

# Social Welfare in China and Eastern Europe In Transition: The Making of Regional Models

Oh, Jeong-Soo\*

\* Professor, Department of Social Welfare, Chungnam National University, South Korea

## Introduction

Can the hypothesis of 'Civilizations Clash' by Samuel Huntington be applied to the area of social policy? China and Eastern Europe were both part of the Communist Block in the 20th century, but they have split into different civilizations since the last decade of the 20th century. In the estimation of Huntington(1996), the world will be reorganized into a new world order by the clash of civilizations in the 21st century. From this point of view, it can be construed that there may be a diverging development of social institutions in China and Eastern Europe after the normative socialist model was broken, and that there will also be a converging development towards regional models. Actually, the economic success of East Asia became the base that enforces their own values and emphasizes the superiority of their way of life, compared with other societies including Western Europe. These countries chose paths fundamentally different from Western Europe, although they selected many ideas of social policy from those countries. Meanwhile, European countries are going the way of economic integration with the EU, and the countries of Eastern Europe that are in transition from socialism to market capitalism are establishing social security systems, expecting economic integration with the EU.

As the Chinese government propels economic reform based on the socialist market economy and keeping intact the old political system, the reform of social security emphasizing Chinese characteristics has been performed gradually (Xu,1999). Since the 1980s, China has gradually reformed the social security system with the reform of economy. In the process of reforming social security, the Chinese government emphasized social security with Chinese characteristics, and has constructed new social security systems including social endowment insurance (old age pension), unemployment insurance, medical insurance, industrial casualty insurance, and social assistance. It has been asserted by the reformers that social security should be adapted to the developmental stage and unique features of Chinese society and its socialist market economy, and that it should be a system promoting productive economic development. While there is no sign of political integration in East Asia as in the European Union, nevertheless, the move for establishing an East Asian economic block is appearing carefully. In this process, it has been discovered that many features of the

newly emerging social welfare system of China are similar to that of East Asian countries.

This is also the case in Eastern Europe. After the collapse of the former Soviet Union and other communist countries in 1989, the problems of high unemployment and poverty arose by rapid transition in Eastern Europe. The reform of social security that corresponds to the transition was propelled radically by the Westernization strategy, and it imported the models of Western European welfare systems in the worldwide stream of globalization. On the whole, the market economy was introduced rapidly by ‘shock therapy’ after the socialist system collapsed in Eastern Europe and Western-style social security were formed in a short period. This stream of change up to now requires researchers to analyze social policy based on the regional cluster of countries in the area of comparative social policy. The aim of this article is to understand comprehensive social policy in the process of economic reform with the purpose of investigating the actual conditions of poverty and unemployment problems and the social safety net in the context of regional clusters, and to compare and evaluate similarities and variances between the two regions. The focus of this article is the investigation of some characteristics of social welfare systems in terms of the reorganization of the new world order established in China and Eastern Europe and how to explain it in the context of regional convergence. The factors, effecting the diverging development of welfare systems between the two regions and on converging development in each region, include social values and culture, political factors, socioeconomic factors, and international factors. The term ‘social safety net’ is defined as a social security system that is designed to minimize the effect of poverty and unemployment for the underprivileged by the economic reform in transition process.

### **Multi-Factors Influencing Divergence of Welfare Systems**

The factors that influence the construction of the social safety net and new welfare systems in China and Eastern Europe, include social values and culture as they are intertwined with different political and socioeconomic factors. The characteristics of China and Eastern Europe that appear in these factors are shared by the countries of East Asia and Western Europe respectively, and it looks as if they bring about the differentiation of welfare systems by the regions.

#### **1) Social values and culture**

The social values of East Asia are distinguished by the role of an authoritarian state and the solidarity of family, which is reflected in the mode of economic development and coping with social risks. East Asian countries are also distinguished by the harmonious combination of political authoritarianism and economic development. This idea is explained by the notion of ‘national-building imperatives’ to which economic development and social welfare in these countries can be attributed (Goodman and Peng, 1996). Also, in China in transition, the role of a developmental state as well as that of

enterprises and family were emphasized for the construction of the new social safety net to cope with the problems of poverty and unemployment.

In the programs of income-maintenance such as old age pensions, the state-owned enterprises (SOE) have had the traditional responsibility for the well-being of the employed and their family and the principle of protecting the employed by SOE has been kept since the beginning of the economic reforms. The role of the local community and family were emphasized in forming social security networks based on the community unit in rural areas. These values are used to express the features of their own models of social welfare, such as the Chinese characteristics, the Japanese-style, the Korean-style and so on in East Asian countries. In Japan, when the aged society was coming, the terminology of the Japanese-style welfare society was used to emphasize individual self-reliance and the solidarity of local communities. In South Korea, the Korean-style welfare model emerged in social policy discourse, which emphasized the family's responsibility and economic growth in securing the well-being of people. In China, the welfare system with Chinese characteristics is emphasized in the transition process. The notion of the Western welfare model is becoming anathema as is seen to be wasteful and inefficient in the discourse of social policy in East Asia.

