Emerald Insight

Asian Leadership in Policy and Governance

Political Systems and Financial Reform Process: A Comparative Study of China, Taiwan, and New Zealand
Ian Tsung-yen Chen

Article information:

To cite this document: Ian Tsung-yen Chen . "Political Systems and Financial Reform Process: A Comparative Study of China, Taiwan, and New Zealand" *In* Asian Leadership in Policy and Governance. Published online: 28 Aug 2015; 345-375.
Permanent link to this document:
http://dx.doi.org/10.1108/S2053-769720150000024014

Downloaded on: 08 September 2015, At: 18:50 (PT)
References: this document contains references to 0 other documents.
To copy this document: permissions@emeraldinsight.com
The fulltext of this document has been downloaded 1 times since NaN*

Access to this document was granted through an Emerald subscription provided by Token:BookSeriesAuthor:DB5C3996-6DD1-4589-9E93-6744BB04E083:

For Authors

If you would like to write for this, or any other Emerald publication, then please use our Emerald for Authors service information about how to choose which publication to write for and submission guidelines are available for all. Please visit www.emeraldinsight.com/authors for more information.

About Emerald www.emeraldinsight.com

Emerald is a global publisher linking research and practice to the benefit of society. The company manages a portfolio of more than 290 journals and over 2,350 books and book series volumes, as well as providing an extensive range of online products and additional customer resources and services.

Emerald is both COUNTER 4 and TRANSFER compliant. The organization is a partner of the Committee on Publication Ethics (COPE) and also works with Portico and the LOCKSS initiative for digital archive preservation.

*Related content and download information correct at time of download.

Downloaded by NATIONAL CHENGCHI UNIVERSITY, Doctor Ian Chen At 18:50 08 September 2015 (PT)

CHAPTER 14

POLITICAL SYSTEMS AND FINANCIAL REFORM PROCESS: A COMPARATIVE STUDY OF CHINA, TAIWAN, AND NEW ZEALAND

Ian Tsung-yen Chen

ABSTRACT

This paper proposes that if a political system is more like to facilitate a unified government, to establish a strong executive body and to respond to the needs of the majority, financial reforms are more likely to emerge from the policymaking process and produce positive results. On the contrary, political systems that discourage those governing features are less likely to produce reforms. This chapter compares financial reform processes in China, Taiwan and New Zealand. All of them performed low level of financial reforms in the early 1980s but resulted in different situations later. In the mid-2000s, New Zealand heralded the most efficient and stable financial system; while Taiwan lagged behind and China performed the worst. Evidence showed that China's authoritarian system may be the most superior in forming a unified government with a strong executive, but the policy priority often responds more to the interests of a small group of power elites; therefore the result of financial reform can

Asian Leadership in Policy and Governance
Public Policy and Governance, Volume 24, 345–375
Copyright © 2015 by Emerald Group Publishing Limited
All rights of reproduction in any form reserved
ISSN: 2053-7697/doi:10.1108/S2053-769720150000024014

be limited. Taiwan's presidential system can produce greater financial reform when the ruling party controls both executive and legislative bodies, but legislative obstructions may occur under a divided government. New Zealand's Westminster system produces the most effective and efficient financial reform due to its unified government and a strong executive branch with consistent and stable supports from the New Zealand Parliament.

Keywords: Financial reform; unified government; executive; legislative

INTRODUCTION

Fig. 1 below shows an interesting trend. Although China, Taiwan, and New Zealand performed the worst out of six Asia-Pacific countries with regard to the financial reform in the early 1980s, they resulted in very different situations in mid-2000s. While New Zealand heralded one of the most efficient and stable financial systems, Taiwan lagged behind and China performed the worst. Influenced by different global, regional, or local financial crises, China centralized its financial system in the late

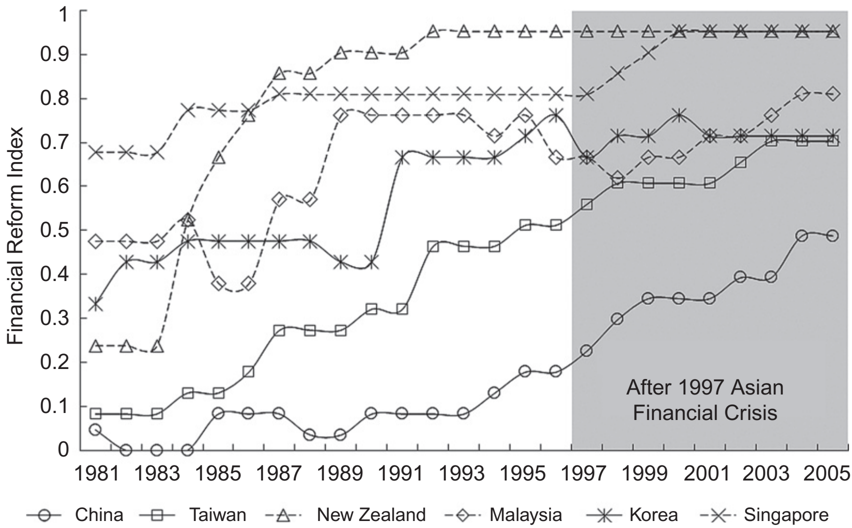

Fig. 1. Financial Reforms in Six Asia-Pacific Countries, 1981–2005.
Source: Financial reform index in Abiad et al. (2010).

1990s; Taiwan liberalized financial markets rapidly from mid-1980s to mid-1990s but further reforms were trapped in the 2000s; New Zealand radically liberalized financial markets and introduced strong market discipline that provided effective and efficient financial supervisions. Although the differences can be attributed to lots of causes, this research focuses on the feature of political system, which may lead to different levels of financial reform. This chapter proposes that ceteris paribus, if a political system that can produce greater incentives for answering to the interests of the majority of people, hosting a unified government, creating a more capable executive body and generating higher party cohesiveness, effective and efficient financial reform is more likely to emerge than in the political system that discourages those governing features.

Comparing those three countries is illustrative because China is ruled by an authoritarian regime led by the Chinese Communist Party (CCP) that controlled the administration with strong party discipline. Taiwan adopted the presidential system but only became a full democracy after 1996. New Zealand is governed by the Westminster system. In addition, these three kinds of political systems represent most political systems used in the Asia-Pacific regions. An autocratic regime may be the most superior in forming a unified government with a very strong executive but the policy priority often focuses on the interests of a small group of power elites; therefore, the result of reform should be limited. A democratically elected presidential system can produce greater reform when the ruling party controls both executive and legislative bodies but legislative obstruction can be severe under a divided government. The Westminster system can produce the best reform because it hosts a unified government and a strong executive with supports from a more consistent and stable legislative branch. A comparative study of the three, which represented different types of independent variables – political system –, facilitates in highlighting causal effects, theory testing, and conceptual stretching (Gerring, 2004; Satori, 1970).

In the remaining of this chapter, it first lay out the analytical framework and discuss its underlying mechanism that connects policymaking process, financial reform and political system in the section "Analytical Framework". Section "Empirical Analyses of Financial Reforms" presents empirical evidences for the proposed theoretical framework. It starts with a brief and general discussion for six Asia-Pacific countries, which is followed by in-depth analyses of financial reforms in China, Taiwan, and New Zealand. The section "Discussion and Conclusion" compares three case studies, discusses China's recent deposit insurance reform slightly, and concludes.

ANALYTICAL FRAMEWORK

The analytical framework in this chapter seeks to understand the effect of political system on public policy process with regard to financial reform. This section first addresses the relationship between policymaking and financial reform and then discusses the role of political system in the process.

Policymaking Process and Financial Reform

In general a public policy process involves five stages, which include agenda-setting, policy formulation, decision-making, policy implementation, and policy evaluation (Wu, Howlett, & Fritzen, 2010). Confronting with various issues, the government first identifies agendas that deserve attention and resource inputs. After recognizing an agenda, several policy options are formulated with inputs from related agencies and parties. Then the government has to make a decision of selecting its ideal policy to address the problem. Once the decision is made, related governmental bodies will implement policies through various ways. After the implementation, the government also need to assess whether that policy produces results as expected. Since this chapter put more emphasis on the policymaking process, it will not touch upon the stage of policy evaluation.

Given that the government is constrained by limited time, personnel and material resources, not all issues can turn into agendas that the government concerns. Oftentimes, a crisis can be effective in forming a policy agenda that receives governmental attention and leads to subsequent policy process. Financial crisis usually provides a great momentum for reforming a country financial sector. In a time of crisis, economic deterioration might changes the aggregate wealth of the public and the distribution of interests among related interest groups. As a consequence, many concerning groups' original preferences of financial policies change and that provides a space for the emergence of new policies to correct, or at least contain, the troubles. Governments sensitive to such change of preferences will prioritize the reform plans. In addition, crises sometimes facilitate public and legislative supports for greater executive discretion on reform policies, especially when a new government is elected or formed out of the crisis and possesses higher legitimacy for ambitious reform plans.[1] In sum, the government's determination for financial reform can be triggered by the occurrence of financial crisis and lead to subsequent policymaking process.

