Accounting for the Micro Drivers of East Asian Governance Outcomes: Evidence from Banking Scope Regulatory Policy-Making in Mainland China, Korea and Taiwan

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Abstract

The existing literature on East Asia's rise to economic prominence has shown a strong focus on state-society relations as the determinants of governance outcomes. This paper proposes to complement the literature with a 'motivations-based analytical framework'. This new framework systematically accounts for the micro drivers of policy-making – actors and their motivations – in addition to conceptualizing the indicated macro governance variables of state policy leadership and societal information and coordination provision. Drawing on case studies of banking scope regulatory policy-making in Mainland China, Korea and Taiwan, the paper illustrates how this comprehensive framework works analytically in the context of East Asia.

Key Words: Governance, State-Society Relation, Banking Regulation, Motivation-based Analysis, East Asia.

1. Introduction

Recent years have seen growing academic and practitioner interest in the notion of ‘governance’. Depending on the specific context in which this term is used, talk about governance acquires different connotations. In fact scholars working in comparative politics, public administration and public policy, and international relations have all used their own specific terminology when discussing issues of governance (Kjaer 2004, 3-7). Furthermore, apart from different connotations within distinct academic fields, there is also a distinction between analyses of governance that focus on the term’s positive implications on the one hand (thus defining it and assessing how it works) and those that discuss its normative dimensions on the other hand (thus focusing on how to meet criteria of ‘good’ or ‘effective’ governance).[1] The emphasis of this paper is on the positive – not the normative – dimensions of governance and policy-making.

From the perspective of the positive research strand, governance refers to ‘the setting of rules, the application of rules, and the enforcement of rules’ (Kjaer 2004, 10). Put differently, following this definition, analyzing a country’s governance arrangements is tantamount to investigating the basic structures in place to impart overall direction and order onto a society. In a similar vein, Peters and Pierre (2005, 133) define governance as ‘the process of making and implementing decisions for a society’. According to them (*ibid*, 2-5, 10-48), this process in turn has a number of dimensions, including a coherent articulation of society’s preferences, ‘steering’ for policy implementation, and accountability.

Crucially, they point out that governance as a dependent variable in this sense is fundamentally determined by two independent variables, that is, ‘state’ and ‘society’. These two independent variables are conceptualized as being inversely correlated and interacting in a non-linear, multiplicative, rather than additive, fashion. Consequently, the highest capacity for effective ‘steering’ will be achieved when neither state nor society completely dominates the other but both are roughly in balance, with the state providing authority and society generating informational input and coordination.

When surveying the literature on the ‘economic miracles’ that took place in Japan, Korea and Taiwan in the 1950s-1980s, two lines of thought concerning the governance arrangements that enabled East Asia’s take-off can be distinguished. One emphasized the contributions of East Asia’s export orientation and market liberalization which we label the ‘market friendly’ perspective. The other highlighted the role of the state in providing successful development steering and leadership and we mark it the ‘state-friendly’ perspective. These two seemingly opposed perspectives battled each-other for decades before an analytical synthesis was achieved. This synthesis expresses itself in the nowadays commonly advanced argument that economic development success in East Asia was achieved because 'strong' states were able to lead countries in their quest for development 'without falling into the trap of authoritarian displacement of the market and private enterprise' (Johnson 1987, 164). Put differently, the emerging wisdom holds that the interdependent state-society relations observed in Japan, Korea and Taiwan in the second half of the 20th century were critically conducive to effective governance and economic development. The argument is at times extended to other countries, for example mainland China (hereafter, China) after 1978 (e.g., Johnson 1999, 33, 40). Evans (1996) labels the state-society relations associated with such governance configurations a case of 'embedded state-society synergy', which might be the best known term used to describe this type of governance arrangement.

While this emerging wisdom on governance in the context of East Asia's post-war economic success represents a significant scholarly achievement, the heavy reliance of the current literature on such vague macro variables as 'state' and 'society' in accounting for East Asian governance outcomes would imply a serious drawback. Given momentous changes such as the democratization of Korea and Taiwan since the 1980s and tremendous shocks like the 1997 Asian financial crisis, broad references to 'changing East Asian state-society relations', 'changing state-business relations', 'weakened states' and 'strengthened civil societies' abound but they are no longer capable of providing a deep understanding of specific episodes of policy-making. In other words, when it comes to explaining why individual policy initiatives are adopted or thwarted in 21st century East Asia, the literature's excessive focus on vague macro variables has shown limited explanatory power.

This paper intends to make progress on this front. It is structured as follows. Section 2 reviews the literature on the governance arrangements and state-society relations associated with the East Asian economic miracle. While the literature reviewed will inevitably be selective, the section reveals the key analytical synthesis that has lately been achieved. That is, the 'market friendly' and the 'state friendly' approaches have now been incorporated into an integrated framework that stresses the contributions of both state and society to East Asian economic development.

Despite this success, Section 2 also argues that the general reliance on macro variables of governance may draw attentions of researchers away from the actual micro drivers of policy-making – actors and their motivations. Drawing on the literature of the political economy of policy-making, Section 3 thus proposes a novel 'motivations-based' micro-analysis approach that can be employed to systematically reveal the actors and their motivations in association with specific policy-making episodes. Section 4 then links this approach back to the overall governance literature, thereby forming an integrated analytical framework that works with both macro and micro drivers of governance and policy-making. Section 5 illustrates how this new framework works analytically in the context of recent banking scope regulatory policy-making in China, Korea and Taiwan. Finally, Section 6 presents concluding remarks.