In Eastern Europe, the targets of national development by Westernization strategy were specified and the value of individualism spread rapidly. These targets and social values became the basis of rapid liberalization, comprehensive privatization, and macroeconomic stabilization, which have been driven by the demands from enterprises and voters and have been shaped by the process of European integration (EBRD,2000). The normative welfare model of socialism collapsed and the social safety net established by each country according to the spread of these values developed some sub-models of the European welfare state.

## 2) Political Factor

There had been active discussion about the necessity and direction of political reform in China since the 12th Conference of the China Communist Party in 1982 that proposed the construction of a socialist market economy with Chinese characteristics. Until the mid 1980s the political reform discussion could be divided into the positivists, who insisted on the preferential drive of political innovation, and the hesitants, who emphasized the precondition of political reform. The positivists prescribed the target of political reform as establishing a democratic political system and a rational system of decision-making.

Because the Chinese political system was basically characterized by the concentration of power, it was insisted that the central task of political reform was to solve the excessive concentration of power, that is, decentralization and power limitation. But the new authoritarians insisted that the authoritarian political system was necessary to secure social stability and order in pursuit of the goal, although they agreed with the goal, that is, political democratization and transition to a market economy. They were receiving

implications from the developmental model of the newly industrializing countries in real terms, and from Edward Shils who emphasized the tutelary democracy for modernization and Samuel Huntington who emphasized stability and order, and authority and institutionalization theoretically (Petracca and Xiong, 1990:110).

While the democratists thought that democracy could be the motivating power for furthering the market economy, the authoritarians thought that the authority of collective politics make possible the reform towards a market economy. However, the discussion of political reform was disrupted by the political situation of turmoil such as the incident at the Tiananmen Gate in 1989 and the collapse of the Soviet Union and Eastern Europe in the beginning of the 1990s. Since the 1990s, Chinese political scientists advocated gradual reform that set the priority on the principle of political stability and development which represents real conditions in China. Thus, the China Communist Party is holding on to power and the democracy of a multi-party system has been reserved. Such regional characteristics were emphasized in the name of Chinese characteristics, and it was reflected in almost all state policies including the construction of social security system.

The political change of Eastern Europe is distinguished by the progress of more radical democratization by introducing multi-party political system. In Eastern Europe, quick Westernization was regarded as the parameter of successful reform and transition to a market economy in the stream of global market capitalism rather than emphasizing the regional characteristics as was in China. While the so-called Visegrad-Type countries, such as Poland, Hungary and the Czech Republic, which have been successful in transition, had a definite goal of integration with the EU, the other countries, such as Russia and other countries of the former Soviet Union, which had not any specific goal, experienced much confusion and trial and error. Thus, it is estimated that the more specific the goal of transition, the higher the possibility of a successful transition.

### 3) Socioeconomic Factor

The economic structure of China has been changed dramatically by the rapid industrialization from underdeveloped agricultural economy. One of the most dramatic elements in China was the role of TVE(Township and Village Enterprise) in the transition to a market economy. The growth of private enterprise was occupying an important part in the Chinese economic reforms, but TVEs were dominating much share relatively in the transition to a market economy. Also, SOEs (State-Owned Enterprise) reform was performed gradually, but the share of SOE is still dominating important weight. SOEs and COEs (Collective-Owned Enterprise) reached 50% of the total number of enterprises by 2000. With the progress of industrialization, the stratification of the farming class is progressing, which was one of the basic classes in Chinese society. The population of the primary industry decreased to 50% of total population by 2000, but the weight is high still, and the secondary industry population is 22.5%, and the population of the tertiary industry is 27.5%. The new class is emerging slowly. The number of TVE workers passed

100 million, and the employee of private enterprises reached 60 million by 2001. Also, though it is in elementary level, a civil society is being formed.

On the other hand, the story of transition in Eastern Europe is mainly about the growth of private enterprises. Most SOEs have been privatized since the early stage of transition. In Poland, national property was sold through the reform legislation of 1989 and more than 80% of privatization was achieved already in 1990. The Czech Republic achieved the privatization of 15% of SOEs by 1992 through the method of investment bonds and continued privatization thereafter. The share of the private sector in GNP grew to 75% by 1995. Hungary enacted the Privatization Act in 1990 and the share of private sector in GNP grew by 75% in 1995. The level of privatization of SOEs became the benchmark of successful reforms. In the structure of industry, the share of primary industry of GNP in the Eastern European countries such as Poland, the Czech Republic and Hungary were already less than 10 % in 1990 and the share of secondary and tertiary industry were more than 30% respectively. The difference in the economic structure and the mode of economic reform became factors that influenced the selecting of different approaches to establish social safety nets during the transition.

#### 4) International Factor

The financial assistance for the economic reforms of Eastern Europe was done mainly by the international financial agencies. International financial agencies such as the IMF and the World Bank pushed to strengthen the efficiency of market economies in the construction of the social safety nets. Every government shortened the period of provision and reduced the target population of income maintenance and lowered the income replacement rate under this pressure. Also, the direction of social policy in Eastern Europe was distinguished by total welfare abstinence and the targeting of social protection which is consistent with the current stream of globalization and neo-liberalism which is closely related with the value of free market economy.