When the government prioritizes the crisis as its policy agenda, it then moves to the next stage, policy formulation, which concerns the development of multiple policy prescriptions for containing the crisis. Several policy options are devised with inputs from related governmental agencies and societal groups. Those options have their own specific proponents. Regarding financial reforms, there is a spectrum of options ranging from radical to moderate plans. The goal for reform concerns the improvement of efficiency and stability of the financial system. The efficiency involves financial liberalization that frees the financial market from the government's control. Stability, on the other hand, seeks to build a less risky financial environment by initiating prudential regulation. This chapter borrows the seven dimensions of financial reform from the dataset collected by Abiad, Detragiache, and Tressel (2010). They include elimination of credit controls, interest rate liberalization, elimination of entry barriers, privatization, opening capital account, securities market liberalization, and prudential banking regulations (Abiad et al., 2010, pp. 14−19). A radical plan typically involves a full-scale liberalization on the financial sector while the stability may be sacrifice. A moderate plan prefers a gradual approach that liberalizes each dimension one by one.

Facing with a set of polices formulated, the top leader decides which plan to adopt. A rational leader will choose a reform plan that ensures the continuation of his political power. Any reform plan might cause the redistribution of wealth, as well as different level of influences in a country's financial stability. This would involve the changing relationship between the government and the concerning interest groups. For example, a financial crisis often result in a call for more prudential financial regulations, which pits the bankers' short-term profits against people's long-term interests for their savings. In the financial industry, profitability and risk cannot attain at the same time; therefore, most banks, especially private banks, are prone to pursue riskier investments for higher potential profits (Singer, 2007, pp. 13−19). Banking sectors are usually united and lobby strongly against prudential regulations that are designed for protecting people's savings (Admati & Hellwig, 2013, pp. 87−93; Hacker & Pierson, 2010; Johnson & Kwak, 2011; Shiller, 2012). On the contrary, most people's interests following financial reforms are more diffused, vague and complex and create the collective action problem (Olson, 1965). As a consequence it is not easy for the public to cooperate in lobbying against financial policies that may lead to long-term negative effects. Before reaching a final decision, top leader weighs pros and cons of each policy option and is likely to choose the one that best guarantees the continuation of political power.

After a reform plan is decided, the government engages in policy implementation, the key for carrying out expected results. Financial reforms typically entail the legislation of new laws or the amendment of original laws that prescribe a new foundation for the financial system (Haggard, 2000a, p. 44). And then the concerning administrative agencies will initiate necessary administrative fiats that regulate the financial system more concretely and precisely according to the new legislation. Seemingly, aside from the executive branch, the participation and cooperation from the legislative body is critical for the success of implementing financial reforms. Should a government faces legislative obstacles, implementation may fail. In addition, should the responsible agency lacks resources or expertise, the implementation result can be poor and inconsistent. After identifying the connection between policymaking process and financial reform, the next focus will turn to the discussion of the roles of a country's political system playing in those connections.

Political Systems and Financial Reform Process

Political system plays an important role in the policy process of financial reforms. It involves both political institutions and political parties. The main institutional feature here concerns two things: democracy-autocracy dichotomy and the level of check and balance. Regardless of regime type, any rational political leaders will seek to stay in power as long as possible. Bueno de Mesquita, Smith, Siverson, and Morrow (2003) proposed that all states contain a selectorate, individuals who have a formal role to express preferences in their selection of a leader. People inside the selectorate have a say in the decision-making process, but are unable to influence the outcome. Of those people, a subset exists that is called the winning coalition, whose supports are important for the leader to remain in power. In a democracy, the winning coalition is quite large, as those who seek to win the election should secure more than 50% of votes from citizens in a majoritarian democracy. In an authoritarian regime, however, the winning coalition is smaller, such as party elites in a single-party autocracy or the core of a few cliques in a military junta. As a consequence, political leaders in democracies and autocracies have to satisfy different kinds and sizes of targets for controlling political power. In a nutshell, leaders in democracy are more likely to initiate public policies that benefits most people than autocrats.

In the democracies, however, the relationship between executive and legislative bodies may influence an executive body's capability of producing policies efficiently and righteously. This chapter will focus on qualitative differences between presidential and Westminster systems adopted in the Taiwan and New Zealand. The separation of executive and legislative power and the guaranteed presidential term distinguish these two type (Lijphart, 1984, pp. 68–74; Milner, 1997, pp. 117–122). The Westminster system, as Lijphart (1984, pp. 16–19) stated, is a parliamentary system featuring two parties, plurality voting, and single-party majority governments. Since the prime minister's status is sustained by the majority of congressmen from the same political party, the executive can more easily secure political and legislative supports in the policymaking process. Consequently the cabinet's policymaking power is strong (Mulgan, 2003, p. 76). In the presidential system, on the other hand, legislative impediments appear more often because the president's authority does not come from the legislative body, especially in a divided government.[2] The president does not automatically receive political confidence from the congress like the prime minister in the Westminster system. In addition, the president is guaranteed a full term in the office and, oftentimes, the tool of impeachment is too hard and costly to wield. Such institutional arrangement may lead to more political battles between the executive and the legislative bodies and has a negative effect on public policy performance.

Tsebelis (1995) developed the concept of veto player and explain its role in carrying out policy change. The difficulty of realizing policy changes rises as the number of veto players in the political system increases. In addition to institutional veto players, he also noticed the relevance of partisan veto players that relate to the structure of party system. Furthermore, the internal cohesiveness of each veto player also causes effects. The degree of cohesion is a result of the strength of party leadership and party discipline (Haggard, 2000a, p. 46). In Tsebelis's framework, the Westminster system has only one veto player while the presidential system can have multiple. In a nutshell, the political institution and party system jointly influence policy changes.

When a large scale financial crisis occurs, it jeopardizes the interests of most people rather than just a small group of people. In a democracy when the political leader seeks to sustain its political power, he needs supports from a larger winning coalition formed by the majority of citizens; therefore that political regime is more likely to identify the crisis as its top policy priority. On the contrary, political leaders in authoritarian regimes may concern less about the crisis unless the interests of its smaller power base are harmed. Comparing a democracy with an autocracy, the former is more likely to taking the crisis seriously and include it as a top policy agenda. Once the reform agenda is decided, policy prescriptions are devised. With a set of policy options at hand, top policymakers will choose the one that maximizes the political winning coalition. In an autocratic regime like China, it constitutes the core of power elites in the communist party. In the democracy, the plan chosen is more likely to address most people's interests. When the financial reform plan is chosen, the implementation can be influenced strongly by the political system. In an autocracy that consists of nearly no veto player, the policy can be easily implemented as expected by power elites. The legislative branch is merely a rubber stamp. In a democracy, however, as discussed above, it will confronted different degrees of check and balance and numbers of veto players from other governmental bodies and the political party system. Aside from the type of regime, the bureaucratic system may also play an important role in initiating and implementing financial reform. A system that encourages professional management may produce long-term oriented and professional reform plans better than the system that is highly political.

To see the policymaking altogether, political system influences more on producing professional and farsighted financial reform plan in the stages of policy formulation and decision-making. In the implementation stage, political system relates to a government's capability to carry out the desired policy. It concerns not only the institutional design of a government but also the politics within and among political parties. Using this analytical framework, this chapter distinguishes three type of political systems, which are single-party autocracy (China), presidential democracy (Taiwan), and Westminster democracy (New Zealand) and their effects on their financial reforms. A single-party executive body controlled by the communist party does not confront effective check and balance power from the legislative body; therefore can easily initiate and implement public policies that are more sensitive to a smaller group of people. Although democratic governments in Taiwan and New Zealand are more sensitive to the majority of people's interests and initiate ambitious financial reform, the efficiency, quality and professionalism are higher in the latter country.

EMPIRICAL ANALYSES OF FINANCIAL REFORMS

This section applies the above analytical framework and provides empirical analyses. It first gives a general discussion regarding financial reforms in six Asia-Pacific countries, which is followed by three detailed case studies of China, Taiwan, and New Zealand respectively.

Financial Reforms in Six Asia-Pacific Countries

Fig. 1 demonstrates the financial reform index composed of seven dimensions as mentioned above. Each dimension ranges from 0 to 3 and the sum of them constitute the financial reform index that ranges from 0 to 21. Then the index is normalized between zero (not liberalized or regulated) and one (highly liberalized and regulated). Among the six countries, China and Singapore are single-party authoritarian regime; Taiwan and South Korea use presidential system; Malaysia and New Zealand adopt Westminster system. In 2005, the index of two Westminster countries, plus Singapore, exceeded 0.8, which represented their outstanding financial reforms. They were followed by two countries using presidential system. Chinese Communist Party's (CCP) autocratic regime performed the worst financial reform.

