This article examines rationales and processes for pension privatisation in Taiwan, Hong Kong and mainland China since the 1990s. It argues that the configurations of the public/private pension mix in the three cases are related to their respective political-economic development. To achieve the reform of state-owned enterprises and labour markets, mainland China’s pension reforms have concentrated on the combination of social pooling and individual accounts. Taiwan’s reforms have rectified the Labour Insurance scheme and established individual accounts in order to alleviate enterprises’ financial burdens while facilitating labour force mobility. Hong Kong has strengthened its service industry in favour of financial market fluidity, corresponding to a pro-market approach that prefers mandatory provident funds as the major pension scheme for workers. The diversification of pension privatisation manifests manifold institutional changes of old-age security, and raises an essential governance issue for the regulation of funded pension provision to ensure adequate income for older people.

Pension reform has been one of the dominant social security themes around the world since the 1990s. Under the pressures of a graying population and fiscal austerity, welfare states in the industrialised and developing regions alike have embarked on a series of policies that either aim at reforming the pay-as-you-go (PAYG) public pension systems or introducing privately funded pensions. The shift towards pension privatisation has attracted wide attention from scholars and policy advisors, which has also stimulated various research works to explore the interwoven characteristics of pension ‘privatisation’ (Madrid, 2003; Orenstein, 2008; Weyland, 2006). Apparently, this whole area has become a global phenomenon that permeates national boundaries and has gained significant leverage over domestic pension politics.

In East Asia, attempts to establish individual accounts on top of the public pension insurances are also on the rise (Fu & Hughes, 2009). Especially, Greater China (mainland China, Taiwan and Hong Kong) is an intriguing example because all three cases face similar challenges of population ageing and rapid socio-demographic changes, but have adopted different approaches to pension reform in response (Mok, 2011). Recent
studies in this area have either concentrated on the general reform endeavours in each individual case (e.g., Chou & Chow, 2005; Lau & Mok, 2010; Salditt, Whiteford & Adema, 2008; Shi, 2010) or compared the experiences of two cases (Yu, 2007, 2008). In their renditions, scholars subscribe to the concept of path dependency in analysing pension reforms, stressing the constraints posed by the existing institutions on the policy efforts to overhaul them (Lin, 2005; Shi, 2010; Yu, 2007, 2008). Following these scholarly works, pension privatisation in Greater China seems difficult to pin down given the dominant role of public pensions in mainland China and Taiwan. Apparently, this is not the case. The rising significance of private pensions in this region is an important issue for an adequate understanding of the changing public/private pension mix.

In an attempt to highlight the institutional changes of pension privatisation in Greater China, this article starts with a discussion of institutional changes in the trend towards pension privatisation. The second section analyses pension policy developments in all three cases and their diverse institutional patterns since the 1990s against their specific political economy backgrounds. The final section concludes the findings and highlights the implications of this comparative institutional analysis.

Institutional changes of pension privatisation

The worldwide trend of pension reforms indicates a complex picture of the evolving public/private mix. Especially in the field of pension provision, the trend invariably points to a shifting, and yet blurring, boundary between public and private pensions. Granted, even the definition of private pensions (occupational and personal) is fluid, depending on the historical context of each country (Béland & Gran, 2008; Bonoli, 2000; Brooks, 2005; Meyer, Bridgen & Riedmüller, 2007; Rein & Schmähl, 2004). Although ‘pension privatisation’ denotes the development of pension reform in the direction of less public provision and more private-sector (enterprises, insurers) involvement, recent worldwide reform experiences suggest various paths. In one, the state offers merely basic pensions and delegates the responsibility of pension provision to societal actors while retaining its role as a financial regulator (contracting-out in UK). In another, public pensions remain the main pillar of old-age income, but the state encourages individuals to take up (equally publicly regulated) private pension products with tax concessions (‘Riester reform’ in Germany). In either case, we have witnessed a growing garden variety of the interplay between public and private pensions (Bonoli & Palier, 2007; Immergut, Anderson & Schulze, 2006; Jochem, 2007; Leisering, 2011; Schludi, 2005).

These experiences suggest that we exercise caution against interpreting pension privatisation as the replacement of state provision by private responsibility for old-age security. Although in the case of Greater China we refer to the rising significance of private pension provision, this by no means implies that the overall support for retirement has shifted to private hands. On the contrary, pension privatisation entails institutional reconfiguration with greater emphasis being put on private pensions while not necessarily excluding the role of public responsibility. The three cases under scrutiny have chosen to privatise the responsibility for old-age income at different stages, but the scope for the public regulation of private pensions has increased equally in all three cases. These developments suggest the necessity to clarify the rationales behind, and the paths towards, the institutional recombination of public and private pension provision and regulation.