Much of the financial assistance and investment for the economic reform of China came from Chinese emigrant' s capital in Southeast Asia and the neighboring East Asian countries. Therefore, the pressure from international financial agencies to create a social safety net was relatively slight. Of course, there were serious policy examinations in view of the experiences of European welfare states and the surrounding countries in introducing new welfare models. But, it was asserted that no particular model fit the Chinese situation exactly, and any new system should represent particular Chinese conditions, and foreign experiences must be drawn upon eclectically and carefully (White, 1998).

#### **Diverging Development of Welfare Systems in China and Eastern Europe**

The above multi-factors such as social values and culture, political and socioeconomic

factors influenced the modes and characteristics of social safety nets and in recognizing and coping with the social problems of transition in China and Eastern Europe.

### 1) Social problems of transition

Social problems of Eastern Europe were distinguished by the soaring rates of unemployment and poverty. System transition by 'shock therapy' brought about mass unemployment and poverty and made much effect in creating social safety nets. The rate of poverty increased rapidly in most areas, and increased rapidly in the early stage of system transition. At the same time, social inequality increased. The registered unemployed and unemployment rate increased, and most countries with the exception of the Czech Republic recorded high rate of unemployment in the 1990s. The rate of unemployment during the 1990s was as follows: 12–16% in Poland, 7–12% in Hungary, 10–14% in Slovakia, 5–9% in Russia. Also, the average real wages fell greatly with high inflation rates, and, accordingly, the rate of poverty in most countries increased to the level of developing countries. The increasing unemployment and poverty was caused by the collapse of the socialist planned economy and social security system. A quick Westernization strategy was thought to be the best means to solve those economic and social problems.

Social problems of China were characterized by the fact that the rate of registered unemployment was kept low in the phenomenon of high latent unemployment and poverty was kept in latent form, although poverty has been increasing slowly. As the reform of economy has progressed, social problems are emerging; migration to urban areas, the deficit and bankruptcy of SOEs, increase of the unemployed, absolute poverty, increase of inequality, the growing gap in the standard of living between urban and rural areas. In addition, the functions of the socialist state weakened, the quality of life was degraded in income maintenance, health care, and public education in the process of transition from the planned economy to a market economy. But the SOEs controlled unemployment by retaining workers in spite of over-employment in urban areas. The official rate of registered unemployment in urban areas increased gently, such as 2.5% in 2000, 2.9% in 1995, 3.1% in 2000, and it has been kept comparatively low (N BSC, 2001). But it is calculated that the actual share is 8% if unregistered unemployed are included and 20% if laid-off enterprise employees are included. The cause of unemployment is construed to include population factors, structural factors, social system factors and economic fluctuation. Serious problems were caused by the bankruptcy of SOEs, the closing of businesses, restructuring etc. in the process of transition. Accordingly, when the fact that more than 1/3 of SOEs have a deficit and another 1/3 of SOEs have a latent deficit is taken into account, the official rate of unemployment may increase significantly in the transition to a market economy. And the unemployment rates are for urban areas. Thus, if the latent unemployment of rural areas is taken into account, the problem of unemployment becomes more serious.

As China has been industrialized rapidly, the population has flowed from rural to urban

areas. What is called 'the file of ex-rural laborer' appeared, and even if the 100 million people employed as TVE workers and rural laborers are taken into account, the surplus ex-rural laborer of 170 million people in the form of the latent unemployed exists all over the country. The Chinese government controlled migration and divided the registration of the rural census and urban census to prevent social turmoil by the overflow of migration. But the population of latent unemployment in rural areas is ready to take part in ex-rural laborer anytime.

The portion of the population who could not satisfy the basic needs of life increased greatly because of insufficient work ability and inferior condition of production etc., as the former egalitarian system of distribution was abolished and the income differential enlarged after the beginning of economic reform. The primary concern of the government is absolute poverty. It is estimated that the number of people living in absolute poverty is about 12 million in urban areas and 60 million in rural areas. However, poverty has not emerged as a serious social problem in China, because the responsibility of family support is emphasized. The population of poverty comprises the recipients of social assistance, those who do not have supporters such as the aged, the disabled, and there is the population of structural poverty in rural areas- the support of them is considered to be the responsibility of their family. Meanwhile, many people from rural areas cannot find jobs and are wandering in the cities, while the number of poor people caused by the bankruptcy of SOEs and the laid-off are increasing. The level of income is improving, but the quality of life is degraded by inflation. Also, the income disparity between urban and rural areas, the rich and the poor is so great that the relative poverty and inequality is increasing. Therefore, it was necessary to set the cost of national minimum and its institutionalization according to local economic conditions.