Comparing South Korea with Malaysia, which were both affected much by the 1997 Asian Financial Crisis (AFC), shows that since 1996 Malaysia's financial reform index had improved 21.4% while South Korea had dropped 6.3% in 2005. Immediately after Kim Dae-jung won the presidential election in 1998, he received strong supports for ambitious financial reform plans from the legislative body controlled by two opposition parties. But the ostensible unity was based on the urgency of solving crisis rather than a genuine political alliance. When the legislative election was approaching in 2000, Kim administration confronted troubles in implementing the reform projects due to the nature of the divided government. The opposition parties in the congress criticized Kim administration harshly by raising Korea's domestic economic trouble in order to secure public supports (Haggard, 2000b, pp. 100–107). The subsequent implementation of reform projects was then obstructed. On the other hand, a more unified government under Malaysia's Westminster system was more capable to carry out financial reforms based on its continuity of political structure (Haggard, 2000b, pp. 111–114). A Malaysian political economist attributed Kuala Lumpur's efficiency in financial reforms to its Westminster system that the executive body received stronger legislative supports than the presidential system.[3]

Instead of looking at the composite financial reform index, it can be more illustrative if one just looks at the dimension of banking supervision because its level influences the interests of bankers and most people in a quite divergent way. A higher level generates substantial costs for the bankers but secure people's saving while a lower level generates higher profits for the bankers but might jeopardize bank deposits. Therefore, the level of banking supervision can be more easily influenced by the type of political system that involves governance institutions and political lobbies.

The implementation of the Basel Accord represents a country's level of banking supervision. It consists of a series of non-binding international standards initiated and published by the Basel Committee on Banking Supervision (BCBS) and expects every country to implement them in its jurisdiction. The accord encourages prudential bank regulations capable of shielding the world from financial crises, which are usually resulted from reckless investments or unregulated and risky financial innovation done by financial sectors. Its first version, Basel I, was released in 1988 for global implementation. The banking sector supervision index in Abiad et al. (2010) ranged from 0 to 3, which represented the level of compliance with the Basel Accord. From 1981 to 2005, as shown in Table 1, except from South Korea, five countries had improved from 0 to 2. In the first wave of banking supervision reforms (0–1), New Zealand, Malaysia, and Singapore acted more promptly than the rest. They were followed by Taiwan and South Korea. In the second wave (1–2), Westminster and autocratic governments outperformed presidential countries. Banks' prudential regulatory reforms in the former two political systems were more obvious.

A general examination of six Asia-Pacific countries supports the proposed framework that Westminster system are more capable of producing effective and efficient financial reforms than the presidential system. In autocratic regime, however, if the policy goal matches the government's development plan, ambitious reforms can be observed. Singapore is the case that the developmental goal of the single-party regime was boosting economic growth through opening up its markets to the world while intervening in domestic markets in order to make sure the investment and capital formation go as planned (Huff, 1994, pp. 299–360; Huff, 1995). Without strong challenges from the legislative body, opposition parties,

Table 1. The Timing of Bank Supervision Reforms in Six Countries.

	Westminster		Presidential		Autocracy	
	NZ	Malaysia	Taiwan	Korea	China	Singapore
1st wave	1986	1989	1990	1995	1995	1984
2nd wave	1989	1998	2003	–	1997	1998

Source: Banking sector supervision index in Abiad et al. (2010).
Note: South Koreas's index remains 1 in 2005.

and special interest groups, the city state led by a group of shrewd economic professionals performed even better than New Zealand and Malaysia. Below the focus turns to examining financial reforms in three different political systems in details.

China's Financial Centralization after 1997 Asian Financial Crisis

Financial crises, global or local, usually triggers subsequent financial reforms. Although no serious financial crisis has even landed in China, according to Laeven and Valencia (2008, 2012), systemic banking crisis had threatened China's financial market in 1998 after 1997 AFC. The threat of potential crisis can be attributed to China's surging non-performing loans (NPLs) resulting from reckless and ineffectively regulated local government-led investments. Since local party committees had authority in appointing local bank managers, they possessed power to direct bank loans (Shih, 2008, p. 166). Most of them were later proved to be bad loans to large and inefficient state-owned enterprises (SOEs). A large volume of defaults thus resulted and made the banks' capital depletion a likely scenario. As Fig. 2 showed, China's NPL ratio started to surge in the 1980s and peaked at about 37% in 1997. Before the crisis broke out CCP's top

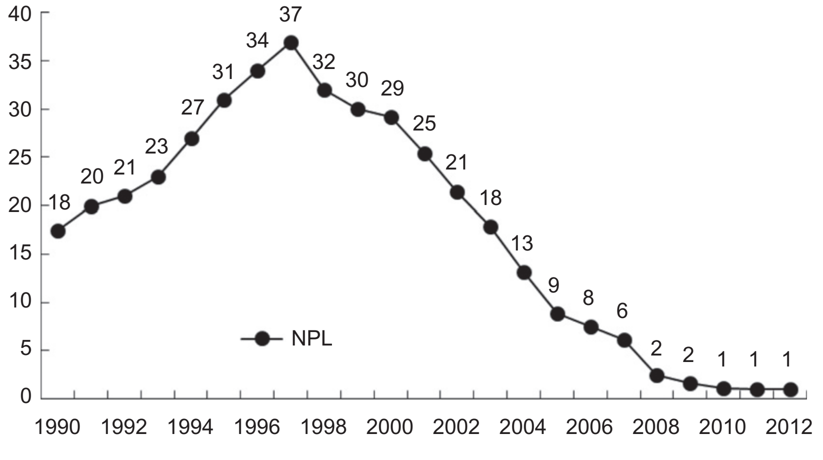

Fig. 2. China's Non-Performing Loan Ratios, 1989–2012.
Source: Data of 1990–2005 comes from Wang et al. (2009); data of 2005–2012 comes from China Banking Regulatory Commission (CBRC) Annual Report 2006–2012.[4]

leader had not sensed the seriousness of the NPL problems, which was considered as a mere accounting issue. After the occurrence of AFC the Chinese government started to recognize AFC's possible impact on its already vulnerable financial system (Lardy, 1998; Shih, 2008, pp. 165–168). The former head of research department in Industrial and Commercial Bank of China (ICBC) Zhan Xiang-yang (詹向阳) wrote that even though China was not hit by the 1997 AFC, it did alarmed the power center of the possibility of upcoming NPL crises. The government thus prioritized and implemented financial reforms (Zhan, 2013).

The reform options included radical decentralization or centralization of financial system. The latter option was supported by the then Vice-Premier Zhu Rongji (朱镕基), who attributed high NPLs and AFC to weak central power. He thus sought to relinquish local party committee's power in the financial system (Lautard, 1999, p. 298). Although Zhu preferred a centralized monetary and financial decision-making power, the then President Jiang Zemin (江泽民), whose power status depended on supports from local factional comrades that preferred decentralization, did not approve Zhu's plan in the beginning. When the AFC broke out, however, Jiang's status confronted potential challenges due to China's fragile financial situation. He thus sought Zhu's political support to fend off challenges from other party elites. Zhu's financial centralization plan finally got approval from Jiang and Zhu was also promoted to the Premier at the Fifteenth Party Congress (Shih, 2008, pp. 161–189). Indirectly AFC gave Zhu enough momentum for tough reform that centralized China's financial system and the establishment of Communist Party Central Financial Work Commission (CFWC) in May 1998.

According to official statements, the purpose of CFWC was implementing CCP's spirit vertically. It was a detached agency (*paichu jiguan*) of CCP, which duty was to lead, promise, administer, supervise, and coordinate. CFWC ascertained that the national financial system followed CCP's roadmap and development goal. It had the authority to review senior leadership of government-owned banks (GOBs) and issued recommendations for the appointment or firing of top leaders in central and local financial institutions. Staffs in CFWC was composed of middle-to-high level cadres who used to work in the party committee of financial institutions. They were familiar with CCP's spirit and policy goals but might know little about financial activities. In fact CFWC was a shadow central bank that strictly followed CCP's directions and implemented them in the whole financial system (Heilmann, 2005, pp. 6–8). Institutionally interference from local governments should end and local bank managers should no longer responded to local policy leaders (Shih, 2008, p. 169). CFWC thus possessed overriding authority that dominated the financial bureaucratic system in China. However, as Heilmann (2005) pointed out, CFWC cannot effectively control local financial activities because local party committees still possessed informal appointment authority regarding the positions in banks' local branches. In addition, the party center was intertwined with the Big Four banks,[5] which lobbied against stronger supervision. Practically, CFWC seemed to fall short of becoming a supreme and independent supervisory organ.