Our comparative study of Greater China indicates that significant changes have crept into the seemingly stable institutional evolution, especially in the cases of mainland China and Taiwan where private pensions have made headway despite the prevalence of
social insurance. The extent of pension privatisation is so pronounced that the idea of path dependency seems no longer adequate to account for the subtle institutional change. As recent literature has pointed out, explaining pension reforms solely with path dependency risks overstressing institutional continuity and neglecting the nuances of institutional change, particularly in realms where the public–private boundaries are shifting (Ebbinghaus, 2006, 2011; Peng & Wong, 2008; Streeck & Thelen, 2005). While recognising the insight of path dependency which highlights the constraints of policy legacy, this article argues that incremental institutional changes could still gain significant momentum and thereby alter the institutional logics. A better way to elaborate pension reforms is to analyse such changes in pension strategies and outcomes within their specific political-economic contexts. Especially, the rationales for privatisation involve wide-ranging institutional reconfiguration that aims to tackle the challenges of demographic shifts and the imperatives of industrial reorganisation (mainland China). The timing also coincides with political upheavals, such as democratisation (Taiwan) or integration with mainland China (Hong Kong), motivating the governments to expand the existing pension schemes covering marginalised social groups. This is a crucial feature of East Asian countries where social security institutions undergo simultaneous institutional expansion and reform (Mok, 2010).

The dynamics of pension privatisation in Greater China indicate various reform strategies that aim not only at retrenching the existing public schemes, but also providing supplementary income protection for more population groups. As such, options of voluntary or mandatory private pensions have enriched the menus of retirement protection available to the public while equally appending the policy repertoires disposable to the government. The approaches towards hybridisation of state pension policy and market mechanism vary among the three Chinese societies, depending on how the mounting reform pressures to introduce funded pension schemes are counteracted by the rising public quest for old-age security. Thus, instead of vanishing institutional variety, the trend towards pension privatisation points to even greater diversification in terms of pension provision and regulation (cf. Ebbinghaus, 2011; Hippe, 2009; Leisering, 2011). In either case, regulation of funded pension provision has become an important part of the governance structures to ensure adequate income maintenance in old age. The intensity of state regulation often shapes the coverage of supplementary pensions and the scope of risk pooling. Different trajectories of public pension institutions have crucial consequences for subsequent accommodation of private pensions in the pension systems.

Managing pension privatisation amid rapid changes of political economy in Greater China

All three Chinese societies have specific political economy backgrounds. Taiwan and Hong Kong (hereafter HK) belong to the early generation of the East Asian developmental states, characterised by the state’s priority to emphasise economic growth rather than meet welfare needs of the people. Previously, social provision had been deliberately kept at the minimum, along with the suppression of labour organisations in industrial relations (Pempel, 2003; Woo-Cumings, 1999). During the 1990s, democratisation in Taiwan and the reintegration of HK into China have pressed both places to extend the scope of social protection (Lau & Mok, 2010; Lee & Chan, 2007). Meanwhile, mainland China’s social security system had from the very start a strong stratified character, with urban workers receiving generous welfare benefits while rural farmers were left with residual means-tested programmes. Through the household registration system (hukou), the urban–rural divide separated the society into
two worlds of social citizenship. Hence, a large part of the pension reforms since the 1990s was the introduction of individual accounts to compensate for the reduced role of state-owned enterprise (SOE) pensions.

The institutional features of social protection in the three Chinese cases demonstrate conspicuous contrasts. Social insurance has constituted the cornerstone of the Taiwanese and mainland Chinese social security systems. In the 1950s, several PAYG pension insurance schemes were established to cover the privileged groups in society as well as workers employed in the formal economy. By contrast, the colonial administration in HK placed the responsibility for welfare on the shoulders of the individual citizens; for a long time, it had little to offer except a means-tested social assistance scheme for frail older people.

These different institutional compositions of old-age security are affiliated with the industrial structures. In its bid to transform its economy, mainland China has adopted state-led capitalism in favour of the SOEs that evolved into conglomerate-centred business structures (Haggard & Huang, 2008; Y. Huang, 2008). Pension reforms played an important part in the structural reorganisation of the SOEs, where occupational pensions have become a favourite option to direct old-age security institutions towards the multi-pillar direction. As the main thrust of Taiwan’s economic growth, small- to middle-sized enterprises (SME) have long been sensitive to the labour costs due to exposure to international competition. Occupational pension schemes were generally underdeveloped within such an industrial structure, even less with the introduction of funded social pension insurance (Choi, 2008). Still another distinction marks HK’s economy that relied mainly on financial services rather than production industry. The administration has been keen to create a very business-friendly environment and strengthen HK’s position as a leading financial hub in Asia, a strategy which preferred funded pension schemes as a means to promote individual choice and mobilise huge funds for financial market investment.