## 2) Social Safety Net in Eastern Europe

In Eastern Europe, the social safety net was distinguished by the targeting and low level of benefits which was caused by the rapid increase of welfare needs by poverty and unemployment in introducing social security of Western Europe. In establishing a social safety net in Eastern Europe, old age pension, unemployment insurance, and medical insurance were introduced based on social insurance principles, and means-tested public assistance according to the Westernization strategy. The effort to construct a social safety net by the social insurance principle suffered much difficulty because of economic difficulty and the decline of living standards. In transition, an effort was made to reform the universal social security that had been associated with employment to a social insurance system based on market principle and means-tested social assistance, but they suffered much difficulty in establishing the institutions due to a lack of financial resources and administrative experience, and at times there was social confusion and social deprivation in some areas.

Social Safety Net for Unemployment: Hungary was the first country to introduce a form of unemployment assistance in 1986, and specified a new concept of unemployment and

entitlement to benefits in 1989. Other Eastern European countries introduced unemployment benefits in 1990–91. The unemployment allowance was introduced to protect the people left unemployed by the reforms of the economic structure. In most countries of Eastern Europe, unemployment benefits were introduced generously with fairly long periods of entitlement and a high income replacement rate in the early stage of transition. But the period of entitlement to benefits and the replacement rate became stricter under pressure from the IMF, the World Bank, and G24 countries, because registered unemployment rose and financial resource fell short. Accordingly, only a minority of unemployed in the region was receiving unemployment benefits; by 1994, 13% in Russia, 48% in Poland, 33% in Slovakia, 28% in Bulgaria, and 45% in the Czech Republic (Standing, 1996:237). The income replacement rate of unemployment benefit to average wages fell in all countries, for instance, in Hungary, from 41% in 1991 to 26% in 1994, and in Bulgaria, from 46% to 27%. In effect, unemployment benefits have drifted rapidly from being an insurance-based transfer scheme to being a more tightly targeted and residual scheme for regulating the labor market. Underlying the weakening of unemployment benefits, there is the assertion that much of the unemployment is voluntary and it is thought to be a passive policy so that the necessity of it is weakened. On the other hand, active social policy is to provide the employed job-training and employment arrangement to make them competitive workers. Unemployment benefits seemed to move forward in the direction of workfare in the threat of targeting and active social policy. Positive labor market policies include job creation and training, career guidance and subsidies to enterprises for job creation activities. But this policy did not bring big results (Cho, 1996:113). The legal and institutional base was made for job creation, but the labor office had an insufficient administrative workforce to execute this job and spent most time in payment of unemployment allowance by the rapid increase of unemployed people.

**Old Age Pension:** The reform of pension systems is a high priority of social policy in that old age pension is occupying the biggest share of cash transfer expenses in Eastern Europe, and many peoples are entitled to the benefit. In Hungary, the cash transfer occupied one third of social expenditure. Pension age was low in the old regime and the level of pension was also low. Because the pension ages were low and the pension fund was under funded, the policy-makers were committed to raising the pension age. In Poland, the pension age was raised to 65 for men and 60 for women. In Hungary, the pension age for women was scheduled to go up from 55 in 1995 to 60 in 2003. In most countries across the region, the income replacement rate of pensions was low (30–40% of real income), and the level of minimum pension was under the minimum living standard.

Pension reform in Eastern Europe was performed under the relentless pressure of the international financial agencies. The World Bank proposed the three-tiered system, that is, a two-tier pension, including flat-rate state pension and mandatory private pension, and a third-tier voluntary pension. The World Bank suggested the flat-rate minimum pension be based on a means-test, and social insurance to go in the direction of



privatization. It was also claimed that pay-as-you-go schemes bring about excessive increases in the contribution rate and lowers benefit levels. Partial privatization of pensions is consistent with the residual policy of the social safety net. It concentrates on targeting resources to the most needy and leaving to the market the provision of private pensions to raise people from subsistence to sufficiency and beyond (Standing,1996:242). In effect, pension reform is expected to become a factor in the stratification of social classes.

As for the financing of social insurance, the burden of finance has moved from the employer to the employee by the reform. In the former Soviet system, social insurance was financed mainly by the state or SOE, now it is shared by the employee. In some countries, less than one-third of the expected revenue was collected, which caused budget deficits. In turn, the budget deficit raised contribution rate and brought about lower level of benefits and strengthening of eligibility.

Social Safety Net for Poverty: One of the most serious social problems was the fact that in the transition of Eastern Europe the population who depended on means-tested social assistance increased rapidly. In Poland, those people increased from 1.6 million people in 1990 to 3 million people in 1993, and in Bulgaria they increased 340% during 1989–1992. Also, social assistance was provided arbitrarily in some areas. Many people needing financial support were excluded from the benefit by arbitrary application of standards, lack of information or other reasons. It was calculated that the take-up rate of social assistance was under 50% because of the increasing target population, the lack of professional manpower and administrative ability. Moreover, the level of benefits was very low, and the minimum cost of living was set artificially low to protect the budget. In effect, the target population of social assistance increased, but social assistance was not applied fairly and efficiently.

### 3) Social Safety Net in China

With the Chinese characteristics of social safety net being emphasized, new institutions have been introduced in old age pensions, unemployment insurance, and social assistance. The reform of the social security system has changed the scheme to move from the normative mode of socialism to the three-tiered system, which comprise social security financed by the state, social insurance financed by state, enterprises and individuals, and private insurance.