In addition to the centralization of financial system, Zhu also focused on managing and reducing enormous NPLs. Several options were proposed, such as securitizing NPLs into government bonds and selling them in the markets. But selling bonds in the open market requires the disclosure of SOEs' performance, which was too problematic to report. In addition, the issuance of bonds inevitably would pull the capital originally designated to the stock market. Furthermore, the obligation to NPLs would therefore transfer to the central governments (Shih, 2008, p. 171). This plan may in effect create more problems to the central government. Zhu thus rejected this plan that looked politically unwise. To find a reform plan that maximized political interests, China transferred NPLs from banks to the four states-owned asset management corporations (AMCs), which are China Great Wall AMC, China Orient AMC, China Huarong AMC, and China Cinda AMC. They took over NPLs from Agricultural Bank of China, Bank of China, Industrial and Commercial Bank of China, and China Construction Bank respectively. Those AMCs were financed by PBC's credits, as well as issuing AMC bonds that were purchased by the Big Four banks; the former accounted for 45% while the latter 55%. A total of RMB 1.4 trillion NPLs, or 20% of total loans, were written off. In 2003, an investment corporation Central Huijin Investment Corporation Limited (Huijin) was established. It acquired funding from PBC and used that funds to finance the Big Four in order to increase the amount of their capitals. From 2004 to 2005, another RMB780 billions of NPLs were transferred from the Big Four banks to their designated AMCs.

One of AMC's plan was the debt-for-equity swap that magically turned SOE's liability into equity. The State Economic and Trade Commission (SETC) made recommendations that signified the SOE candidates for the rescue plan. Most SOEs selected were large corporations in pillar industries with close ties with top leaders (Shih, 2008, pp. 175–176). In other words, the target SOEs for rescue were selected not so much by their merit or market potentials but by their political connections. In addition, SETC instructed GOBs regarding which SOEs should be financed during the financial troubles and expected SOEs to improve efficiency and repay their debts as soon as possible. No matter how assets, liabilities and equities were transformed, debts will inevitably be transferred to someone else unless the original debtors repay. In China's case, funds for writing off NPLs and rescuing selected SOEs came from taxpayers, shareholders and bank customers. In order words, China's financial system was bailed out by the wealth of grassroots society (Ma, 2006, pp. 21–27). Although in the short-term NPLs disappeared from the banks' books, the centralized financial power that shun the official obligation at the expense of people's money did not solve the long-term moral hazard problems. Both banks and SOEs would became even more prone to rely on continued government bailouts as long as they secure backing from CFWC and SETC.

The reform plan under Zhu was politically myopic. A more sustainable options were bank privatization and interest rate liberalization, which encouraged credits reallocation to efficient and profitable corporations (Tsai, 2002). But those options were ignored by Zhu (Shih, 2008, p. 178). Instead, he chose the plan that maximized bureaucratic and his political interests in the short run. Zhu's turning enormous NPLs into performing assets in banks' balance sheets in just a few year earned him outstanding political record. His high political status was further strengthened by Jiang's unstable political leadership. Since Jiang Zemin was in a shaky position right after assuming leadership in CCP, he needed Zhu's political supports to consolidate his control of political system. But after Jiang's power was secured, he started to be impatient with Zhu's tightened reforms that actually might have led to deflation problem and the slowing down of trade growth. He was seeking faster economic growth for his historical legacy. Such expectation might be hard to achieve if Zhu's centralized financial system remained. As a consequence, Zhu's plan was questioned more in the center of CCP and eventually was replaced by plans that advocated faster economic growth from financial liberalization and prudential bank regulations (Shih, 2008, pp. 179–189).

In China's case, although the decentralized reform was favored by the political faction with which Jiang was affiliated, Jiang gave up the plan in the beginning in exchange for Zhu's political supports. Political leadership affected China's way of financial reform right after AFC. Policies were made due to leader's political calculation for survival rather than the interests of the general public. Although Zhu performed outstanding quantitative results in a few years, reform policies that eradicated the root cause of banks' reckless investments and SOEs' low efficiency and performance did not appear. Only when Jiang no longer needed Zhu's political supports, liberalized reforms, such as interest rate liberalization or bank privatization, were more easily initiated and implemented to replace financial centralization. In a nutshell, CCP's political leadership for financial reform was mobilized for top leaders' political survival among a group of CCP's power elites, which constituted the political winning set in China's authoritarian regime.

Taiwan's Fast and Trapped Financial Reform in 1980s and 2000s

Since 1980s Taiwan's financial reforms had been accompanied with democratic transition. The first major wave of reform occurred in 1989 when the Legislative Yuan, Taiwan's legislative body, amended *The Banking Act of The Republic of China* that liberalized the interest rate and opened entry for new and private banks. The second wave of reform started in the Chen Shui-bian administration. It focused on the management of bad loans resulting from crony capitalism and lax regulations. In addition, the government strengthened financial supervisory system. Comparing both waves of reforms in Taiwan allowed the variation of independent variable, political system, while controlling for other national properties.

Although Taiwanese citizens could not directly elect the president before 1996, the first wave of financial reform took place under the period of political democratization. The government was ruled by the Leninist political party, Kuomintang (Chinese Nationalist Party or KMT), which controlled administrative system in every level and scope (Cheng, 1989; Chou & Nathan, 1987). Rather than a pure autocracy, however, the political system resembled a competitive authoritarian (Levitsky & Way, 2010). Legislators were directly elected by the citizens. The social movements were strong enough to raise grassroots awareness for political reforms (Hsiao, 2005, pp. 2−3). Checking power to the executive branch grew stronger. The administration realized that taking heed of the majority's concerns is one of the important factors to assure the continuation of political power. Confronting with the social movement that asked for the legality of establishing an opposition party, Democratic Progressive Party (DPP), in 1986, the then President Chiang Chin-kuo (蔣經國) did not resort to repression but tacitly gave the green light by leaving a famous remark "times are changing, the environment is changing, the tide is also changing" (Taylor, 2000, pp. 405−406). In sum, from early 1980s to mid-1990s Taiwan's first wave of financial reform coincided with KMT's autocratic rule that increasingly gave way to political reform.

Under KMT administration Taiwan had experienced four local financial crises in early 1980s. They resulted in subsequent bank runs on Asia Trust and Investment Corporation in 1982, Tenth Credit Cooperative Association of Taipei City in 1985, Cathay Trust and Investment Corporation in 1985, and Overseas Chinese Trust & Investment Corporation in 1985. They mainly were results of fast accumulation of low-quality assets and non-performing loans made possible by financial frauds and poor corporate governance (Lee, 1994, pp. 58–94; Wu, 2008; Yu & Wang, 2005, pp. 268–271). Most bad loans were approved due to bank lenders' *guanxi*, or personal relationship, with the borrowers. A series of bank runs, together with strong social movements for democracy, had created strong public pressures that forced the government to fight against the corrupt financial system. The Executive Yuan therefore proposed to the Legislative Yuan the amendment of *The Banking Act* that raised the bar for issuing loans.

Explaining the amendment in the Legislative Yuan in 1984, the then Minister of Finance Hsu Li-teh (徐立德) stated that "the amendment should include the prohibition of unsecured credit extended to any interested party of its own responsible person or of a staff member" (Legislative Yuan (Taiwan), 1984a). However, the plan faced with strong oppositions from several legislators during the review process (Legislative Yuan (Taiwan), 1984b). Most opposing legislators were led by Tsai Chern-chou (蔡辰洲), a legislator from Cathay (國泰) Group that controlled several Taiwan's major financial institutions. They represented the interests of financial sectors, especially the trust corporations. More than half of the members were in the board of directors in local financial institutions (Lee, 2003, p. 115). One anonymous officials in finance ministry described that trust and investment companies were the "national biggest group in influence peddling" (Huang & Kou, 1984).

Although confronted with oppositions, the amendment were successfully passed thanks to KMT's Leninist governance, which utilized its centralized decision-making authority that penetrated into every level of the administrative apparatus. President Chiang, also chairman of the KMT, was disappointed with the crony capitalism phenomenon and insisted that the government should follow the principle of anti-monopoly, anti-privilege, and anti-speculation during a conference (Su, 1992, pp. 37–46). When he had control on the KMT and the government, he can push for financial reforms effectively. This was evident that when quarrels became intensive for the financial reform plan in the review committee of the Legislative Yuan, KMT threatened to punish legislators who would not obey the plan according to the party line (United Daily News, 1984). In the end, the executive branch and KMT's legislators sided with the reform plan that refused to defend the interests of trust and investment corporations.

