and other sorts of compensations."*

The employment relations in pre-1978 period was also called an *"iron bowl of rice"*. The word "iron" indicates the strong tie between employer and employee and lifelong employment. This fact is very important. Once you got a job, you had it for the entire life and you got everything you needed right from this state-owned company. That meant no social security system was needed. Companies saturated all needs of their workers. The iron bowl of rice meant that every worker had social insurance paid by the company. The companies paid workers' pensions, sickness benefits, funeral allowances, birth allowances, maternity pays, health insurance covering workers' families, as well as benefits like housing allowance, heating and electricity contributions and finally coupons for industrial products, food and services. The redistribution system that is normally carried out by state through taxes and social system was in China run by state-owned companies.

The period after 1978 is (by the author) called *"rise of the schizophrenia"* of socio-economic system of China and relates to **Deng Xiaoping**. **Deng** was a leader of reformed wing of the Communist Party of China that tried to enforce market principles within the centrally planned economy. Market principles were introduced in two phases. The first phase of market reforms was limited to agriculture while the second one aimed at industrial sector. As the market reforms were implemented very slowly, the Communist Party organised Second Plenary Session, where the basic needed market principles were highlighted.

2 Labour Market

The post-1978 labour market can be characterised by the process of privatisation. The precondition for privatisation of state-owned companies was legalisation of private ownership. Secondly, a flexible labour market with flexibility of wages had to be created. That required a liberalisation of the *hukou* system, which had been already done, but only for small towns.

The system of mandatory life-long employment in one company was replaced by contract-based employment. The new Labour Law of 1994 reflected this change. The labour market became more flexible, so the employers could

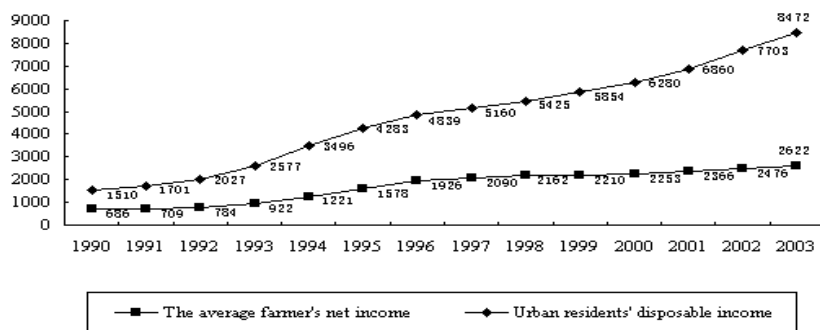
fire redundant workers and reduce artificial overemployment previously imposed by the state.

Liberalisation of trade was another pillar of the reforms, because you need demand for your production, and purchasing power of Chinese population was very low at the time.

Privatisation of companies and flexibility of labour market brought also some problems. Since full implementation of the Labour Law and introduction of contract based employment in 1994, the income inequality of the population has been increasing steadily. The following chart shows the development of average available income of rural and urban residents.

Chart 1: Average available income of rural and urban residents, 1990 – 2003

(Unit: yuan/year)



Source: State Council – Information Office (2004a)

Another new phenomenon was unemployment. In pre-1978 period, state-owned companies provided full employment, even for price of low productivity of workers. After introducing the market principles and contract based employment relation, many workers were fired and the unemployment appeared.

However, this unemployment has never reached critical numbers for three main reasons. The first reason is high demand for labour thanks to growing economy. Secondly, the statistical methods used in China to determine the unemployment rate are different from those used in Western countries, so the actual unemployment rate might be higher than it is reported. The third reason is classification of unemployed citizens. China introduced category of so-called "laid-off workers" (*xiagang workers* in Chinese terminology). These are workers

fired due to restructuring of a company. They have guaranteed employment relation to the company for three years after they were fired and receive full wage and other benefits during this period. The payment of wages and benefits for *xiagang workers* is co-financed by the government. They can seek a new job during this "interim period" without official status of unemployed. In other words, these laid-off employees are not counted into the official statistics of unemployment in China, so the real and reported unemployment rates are different numbers. After these 3 years, the workers become officially unemployed and receive state subsidies for 2 years, no longer.