Table 1 summarises key elements of the political economy of pension privatisation in Greater China. The ensuing analysis will demonstrate three distinctive paths of pension privatisation, providing evidence that institutional changes in this regard have close affinity to the overall consequences of transition to post-socialist, post-developmental and post-colonial contexts. Noteworthy is that, although these general transformations of political economy have influenced the reform paths of pension reform, the outcomes of policy change point to various degrees of public–private recombination that have altered the institutional contours of old-age security in Greater China.

Mainland China

Since the 1950s, the mainland Chinese government has established a system of full

<table>
<thead>
<tr>
<th>Context</th>
<th>Driving forces</th>
<th>Industrial base</th>
<th>Core social security institution</th>
<th>Pension reform</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>Post-socialist SOE reform; worker and pensioner discontent</td>
<td>SOE</td>
<td>Social insurance</td>
<td>From socialist to multi-pillar approach</td>
</tr>
<tr>
<td>Taiwan</td>
<td>Post-developmental Democratisation; political competition</td>
<td>SME</td>
<td>Social insurance</td>
<td>State-led supplementary privatisation</td>
</tr>
<tr>
<td>HK</td>
<td>Post-colonial Rising social demands for old-age security</td>
<td>Financial service</td>
<td>Social assistance</td>
<td>Full privatisation: Individual accounts</td>
</tr>
</tbody>
</table>

Source: Compiled by the authors.
employment (the iron rice bowl) for urban residents, coupled with generous work-related benefits and guaranteed low-price food supply (Dixon, 1981; Leung & Nann, 1995). Each SOE was responsible for the financial expenses of social insurance for its employees who enjoyed all the benefits without previous contribution payment. Contribution collection was under the administration of the trade union in each enterprise under the umbrella of the All China Federation of Trade Unions. In case of financial difficulty for the contribution payment, the state would step in to bear the burden by means of tax revenues.

Pension privatisation began in tandem with the urban reforms that aimed to transform the SOEs into market-oriented corporations. The first reform began in the 1980s, as the government granted the SOEs greater autonomy in production, distribution and management (Chow & Xu, 2001; You, 1998). Behind social security reform experiments was the idea of socialisation (shehuihua) that shifted welfare responsibility from the state to the enterprises and individual workers (Lee, 2000; Leung, 2003; Selden & You, 1997; Smyth, 1999, 2000; West, 1999; Whiteford, 2003). The state expected enterprises with different proportions of retirees to share their pension costs together. Furthermore, under the new contract workers’ scheme in 1986, both enterprises and contract employees were obliged to pay contributions to a funding pool. The new policy marked the end of the traditional socialist system of occupational welfare.

The 1990s witnessed an ongoing shift towards the mixture of social pooling and individual accounts (World Bank, 1997). A three-pillar pension system was envisaged for urban enterprise employees, consisting of a state pension scheme, a supplementary enterprise scheme and a personal savings plan (see Table 2). All SOEs were to set up contributory pension funds for their employees, with other types of enterprises subsequently following suit, and the state, SOEs and individual employees sharing the burden of the total pension contributions. In addition, bigger enterprises in sound financial condition could establish their own supplementary pension schemes while encouraging employees to join the programmes according to their own financial capacity. A proportion of the contributions by the workers should flow to their individual accounts for fund accumulation.

1 Rural pension policy has gained momentum since 2003 and, indeed, in some places, there have been endeavours to harmonise pension provision for both urban and rural residents. We focus here only on the urban pension system because it constitutes the backbone of pension reform in mainland China. For further information, see Shen and Williamson (2010).

Table 2. The three-pillar pension system in China.

<table>
<thead>
<tr>
<th>Contributions</th>
<th>Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pillar I</strong></td>
<td><strong>Pillar II</strong></td>
</tr>
<tr>
<td><strong>Tier I (PAYG)</strong></td>
<td><strong>Employee: 8 per cent of the worker’s wages</strong></td>
</tr>
<tr>
<td><strong>Tier II (Funded)</strong></td>
<td><strong>35 per cent of average monthly wages in the province where one was employed (after 15 years of employment)</strong></td>
</tr>
<tr>
<td><strong>Pillar II (Funded)</strong></td>
<td><strong>Individual account divided by 120 (expected to equal 24% of average monthly wages in the province)</strong></td>
</tr>
<tr>
<td><strong>Pillar III (Funded)</strong></td>
<td><strong>TOTAL: 28 per cent of employee’s wages + voluntary contributions</strong></td>
</tr>
</tbody>
</table>