After 1985 amendment, Taiwan faced another round of reform requests to improve banks' efficiency and satisfy foreign pressures to open up financial markets. Major reforms in 1989 involved interest rate liberalization and entry of new banks. Although the government was still under KMT's rule, a power vacuum emerged after President Chiang passed away in 1988. At least two different factions, which supported divergent financial policies, were vying for power. One was represented by old and conservative financial technocrats. They held key positions in most financial agencies. The other faction consisted of younger and liberal politician, bankers and scholars. They were led by Lee Teng-hui (李登輝), who succeeded Chiang's power in 1988 from this former position as the Vice-President (Lee, 1994, pp. 108–109). During the time, old financial technocrats still controlled the financial cabinet. With KMT's fractured power structure and grassroots political reform movements, however, Lee consolidated his power by allying with new technocrats that supported for liberalized reforms and put them in the key positions of economic and financial agencies (Yang, 1989). When Yu Kuo-hwa (俞國華), then Premier that represented the conservative technocrats, was forced down in mid-1989, Lee's reform plan was passed swiftly. He successfully mobilized his leadership in KMT, executive, and legislative branches for carrying out financial policies that addressed most people's financial interests. Even the DPP legislators showed their supports (Wang, 1996, pp. 123–126).

The second wave of financial reform since 2000 occurred under a full democracy featuring a divided government (see Table 2). While the Executive

Table 2. Taiwan's Governmental and Financial Structure, 1992–2014.

Period	Rule	Blue	Green	Govt
1986–1989	KMT	84.9	12.9	Unified
1989–1992	KMT	81.7	18.2	Unified
1992–1995	KMT	63.4	31.0	Unified
1995–1998	KMT	64.6	32.9	Unified
1998–2000	KMT	59.6	31.1	Unified
2000–2001	DPP	59.6	31.1	Divided
2001–2004	DPP	51.1	44.4	Divided
2004–2008	DPP	50.7	44.9	Divided

Note: RULE, BLUE, GREEN, and GOVT each represent the ruling party, pan-blue parties' total share of legislators in the Legislative Yuan, pan-green parties' share of legislators in the Legislative Yuan, and the structure of the government.

Yuan was controlled by the president-elect Chen Shui-bian (陳水扁) and his DPP, the pan-blue coalition composed of KMT, New Party and People First Party secured a majority in the Legislative Yuan. During the time, legislative obstruction or fist fights between the two camps paralyzed the Legislative Yuan oftentimes. Proposed legislations submitted by the Executive Yuan became politically problematic. A former Chairman of Financial Supervisory Commission (FSC) under Chen administration wrote that "financial reform was trapped and sacrificed due to vicious political struggles, which made the reforms of banks' regrouping and privatization of GOBs very difficult" (Hu & Lu, 2014). Regarding the bank restructuring that implicated a large number of wealth redistribution, one anonymous top financial officials once said "except for the president, the premier and the vice premier, almost everyone you can think of had directly or indirectly involved in influence peddling."[6]

Although Taiwan was not hit seriously by the AFC, it suffered from weak financial supervision that cannot effectively regulate a more liberal financial system since 1990 (Wu, 2008, p. 43). As Table 3 shown, although the proportion of private banks increased fast during the 1990s, it did not come with efficiency and stability. Instead, a large number of NPLs and the loss of profitability ensued. Those problems were caused by the emergence of many insolvent publicly listed companies. Since those companies, especially those directly or indirectly controlled by KMT, accounted for a large portion of political contributions and were important local political bases to KMT (Chen & Chu, 1992), the party used its channels, such as banks affiliated with KMT, to keep financing insolvent companies (Wu, 2008,

Table 3. Number of Taiwan's Banks and Their Average Performance.

Year	NUM	GOB	POB	CAR	NPL	ROE	ROA
1986	24	21	3	n.a.	n.a.	n.a.	n.a.
1991	25	13	12	n.a.	0.97	n.a.	n.a.
1996	42	13	29	12.9	3.68	9.7	0.7
2001	53	5	48	10.4	11.26	5.5	0.4
2006	42	4	38	10.11	2.13	−7.34	−0.41
2011	37	3	34	12.13	0.43	8.27	0.54

Source: Statistics from Ministry of Finance, Financial Supervisory Commission, Lee (2002), and Lee & Tang (2007).
Note: NUM, GOB,[7] POB, CAR, NPL, ROE, and ROA each represent total number of Taiwan's domestic banks, number of GOB, number of POB, average of capital adequacy ratio, average non-performing loan ratio, and average return on equity ratio, and return on assets ratio of all banks in Taiwan.

pp. 44–45). For fear of affecting the upcoming presidential election in 2000, KMT did not take a bold initiative to rectify inefficient corporations and growing bad loans. When Chen took power in 2000, his administration sought a comprehensive financial reform that targeted root causes, such as a tight and independent financial supervision mechanism. But the executive branch confronted a KMT-dominated Legislative Yuan that still shared tight connections with insolvent corporations and local financial institutions. Together they constituted a strong opposition against DPP's reform initiative. As a consequence, DPP continued KMT's plan to finance corporations that were supposed to be bankrupt.

When the amount of NPLs was out of control, Chen administration started an ambitious reform plan. First, Taiwan's Resolution Trust Corporation (RTC) was established to bail out or take over insolvent banks. Second, *The Financial Institutions Merger Act* was passed in 2001 that provided legal basis for banks' regrouping. These two reforms focused on getting rid of banks in serious financial troubles. On RTC, the Chen administration, which had not yet implicated in complicated crony capitalism, endorsed a powerful RTC but the pan-blue rejected a powerful RTC and sought to reduce official intervention by RTC as much as possible. The proposal had been shelved seven times in the Legislative Yuan. However, series of local financial crises had alarmed the public. Their cries for ending crony capitalism echoed Chen administration's financial reform and thus made it more politically legitimate in the Legislative Yuan. Taiwan's RTC was finally created in early 2000s and allowed the government to take over troubled banks, but it had not been given enough resources and power to function well. Such predicament was a result of intensive political bargaining under a divided government (Liao, 2005).

In addition to troubled banks, the reform also focused on legislation regarding prudential financial regulations. The government sought to implement the Basel Accord, which is a global bank regulatory standards that promote a safer financial system. In 1999 BCBS published an ideal financial regulatory system that included three pillars: regulatory capital, supervisory review, and market disclosure. While Taiwan's bank regulations had observed the first pillar in late 1990s during the first wave of financial reform, the latter two moved slower.

The second pillar requires an independent agency with teeth to regulate banks' behaviors. Although the Central Bank and Ministry of Finance had submitted a proposal to the Legislative Yuan regarding the establishment of FSC in 1997 (Legislative Yuan (Taiwan), 1999), it was not passed until 2003 and FSC only started its duty as late as in July, 2004. The third pillar required banks to provide transparent information in the market. In such way banks will act more cautiously because private sectors, which are the sources of bank assets and capitals, can have enough information for monitoring purposes. This reform probably confronted the most obstructions from the banks and opposition parties in Taiwan. A former FSA top-level official recalled that right after DPP took the power in 2000, the government had tried hard to amend financial legislation in order to require banks to disclose a list of their clients that defaulted above a certain level. Under a divided government, he mentioned, KMT legislators always referred to article 48 of *The Banking Act*, which prescribed that banks should not disclose clients' information only when necessary. But the law did not state the level of necessity. In early 2007, a local bank run on Chinese Bank occurred. The bank's chairman Wang You-theng (王又曾) fled for America with NT$800 million credits issued by his own banks. This financial scandal infuriated the public who called for stricter financial discipline. As a consequence, KMT legislators no longer felt legit to block the amendment of article 48, which was finally revised and passes in the Legislative Yuan in 2008.[8] The new law requires banks to disclose the names of their clients if their cumulative bad debts exceed NT$50 million dollars. Now in all Taiwanese bank's websites people have direct access to the lists.

In sum, Taiwan's financial reform had moved faster without much interparty struggle before 2000. A combination of strong democratization movement and a unified government under a Leninist-style KMT facilitated policy implementation under both Chiang and Lee administrations. On the contrary, ambitious financial reforms, which created a long-term sustainable environment but might incur short-term political costs, went slower during the Chen administration. Under a divided government, the success of reforms sometimes required political compromises in exchange for political supports from opposition parties.

New Zealand's Rapid Financial Reform from Mid-1908s to Mid-1990s

New Zealand had experienced radical economic and financial reforms from 1984 to mid-1990s. Prior to the reform, strong state intervention embodied by tight controls and regulations had harmed the efficiency of corporations and financial institutions, which therefore could not compete with their American or European counterparts (Singleton & Verhoef, 2010, p. 554). New Zealand's GNP per capita was only half of the United States, its foreign debt as a percentage of GDP increased from 11% in 1974 to 95% in

1984. Inflation and unemployment problems also deteriorated to a dire situation. Foreign investors were scared off with rapid capital flight, which later resulted in a currency crisis (Evans, Grimes, Wilkinson, & Teece, 1996, p. 1860; Schick, 1996, pp. 12–13). Before the crisis broke out, New Zealand had liberalized the interest rate in the late 1970s in order to stimulate the economy. But the economy had not bounced back. When the economy went down to an unmanageable situation, Prime Minister Robert Muldoon returned to strict controls on financial market (Singleton & Verhoef, 2010, p. 547). But domestic economic and financial sectors, the general public, as well as his own party members, could no longer tolerate the economic disaster and strict state interventions. As a consequence, a snap election was held in June 1984 and brought the Labour Party to power.