2. Governance, State-Society Relations and the East Asian Economic Miracle

2.1. A Brief Review of the Literature

As has been well documented in the literature (cf. Aoki et al. 1997, 1; Chan et al. 1998, 1-2, among others), for many years the debate about East Asia's economic miracle was dominated by two seemingly opposed intellectual traditions. Put simply, one is the 'market friendly' perspective that stresses the importance of East Asia's export orientation and market liberalization in achieving high and persistent growth rates. Following this perspective, other developing countries, for example in Latin America and Sub-Saharan Africa, failed in their quest for development due to their reliance on import substitution and other market unfriendly policies. In connection to the broader governance literature, this perspective puts emphasis on successful development of decentralized decision-making and coordination by elements of East Asian *societies* such as individuals, companies and firm networks.

The other is the 'state friendly' perspective that highlights the active involvement of East Asian governments in industrial policy making and implementation as a pre-condition for the region's economic success. Following this 'governing the market' (Wade 2003) perspective, bureaucratic efforts directed at establishing and maintaining state-owned enterprises (SOEs), picking and nurturing strategic industries and getting key prices 'wrong' (Amsden 1989) all had contributed decisively to East Asian economic take-off. Linking to the notion of the governance process, this perspective therefore emphasizes the importance of the *state* in providing successful developmental steering and leadership.[2]

These two separate traditions dominated the literature for a considerable period of time, often appearing under new terms and labels, yet remaining fundamentally unchanged. For example, the market friendly perspective has also been termed the 'neoclassical' approach to development, whereas the state friendly view has come to be known as the 'developmental state' perspective (Beeson 2003, 26-27; Chan et al. 1998, 1-2; Johnson 1982).[3] Over the years, proponents of either perspective extended and refined their arguments and were debating intensely with the other side over issues such as the occurrence and severity of market failures that could be observed in recent East Asian economic history and the associated need (or absence of it) for sustained governmental intervention. Eventually, however, as one may have expected, over the last decade or so a reconciliation or synthesis of the market and state friendly perspectives has emerged. According to the reconciled view, both state and society, or planning and markets, played a crucial role in East Asian economic development in the years following the end of the Second World War.

Following this new perspective, while the state proved autonomous, strong and capable enough to provide leadership in the quest for development, it was the synergistic *combination* of governmental structures with entrepreneurs and other societal actors who served important information input, coordination and implementation functions that produced an effective governance and development outcome. Terms such as ‘embedded autonomy’ (Evans 1995), ‘embedded state-society synergy’ (Evans 1996), ‘governed interdependence’ (Weiss 1998, quoted in Leung 2003, 48), ‘regimes based on the interaction of specific social sectors and key state institutions’ (Pempel 1999, 158), ‘market-augmenting planning’ (Lim 1981, quoted in Johnson 1987, 141) and ‘market enhancement’ (Aoki et al. 1997) are adopted to capture the key notion of a fragile, delicate state-society complementarity that is inherent in this new analytic synthesis (also Beeson 2003, 27-28). As examples of such synergistic policy-making, the relevant literature cites East Asian ‘policy deliberation councils’ that included both government and business representatives as well as state-initiated schemes that provided ‘contingent rents’ to private firms subject to performance criteria (for example export performance) (Aoki et al. 1997, 22). Thus the latest thinking on the governance structures that made East Asia’s miracle possible has come to match the leading thinking on effective governance in general, in that it stresses the multiplicative rather than additive impact of ‘state’ and ‘society’ on governance outcomes as noted in the introduction.

While it is presumably premature and simplistic to consider this perspective as constituting a new orthodoxy,[4] the ‘embedded state-society synergy’ conceptualization of East Asian governance in the post-war period to some extent has superseded the previous market versus state dichotomy and debate. Indeed, recent studies have suggested that synergistic state-society interactions not only aided East Asia’s economic take-off in the second half of the 20th century by facilitating the development of agricultural and manufacturing industries but also contributed significantly to preserving high growth rates in the 21st century by fostering service sector and information technology growth. For example, O’ Riain (2000, 2004) refers to these emerging, high technology governance structures in East Asia (and elsewhere) as ‘flexible’ or ‘networked’ developmental states.

Figure 1 summarizes the discussion of the key drivers of effective governance and development in East Asia over the past six decades. While the figure offers a useful abstraction of the discussion so far, one must bear in mind the simplifications inherent in it. As Ding (quoted in Johnson 1999, 60; also compare Cumings 1999, 65; Pempel 1999, 168-169; Woo-Cumings 1999, 17) argues:

> *"In East Asia, the pattern of state-society relations historically differs notably from the modern Western pattern, and the distinctive features of the East Asian pattern do not simply disappear after industrialization or democratization. In East Asia, the states are organizationally pervasive, without clear-cut boundaries. Their powers and functions are diffuse, and they pay little respect to due process. Consequently, the lines between public and private, political and personal, formal and informal, official and nonofficial, governmental and market, legal and customary and between procedural and substantial, are all blurred."*

Despite these concerns, it is suggested here that some heuristic utility does follow from attempting to delineate the sources of effective governance in East Asia, even if these are (at times) interdependent and difficult to disentangle.