**Source:** Salditt et al. (2008, p. 55).
Considerable effort had been concentrated on higher administrative units and the integration of pooled accounts with the funding of individual accounts since the mid-1990s. Given the enormous disparity among the regions, the central government purported to spread the risks and costs among SOEs and non-state firms having different financial strengths. This had proven to be an intricate challenge in that it involved a number of actors across different pension schemes and administrative units (provinces, prefectures) in loggerheads with one another (Frazier, 2004; Shi, 2011; Yu, 2007). A major conflict of interest lay between local pools in better financial condition and others with heavy retiree burdens. The former preferred to keep their own pools for themselves, as merging the pools with those of other poor regions would entail serious financial loss. With an effort to lubricate the local transition process, the central government first allowed local governments to establish a provincially unified adjustment mechanism, to be followed by a provincially unified pension system by the end of 1998. Yet, even at the end of the 1990s and throughout the 2000s, enormous variations persisted in regional practices, with the pension pools in many economically laggard regions remaining in poor financial shape.

The heavy burden associated with the institutional transition also dampened the prospect of individual accounts. Being unable to finance the pension benefits solely by means of revenue from social pools and payroll taxes, local administration turned to the funds that had initially been accumulated in individual accounts to plug the gap in pension payments. As a result, individual accounts in many regions were effectively empty, and the alleged partially funded three-tier pension system remained financed through the PAYG method (Deng & Liu, 2009; B. H. Huang, 2008). The central government noticed this problem and launched several pilot schemes during the 2000s, mainly addressing two other key aspects, the consolidation of the social pool at provincial level and the effective full funding of the ‘notional’ individual accounts (Salditt et al., 2008; Wang, 2006; Zheng, 2006). To promote the long-term financial sustainability of urban pensions, a National Social Security Fund was established in 2000 to finance future social security expenditure, with a special council consisting of cross-ministerial staff that has the responsibility for its management. However, it became clear that while regions with strong financial strength had little problem with funding workers’ individual accounts, poor regions could only rely on heavy subsidies from the central government to fill the financial gap.2

During the 2000s, the central government also issued several regulatory documents encouraging enterprises to set up voluntary occupational pension schemes (Enterprise Annuities). With tax concessions, occupational pensions are designed as fully funded individual accounts, with the funds entrusted to professional managers in the financial market. In addition, a few state-owned industries (e.g., electricity, petroleum, railways) have introduced occupational pension plans with their own administration centres. Setting up occupational pension plans also requires the involvement of four separate, licensed players: trustees, administrators, investment managers and custodians. Licenses for these players are issued by the Ministry of Human Resources and Social Security, subject to renewal every 3 years. Every financial institution is permitted to apply for each license, but the functions of investment manager and custodian should be separated. Each license also has minimum capital requirements. By the end of 2010, over 33,500 companies had

2 In 2007, the central government requested well-off provinces to bear the financial burden of fully funding individual accounts. Thirteen provinces have launched pilot schemes in 2010 to explore ways to achieve this goal. Information by the report of the Ministry of Human Resources and Social Security, August 2011.
established such plans covering more than 56 million workers.\(^3\)

Despite these efforts, mainland China’s financial markets remain immature in terms of the limited access to possible investments, posing great difficulties for the pension funds to generate reasonable profits. Current regulations stipulate that the statutory pension insurance funds be deposited in national banks or invested in government bonds,\(^4\) whereas occupational pension funds enjoy more investment conduits. With the rate of inflation outstripping that of interest rates, the expected rate of return is surely lower than the price increases, which means that the pension insurance funds will not live up to their promise to maintain the level of old-age income for future retirees. Moreover, the local governments have continued to confine the administration of most pension insurance funds to the central management, which reduces the transparency of fund administration and management (Zheng, 2010). Liberalisation of financial markets would promise greater success for individual accounts of both statutory and occupational pensions alike. The central government has acknowledged this fact and is striving to reach this goal.\(^5\) Funded assets of public and private pensions will grow in importance in the overall pension system.

**Taiwan**

In the 1950s, the government successively established generous social insurance schemes for specific groups, that is, military servicemen, civil servants and school teachers, in order to canvass their political loyalties (Ku, 1997; Lin, 2006). Meanwhile, the *Labour Insurance* scheme was introduced to cover workers in the enterprises with at least 20 employees, and was later extended to other smaller firms and fishermen. As the single social insurance bearer for the workers, the Labour Insurance scheme provided a package of benefits for work injury, old age, medical care, disability, death and maternity. Despite the introduction of several social insurance schemes, the total proportion of the insured population remained low, estimated at around 32 per cent in 1980. In addition, a clear hierarchy of benefit levels persisted between the Labour Insurance scheme and the social insurance schemes for privileged groups.