The Labour government started to initiate radical financial reforms that aimed at eradicating the root causes of New Zealand's trapped economy. Radical reforms started with lifting the controls on foreign exchange trading and interest rate in 1984, liberalizing exchange rate and the entry of new banks in 1985, and realizing the stock market exchange liberalization in 1986. In addition to financial markets liberalization, the government also promulgated the *State Sector Act 1988* and the *Public Finance Act 1989* in order to reform the public sector (Schick, 1996, pp. 15–16). Many scholars attributed New Zealand's success of rapid financial reforms to its Westminster system run by a group of policy elites believing in the school of institutional economics (Aberbach & Christensen, 2001; Goldfinch, 1998a, pp. 178–179; Nagel, 1998; Schick, 1996, p. 14). That school believed that people's behaviors can be influenced through the adjustment of incentive mechanism inside the system.

Before New Zealand changed its electoral system to mixed member proportional (MMP) system in 1996, its Westminster system featured a unicameral legislative branch and an electoral system that adopted the single-member district plurality system. Such electoral design encouraged a two-party political system, which one of them usually secured the majority of seats in congress and form a cabinet. The majority of legislators from the same party would not obstruct, but fine-tune, the passage of legislation. The executive can thus implement policies via legislation more easily. Together with its strict party discipline, New Zealand's executive body was very powerful and effective in carrying out intended policies. Some even sarcastically coined such political regime as an elective dictatorship (Mulgan, 1992).

Furthermore, New Zealand reformed its bureaucratic system. After the reform, the position of departmental chief executive, which originally was a permanent position, was required to sign a three- to five-year contract and was eligible for renewal. A performance agreement prescribing specific key performance indicators was agreed upon between the chief executive and the State Services Commission on behalf of the responsible ministers who will monitor the chief executive's performance. In the monitoring system, minister is a buyer to chief executives' policy outputs, such as a specific economic target or policy advice. When the deal is made, the chief executive is held accountable for the agreed-upon outputs or consequences will follow (Goldfinch, 1998b, pp. 205–207). Unlike a presidential system, which political appointees are intended to implement president's political agenda, New Zealand's system could be more capable of being insulated the departmental heads from political intervention. Such system facilitates better and faster productions of long-term-oriented policies beneficial to most people regardless of collateral political costs.

Several years after rapid financial liberalization, New Zealand inaugurated a large number of new banks that challenged the effectiveness of its financial supervisory regime. Accompanying the financial liberalization were more resourceful and powerful private bankers who espoused lax financial regulations and called for a free market financial system. New Zealand in the late 1980s probably had the most deregulated banking system in the world (Turner, 2000, pp. 105–109). However, it did not prevent the happening of the Black Tuesday of 1987 that brought down 60% market value of New Zealand's stock market from its peak in the same year. The crisis had put many companies and banks, including the government-owned Bank of New Zealand, in dire financial situations. Apparently banks' risk control had not been managed properly to avoid the crisis. Although stringent financial regulations, such as imposing a maximum credit exposure, were proposed by many people, the financial supervisory body, the Reserve Bank, rejected tighter regulations. Instead, it considered the improvement of public disclosure of banks' information as the key to further reform. Information transparency, they believe, was enough to perform the most effective monitors by private sectors in the free markets.

During the time, the Basel Accord was just released. It promoted a standard specifying that banks should keep at least 8% of capital relative to the risk-weighted assets to ensure the financial soundness. Although New Zealand had implemented this standard early, the then Governor of the Reserve Bank Donald Brash revealed that the Basel standard was not taken seriously. Instead, they required banks to disclose detailed financial information and their credit rating from well-known private rating agencies every quarter (International Monetary Fund, 2004). In addition, they held each bank director accountable for the accuracy of the disclosed information. Brash mentioned that he confronted serious oppositions from bank owners who complained that they cannot attest to complex financial information they know nothing about. Nevertheless, the ideas survived strong bank lobbies and were realized in the mid-1990s (Brash, 2012). Bank regulations promoted by the Reserve Bank were later adopted in the second version of the Basel Accord, or Basel 2, in 2006 by the Basel Committee on Banking Supervision. The revised accord addressed first version's incompetency to prevent AFC. A cross-national research proved that New Zealand's approach, especially the public disclosure of information, was the most relevant to maintain a country's long-term financial stability (Barth, Caprio, & Levine, 2006, pp. 258–316). New Zealand had witnessed its realization of a set of farsighted financial reforms, which drew strong bank lobbies, incurred short-term political costs, and exceeded the level of international standard.

Under a strong market discipline New Zealand's financial system had remained sound but its four major private banks had also become too large and risky and their balance sheets too complex to ignore (Bollard & Gaitanos, 2010, pp. 24–25). Although the global financial crisis that started in the late 2000s had not affected New Zealand much, it did alarm the authority. In the middle of the looming crisis, officials' consideration of professionalism preceded domestic politics. Right before the general election held in 2008, the then Governor of the Reserve Bank, Alan Bollard, convinced the incumbent Labour government of the necessity of informing their rival National Party of their Retail Deposit Guarantee Scheme, which was about to launch. He briefed the National Party several times in the middle of the crisis and the opposition party did not take political advantage of those meetings at the time when the plan was faced with vigorous oppositions from many private sectors. Large banks complained for paying too much premium for the deposit insurance. Financial institutions not covered by the insurance plan criticized the discrimination against their assets; large companies threatened to seize funds raising in the commercial paper markets (Bollard & Gaitanos, 2010, pp. 74–75).

Although the scheme makes people's deposits more secure, it nonetheless exposed the government to short-term political and economic costs resulting from bankers' dissents. But, as Bollard mentioned, regardless of which political party was in charge, his job was merit-based and his performance was evaluated based on professionalism embodied in specific targets written in his Policy Targets Agreement (Bollard & Gaitanos, 2010, pp. 38,94). Senior officials in New Zealand were encouraged to take professional policy initiatives. Apolitical chief executives have become important policy initiators and advisors to political leaders. After radical reforms in 1980s and early 1990s, New Zealand's Westminster system not only liberalized financial markets but also facilitated in reforming bureaucratic system. While the political system had led to efficient reform progress, the reformed bureaucratic system elevated further the quality and professionalism of subsequent public policies.

DISCUSSION AND CONCLUSION

As Fig. 1 above shows, China, Taiwan, and New Zealand were the lowest three countries in terms of the level of financial reforms in the early 1980s. Their financial markets were all under strong government controls. Their financial supervisory regimes were rudimentary. As local, regional, or global financial troubles started to loom, China opted for re-centralization in the late 1990s, while Taiwan gradually and New Zealand radically liberalized the financial market. Financial supervisions were most advanced in New Zealand, followed by Taiwan and China, respectively. If one assesses the effectiveness of financial reforms by looking at the levels of liberalization (efficiency) and supervision (stability), New Zealand carried out the most successful financial reforms in only a few years; Taiwan realized reforms better and faster before 2000 but slowed down after then; China had not seen a major breakthrough until late 1990s. As the analytical framework in this chapter proposes, such difference partly resulted from the difference of political systems, which distinguish a government preference of reform options and its capability to produce policies beneficial to the majority of people.

In China, CCP party elites strive for attaining or consolidating political power in a system that does not institutionalize power succession. The incumbent, especially in the early days while the power base had not yet secured, prioritized the forming of a strong factional alliance. As Jiang Zemin confronted this challenge in the late 1990s while the financial system was threatened by serious NPL problem, he had not chosen a decentralized reform espoused by his own local factions. Instead, he aligned himself with Zhu Rongji's financial centralization in order to consolidate his political power. However, Jiang gave up on Zhu's plan as he felt more secured in controlling both the party and the military in early 2000s. Since CCP's nomenclature system controls the power of appointing, ranking, promoting, transferring, and removing party elites' positions in the administrative body, senior officials are not likely to take initiatives contradictory to top leader's political interests. As a consequence, financial reforms in late 1990s followed autocrat's logic of political survival.

After two decades of debates, China finally released its domestic bank deposit insurance scheme in late November of 2014. This reform plan put more financial burdens for the stability of financial system on the banks, which have long opposed such plan (Wei, 2014). Banks are required to pay premium to the scheme according to the riskiness of asset management. The government will no longer guarantee bailouts should banks are in financial troubles. The scheme can even force banks' closure if the capital falls too low. In a nutshell, the scheme deals with banks' moral hazard by holding banks accountable for their behaviors. It was estimated that this reform plan can secure 99.7% of bank accounts at the expanse of the banks (Rutkowski, 2013). Faced with powerful bank lobbies, China's current top leader Xi Jinping (习近平) is better posited than his predecessor Jiang Zemin for the reform. His control on the military seems stronger by assuming the chairmanship of the CCP's and People's Republic of China's Central Military Commissions immediately after succeeding Hu Jintao's (胡锦涛) political power (Miller, 2014). Both Jiang and Hu obtained the chairmanship roughly two years after CCP's power transition. Without immediate political struggles and looming financial crisis as Jiang faced in late 1990s, China's current ambitious reforms may move faster under Xi's powerful leadership.