2.2. Shortcomings of the Literature

The above review indicates that scholars' attention in this literature has focused on accounting for the broad East Asian state-society configurations conducive to effective economic policy-outcomes. In general, this has been an important and instructive exercise, in that the studies and analyses produced in this tradition have provided scholars and policy-makers with a sophisticated narrative of how a number of East Asian countries 'made it' and turned rags into riches. Ideally, such narratives will enable future policy-makers in Japan, Korea, Taiwan, China and elsewhere to (continue to) craft sustainable, growth-enhancing initiatives while also equipping governments and societies elsewhere in the world with policy lessons relevant for local development projects.

However, these benefits and strengths of the literature come with a formidable weakness attached. By focusing so exclusively on the macro drivers ('state' vs. 'society', 'bureaucrats' vs. 'business', 'planning' vs. 'markets' etc.) as well as outcomes ('development', 'growth', '[in]equality' etc.) of governance, the cited literature is typically unable to account for *individual policy outcomes*. For example, following the 1997 Asian financial crisis, a range of studies discussed how incremental changes in state-society relations had led to the break-down of effective East (and South-East) Asian governance arrangements. In the case of Korea, it was argued that the increasing influence of local conglomerates (the *chaebol*) over policy-making had compromised governmental autonomy and undermined previously effective governance structures. Accordingly, as a necessary though not sufficient condition for recovering from the crisis, state capacity had to be strengthened again vis-a-vis the recalcitrant conglomerates (and, to a lesser extent, labor) (cf. Kim 2003; Leung 2003; Mo and Moon 1999, 2003). Missing in these general discussions, which involved notions of the Korean 'state', 'business' and 'labor', however, were analyses of which specific actors within these broad analytic categories were actually involved in promoting or opposing individual policy initiatives (both of pre- and post-crisis vintage). Furthermore, even if more specific sub-classes of actors were identified, these groups' motivations for (in)action, organizational capabilities as well as access to policy-making often went unaccounted for.

Thus, in short, while the East Asian governance literature excels at providing a macro picture of the drivers and outcomes of governance in a number of East Asian countries, it is often incapable of delivering rich individual narratives of specific policy-making episodes. What kind of analytical framework could one apply to systematically generate such 'micro narratives'?

(See Figure 1 and Table 1)

3. Conceptualizing the Micro Drivers of Governance and Policy-Making in East Asia

One fruitful way to systematically account for the micro drivers of governmental activity is to complement the governance literature on East Asia's economic miracle with the political economy of regulation and policy-making literature. The latter, which rose to prominence in the United States over the course of the 1970s, includes two principal theoretical approaches to policy-making, the so-called 'public' and 'private interest theories of regulation' or policy-making more generally (Noll 1989, 1991; Peltzman et al. 1989). While they differ in their respective emphases, both theories are invoked to explain specific policy-making outcomes by breaking down the macro drivers of governance into their micro analytical constituents - actors and their motivations (Table 1).

3.1. The Public Interest Theory of Policy-Making

Under the public interest theory of policy-making, the state is conceptualized as an impartial arbiter of the overall public's welfare. Put differently, when deciding on new policy initiatives, neutral governmental bureaucrats will weigh the expected costs and benefits associated with various courses of action and then opt for the policy that maximizes the public interest. In the comparatively narrow field of regulatory policy-making, the public interest theory can thus account for both (re)regulation and deregulation outcomes. If, for example, market failures such as missing markets and/or information asymmetries imply that government intervention would yield welfare gains, regulation occurs; if market failures disappear, deregulation may become optimal. The same process can also be seen as driving governmental decision-making in other areas apart from regulatory policy-making, for example industrial policy, fiscal policy and trade policy.

In the case of East Asia, the public interest theory of policy-making, whose basic assumptions correspond closely to the pure ‘state friendly’ governance perspective discussed in the previous section, captures an important element of the region’s post-war development experience (Pempel 1999, 144). Whether one considers the case of Japan, Korea or Taiwan, the bureaucrats in question generally did care about promoting economic growth and development in the second half of the 20th century, while their policy successes in this area in turn bolstered their legitimacy for future initiatives (Woo-Cumings 1997, 326-333).

At the same time, the public interest theory of policy-making is open to a number of crucial criticisms. Most importantly, the approach is simplistic or even naive in conceptualizing policy-making as a ‘black box’, where an impartial bureaucracy rationally processes information and delivers impeccable policy pronouncements. A more realistic perspective on policy-making would consider both other actors relevant to the policy-making process and different incentives and motivations for action. The private interest theory of policy-making aims at delivering on both these counts.

3.2. The Private Interest Theory of Policy-Making

With the private interest theory of policy-making, the black box of government is opened up decisively. Actors now not only encompass governmental bureaucrats but also, depending on the circumstances, groups of self-interest maximizing agents from a country’s polity (e.g., members of the executive and judiciary as well as legislators), economy (e.g., producer interest groups) and society (e.g., consumer interest groups). These different groups compete for influence over policy-making to advance their own agenda, for example by engaging in lobbying activities. Again, concerning regulatory outcomes, the private interest theory can account for both regulation and deregulation scenarios. As the fortunes of different group coalitions wax and wane, old regulations will be overturned and new ones introduced.