Social security financed by the state is social assistance which helps the people whose incomes are under the minimum cost of living, so that it executes the responsibility of the state and actualize the value of social equity. The target population of social assistance is the constituents who are living in difficulty, and the assistance includes natural disaster relief, poverty relief, special relief, and unemployment relief. Social assistance services are seeking to develop from a state-run financial scheme to a scheme financed by various resources such as government subsidy and cooperation from social agencies

and enterprises. Social insurance comprises basic endowment insurance, unemployment insurance, medical insurance, industrial casualty insurance, and childcare insurance. Today social insurance exists in various forms according to the kinds of enterprises in urban areas. The eligibility of urban endowment insurance is enlarged in the form of joint financing by enterprises and individuals, and it aims to build a unified system of standard and management.

Rural endowment insurance is developing to combine the help of collective-owned enterprises and the state on the basis of the responsibility of family in the area where the economic condition is fairly good. Unemployment insurance is moving forward to extend coverage as a scheme financed by the state, enterprises and the individual. The coverage of child care insurance for urban enterprise' s worker is narrow and the degree of socialization is also low, but it aims to extend the coverage to the whole population of workers. Commercial insurance has potential for further development, as a supplement to social insurance. This has the function to satisfy different desires by different levels of individual income, to diffuse social risks, and to convert consumptive money to productive capital. The Chinese government expects the development of commercial insurance to take various forms, such as provision for old age, medical treatment, and life insurance.

**Social Safety Net for Unemployment:** As China has reformed its economy since the 1980s, unemployment has appeared as a social problem. The number of registered unemployed in urban areas has been as follows; 2,390,000 people in 1985, 3,830,000 people in 1990, 5,200,000 people in 1995, 5,950,000 people in 2000. The yearly rate of increase is as follows: 9.9% from 1986 to 1990, 6.3% from 1991 to 1995, 2.7% from 1996 to 2000 (NBSC, 2001:23). Moreover, SOEs are over-employed by 30%, and this means that 20 million people are in latent unemployment. This is the problem that has accumulated for several decades under the socialist planned economy. Until recently, the application of unemployment insurance has been very low. The government did not approve of the existence of unemployment in theory and policy, assuming long-term unemployment to be a peculiar capitalistic phenomenon. There was no unemployment insurance in the stipulations of <People's Republic of China Labor Insurance Regulation> in 1951 and secured worker's living by 100% employment policy. According to article 4 of <The Enterprise Bankruptcy Act> in 1986, the state must take responsibility for securing the basic living standards of workers compulsorily before re-employment, and it is the urgent request of economic development to build a social security system for unemployment. This means the building of an unemployment insurance system in China. In <The 1995 Plan of National Economic and Social Development and 2010 Long-term Goals>, it is stipulated that the state will construct a new system of unemployment insurance, relief and re-employment, and limit the urban unemployment rate to 4% in the period of The 1995 Plan, and gradually create unemployment insurance system that combines unemployment relief and re-employment for the urban workers (Wang,1998).

① The target of unemployment insurance is extended to SOE, COE, private enterprises and foreign investment enterprises with the progress of economic development. The

number covered by unemployment insurance is 103,260,000 people in 2000: 59,130,000 in SOE, 14,450,000 in COE, 4,460,000 in foreign investment enterprises, 5,980,000 in other units (NBSC, 2001,772). The take-up rate is 77.0%.

- ② The eligibility of unemployment relief is limited to involuntary unemployment. The period of eligibility is 12 months when the year of employment is less than 5 years and more than 1 year, and it is 24 months when the year of employment is more than 5 years. The principle of the benefits is to combine unemployment insurance and employment service.
- ③ The unemployment insurance fund is operated by the pay-as-you-go scheme. The enterprises pay 0.6% of their total amount of income, but in case of surpluses or shortages, the government of each province, autonomous region and municipality can decide to add or subtract from the premium, but it can not exceed 1.0%.
- ④ As for insurance administration, the Ministry of State supervises all the business of the unemployment insurance for all workers, and the local government above the county level manages the insurance business by establishing the insurance fund committee.

How about the workers who are not SOE or COE workers, if they become unemployed? Employees under the new economic system should follow the market principle of operation exactly, and the enterprises have the responsibility of job guarantee for the employee, but the danger of unemployment is greater than SOE or COE workers. All the foreign investment enterprises and private enterprises are also persuaded to participate in the unemployment insurance, but the situation of insurance is not secure, and the unemployment fund that is collected by the 0.6% premium of total wages is not enough to solve the danger of employee' s unemployment. And if the premium ratio of insurance is raised, it will result in the private enterprises not participating actively in the unemployment insurance. In effect, SOE employees who are in less danger of lay-offs joined the unemployment insurance, while the employees of private enterprises who are in greater danger are excluded from the insurance, that is, the adverse selection of unemployment insurance.