The following chart shows the development of unemployment in China in 1979 – 1999 period. We would expect some increase of unemployment after introduction of market principles in 1978 and even greater increase after 1994, when the contract based employment was fully implemented. However, it did not actually happen and the unemployment rate fell and after 1994 oscillated around 2.5 %.

Chart 2: China's Unemployment rate, 1979 – 1999



Source: State Council – Information Office (2004b)

Nevertheless, the government addressed the issue of laid-off workers. The Reemployment project was launched on the province level. The project tried to lower the official unemployment rates by re-employment of workers fired from state-owned companies. The main tools of the project were training programmes and financial subsidies for private firms that create new jobs.

This policy was most successful in the Province of Shanghai. There were over 1 million people removed to the companies' reserves between 1992 and 1996. Nearly 82 % of them had new jobs by the end of 1996. That was a great success of the local re-employment service centres, known as the "*Shanghai miracle*".

3 Social Security System

It was no longer sustainable for companies at free market to offer a large scale of benefits, services, coupons and insurance to their employees. Instead of insurance paid by state-owned companies, private insurance companies appeared and China became a huge laboratory. Every province tried to implement different model of social security. Eventually, the new Social Insurance Law has implemented the best practice in 2011. The new act unified social systems in all provinces of China, but preserved some differences between urban and rural areas.

China has been a huge laboratory in the re-employment projects and in searching for the appropriate model of social security system as well. Social insurance appeared in 1980's and replaced the social system provided by state-owned companies during the period of CPE.

A very interesting fact is that the new Chinese social legislation was prepared in cooperation with the European Union and her member states. The *EU-China Social Security Reform Co-operation Project* started in 2006 to serve this purpose. This intergovernmental project was scheduled for five years and its aim was to support the transition of Chinese social welfare towards a modern and sustainable system of social security. Annual round-tables were organised, where European governments representatives met their Chinese colleagues and shared their experiences with implementation of social security systems in the EU member states, presented political recommendations of the EU and especially "*broaden and strengthen negotiations between the EU and China on the questions of social security*" (press release of MPSV, 2011).

It is, therefore, not surprising that the social security system of China is quite similar to European systems, mainly to those of post-communist members of the EU.

The Social Law tried to unify social systems in all provinces, but differences persist. There is still no social security system in the country, or some private insurance companies at best. That is the reason why rural citizens are still so poor and live in bad conditions. The second social tool was population policy that influenced the population and has significant influence on the current social system (population ageing, growing number of elderly people and decreasing number of those in productive age, etc.).

The following part of the paper analyses the position of the social security system of China in comparison with three selected EU member states. Based on

the results of this comparative study, we can specify which institutions of Chinese social security system are of market nature and which are socialist.

The comparative study is based on national monographs. It means that we applied a descriptive method on socio-economic systems of selected countries and compared their systems of social security. A shortcoming of the method used and, therefore, a limitation of the comparative study is its descriptive nature.

Three European countries were selected for comparison with China, and each of them represents a specific model of social welfare system. Sweden was selected as an example of the redistributive model (also known as Nordic or institutional). The United Kingdom represents the liberal model (also called residual or Anglo-Saxon). The Czech Republic represents Post-communist countries with institutional industrial-achievement models (also known as corporatist or continental). Czech Republic was selected as an active participant to the round-tables held under the auspices of the *"EU-China Social Security Reform Co-operation Project"*, and, being a post-socialist country, served as a source of inspiration for implementing a new social security system in a market economy. This paper, therefore, pays special attention to the comparison of Czech and Chinese systems.