In Taiwan's case, although the government was under KMT's autocratic rule, social movements for democratization was too strong for the Chiang Ching-kuo administration to ignore the public's demands. Therefore, financial reforms beneficial to most people had appeared more likely. After a series of local bank runs, the government carried out financial reforms with supports from the KMT-dominated Legislative Yuan. The Leninist KMT assured its legislators' compliance by using party discipline. Under a unified presidential system with strong party discipline during the period of democratization, the government successfully legalized financial reforms that have long-term positive implication. However, entering in 2000 had seen a divided government even though Taiwan had become a democracy. Vigorous political struggles occurred oftentimes in the Legislative Yuan that had slowed down the passage of reform plans involving the redistribution of political and economic interests. Original plans were often discounted, compromised, or discredited. In sum, the performance of financial reforms was less obviously during 2000s than 1990s.

New Zealand's Westminster system had performed the most effective and efficient financial reforms among the three. It was a result of not only a strong executive body but also a merit-based bureaucratic system that encourages top and senior public managers to take the initiatives in formulating professional public policies. With a supportive legislative body, the political leader can institutionalize professional policies more easily. After the emergence of economic and financial crisis in the early 1980s, the new Labour government, which had received supports and advice from a group of financial professionals in the Reserve Bank and the Finance Ministry, benefited from the efficiency of the Westminster system and rapidly liberalized financial markets in only a few years. In addition, the reform for a contractual bureaucratic system was also passed that further encouraged policy leadership from the top and senior managers. Insulated from domestic politics as much as possible, New Zealand's Westminster system had realized financial reforms the most successfully in terms of the speed and scope. However, New Zealand had changed its electoral system into MMP in 1996. Since then both National Party and Labour Party have not secured an absolute majority of seats in parliament. Two major parties require coalitional supports from smaller parties to form the government. Therefore, the advantages of Westminster system may not appear in New Zealand as many as discussed in this chapter after 1996. Fortunately the country's apolitical and performance-based bureaucratic system may remedy such shortfall.

Comparing the three cases yields an interesting conclusion that political system may influence the results of policy changes initiated by the executive branch. An authoritarian system might ignore the needs for reform the most should the reform contradict to its own political interests. However, as shown in Singapore or China under Xi, if the policy for societal interests corresponds to, or at least does not harm, autocrats' political survival, ambitious policy changes may succeed faster than the Westminster and presidential systems because minor domestic political oppositions can be simply ignored or repressed under the autocratic regime. Should Beijing base its ruling legitimacy more and more on continuous fast economic growth, further economic and financial reforms may emerge, such as deposit insurance scheme mentioned above, interest rate liberalization, and capital account liberalization. For a presidential system, reforms may appear more often in a unified than in a divided government. In the Westminster system, efficient reform is the most likely since it is processed in political circumstances featuring a unified government, a supportive congress, and a merit-based public system. These characteristics help reduce political harassments and encourage managers to take the policy initiatives by profession.

NOTES

1. See Haggard (2000a) for a comprehensive review of how economic or financial crises triggered reform plans.
2. A divided government results when the executive and legislative bodies are controlled by different political parties.
3. Author's interview with a political economist based in the University of Malaya, August 4, 2014.
4. China's NPL statistics remains controversial. According to the People's Bank of China's (PBC) estimation, the number was around 20%−25% in the end of 1997. But outside analyst believed the number was significantly higher (Mo, 1999). Shih (2008, p. 171) reported that foreign entities estimates a range from 30% to 70% of NPLs. The head of research department of ICBC wrote that ICBC's NPLs in the end of 2000 was about 34.4% (Zhan, 2013, p. 60). Here the estimation of China's NPLs uses statistic from both CBRC and Wang et al. (2009) that claimed their data came from PBC. Together the data reported NPLs from 1990 to 2012 and is more consistently demonstrated the trend.
5. Big Four referred to Agricultural Bank of China, Bank of China, China Construction Bank and Industrial and Commercial Bank of China.
6. Author's interview with a former high-level official from FSC in Taipei, May, 2010.
7. GOB here refers to banks that are controlled by the government holding of more than 20% shares.
8. Author's interview with the former Chairman of FSC in Taipei, August 8, 2014.

REFERENCES

Aberbach, J. D., & Christensen, T. (2001). Radical reform in New Zealand: Crisis, windows of opportunity, and rational actors. *Public Administration*, *79*(2), 403−422.

Abiad, A., Detragiache, E., & Tressel, T. (2010). A new database of financial reforms. *IMF Staff Papers*, *57*(2), 281−302.

Admati, A. R., & Hellwig, M. F. (2013). *The bankers' new clothes: What's wrong with banking and what to do about it*. Princeton, NJ: Princeton University Press.

Barth, J. R., Caprio, G., & Levine, R. (2006). *Rethinking bank regulation: Till angels govern*. New York, NY: Cambridge University Press.

Bollard, A., & Gaitanos, S. (2010). *Crisis: one central bank governor and the global financial collapse*. Auckland: Auckland University Press.

Brash, D. T. (2012). *Banking standards: Written evidence from Donald T Brash, former governor of the reserve bank of New Zealand*. London, UK: The Houses of Parliament. Retrieved from http://www.publications.parliament.uk/pa/jt201314/jtselect/jtpcbs/27/27iv15.htm

Bueno de Mesquita, B., Smith, A., Siverson, R. M., & Morrow, J. (2003). *The logic of political survival*. Cambridge, MA: MIT Press.

Chen, M.-t., & Chu, Y.-h. (1992). Quyu Lianhe Duzhan Jingji, Difang Paixi Yu Shengyiyuan Xuanju: Yixiang Shengyiyuan Houxuanren Beijing Ziliao De Fenxi [Regional oligopoly, local factions, and provincial assembly elections: An analysis of the socio-economic background of candidates]. *National Science Council Proceedings C: Social Sciences and Humanity*, *2*(1), 77–97.

Cheng, T.-j. (1989). Democratizing the quasi-leninist regime in Taiwan. *World Politics*, *41*(4), 471–499.

Chou, Y., & Nathan, A. J. (1987). Democratizing transition in Taiwan. *Asian Survey*, *27*(3), 277–299.

Evans, L., Grimes, A., Wilkinson, B., & Teece, D. (1996). Economic reform in New Zealand 1984–95: The pursuit of efficiency. *Journal of Economic Literature*, *34*(4), 1856–1902.

Gerring, J. (2004). What is a case study and what is it good for? *American Political Science Review*, *98*(02), 341–354.

Goldfinch, S. (1998a). Evaluating public sector reform in New Zealand: Have the benefits been oversold? *Asian Journal of Public Administration*, *20*(2), 203–232.

Goldfinch, S. (1998b). Remaking New Zealand's economic policy: Institutional elites as radical innovators 1984–1993. *Governance*, *11*(2), 177–207.

Hacker, J. S., & Pierson, P. (2010). *Winner-take-all politics: How Washington made the rich richer-and turned its back on the middle class*. New York, NY: Simon & Schuster.

Haggard, S. (2000a). Interests, institutions, and policy reform. In A. O. Krueger (Ed.), *Economic policy reform: The second stage* (pp. 21–59). Chicago, IL: University of Chicago Press.

Haggard, S. (2000b). *The political economy of the Asian financial crisis*. Washington, DC: Institute for International Economics.

Heilmann, S. (2005). Regulatory innovation by leninist means: Communist party supervision in China's financial industry. *The China Quarterly*, *181*, 1–21.

Hsiao, H.-h. M. (2005). Recapturing Taiwan's democratization experience. Paper presented at the World Forum for Democratization in Asia, Taipei, Taiwan, September 15–17.

Hu, S.-c., & Lu, J.-w. (2014). Minjindang Shouci Zhizheng Xia De Jinrong Gaige: Huigu Yu Zhanwang [Financial reform under the first Dpp administration: Retrospect and prospect]. In W.-I. Lin (Ed.), Minjindang Banian Zhizheng Lunwenji*,* 2000–2008 Nian *[*Collection of Eight Years under *Dpp's* Administration*,* 2000–2008*]* (pp. 238–268). Taipei: Xinjingjie wenjiao jijinhui [New Frontier Foundation].

Huang, S.-c., & Kou, W.-y. (1984). Liyi Tuanti Youshuo Xingcheng Juda Liliang [Interest group lobbies form enormous power]. *Lianhebao* [*United Daily News*], October 12, p. 2.