Analogous to the case of the public interest theory of policy-making, the private interest theory of policy-making can also be applied to policy initiatives beyond the confines of regulatory policy. Countries' monetary policies, for example, can easily be conceptualized as the outcome of group competition between bureaucrats in favor of price stability and economic interests in favor of more expansionary policies. Importantly, while the private interest theory of policy-making – using the standard methodology of modern microeconomics – views actors as only promoting their own private interests, the resultant policy outcomes do not necessarily hurt the public interest. As with Adam Smith's 'invisible hand metaphor', the information input and coordination functions performed by privately motivated (groups of) individuals can indeed lead to welfare enhancing policy outcomes, rather than invariably implying Pareto-inefficient decision-making (cf. Brück and Sun 2007a).[5] Having said that, private interest promotion can of course also imply crippling policy 'capture' and public welfare losses.[6]

It is worth highlighting that in the light of Korea's and Taiwan's democratization since the 1980s and the weakening of Japan's 'iron triangle' of politicians, bureaucrats and business over the 1990s, the private interest theory of policy-making now also captures significant elements of East Asia's political economies. Given politicians' desire for reelection, bureaucrats' quest for legitimacy after the Asian financial crisis and the rise of business, labor and consumer interest groups, picturing policy-making in East Asia as the outcome of self-interest maximizing group competition now seems more appropriate than it would have been three decades ago (cf. Green 1998; Hahm and Plein 1997; Pempel 1999, 144-145, 180-181; Woo-Cumings 1999, 16-17). In terms of the governance framework presented in Figure 1 above, 'society' has been strengthened at the expense of the 'state'.

Nevertheless, despite these strengths in accounting for today's micro drivers of East Asian governance, the private interest theory of policy-making is open to the reverse charges that can be brought against the public interest theory of policy-making. Although not as simplistic and naive as the latter, it still views policy-making through merely one narrow lens and also tends to be excessively cynical in focusing solely on actors' private interests as motivations for action. Clearly, a combination of both theories promises greater analytical sophistication than a simple choice of either the public or private interest theory of policy-making (Kalt and Zapan 1984). How, then, can such a combination be achieved and subsequently applied to yield a deep understanding of specific policy-making episodes?

(See Figure 2)

3.3. Towards a Unified, Motivations-Based Analytical Framework

Figure 2 proposes a matrix representation combining the two indicated, central theories of policy-making. The matrix framework is, at a first glance, 'policy players-based' in that the actors in the two spheres of 'state' and 'society' (Table 1) are regarded as key players in the process of policy-making. However, on closer inspection the framework is essentially 'motivations-based' because it focuses analytical attention on not only the precise motivations of competing policy-players, but also the rival motivations faced by a particular set of players (e.g., both public- and private-interests considerations faced by politicians or regulators). In this and the following sections we will illustrate how a systematic application of this motivations-based analytical framework can deliver a better and richer understanding of individual policy-making episodes.

As an initial illustration of how this framework works, let us consider a hypothetical case in which an East Asian government proposed to adopt and implement a new industrial policy scheme to promote high-tech electronics manufacturing via the provision of infrastructure, equity financing, tax breaks, R&D assistance, and other supporting measures.[7] According to both the row and column measurements of the matrix, to gain a comprehensive understanding of why the new policy scheme had emerged requires answering two key questions as specified below.

Firstly, given the strong tradition of beneficial, social welfare-oriented intervention by Japanese, Korean and Taiwanese policy-makers in the 1950s-1980s and the associated insight that the state 'matters' in East Asia, what could be the public interest cost-benefit trade-off the relevant governmental bureaucrats had in mind when proposing the new policy? In other words, assuming that bureaucrats decided on the new policy purely on the grounds of public interest maximization, what expected payoff calculations influenced their eventual policy choice (for a general discussion of such governmental intervention see Chang 1994, 7-12; Posner 1974, 336)? By analyzing primary data sources (such as interviews with local officials, politicians, industry representatives, academics etc.) as well as a range of domestic and international secondary data (including newspaper, magazines, trade publications, academic works etc.), it should be possible to get an adequate 'feel' for the cost-benefit trade-off at hand.

Continuing the 'row' analysis, a governmental bureaucracy keen on expanding the local high-tech electronics industry may think that support for local high-tech firms will bring public interest benefits in the form of future national income growth, employment opportunities, tax receipts and a contribution to national defense capabilities. At the same time, there may also be public interest costs such as the need for tax outlays in the present to finance incentives packages and R&D assistance and potential environmental concerns. Depending on how policy-makers weigh these expected costs and benefits, the public interest trade-off associated with the new industrial policy scheme in question will either be positive or negative (i.e. the row measurement of Figure 2). Given the government's support for the new industrial policy scheme in this hypothetical case, the trade-off is presumably positive.[8]

Secondly, recognizing that even East Asian bureaucrats do not always further the public interest and that, moreover, other actors also typically matter to the policy-making process, an application of the private interest theory of policy-making (i.e., the 'column' analysis of Figure 2) requires the analyst to start with identifying the actors relevant to the specific policy-making initiative under consideration, including those located in the polity (e.g., the top level executive, legislators, bureaucrats and/or members of the judiciary) and in the economy and society more generally (e.g., producer, consumer and investor interest groups).