The Labour Insurance scheme has undergone several revisions since then, with the eligibility criteria adjusted and benefits improved. In 1984, the government further promulgated the *Labour Standard Act* as an amendment to the Labour Insurance scheme in order to improve the old-age security of workers, although the extent remained very modest. It required employers to make contributions in order to offer their employees pensions at retirement. Yet, in order to get entitlements for these occupational old-age pensions, employees had to have worked in the same company for at least 25 years or, alternatively, had worked 15 years in the company by the age of 55. Because the majority of the employers were middle and small firms with an average corporate life of 12 years, many workers ended up retiring without any occupational pensions (Wu, 1997). The lack of any regulation on the portability of the entitlement to occupational pensions further disadvantaged the workers in case of job switches. Even among the manufacturing industry, the problem of non-compliance prevailed due to the failure of the government to effectively enforce the regulation. The Labour Standard Act has

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\(^3\) Information of the Statistics report 2010 of the Ministry of Human Resources and Social Security.

\(^4\) In 2010, the government loosened up the regulation, allowing a maximum of 30 per cent of the occupational pension funds to be invested in stock markets.


The subsequent pension reform efforts in the 1990s focused on the expansion of coverage and the establishment of a supplementary pension scheme on top of the Labour Standard Act. At this stage, the reform process was dominated by competition among political parties during the democratisation process (Shi, 2010). The major opposition party, Democratic Progress Party, has risen to political prominence, placing the ruling Kuomintang under pressure to keep its social policy programmes in pace. The issue of old-age security gained momentum against this background, bringing forth coverage expansion of public pensions as well as the partial privatisation of pension institutions (Fu, 2000; Lin, 2005). The former efforts led to the introduction of a new pension scheme, *National Pension Insurance* in 2008, aimed mainly at the remaining population hitherto not covered by other pension schemes (such as unemployed people and housewives), whereas the latter brought about a new individual pension account for workers along with the Labour Standard Act in 2005. Figure 1 illustrates the overall institutional framework of old-age security in Taiwan.

The overhaul of the Labour Standard Act in terms of meliorating the prospect of old-age security for workers has received wide recognition. Political discussions were engaged in revamping it towards a more sustainable framework, as well as proportioning the financial responsibility between employers and employees, while the government has deliberately refrained from any financial engagement in this issue (Chen, 2010; Yeh, 2006). After several months of dispute about whether individual responsibility or social solidarity should stand out, the government and the social partners reached a compromise in favour of individual responsibility, mainly out of concern that most small and middle

![Figure 1. The three-pillar pension system in Taiwan.](Source: Compiled by the authors.)
enterprises would lose their competitive edge should the contribution rate rise steeply. Portability of individual accounts was also widely regarded as an advantage of the new design that would facilitate labour force mobility. The supplementary pension scheme (Labour Pension Act), which passed the legislation in June 2004, requires all employers to transfer 6 per cent (or more) of each employee’s monthly payrolls into an individual pension account to be managed by the Bureau of Labour Insurance (Council of Labour Affairs, 2004). In addition to the mandatory employers’ contributions, workers may equally make voluntary contributions of another 6 per cent to their accounts, with corresponding tax concessions made for these contributions. The institutional design of individual pension accounts also introduced several innovations: (i) a minimum pension guarantee; (ii) accounts that are portable and valid in case of job switches or firm shutdown; and (iii) making survivors or designated beneficiaries of a deceased worker prior to pensionable age eligible to receive a lump-sum payment from the deceased worker’s pension account. Table 3 summarises the features of the new supplementary pension scheme in comparison with the old one.

Although the new supplementary pension scheme has improved the prospect of old-age security for workers, its overall role in the Taiwanese pension system remains underdeveloped. The design of individual accounts is only practiced in the social insurance schemes for the workers, whereas the schemes for other occupational groups (e.g., National Pension Insurance and Farmer Insurance) still consist of the public pensions (see Figure 1). In addition, although the Labour Pension Act incorporates individual accounts as the second tier

Table 3. Comparison of old and new supplementary pension schemes for the workers.