The paper, as well as presented comparative study, are based mainly on foreign sources, such as the ISSA and the MISSOC. The ISSA (*International Social Security Association*) is an organisation providing a platform for spreading information about social systems of all countries, to provide space for meeting and sharing experience at World Social Security Forums. The association also carries out research and documentation activities, including the *Scheme Description* database that contains descriptions of social security systems of more than 170 countries, including China. The MISSOC (*Mutual Information System on Social Protection*) was founded in 1990 as a platform for sharing information about social security systems of EU and EFTA member states. Another important source of up-to-date information are official websites of various authorities operating in the social security systems. In the Czech Republic, such authority is the *Ministry of Labour and Social Affairs*; in the UK, it is the *Department for Work and Pensions*; in Sweden, it is the *Ministry of Health and Social Affairs*.

3.1 Social Security System of China

There has been some system of social security in China since 1951. Before the reforms of 1978, China had a large social welfare system and the state

guaranteed employment, provided health-care free of charge and covered some portion of citizens' housing costs. The state-owned companies provided most of the social services, as well as the life-long employment for the citizens.

From the outsider's perspective, the pre-1978 system appeared to be a largely corporatist social security system, but in reality, considering the state ownership of all companies, it was a purely redistributive and institutional welfare state. The companies, called *danwei* (work unit), provided all social assistance, subsidies and benefits, such as pensions, sickness benefits, maternity pay, health-care, education, housing pay and even coupons and vouchers for various goods and services. These benefits formed more than half of worker's wage, so the real wages were relatively low.

The centrally planned economy transformed into a socialist market economy after 1978, and these benefits were abandoned as companies' costs increased due to implementation of market principles to the whole economy.

Until 1978, all companies were purely state-owned, since state ownership was the only legal form of ownership. The companies were organised and ran in a similar way as in Eastern Europe before 1989. Production was planned in advance, and the companies had to meet production plans. Profits were transferred to the state budget and losses were covered by the state. The decision to privatise these companies was taken mainly due to their inefficiency.

The new Social Insurance Law took effect on 1st July 2011. It is the first legal norm regulating social insurance in the whole country and is expected to unify existing regional and local systems of social insurance.

The new system is composed of five subsystems that are further divided per *hukou*. Each subsystem has up to three variants: *Basic instance* for salaried urban residents; second variant is intended for "*rural and non-salaried urban residents*"; and the third variant is for citizens employed in government institutions, state-owned companies or cultural and educational institutions. The five subsystems are as follow:

- Pension scheme;
- Health insurance;
- Unemployment insurance;
- Injury insurance;
- Maternity pay.

It is possible to combine these components with other optional policies, such as additional pension schemes, policies offered by trade unions or commercial insurance companies.

There are still differences between cities and the country in availability of various social security instruments, but we can see the trend towards provision of full social security to all citizens. There has been a significant progress during last ten years, especially in the field of health insurance and income security. Since 2007, law sets a minimal living standard, so the income of Chinese households should not fall below the poverty line.

3.2 Social Security System of the Czech Republic

The oldest form of social security system in the Czech Lands dates to Austria-Hungary and its social system. It was largely inspired by policies of Germany under **Bismarck**, who was a pioneer of social insurance policies in continental Europe. The system became much more sophisticated during the existence of the First Czechoslovak Republic.

Further progress in social policy development was interrupted by a 40 years period of socialist regime, that begun in 1948. During this period, the social system was *"deformed by ideology"*. Women were granted equal position at labour market, especially in terms of wages and salaries; universal child allowances were introduced; the social security system was no longer financed from insurance and the state took a dominant role in the entire system. The benefits were paid according to the Beveridge principles, in other words, the benefits and contributions were equal. The number of persons qualified to receive benefits grew and so did the amount of individual benefits as well. The retirement age was lowered. According to **Kotous** (1997), *"a single-pillar, static system was created; it was financed from the state budget and was characterized by massive redistribution and low transparency"...* *"in early 1970's a new complex of measures aiming at improvement of situation of families with children was adopted."* As the author points out, the real purpose of these measures was to increase the natality that would correspond to the extensive economic development. There were substantial similarities with the pre-1978 socio-economic system of China. *"Poverty was not a word of official vocabulary, there was an 'indicative boundary of neediness' instead, upon which 'groups of inhabitants with limited possibility of consumption' were provided one-time or recurrent benefits"* (Kotous, 1997). According to communist regime, social problems and disparities were maladies of capitalism, not of socialism.