Next, the analyst will have to determine the incentives these different groups faced regarding the policy initiative in order to account for its origin. Thus, what groups of actors supported the scheme? Why did they support it, assuming that they acted as rational self-interest maximizers? What groups opposed the policy? Why did they oppose it? Subsequently, for gauging different groups' ability to influence the policy-making process, the analyst will have to consider such variables as these groups' organizational capabilities and access to the inner circles of government.[9] Subsequent to analyzing different actors' preferences, organizational capabilities and access to decision-making, again via primary and secondary data analysis, the analyst can then gauge whether the relevant 'balance of interests' in a country was in favor of or opposed to the policy scheme under consideration (cf. Frieden 1991, 450; Haggard and Maxfield 1993; Peltzman et al. 1989, 48-49 for a similar discussion).

Presumably, the relevant actors in the 'column' analysis were the political top executive, legislators, bureaucrats, pressure groups representing high-tech firms and, potentially, other groups representing the interests of environmentalists or other concerned parties. In terms of likely preferences, one may surmise that the political top executive and a majority of legislators were in favor of an industrial policy proposal that could strengthen local competitiveness, thereby boosting growth, employment and tax prospects. Lobbying (in the form of political donations, post-public service job offers[10] and/or outright corruption) by high-tech industry pressure groups would have further bolstered this support. At the same time, bureaucrats from other ministries whose budgets may have been cut to finance the new policy initiative could have opposed any redirection of funds. Similarly, environmentalists and legislators associated with an environmental agenda could have been opposed to any large-scale industrial upgrading projects.

Concerning organizational capabilities and access, an a priori intuition may be that the supporters of the new industrial policy initiative were privileged in the political decision-making process, due to the comparatively large expected gains available to industry and the resulting intensity of the latter's lobbying. However, by engaging the media and overall public opinion, environmental protection groups and other organizations opposed to the promotion of high-tech industries could still have been able to pose considerable resistance to the new scheme. In the end, only a careful, differentiated assessment of different groups' lobbying capabilities will reveal the actual balance of interests (either in favor of or opposed to the policy initiative – as measured by the column vectors of Figure 2) that prevailed in the example of policy-making considered here.

Having established the outcome of the state's cost-benefit analysis of a given policy initiative under the public interest theory of policy-making as well as the balance of interests associated with the same policy under the private interest theory of policy-making, it is then possible to place the policy scheme in one of the four quadrants depicted in Figure 2. Taking the case developed above as an example, if the state deems the new industrial policy scheme to be in the public interest while the relevant balance of interests overall is in favor of the initiative, the 'policy-making scenario' that accounts for the new initiative corresponds to quadrant 'A' in the figure. Alternatively, uniform resistance to the scheme results in policy-making scenario 'D' (that is, the new policy initiative is rejected). Quadrants 'B' and 'C' represent the most interesting cases, in which public interests and private interests are at loggerheads in either case, with uncertain consequences for policy-making.

In summary, the key value of applying the motivations-based analytical framework consists in its systematic exposition of the actors and motivations underlying a given policy initiative. In the burning glass of the public and private interest theories of policy-making, the micro drivers of governance are revealed to the analyst. Thus, policy shifts or reorientations no longer have to be simply labeled as a result of a 'weakening of state power', 'a rise in business influence' or the 'growing influence of civil society'. Instead, specific actors and their associated motivations are pinpointed and spelled-out in detail, so as to provide a rich understanding of a given policy episode. How, then, can these micro variables be connected back to the larger macro variables typically invoked to account for governance outcomes in East Asia?

4. Connecting the Macro and Micro Drivers of Governance and Policy-Making in East Asia

We are now in a position to build on and extend the original framework shown in Figure 1 that implicitly underlies most publications on the governance arrangements characteristics of the East Asian economic miracle. Figure 3 suggests a conceptual match and inter-exchange between the governance literature reviewed in Section 2 and the political economy literature assessed in Section 3.[11] The left-hand side of the vertical line of dashes in Figure 3 basically portrays the by now familiar macro drivers of governance outcomes in East Asian countries such as Japan, Korea and Taiwan, namely, 'states' (referring to public welfare maximizing governments) and 'societies' (denoting various groups of self-interest maximizing actors as indicated by the political economy literature). As discussed in Section 2, a number of authors now share the view that a configuration of roughly balanced state-society relations ('embedded state-society synergy') offers the greatest hope for governance arrangements conducive to economic development, in that such configurations combine the state's leadership and collective vision with society's rich information input and superior, market-based coordination functions.

On the right-hand side of the diagram, the discussion provided in Section 3 is now summarized. In the light of the insight that mere reference to the macro drivers of governance does not serve to elucidate the political-economic scenarios underlying individual policy choices, the discussion in the previous section has shown how the micro level actors and motivations central to the public and private interest theories of policy-making roughly correspond to the macro variables of 'state' and 'society' prominent in the governance literature. Systematically applying the motivations-based analytical framework depicted in Figure 2 thus explicitly serves to elucidate the detailed workings of policy-making under conditions of 'embedded state-society synergy', that is, when both 'state' and 'society' play key roles in governance. The next section will further illustrate these integrated considerations with an empirical example drawn from recent developments in East Asian financial sector regulation.