Huff, W. G. (1994). *The economic growth of Singapore: Trade and development in the twentieth century*. New York, NY: Cambridge University Press.

Huff, W. G. (1995). The developmental state, government, and Singapore's economic development since 1960. *World Development*, *23*(8), 1421–1438.

International Monetary Fund. (2004). *New Zealand: Financial system stability assessment, including reports on the observance of standards and codes on the following topics: Monetary and financial policy transparency, banking supervision, and securities* *regulation*. IMF Country Report (No. 04/126). International Monetary Fund, Washington, DC.

Johnson, S., & Kwak, J. (2011). *13 bankers: The wall street takeover and the next financial meltdown*. New York, NY: Vintage Books.

Laeven, L., & Valencia, F. (2008). *Systemic banking crises: A new database*. IMF Working Papers No. WP/08/224, 1–78.

Laeven, L., & Valencia, F. (2012). *Systemic banking crises database: An update*. IMF Working Papers No. WP/12/163.

Lardy, N. R. (1998). China and the Asian contagion. *Foreign Affairs*, *77*(4), 78–88.

Lautard, S. (1999). State, party, and market: Chinese politics and the Asian crisis. *International Political Science Review*, *20*(3), 285–306.

Lee, J.-c. (2002). Taiwan Kaifang Minying Yinxing Sheli Zhi Jingyan Yu Zhanwang [Taiwan's experience and outlook in the opening of private banks]. *NPF Research Report* (Caijin #091-063).

Lee, J.-c. (2003). Taiwan Jinrong Jianli Tixi Zhi Gaige Yu Jianzhi: Woguo Jinrong Jianli Jigou Yiyuanhua [Reform and establishment of Taiwan's financial supervisory system: A unified financial supervisory system for Taiwan]. Taiwan yinhang jikan [Bank of Taiwan Quarterly], *54*(4), 51–70.

Lee, J.-c., & Tang, C.-i. (2007). Kkaifang Minying Yinhang Sheli Zhi Jingyan Yu Qishi: Taiwan Anli [Taiwan's experience and outlook in the opening of private banks]. *NPF Research Report* (Caijin #091-065).

Lee, Z.-r. (1994). Guojia Yu Jinrong Ziben: Weiquan Shicong Zhuyi Xia Kuomintang Zhengquan Yinhang Zhengce De Xingcheng Yu Zhuanxing [State and financial capital: The formation and changes of Kuomintang administration's banking policies under authoritarian clientelism]. M.A. Department of Sociology, Tunghai University, Taichung, Taiwan.

Legislative Yuan (Taiwan). (1984a). Committee's minutes. *The Legislative Yuan Gazette*, 73.

Legislative Yuan (Taiwan). (1984b). Committee's minutes. *The Legislative Yuan Gazette*, 73, 68–70.

Legislative Yuan (Taiwan). (1999). Documents of written inquiries in the daily committee in the thirteen meeting of the first session of the fourth legislative yuan, 199–200.

Levitsky, S., & Way, L. (2010). *Competitive authoritarianism: Hybrid regimes after the cold war*. New York, NY: Cambridge University Press.

Liao, K.-j. (2005). Jinrong Zhongjian Jijin Zhidu Jiangou Yu Zhixing Jixiao: Taiwan Yu Nanhan De Bijiao Fenxi [Institutional choice of RTC and implementation performance: Comparative analysis of Taiwan and South Korea]. Wenti yu yanjiu [Issues & Studies], *44*(1), 79–114.

Lijphart, A. (1984). *Democracies: Patterns of majoritarian and consensus government in twenty-one countries*. New Haven, CT: Yale University Press.

Ma, G. (2006). Sharing China's bank restructuring bill. *China & World Economy*, *14*(3), 19–37.

Miller, A. (2014). How strong is Xi Jinping? *China Leadership Monitor*, (43). Retrieved from http://www.hoover.org/sites/default/files/research/docs/clm43am.pdf

Milner, H. V. (1997). *Interests, institutions, and information: Domestic politics and international relations*. Princeton, NJ: Princeton University Press.

Mo, Y. K. (1999). A review of recent banking reforms in China. *BIS Policy Papers*, *7*, 90–109.

Mulgan, A. G. (2003). Japan's 'Un-Westminster' system: Impediments to reform in a crisis economy. *Government and Opposition*, *38*(1), 73–91.

Mulgan, R. (1992). The elective dictatorship in New Zealand. In H. Gold (Ed.), *New Zealand politics in perspective* (pp. 513–532). Auckland: Longman Paul.

Nagel, J. H. (1998). Social choice in a pluralitarian democracy: The politics of market liberalization in New Zealand. *British Journal of Political Science*, *28*(2), 223–267.

Olson, M. (1965). *The logic of collective action: Public goods and the theory of groups*. Cambridge, MA: Harvard University Press.

Rutkowski, R. (2013). Too big to fail: Deposit insurance and Chinese state banks. In *China economic watch*. Washington, DC: Peterson Institute for International Economics. Retrieved from http://blogs.piie.com/china/?p=2849

Satori, G. (1970). Concept misformation in comparative politics. *American Political Science Review*, *64*(4), 1033–1053.

Schick, A. (1996). *The spirit of reform: Managing the New Zealand state sector in a time of change*. Wellington, New Zealand: State Services Commission.

Shih, V. C. (2008). *Factions and finance in China: Elite conflict and inflation*. New York, NY: Cambridge University Press.

Shiller, R. J. (2012). *Finance and the good society*. Princeton, NJ: Princeton University Press.

Singer, D. A. (2007). *Regulating capital: Setting standards for the international financial system*. Ithaca, NY: Cornell University Press.

Singleton, J., & Verhoef, G. (2010). Regulation, deregulation, and internationalisation in South African and New Zealand banking. *Business history*, *52*(4), 536–563.

Su, T.-c. (Ed.). (1992). *Quan Yu Qian: Toushi Taiwan Zhengshang Guanxi [Power and money: Seeing through government-business relations in Taiwan]*. Taibei: Xin xinwen.

Taylor, J. (2000). *The generalissimo's son: Chiang Ching-Kuo and the revolutions in China and Taiwan*. Cambridge, MA: Harvard University Press.

Tsai, K. S. (2002). *Back-alley banking: Private entrepreneurs in China*. Ithaca, NY: Cornell University Press.

Tsebelis, G. (1995). Decision making in political systems: Veto players in presidentialism, parliamentarism, multicameralism and multipartyism. *British Journal of Political Science*, *25*(3), 289–325.

Turner, J. D. (2000). The Hayekian approach to banking supervision in New Zealand. *Annals of Public and Cooperative Economics*, *71*(1), 105–125.

United Daily News. (1984). Yinhangfa Xiuzheng Neirong Houtian Xiediao [Contents of the banking act amendment will be cooridinated the day after tomorrow]. *Lianhebao* [*United Daily News*], October 9, p. 2.

Wang, J.-h. (1996). *Shui Tongzhi Taiwan? Zhuanxing Zhong De Guojia Jiqi Yu Quanli Jiegou [Who rules Taiwan? National apparatus and power structure in transition]*. Taibei: Juliu tushu gongsi.

Wang, S., Liu, Y., & Ou, M. (2009). Quanqiu Weiji Jinyibu Kaoyan Zhongguo Shangye Yinhang Jingzhengli [Global crisis further tests the competitiveness of China's commercial banks]. [The Chinese Banker], 9, 39–47.

Wei, L. (2014). China close to launching bank deposit insurance. *The Wall Street Journal*, November 27. Retrieved from http://www.wsj.com/articles/china-close-to-launching-bank-deposit-insurance-1417098000

Wu, C.-e. (2008). Zhengzhili Dui Jinrong Tixi De Ganyu: Taiwan Bentuxing Jinrong Fengbao Yu Zhongjian [Domestic financial crisis and financial restructuring: Political intervention in financial institutions]. Wenti yu yanjiu [Issues & Studies], *47*(4), 33–75.

Wu, X., Howlett, M., & Fritzen, S. (2010). *The public policy primer: Managing the policy process*. New York, NY: Routledge.

Yang, S. (1989). Taida Jingjixi Duba Jinrong Jie [Financial agencies are occupied by National Taiwan University's Department of Economics]. *Caixun* [*Wealth Magazine*], December, pp. 150–154.

Yu, T.-S., & Wang, C.-l. (2005). *Taiwan Jinrong Tizhi Zhi Yanbian [The change of Taiwan's financial system]*. Taipei: Lianjing chubanshi.

Zhan, X.-y. (2013). *Sisuo De Shengyin: Guanyu Zhongguo Yinhangye Gaige Yu Fazhan De Yanjiangji [Voice of thoughts: Collection of speeches regarding the reform and development of China's banking industry]*. Beijing: China Financial Publishing House.