<table>
<thead>
<tr>
<th>Statutory basis</th>
<th>Labour Standard Act</th>
<th>Labour Pension Act</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administration</td>
<td>Central Trust of China</td>
<td>Bureau of Labour Insurance</td>
</tr>
<tr>
<td>Financial principle</td>
<td>Defined-benefit</td>
<td>Defined contribution</td>
</tr>
<tr>
<td>Pension account</td>
<td>Non-portable. Entitlements are limited to continual</td>
<td>The accounts are portable and will be retained even if</td>
</tr>
<tr>
<td>portability</td>
<td>employment in the same firms</td>
<td>workers switch jobs or if firms are shut down or cease</td>
</tr>
<tr>
<td>Contribution rate</td>
<td>From 2 to 15% of monthly wage</td>
<td>their operations</td>
</tr>
<tr>
<td>Entitlement conditions</td>
<td>25 working years in the same workplace, or 15 working</td>
<td>Reach the age of 60, regardless of working or retired;</td>
</tr>
<tr>
<td></td>
<td>years and aged above 55 years old (thus not portable)</td>
<td>if deceased before the age of 60, family survivors or</td>
</tr>
<tr>
<td></td>
<td></td>
<td>designated beneficiaries may claim</td>
</tr>
<tr>
<td>Type of pension</td>
<td>Lump-sum payment</td>
<td>• More than 15 years of contribution: annuity</td>
</tr>
<tr>
<td>payment</td>
<td></td>
<td>• Less than 15 years of contribution: lump-sum</td>
</tr>
<tr>
<td>Pension calculation</td>
<td>1. Average wage (6 months prior to retirement)</td>
<td>1. Monthly wage (determined by the Table of Monthly</td>
</tr>
<tr>
<td>basis</td>
<td>2. Total points: (1–15 years) x 2 + (after 16th year −) x</td>
<td>Contributions for Labour Pension )</td>
</tr>
<tr>
<td></td>
<td>1, no more than 45 points.</td>
<td>2. Accumulated principal and accrued dividends of the</td>
</tr>
<tr>
<td></td>
<td>3. 1 point: 1 working year in the same workplace</td>
<td>pension account</td>
</tr>
<tr>
<td>Employer contribution</td>
<td>Flexible calculation: based on 2 to 15 per cent of</td>
<td>Employers are required to deposit 6 per cent (or more)</td>
</tr>
<tr>
<td></td>
<td>worker’s monthly payroll.</td>
<td>of a worker’s monthly wages into an individual labour</td>
</tr>
<tr>
<td>Worker contribution</td>
<td>No mandatory or voluntary worker contribution is provided</td>
<td>pension account</td>
</tr>
</tbody>
</table>

of old-age security, the Labour Insurance Bureau remains the exclusive administrator and custodian of the scheme. The government is to eventually plug the gap with public finance should any investment loss of the accumulated funds occur.

Taiwan’s pension privatisation demonstrates a strong statist approach, with occupational pensions playing a subsidiary role in the overall pension system. Caution in not overloading the contribution burden of the enterprises has been compounded by democratisation which activated strong policy entrepreneurship in favour of public responsibility for old-age security. For example, before the introduction of the National Pension Insurance, policy ideas espousing individual accounts as the financial principle of the new insurance scheme appeared repeatedly; yet, they have never become the dominant ideology throughout the policy process (Shi, 2010). The democratic politics also tends to facilitate credit-claiming policies that breed strong public resistance against any attempt to raise contribution rates or slash benefits, even though almost all pension insurance schemes are running with fiscal deficits in terms of high liability estimated for future pension expenditures. In view of the looming demographic ageing and public financial constraints, current institutional arrangements of old-age security will surely encounter further reform pressures towards further privatisation in the near future.

HK

HK’s pension policy has close affinity to the idea of privatisation. Already in the colonial era, the British colonial administration stressed the importance of a liberal market in the creation of wealth and a balanced budget. Belief in the superiority of the market and the distaste for social welfare were so pronounced that even after the reintegration into mainland China as a special administrative region (SAR), the new administration has remained a faithful follower of this doctrine. In the field of old-age security, a means-tested non-contributory financial assistance scheme, the Comprehensive Social Security Assistance Scheme (CSSA), was the only public scheme providing income benefits to poor older people.6

The high proportion of elderly recipients of CSSA benefits has led analysts to sound the alarm about the rising trend in this direction should the SAR administration keep its antagonistic stance towards public responsibility for old-age security (Chau & Yu, 2005). The economic downturn following the financial crisis in 1997 has generated strong social demands for more public responsibility in social welfare, propelling the SAR administration to introduce the Mandatory Provident Fund (MPF) in 2000. As an individual savings account to be contributed both by employers and employees, the MPF is a unique privatisation example with no resource redistribution among different income groups. The scheme requires all full-time employees aged 18–65 years to contribute each month 5 per cent of their earnings to a recognised private provident fund. For employees earning more than HK$ 20,000 a month, the mandatory contributions are capped at HK$ 1,000. If employees earn less than HK$ 5,000 a month, they are exempt from contributing, although their employers remain obliged to contribute 5 per cent of the employees’ earnings. Also, the self-employed are to contribute 5 per cent of relevant income up to a maximum of HK$ 1,000 per month.