(See Figure 3 and Table 2)

5. Evidence from Banking Scope Regulatory Policy-Making in China, Korea and Taiwan

5.1. Background

Over the past two decades, financial sector regulators in Western Europe, North America and Japan have taken an increasingly liberal approach to regulating commercial banks' permissible *business scope*. In other words, while in the past commercial banks were forced by policy-makers and regulators to focus on deposit collection and loan extension (in particular in North America), they are nowadays mostly free to move into investment banking (including securities underwriting, trading and brokerage), asset management (including hedge fund and private equity business) as well as insurance services, giving rise to a form of financial intermediation known as integrated financial services provision (IFSP). On an organizational level, the result of such deregulation and liberalization over the course of the 1990s has been the emergence of giant diversified American, European and Japanese financial holding companies and universal banks such as Citigroup, HSBC, BNP Paribas, ING, Deutsche Bank, UBS and Mizuho whose assets customarily exceed one trillion US dollars and whose net incomes tend to dwarf the gross domestic product of entire countries such as Bulgaria, Ecuador, Libya or Sri Lanka (Ferran and Goodhart 2001, 2; Jackson and Symons Jr. 1998, 1-2; Koguchi, 7; Sheah and Sun 1999, 71-73).

The seemingly policy-prompted rise of this new breed of giant financial conglomerates has led some authors to assert the growing importance of industrial policy-making in advanced economies, including the US.[12] As Woo-Cumings (1999, 30; emphasis added) points out:

> *"It may be that, for all the triumphalist talk about the Anglo-Americanization of the global economy at the end of the 1990s, the United States is coming to resemble Japan rather more than less. [...] [Thus] the state in service of oligopoly also characterizes the new American political economy in the late 1990s, as antitrust legislation gives way to government-sanctioned merger of large manufacturing firms to expand America's global market share (as in the merger of McDonnell-Douglas and Boeing, to become the mega-aircraft manufacturer); government-brokered international cartels in semiconductor chips agreed to in August 1996 [...]* ***and the rise of 'universal banking' in the United States, as in Europe and Japan, which has eroded the Glass-Steagall prohibitions against mixing commercial and investment banking."***

In the East Asian context, countries other than Japan have reacted differently to the emergence of financial sector conglomerates. On the one hand, Korea and Taiwan followed the lead of advanced industrial nations and passed Financial Holding Company Laws in 2000 and 2001 respectively to allow local financial institutions to engage in cross-sector financial services provision. On the other hand, China adopted a more cautious approach and in fact separated its banking, securities and insurance sectors via the country's 1995 Commercial Bank Law.[13] Only in recent years has China seen some liberalization of this strict financial sector compartmentalization policy (Brück and Sun 2007b).

What factors, then, account for this divergence in banking scope regulatory policy-making outcomes between China on the one hand and Korea and Taiwan on the other? More specifically, what specific mix of *actors* and associated *motivations* explains the different policy choices observable in these three economies? And how do these relate to the *overall governance arrangements* in place in East Asia nowadays? The next three sub-sections attempt to provide a brief answer to these questions.

5.2. Relevant Actors

Table 2 summarizes the most important actors who directly or indirectly involved in the banking scope regulatory policy-making process in China in 1995, Korea in 2000 and Taiwan in 2001. Let us start with China's 1995 Commercial Bank Law, which, as seen above, in fact *separated* commercial banking from investment banking and insurance. In banking scope regulatory policy-making, the Chinese Communist Party (CCP)-state was not split across functional but rather hierarchical lines (Huang 1999). In other words, the functional lines at the central level, which include the finance and economics 'Leadership Small Group'[14] and ministries in the finance and economics *xitong* ('system'), were united and contending with sub-central (local) governmental units in drawing-up and especially implementing financial sector strategy. In addition, regulators in the People's Bank of China, the large state-owned commercial banks, non-bank financial institutions (NBFIs) such as trust and investment and securities companies, and bank customers all took a distinct interest in the debate surrounding the drafting and implementation of the new regulatory framework.

In the case of Korea, the key participants in the policy-making process leading up to the adoption of the October 2000 Financial Holding Company Law included the following. Within the political top executive, Korea's President Kim Dae-Jung (in office since early 1998) of the Millennium Democratic Party had a deep personal interest in financial sector policy, given the country's disastrous economic performance during the 1997 Asian financial crisis. Unfortunately for Kim, he at the time had to face a legislature dominated by the opposition Grand National Party when attempting to secure support for his policy-making initiatives. Apart from the financial sector regulatory bureaucracy (concentrated in the Ministry of Finance and the newly created Financial Supervisory Commission) that had drafted the law, domestic and foreign banks as well as non-bank financial institutions took an active interest in new banking scope policies, as did consumers of financial services such as the country's conglomerates (corporate/wholesale customers) and individual (retail) customers. As will be seen in the next section, the Korean mass media also identified the financial holding company issue as a critical reform measure and accordingly weighed into the debate.