The current Czech system of social security is composed of three-fold social insurance and health insurance:

- Social security insurance (pension scheme, sickness insurance and contribution to the state policy of employment);
- Health insurance.

Maternity pays are covered from the sickness insurance. The system is supplemented by various forms of commercial insurance policies. In addition to the system of social security, there is also a social assistance system in place, fully financed from the state budget. It includes child allowances, living allowances, maternity grants, funeral allowances and fostering allowances. Child and living allowances are the only means-tested benefits. The whole model is supplemented by the system of social care.

In the Czech model, in contrast to the Chinese one only one form of every type of insurance exists. There are no differences based on place of residence or other criteria. The only difference exists between employees and self-employed persons, but the difference is in the amount of premium, not in type of insurance.

3.3 Social Security System of the United Kingdom

The beginning of the social system in the UK dates back to the 16th Century, when **Elisabeth I** initiated adoption of "*Poor Law*" that replaced existing benefits by so-called *workhouses*, where people can earn some money and accommodation. *"The inhabitants of workhouses were distinguished between 'deserving poor' and 'undeserving poor'. Those, who were able to work, receive no allowances without work. On the other hand, the sick and the disabled were exempted from work. Some able-bodied tried to avoid work from the very beginning. However, in the workhouse system, work was a condition for receiving allowances"* (Munková, 2005).

Similarly to continental Europe, formation of modern social system begun in late 19th Century. Various private insurance institutions, mostly founded by workers' associations, soon supplemented public systems of benefits run by the state or by the Church. This optional insurance was not sufficient, so the first mandatory insurance policy – the pension scheme – was introduced in 1908. Three years later, in 1911, mandatory health insurance and unemployment insurance were added.

The social system based on merit is still typical for the UK. Only those who contribute to the system receive assistance. A crucial event in development of British social system was appointment of **Margaret Thatcher** a Prime Minister.

A libertarian politician struggled with growing public debt, reduced social allowances and benefits, introduced considerably stricter rules for giving any state assistance and even stopped paying child allowances.

Another change came in 1997 with Labourist Prime Minister **Tony Blair** and his policy of *New Labour*. This policy based itself on sharp refusal of social policy of the time and on establishment of new objectives. Benefits would depend on work; passive receiving of allowances would be prevented. This should be achieved through the active policy of employment, and comprehensive education and health-care. In the field of labour law, principles of *flexicurity* were introduced with special focus on harmonisation of work and family life. In 2000, a minimum wage was introduced for the very first time in the UK.

The current social security system in the UK consists of contributory benefits paid from insurance, and non-contributory benefits paid by the state. Contributions are administered by the *National Insurance Fund*, and are used to pay state pensions, invalidity benefits, funeral allowances, maternity pays and jobseeker's allowances. There are following types of insurance:

1. Social security insurance – pension scheme, sickness insurance, maternity pay, unemployment insurance
2. Health care is provided by the *National Health Service* (NHS) and is paid from state budget and the National Insurance Fund. Therefore, there is no health insurance in the proper meaning in the UK.

The contributory system is supplemented by the system of *social assistance*. These non-contributory benefits are paid exclusively from the state budget and include housing benefits, income-based job seekers allowances, income support, income support for people who are not working and contributions to the pension scheme.

A distinctive feature of the British welfare system is incorporation of housing policy into it. The state privatised most of the country's housing capacity, but still owns some flats that are provided to unemployed or elderly people as a form of social support.

3.4 Social Security System of Sweden

Sweden is a country with a typical Nordic social-democratic model that is highly redistributive, with equal and comprehensive benefits.