Since 2000, MPF has recorded a notable success in terms of money values and participation level. The aggregate net asset values of all MPF schemes have reached a new height of HK$ 3,457 billion, commanding a significant surge from HK$ 2,094 billion after the 2008 global financial crisis (Figure 2). In the last decade, MPF schemes

6 In 2009, 53 per cent of the application cases for CSSA benefits were due to old-age poverty (Social Welfare Department, Hong Kong, 2009, p. 14).
have covered about 2.49 million employees and self-employed persons with high enrolment rates of 99 and 78 per cent, respectively (Monetary Provident Fund Schemes Authority, MPFA, 2010). Despite MPF’s success, the public has raised questions whether the MPF could realise its promise for providing retirement protection, as evidenced by various opinion polls and even protests, particularly when the global economic crisis started in late 2008 causing a decline in the value of MPF’s investments. One unified message is that the present MPF system contains a series of administrative and structural problems, therefore failing to measure up to its original mission. The MPF also suffers from the fatal intrinsic deficiency of neglecting several needy groups, such as the unemployed, older people and housewives. As the SAR administration already assumes little responsibility for MPF’s profitability and investment operation, it is disappointing to the general public that it fails to perform its most important function of supervision, regulation and enforcement for the protection of employees’ benefits (Mingpao, 25 October 2010, p. A16).

Another intrinsic deficiency of MPF, namely the low contribution rate, has recently come to light, as the benefits and financial security MPF would be insufficient for retirement (Public Opinion Programme of the University of Hong Kong, 2010). There are unanimous complaints about the high administration fees and charges collected by fund managers (Wong, 2010). As shown in Table 4, the administration fees and charges, termed as the Average Fund Expense Ratio
FER), constituted a significant percentage of the annualised return of MPF. The percentage was lowest for the Equity Fund (21.9%), and the situation was the most staggering for the Guaranteed Fund, of which the 2.36 per cent FER even exceeded the 2.2 per cent annualised return for the past 5 years, leading to a loss of money for employees despite gains from MPF investments. Interestingly, the Mandatory Provident Fund Schemes Authority (MPFA) has recognised the problem and has tried to remedy the situation through ‘market means’ by expanding employees’ control over their own MPF investments.

In 2009, the MPFA passed the Mandatory Provident Fund Schemes (Amendment) Bill 2009, allowing MPF members to switch their MPF schemes once a year in accordance with their own choices. This so-called ‘Employee Choice Arrangement’ took effect in 2011 (MPFA, 2010). It is envisioned that with fiercer competition among different schemes for attracting customers, administration fees and charges will decrease, whereas rates of return will increase.

Meanwhile, the global financial crisis in 2008 has seriously affected the MPF funds, with aggregate net asset values decreasing from about HK$ 2,648 billion in 2007 to HK$ 2,095 billion in 2008. In response, the Financial Secretary immediately proposed in his 2008–2009 Budget a one-off injection of HK$ 6,000 into the MPF accounts of those members who were earning less than HK$ 10,000 a month, in order to strengthen retirement protection in HK (Tsang, 2009). Accordingly, the MPFA has injected HK$ 8.41 billion into the MPF accounts of over 1.4 million eligible members (MPFA, 2010). In the long run, the HK government aims to develop the local bond market as a way to diversify the financial risks, hoping to provide a relatively conservative and safer MPF investment choice for employees (Chan, 2010).

Although the HK government remains steadfast in its commitment to the three-pillar retirement protection model (CSSA, MPF and private savings), the civil society, such as the Alliance for Universal Pension, a non-governmental association founded in 2004 consisting of various non-governmental organisation representatives, academics and ordinary citizens, has been advocating a universal old-age pension scheme as the fourth pillar. After years of campaigning, its survey in 2010 indicated that HK people were dissatisfied with the current MPF arrangements (Alliance for Universal Pension, 2010; Mok, 2010). However, HK’s acceptance of a PAYG system is still in doubt, as demonstrated by the government’s reluctance to push for a universal basic pension scheme. The government is likely to follow the same logic of reform for MPF by continuing market-centred measures rather than ‘brining the state back in’ to solve the problems. As in 2010, the Secretary for Labour and Welfare pledged again that any social security reform should seriously take into account several important factors, including defending traditional family values, maintaining HK’s overall economic competitiveness, maintaining low taxes and a simple tax system, and ensuring the sustainability of the social security system (Information Services Department, the Hong Kong SAR Government, 17 November 2010). Recent studies conducted by the central policy unit of the Hong Kong SAR Government also suggest that the majority of respondents do not support the proposal for the institutionalisation of public pensions for fear of over-burdening the public finance. With poverty intensifying among senior citizens, HK’s pension privatisation is stuck in the dilemma between promoting economic competitiveness and maintaining social justice. Whether the ‘productivist welfare regime’ is still productive in HK is becoming a growing social concern in the society (Lau & Mok, 2010).