Finally, Taiwan's banking scope regulatory policy-making arena in June 2001, when its Financial Holding Company Law was passed, resembled the Korean case in which the political top executive (Democratic Progressive Party President Chen Shui-Bian, elected in 2000, and his Prime Minister) had to deal with an opposition (Kuomintang) dominated parliament (Brück and Sun 2007b). In formulating the law, officials in the Taiwanese Ministry of Finance were watched carefully by financial sector players such as banks and NBFIs, wholesale (industrial enterprise groups; large companies, and small- and medium-sized enterprises) and retail (individual savers) consumers of financial services as well as the media.

Having identified the relevant actors, one can now turn to investigating the complex motivations and thus political-economic scenarios underlying adoption of the three legal initiatives under consideration here.[15]

5.3. Central Motivational Drivers

A complex mélange of motivational factors underlay passage of *China's* 1995 Commercial Bank Law (note that in the discussion here the term 'Commercial Bank Law' refers to the provisions of the law, especially Articles 3, 43 and 46, that separated the country's commercial banks from NBFIs).[16] Crucial in this context was the difference in opinion between top representatives of the communist party-state at the central level on the one hand and local government officials, regulators, bankers and non-bank financial institutions on the other. From the perspective of central level policy-makers in the CCP and the State Council, Chinese commercial banks' substantial investment in and lending to NBFIs such as trust and investment and securities companies in the early 1990s were associated with rising levels of inflation and non-performing loans as well as endemic corruption. Economic overheating and corruption threatened both the public interest in macroeconomic stability as well as the rather private interest of the central level policy-makers in regime legitimacy and survival. Restricting banks' involvement in the NBFI sector was thus seen as a desirable policy initiative by the upper echelons of the CCP party-state whose assessment was further supported by top level regulators in the People's Bank of China and key bankers in the country's 'big-four' state-owned commercial banks.

Nevertheless, significant opposition to the compartmentalization of China's financial system in 1995 could be observed at sub-central levels of government. Here, local government officials keen on continued local industrial expansion, regulators and bankers in charge of local commercial bank branches and beholden to local officials for present-day amenities and future promotion as well as government-connected operators of NBFIs worried about future funding gaps all proved distinctly unwilling to unwind the connections between bank and non-bank operations. While private interest considerations thus inclined the indicated actors to strongly oppose (the implementation of) the Commercial Bank Law, customers of China's commercial banks were more ambiguous in their assessment of the law's implications. On the one hand, the heads of the large state-owned enterprises (SOEs) who were the banks' largest customers were themselves loyal adherents of the CCP party-state and thus supported measures aimed at strengthening regime legitimacy and survival. On the other hand, ongoing industrial restructuring efforts had also convinced industry executives that they would increasingly require the services of best-accommodating financial services providers able to not just provide loans but also capital markets-related expertise. Judged from this angle, the separation of commercial banks from NBFIs was not in the interest of industry leaders. The mass of Chinese retail customers, however, unambiguously welcomed central level efforts to curb financial sector non-performing loans and corruption via the new Commercial Bank Law – for them, their (collectively massive) savings were at stake due to rampant profiteering and speculation.

In sum, the Chinese policy-making elite viewed the separation of the country's commercial banks and NBFIs in 1995 to be in the public interest while also promoting significant private interests of the elite itself. Beyond the central government, private interest considerations both favored (regulators and bankers at the central level, heads of large SOEs and individual savers) and opposed (officials, regulators, and bankers at the local level, industry leaders, and NBFI operators) the law, implying that the private interest assessment of the law was overall in rough balance.

The introduction of *Korea's* 2000 Financial Holding Company Law, which allowed for the setting-up of financial holding companies including commercial banks, investment banks and insurance companies, was similarly characterized by a contrasting and conflicting range of motivations. Within the political top executive, President Kim Dae-Jung saw a certain public interest potential in a law that allowed the administration more flexibility in combining financial institutions that had been nationalized during and after the 1997 Asian financial crisis. Thus, it was hoped that financial conglomeration would help the government to fetch higher prices during the reprivatization process, given that the exploitation of cross-selling opportunities was assumed to boost the competitiveness of Korea's major financial players. These public interest benefits were considered to outweigh potential welfare costs such as the *chaebol's* creeping entry into the banking system (see below). At the same time, Kim also attempted to promote his self-interest via pushing for the adoption of the Financial Holding Company Law: Most importantly, faced with political 'lame duck' status after two and a half years of his presidency, his vigorous support for new financial reform measures was intended to again boost his reform credentials, both with domestic constituents and international donor organizations such as the International Monetary Fund.

While the political top executive's plan for the introduction of financial holding companies was supported by regulators in the Ministry of Finance and the Financial Supervisory Commission, who hoped that the law would indeed boost local financial sector competitiveness and simplify the task of supervising financial institutions, thereby helping to prevent future bureaucratic embarrassment, legislators in the opposition dominated National Assembly were lukewarm in their support. Although the opposition Grand National Party had itself earlier recognized the need for the introduction of integrated financial services provision into the Korean financial marketplace and therefore saw the initiative's public interest potential, it could not initially bring itself to support the despised minority government. Only after weeks of acrimonious political infighting and mounting pressure by various media channels did the Korean parliament finally adopt the law.