Sweden introduced first tools of social policy more than 300 years later than other European countries. While most of Europe had some forms of poor laws since the Middle Ages, only in 1763 such a law was adopted in Sweden. Health insurance, introduced to the Central Europe by **Otto von Bismarck** and **Eduard Taaffe** in 1880's, was established in 1891 in Sweden. Unlike Central European countries, it was only optional in Sweden. So were the pensions introduced in 1920s. However, all components of the social security system were based on principles of equality and comprehensiveness from the very beginning.

Being a neutral state, Sweden did not took part in the World War II, and the development of country's welfare system was therefore uninterrupted. The Social Democratic Party has been governing Sweden since 1930s nearly without interruption and during this time created a complex conception of social policy.

Swedish welfare state experienced its greatest boom in 1970s and 1980s, in period still known as the golden age. Unemployment allowances reached 90% of previously received salary; employees had 5 weeks of holidays, and parental leave lasted up to 450 days. Since the crisis of the welfare system in late 1980s and early 1990s until today, there has been a gradual reduction of benefits and allowances due to cuts in social expenditures.

It is maybe due to the uninterrupted political development of the country, but the Swedish welfare state has grown into a very complex system despite its relatively short existence. The structure of authorities active in the field of social services is even more complex. Its backbones are the Ministry of Labour and Ministry of Health and Social Affairs.

The main tool for eradication of poverty is social insurance. Nowadays, there are following types of social insurance in Sweden:

1. Health and "dental" insurance;
2. Social insurance – sickness insurance, injury insurance, pension scheme;
3. Parental insurance – parental pay is paid from it;
4. Unemployment insurance.

In Sweden *"people are convinced that social benefits should be constituted as a universal right, not as a form of charity"* (Munková, 2005). Therefore, not only residents but also all persons working in Sweden are entitled to receive the benefits.

The welfare system of Sweden is very complex, but relatively sustainable. Three fourths of the social expenditures are financed from the insurance premiums; only one fourth of them is paid from the state budget. In addition to the "*insurance-based system*", there are also systems of social care and family assistance, that are financed from the state budget.

3.5 Comparison

As we can see from the national monographs, all compared states conduct their social policies by the means of the social security insurance that are in nearly all cases compulsory. **Pension scheme** is a common base, i.e. a type of insurance that exists in all four countries. Another type that is in some form common to all countries is **unemployment insurance**. In the Czech Republic, there is a contribution to the state policy of employment, that is included in the social security insurance and that is indirectly used to pay unemployment allowances. *Health insurance* also exists in all countries, but the health-care of the UK is not supported entirely from these funds. As mentioned above, it is paid partly from the state budget and partly from the National Insurance Fund which does not collect a specific premiums marked as "*health insurance*".

Other types of insurance differ within the studied countries. The Czech Republic and the United Kingdom use the term *social security* in a nearer sense, that comprises unemployment insurance (or contribution to the state policy of employment in case of the Czech Republic), sickness insurance and maternity pay (being either a distinct part of insurance or included in the sickness insurance). Sweden operates with a concept of social insurance (instead of social security) that comprises sickness and injury insurance and a pension scheme.

In China, all types of insurance are strictly separated, so the system is more transparent and the benefits are more precisely targeted. The insurance systems are administered by the regional governments. High transparency is guaranteed by existence of a separate fund for every type of insurance. On a national level, the sovereign fund was established that acts as *ultima ratio*, or the last resort in case some other funds do not have enough means to pay the benefits. Similar sovereign funds exist also in other developed counties such as Singapore, Saudi Arabia, United Arab Emirates, Norway or Russia.

Every studied system has also some distinction or unique features. In Sweden, there is a special type of insurance, parental insurance, that serves

to pay benefits, such as parental allowance, attendance allowance or pregnancy allowance, which is paid if a woman is transferred to a less-paid job due to her pregnancy. These benefits are paid next to benefits coming from taxes and only to parents who have been employed and who has paid these special insurance payment.