Old Age Pension: The Chinese government has accelerated the building of the endowment insurance system, and the urban endowment insurance problem in the primary position of reform since the transition. The basic endowment insurance system is aiming at establishing a unified standard in financing and administrative system, which was announced at the National Conference of People' s Representative in March 17, 1996. The urban endowment insurance system is aiming to build a unified system, based on the following principles: the principle of multi-tiered social endowment insurance made to fit the nation' s developmental stage of production, the principle of right and corresponding duty, that is, financing by individuals and society, and the principle of enjoying the outcome of economic development by the aged.

The situation of the basic endowment insurance in 2000 is as follows. First, the number of workers to take part in the basic endowment insurance is increasing. The number of enterprise workers are 91,240,000 out of a total of 104,470,000 persons, (SOE workers

66,670,000; COE workers 14,700,000; Other enterprises 6,980,000), Undertaking Units 9,780,000, and Other Units 3,460,000. The premium rate of endowment insurance was planned to start at 3% of income and increase 1% by every 2 years (4% in 1998) and increase to 8% at most. The allowance reached 85% of income before the reform, but is scheduled to go down to the level of 60% gradually after the reform. The reason for lowering the benefits of basic endowment insurance is as follows. First, 9 workers supported 1 aged person in the early 1960s, and 7 workers supported 1 aged person in the early 1990s so that the financial demand for supporting the aged is continuing to increase. Also, the aging of the population in China continued, and the aged people more than 60 years old were 8.6% of total population in 1990, according to statistics, 10.2% in 2000, 18.2% in 2030, thus 3 workers are going to support 1 aged person. Meanwhile, the resource of the aged includes individual savings, investment income and complementary endowment insurance, beside basic endowment insurance. The retired old man lives on retirement allowance mainly. In the future, because the basic endowment insurance can secure the basic level of living, it is necessary to institutionalize complementary endowment insurance and individual savings with the basic endowment insurance in order to heighten the living-standard of the aged. The Chinese government executed the supplementary endowment insurance during the reform of social insurance in some enterprises from the mid-1980s. However, the spreading speed is slow.

The Chinese government is also pushing the establishment of rural endowment insurance with the city endowment insurance system. The Ministry of Civil Affairs (MOCA) has performed research and sample project since 1986, and presented the plan to establish rural social security networks based on the township unit under the principle that stresses self-help security and family-supporting security in the local community. The Ministry of State endowed MOCA with the responsibility to perform the project of rural endowment insurance system in 1991, and performed the project in 5 areas of Shantung Province that were in good economic condition. By 2000, the number of rural social security net is 18,855 across the whole country, including 1,943 in Shantung Province. The MOCA established <The Basic Plan of Rural Social Endowment Insurance in County Level> in January 1992, on the basis of researches and experiences of sample projects. The contents are as follows:

- ① The rural endowment insurance must start on the reality of rural areas, and aims to secure the basic living standard, and emphasize the principle to connect social endowment insurance and family support for the aged. The rural endowment insurance is a social support system of low standard for the aged. It does not introduce the retirement concept of the cities, and adapts to the level of living in rural population rather than to adapt to the level of living needs after urban worker's retirement.
- ② The target of rural endowment insurance is the rural population of non-urban households, and they should pay premium from 20 to 60 years old without distinction of sex, and receive an old-age pension after they become 60 years old. The endowment insurance fund is managed by the county unit and the local governments

above the county level establish the fund management committee.

- ③ The insurance is financed by payment of individuals and COE support by month or year. Premium standard ranges between 2–20 Yuan in 10 grades.

Social Safety Net for Poverty: In the period of transition, one of the urgent tasks is to secure the minimum standard of living for the poor. In recent years, in view of the research results about the minimum standard of living, the target population of society relief is classified into several categories. The first category is those who lost the ability of labor. This amounts to about 500 thousand persons. They are the traditional relief population, and include people such as ‘ sanmu’ . The second category is the low income population who do not belong to the above relief condition. There are about 2 million such people all over the country. The third category is low-income people who have been laid-off, who are assumed impossible to be employed again. These are 1.7 million people. The second and third categories are increasing with the progress of economic reform, and they are assumed to be the target of social security. Therefore, the urban population of poverty is about 20 million, which corresponds to 10% of the 190 million, non-rural population. The major cities have begun to enforce the social security system for the minimum cost of living by setting an example since June, 1993. About 100 cities and counties established urban minimum costs of living at the end of 1996, and 206 cities, counties, townships enforced the urban minimum costs of living security system in 1997, and it was planned to extend to all cities in 2000. But the minimum standard of living is determined differently according to the economic condition of areas. This was caused by different economic levels and financial ability in the regions. In 2000, the number of people who were receiving the minimum costs of living in urban areas was 4,020,000 people.

