Neoliberalism and Pension Privatization in China and Taiwan since the 1980s

This chapter explores the influence of neoliberalism on pension reforms in China and Taiwan. With the rise of Neoliberalism in the late 1970s, the discourse on the welfare state crisis prevailed in the 1980s which led to the retrenchment of the welfare state worldwide. This global spread of neoliberalism coexisted with China’s Economic Reform Era (1979-the present) and Taiwan’s democratization (1980s-the present). As part of the global neoliberalism, the worldwide pension privatization has greatly shaped the contours of pension reforms in China and Taiwan, especially since the 1990s. However, the mainstream literatures on pension reforms in China and Taiwan have predominantly ignored such influences.1

This chapter will fall into three parts. Part one will introduce the rise of neoliberalism and the consequent World Bank-led global campaign on pension privatization in the 1990s; and the pre-reform pension systems by the 1980s in China and Taiwan. Part two will analyze China’s pension reform since the 1980s, showing how the World Bank’s three-pillar model replaced the models of ILO’s social insurance and Singapore’s Central Provident Fund (CPF).

Part three will discuss Taiwan’s pension reforms since the early 1990s: it will focus on the national pension (which turned out to be social-insurance based) and labor pension (which turned out to be individual-accounts based) reforms, revealing the influence of the World Bank’s three-pillar model. Finally, a comparison on the influence of neoliberalism on China and Taiwan’s pension reforms will conclude this chapter.

Rise of Neoliberalism, Pension Privatization, and the Pre-reform Pension Systems in China and Taiwan

Rise of Neoliberalism and Pension Privatization: The late 1970s saw the rise of neoliberalism.Neo-liberalists advocated privatization, marketization and opening to world market. In the field of the welfare state, neo-liberalists supported pension privatization to fully or partially replace the state social insurance pension with individual accounts, especially privately managed. Chile was the first to fully replace its public social insurance pension with a privately managed individual account system in 1981. This was the result of a post-war transnational movement supported by the US government, which helped the training of many Chilean Chicago boys by neoliberal economists at leading US universities, such as Chicago, Columbia, and Harvard. The purpose of spreading neo-liberal ideas by training many potential leaders in Chile was to eliminate the influence of communism in Latin America. These Chicago boys returned to Chile, first taught at the Catholic University of Santiago and made it the intellectual base of neoliberalism, and then were called by the Pinochet regime to carry out social, political and economic reforms. In 1981, these Chicago boys, including the Labor Minister Jose Pinera (a Harvard graduate), proposed to replace the social insurance pension with a privately managed individual accounts system. This opened up the era of pension privatization in the world.

In the 1980s the World Bank, already staffed with neoliberal economists, began to recommend the Chile model to developing countries, but not in a consistent way. This was shown in China where the World Bank experts recommended either the Singapore’s publicly managed individual accounts or the ILO’s social insurance model. The turning point came in 1994 when the World Bank published its book Averting the Old-age Crisis, recommending a three-pillar pension model based on the Chilean model.2 This book proved to be

2 The World Bank, Averting the Old Age Crisis: Polices to Protect the Old and Promote Growth (Washington D.C: The World Bank, 1994).