Table 1: Comparison of social system components of selected countries

STATE	Pension scheme	Health insurance	Sickness insurance	Maternity pay	Injury insurance	Unemployment insurance	Parental insurance
CHINA	✓	✓	x	✓	✓	✓	x
CZ	✓	✓	✓		x	x (✓)	x
UK	✓	x	✓		x	✓	x
SE	✓	✓	✓	✓	✓	✓	✓

Source: Created by the author using data on individual national systems of social security

As shown in the table, China has also one distinctive institution, which among the other studied countries exists only in Sweden. It is injury insurance, a type of insurance that is regulated by regional governments. The governments try to differentiate between various sectors of economy. The injury insurance is intended for employees of companies, institutions, civic associations, NGOs, funds, legal and accounting offices, organisations established by the government, bodies of the Communist Party, and for employees of cultural, educational and research institutions. The premium is paid by the employer (it usually amounts 1% of employee's salary). Professions are divided into several risk classes with different premiums.

This insurance is optional. However, employers are held liable for occupational accidents and if the employee is not insured, the employer will cover all expenditures related to such accident.

No minimum time of contribution to the system is a precondition for the entitlement to receive injury allowances. Allowances from this type of insurance are paid to employees who are either temporarily or permanently unable to work. The insurance obviously substitutes the European sickness insurance, but in European countries, it is compulsory and is financed by both employer and employee.

Conclusion

Based on the presented description of the labour market and a comparative study of the social security system of China, we differentiate between instruments or institutions of market nature and those of socialist nature. This division can be misleading. The aim of this paper was analysis of the current state of the labour market and the social security system of China. Being a socialist market economy, Chinese economy and its segments, including the socio-economic system, is somewhere on the border of the market economy, with certain instruments of centrally planned economy persisting. These instruments are called "socialist" in this paper.

Regarding the labour market, China has made great progress in implementation of market principles. In addition to the privatisation of state-owned companies, the *danwei*, contractual employment relations replaced lifelong employment of people. The market principles of supply and demand for labour were introduced and thus the free labour market was created. This market principle is still limited by one "socialist" instrument, the hukou system. The system of personal registration according to the place of birth limits the flexibility of the labour market in terms of labour mobility.

Another tool of the labour market, which is typical for market economies, is employment policy. Even in contemporary China, there are local "*employment agencies*". They run re-employment projects to find jobs for workers who were laid-off during the process of privatisation of state enterprises. There is, however, certain "socialist institution" persisting in the field of employment policy, the *xiagang* workers. Thanks to this institution, China does not report real unemployment rate in her official statistics. A segment of laid-off workers was created. Redundant workers are still registered as employees of the company in which they were previously employed for a period of three years. Therefore, the state reduces the official unemployment rate and expenditure on social security and unemployment benefits as well. However, preservation of surplus labour in the reserves of enterprises is not a market instrument and is completely against the principles of efficient production and minimising costs.

The Social Security Law of 2011 has substantially changed the Chinese system of social security. Social security is based on 5 subsystems of insurance, that are largely similar to types of insurance known in developed market economies of Western Europe. China's social security system can be described as very developed due to the existence of personal insurance

accounts and locally generated funds for each type of insurance. Such arrangement is highly transparent and in the case of need, these accounts are used to cover benefits for the insured person. In case of insufficient funds, the benefits are paid from local insurance funds or even from the national sovereign fund. Such national funds are typical for many developed countries of the world, such as Singapore or Norway and other Nordic countries.

Negative aspects of the existing insurance systems are still persisting differences between urban and rural areas. On closer examination we find that one system of insurance contains up to three different insurance policies that vary not only in the obligation of the insured, but also in their rights and benefits. Consequently, equal social security is not ensured for the China's population. This aspect contradicts to the principles of democratic and developed market economies, whose systems are mainly based on the principle of non-discrimination.

Since the 1980s, China is undergoing significant transition processes toward a market economy. The transition is limited by some institutions persisting from the time of the centrally planned economy. China calls herself a socialist market economy and it is not surprising that her socio-economic system is half-way from centrally planned to a market economy and, therefore, even within the labour market of China and her social security system, there are not only instruments of market nature, but also some instruments that are rather "socialist".

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