The Five Aspects (‘ wupao’ ) of relief for rural areas in China are the public relief system for orphans, widows, the sick, and the disabled. The target of Five Aspects relief are the people who there have no one to support them, or there is no support ability, no work ability, and the people who have no living ability such as the aged, the disabled, and minors. The selection of the recipient of relief is initiated by the prospective recipient’ s application and recommended by the village committee and finally determined by the township government and the certificate of the Five Aspects relief is issued to the recipient. The benefits of the Five Aspects relief include food, clothes, shelter, medicine and funeral costs (education for minors). The delivery system comprises the welfare homes and the elderly welfare units established by township governments according to their economic conditions, and the state is encouraging the enterprises and the collectives to establish elderly welfare units. The cost of Five Aspects relief is financed by the township government, and if it has any revenue from its collective business, some of the revenue is applied to the cost of relief. In 2000, the number of people receiving Five Aspects relief in rural areas is 2.7 million, the population receiving government relief is 625 thousand, and the population receiving collective subsidies is 2.8 million.

## Typologies of New Welfare Systems

Many typologies have been used to classify the Western welfare states. Ferrera (1993) classified the universal welfare states and the occupational welfare states based on the Anglo-Scandinavian tradition of social policy. Ferrera concentrated on one important aspect of the way welfare is delivered. Coverage can be universal, where the entire population is covered by a single scheme, or occupational, when different groups are covered by different schemes. Universal provision is provided in Scandinavian countries, but fragmented provision along occupational line is provided in continental European countries. And, according to the academic tradition of France on comparative social policy, welfare state models were classified as the Beveridgean model and the Bismarckian model (Bonoli, 1997:357). Beveridgean social policy is characterized by universal provision: entitlement is based on residence and need, benefits are typically flat-rate and are financed through general taxation. But Bismarckian social policy is based on social insurance: provide earnings-related benefits for employees, entitlement is conditional upon a satisfactory contribution record, and financing is mainly based on employer/employee contribution. And Esping-Anderson (1990) distinguished welfare state regime types into three clusters according to three criteria: the degree of decommodification of provision, the distributional impact of services and benefits, and the state/market mix in pension provision. From the perspective of Esping-Andersen, the old system of Eastern Europe was highly decommodified, redistributive and egalitarian, and a state system.

The new welfare system in Eastern Europe in transition has been differentiated into more than these three welfare models. Deacon (1993) classified the welfare systems of Eastern European countries based on the following six variables: demographic need, economic development, economic growth, working class mobilization, influence of Catholic teaching on social policy, and historical impact of absolutism and authoritarianism. Hungary and Slovenia were classified in the liberal capitalist model, the Czech Republic was classified in the social democratic model, and Germany was classified in the conservative corporatism model. In the meantime, he added a model, the post-communist conservative corporatism model, in which he included Russia, Romania, Bulgaria. After the split of Czechoslovakia into Czech and Slovakia, the Czech Republic stressed the liberal principle, whereas Slovakia preferred more state responsibility (Potucek,1993). Up to now, much effort has been made to classify Eastern European countries by the typologies of European welfare states (Lelkes,2000). Anyway, the new welfare systems of Eastern European states could be classified in the typologies of European welfare states. The typologies of European welfare states have a clear proposition that Western and Eastern European countries have a common tradition, that is, the values and culture of Western civilizations.

However, it is evaluated that such an analysis is too much a Western welfare capitalist typology (Jones, 1993), thus, it has no relevance to the analysis of the East Asian welfare

states such as Japan, South Korea, Taiwan, and Singapore. Jones (1993) pointed out some reasons why the welfare state models of Western Europe can not be applied to East Asian countries. First, the East Asian countries can not be accounted to be the liberal capitalist model. Because there is too much social direction in these countries and too little sense of individual rights. Second, of course, these countries do not belong to the social democratic model in view of their residual welfare ideology. Third, the conservative corporatism model can not be applied to them in that they are absent of sufficient status-preserving statutory social benefits to accommodate the aspirations of the employed middle classes. She described the characteristics of these countries as follows: without Western-style worker participation; solidarity without the Church; solidarity without equality; and laissez-faire without libertarianism (Jones,1993:214). Therefore, for the analysis of East Asian welfare systems including Japan, South Korea, Taiwan, Singapore, and China, another proposition and welfare model is needed. The East Asian welfare state by Goodman and White(1998) or the Confucian welfare state by Jones (1993) are a kind of new typologies that are applied to these country. Jones also gave those countries an alternative expression, the ' household economy' welfare state. Aspalter (2001) also analyzed social welfare systems of East Asian countries by applying a political approach to examine the causal determinants of welfare state development, such as historical factors, political systems, party systems, party politics, the politics of legitimization, the impact of constitutions, state structures, elections, social movements and some political variables. He called those countries ' Conservative Welfare States' .

How can China be classified in view of the typologies, such as the European welfare state or East Asian welfare state? Even if the typology of Deacon (1993) can be applied to Eastern European countries, the reasons why the models of European welfare states could not be applied to China are as following. First, China has different social values and culture than Western Europe. The level of social direction is high and the sense of individual right is very low. Second, the feature of Chinese economic structure and socioeconomic factors are much different from Eastern Europe and contrast each other in the mode of economic reform. Third, there is much difference in the influence and character of neighboring countries. Fourth, there is a different feature from Eastern Europe in the legacy of absolute authoritarianism. China traditionally has had the feature of control and obedience in the state-people relationship and the political culture of authoritarianism does not change greatly, so that the political culture of China contrasts with that of Eastern Europe. Fifth, the influence of religion is different. Chinese society has been less under the influence of Christianity or the Catholic Church relative to European society, and much more under the influence of traditional Confucian culture. Sixth, China and Eastern Europe have much different compositions of social classes and mobilization of the working class. The primary industry is still a great part of the Chinese economy and the regional difference is also great between urban and rural areas.