Discussion: manifold paths of pension privatisation in Greater China

Pension reforms in Greater China are moving towards coverage expansion to include more
socially disadvantaged groups, accompanied by various multi-pillar and co-financing approaches that accommodate an increase in private pension provision. Behind the common endeavours of institutional reshuffling is the use of various strategies in response to the respective political-economic circumstances. HK’s approach corresponds neatly to the ideal type of pension privatisation, with a new scheme consisting of individual accounts established to cover the working population, while leaving the rest to rely either on themselves or on social assistance. Meanwhile, despite the similarity that social insurance constitutes the institutional core of social security, mainland China and Taiwan have employed different reform approaches due to their diverse political economy development. The former case was couched in a broad strategic goal of reforming the lethargic SOEs into modern corporations, leading to a combination of social pooling and individual accounts that redefines the responsibility for welfare between the state and the individual workers. Plans to promote occupational pension schemes have also gained momentum, with the government striving to establish mature financial markets for the funding schemes. By comparison, Taiwan’s reforms to privatise its pension institutions seem much less ambitious, as little effort has been made to regulate the second pillar or private savings except for the introduction of individual accounts for workers. Discussions of similar funding schemes for other occupational groups still lack sufficient support to become concrete policy frameworks. The democratic politics has crucially neutralised economic developmentalism with progressive social policy while accommodating the structural features of SME-led economic growth with partial incorporation of supplementary individual accounts.

Given the variety of privatisation approaches, we propose an explanation, supplementary to the notion of path dependency, which we believe can capture the vicissitude of changing public/private mix in the pension institutions of Greater China. Although the respective political and economic circumstances pose constraints on the reform paths, which the concept of path dependency intends to indicate, our analysis draws attention to the gradual changes towards mixed pension provision that have clearly altered the institutional landscape of old-age security in the three Chinese societies. Among the three cases under scrutiny, mainland China stands out as the conspicuous one aspiring to privatisation in its transition to a post-socialist market economy. In its consecutive introduction of occupational pensions into the old-age security system, mainland China clearly marks a departure from the socialist paradigm of comprehensive (and exclusive) public responsibility. HK’s zeal in privatisation during its post-colonial era surfaces in the installation of mandatory individual accounts for all workers. But even here, the governing administration is stepping into a realm which it used to view as a purely private matter, that is, assuming responsibility for the institutionalisation and regulation of a funded pension scheme. Taiwan’s adherence to the social insurance principle may seem quite path dependent; and yet, the institutional purpose of social insurance in Taiwan has actually altered over time, with prevailing socioeconomic problems redefined and reform goals reinterpreted in the pension politics (Peng & Wong, 2008). The introduction of a new National Pension Insurance as well as mandatory individual accounts on top of the Labour Insurance scheme precisely illustrates this recombination of public/private mix in old-age security.

The versatile paths towards pension privatisation in Greater China imply shifting institutional dynamics of public and private old-age security, which seems likely to continue in view of the looming ageing demography and mounting financial strain. Especially in mainland China and Taiwan, these trends will generate pressures to attach greater
importance to supplementary private pensions, and place greater responsibility on enterprises and individuals for income maintenance in old age. This is manifest in the rising regulatory activities of the mainland Chinese government towards occupational pensions, and, to a lesser extent, in the increasing policy discussions on the potential role of private pensions in Taiwan. In HK, old-age poverty remains an essential issue for the SAR administration to tackle, and basic protection programmes such as the CSSA still play an indispensable role as the last safety net. As pension privatisation is still an ongoing concern in Greater China, funded pension regulation has risen to political prominence as an indispensable part of pension governance. Discernible in this process is the coexistence of state intervention and market liberalisation which strengthens the state’s regulation of the overall institutional reorganisation, redirecting its role from a purveyor to a gatekeeper supervising the operation of individual accounts, especially with regard to the regulation of financial markets. A key concern pertains to the quest for a delicate balance between the financial sustainability of pension systems and the adequate income support for the elderly people.

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