China did not change the old political system and pursued the gradual mode of development, emphasizing economic development and political stability. White (1998) analyzed that the new welfare system of China has strong elements of convergence with

its East Asian capitalist neighbors. In particular, China has certain familiar features of other East Asian countries in the character of developmental statism (White,1998:186–188). First, there is a preference for contribution-based, fund-managed social insurance, as opposed to pay-as-you-go schemes. Second, government agencies play a direct role in the managing of welfare funds. Third, Chinese governments at all levels use the financial resources generated by welfare funds for infrastructure investment, which can be found in the welfare policy of the East Asian countries. Fourth, there is a clear split phenomenon in particular groups and sectors, although Chinese reformers tried to avoid the fragmentation of insurance schemes. Fifth, there is clear split phenomenon between social insurance and social assistance. Sixth, the traditional custom of family's responsibility for welfare is emphasized. Seventh, there is a limit in awareness of the role of the market for social welfare. Based on a developmental analysis, Tang(2001) also argues that the creation of an economically and socially viable social insurance program supports the economic development of the country, and that China is not pursuing a neo-liberal agenda, although initiatives have been taken to replace the former employer-based labor insurance with a largely social insurance model.

At the same time, White pointed out that China has some unique characteristics. First, there are significant regional variations in emergent new welfare systems. Second, the role of civil society is meager in the policy-making. Third, the welfare role of urban communities is dominated by government and rests on a weak financial basis. These features are different from other East Asian countries like Japan and South Korea, in which regional variation is less, and the role of civil society is greater. However, as for social security with Chinese characteristics, the meaning of Chinese characteristics is thought to describe the historical, political context, and developmental stage of the economy of China, rather than the difference of social values and culture. Thus, it is not a feature, exclusively different from that of other East Asian countries. Rather, the priority of economic development over distribution and welfare, developmental statism, SOE's patriarchal protection for the employee, the emphasis on the role of family and local community are elements developed similarly in the countries of East Asia. Therefore, the Chinese characteristic is another form of East Asian regional characteristics. Of course, there are some political and socioeconomic characteristics that exist only in China. But, it can be asserted that such minor differences exist in other countries of East Asia.

### **Conclusion: The Making of Regional Models**

Does the new welfare system or social security schemes established in the period of transition from the socialist planned economy to the market economy in China and Eastern Europe converge to East Asian welfare models and European welfare models respectively? The establishment of new social security system followed the Western style in the outlook during the transition in China and Eastern Europe. Social security including old age pension, unemployment insurance as a social insurance system and poverty policy as social assistance system was introduced across the two regions.



But the variances in social values and culture makes it difficult to apply the same typology of welfare state to classify the welfare models of China and Eastern European countries. It appears that social values and culture were influential in creating different forms of welfare systems from each other in the process of transition. Here are involved political, socioeconomic and foreign environment factors. In Eastern Europe, there has been the differential development of welfare system, such as the liberal capitalist model, conservative corporatism model, or post-communist conservative corporatism model, and social democratic model according to each country's political and socioeconomic condition. Recently it is likely for a European Welfare State to emerge with the progress of political and economic integration by the EU (Kleinman,2001). The new Chinese social welfare system is assumed to belong to the East Asian model. This model includes special features of Confucian social values (Jones,1993), developmental statism (White, 1998; Tang,2001) and conservative politics (Aspalter,2001). In China, the patriarchal care of SOEs and the social safety net by family and communal solidarity reduced the role of social safety net by the state. Also, developmental statism and conservative politics are reflected in the making and contents of social policy and social security. Chinese characteristics that the Chinese government emphasizes are similar to East Asian features that are found in neighboring East Asian countries such as South Korea, Japan, Singapore, and Taiwan.

Therefore, social welfare systems in transition is evaluated that there has been a clear divergence between the East Asian model and the Westernization model in China and Eastern Europe. This is also a convergence to Regional Models. The hypothesis of Huntington about the 21st century world order can be applied to the establishment of social welfare systems in China and Eastern Europe in transition. In effect, the development of a social safety net or social security in China and Eastern Europe is distinguished by the convergence to its own regional models with the differential divergence between two regions. In prospecting the future of social welfare systems based on this estimation, social welfare systems of Eastern Europe will converge to European welfare models under the pressure of political and economic integration with the EU. In East Asia, although the pressure of this kind is weak, the social welfare system of China will converge more closely to the East Asian model, emphasizing Chinese characteristics.

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## Abbreviations

COE: Collective-Owned Enterprise

EBRD: European Bank for Reconstruction and Development  
MOCA: The Ministry of Civil Affairs  
MOS: The Ministry of State  
NBSE: National Bureau of Statistics of China  
SOE: State-Owned Enterprise  
TVE: Township and Village Enterprise

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