The Korean financial sector also viewed the law from different vantage points. Bankers in the commercial banking sector were largely in favor of the new initiative because their business scope had been rather limited. Commercial banks could, for example, engage in securities activities via subsidiaries but had to contend with ownership caps. More importantly, given the de facto nationalization of Korea's banking sector following the 1997 Asian financial crisis, key commercial bankers in 2000 had been appointed by - and were thus loyal to - the government. Non-bank financial institutions on the other hand were more cautious in their assessment of the 2000 Financial Holding Company Law, given that the entry of commercial banks into the NBFI sector via holding company structures posed a competitive threat to them. Nevertheless, NBFIs were weakened in their opposition to the law by their extensive ties to the *chaebol*. As owners of non-bank intermediaries, the *chaebol* would oppose deregulation due to competitive fears. However, as bank customers they appreciated the greater financial expertise financial holding companies could offer them. Retail bank customers were similarly disposed. In addition, the passage of Korea's Financial Holding Company Law was accompanied by a debate about whether or not the *chaebol* should be allowed to establish financial holding firms themselves, thus opening up the welcome possibility for the conglomerates to expand into commercial banking.

On the whole, therefore, while Korea's political elite viewed the public interest benefits of integrated financial services provision to narrowly outweigh potential costs,[17] private interest considerations were mostly supportive of the law, though some reservations did exist in parliament and the NBFI/*chaebol* sector.

The driving forces for *Taiwan's* 2001 Financial Holding Company Law resembled the Korean experience in a number of crucial respects. In terms of public interest calculations, President Chen Shui-Bian (elected in 2000) as well as a number of Legislative Yuan legislators and Ministry of Finance regulators hoped that the introduction of financial holding companies would improve the competitiveness of Taiwan's financial sector (whose health was in doubt following a non-performing loan crisis in 2000-2001) and improve regulatory oversight. At the same time, Chen aimed to bolster his own economic policy credentials via the law, pleasing both domestic constituents and international financial interests. In an interesting parallel to the Korean case, opposition Kuomintang legislators – holding the majority of seats in the Legislative Yuan at the time – anticipated the private interest pay-offs to president Chen that would follow from a quick adoption of the law. In response, they blocked adoption of the Financial Holding Company Law for weeks and only eventually caved in to intensifying media pressure (cf. Brück and Sun 2007a).

In contrast, the financial sector was more unambiguous in its perspective on the government's policy initiative. While state-owned and privately owned commercial banks favored the expansion of NBFI business because not all of them held licenses for securities underwriting, trading and brokerage and/or faced ownership caps in expanding via subsidiaries, no significant opposition to a wider commercial bank business scope materialized in the NBFI sector. Again resembling the Korea case, the fact that many NBFIs were owned by local Taiwanese conglomerates keen on integrating their various financial businesses (including banks) into one holding company structure precluded serious opposition to the financial holding company scheme. Furthermore, local conglomerates, enterprises in various sizes and individual savers and investors also looked forward to receiving more sophisticated financial advice from integrated holding firms in the future.

As a result, the political-economic scenario underlying Taiwan's 2001 Financial Holding Company Law equated to a positive public interest cost-benefit trade-off coupled with a balance of private interests that was decidedly in favor of the law.

5.4. Case Study Summary and Implications

Briefly, a number of important empirical insights follow from the discussion above. Regarding banking scope governance outcomes, while Korea and Taiwan have already followed the lead of North America, Western Europe and Japan in allowing for integrated financial services provision, China is now slowly beginning to follow suit and has accordingly began dismantling some of the 1995 Commercial Bank Law's strict provisions mandating the separation of its commercial banks, investment banks and insurance companies.[18] In terms of the drivers of governance, it is remarkable that the state does retain a leadership role in policy-making in all three countries. At least when it comes to banking scope policy-making, analysts who allege that democratic East Asian states such as Korea and Taiwan will no longer be able to act in a 'developmental' fashion seem to be biased, if not mistaken (cf. Kuo 2000; Mo and Moon 1999; Mo 2001). As a mirror image to this observation, it is also important to note that despite occasional pronouncements to the contrary (Hirn 2007, 268-271; Steingart 2006) even Chinese policy-makers cannot act with absolute authority when attempting to promote welfare enhancing policies. Hence, in all three cases under consideration here, banking scope policy initiatives aimed at public welfare maximization were significantly shaped by the private interests of societal actors. A particularly important role in this context was played by industrial and financial conglomerates such as the *chaebol* in Korea and the *guanxiqiye* in Taiwan. Even in China the so-called *qiyejituan* (enterprise groups) have gained prominence in banking scope policy-making in recent years. Finally, the discussion above also noted the growing importance of the East Asian mass media on governance outcomes and furthermore drew attention to the role of financial crises as 'catalysts' of policy change.

Figure 4 summarizes, in a diagrammatic form, the discussions from Sections 2 to 5. It shows that governance outcomes in the field of East Asian banking scope regulatory policy-making are nowadays driven by a complex configuration of state-society relations. Importantly, the state in all three cases retains a regulatory leadership function in banking scope policy-making (not least because of direct ownership of financial institutions) and continues to mould policy outcomes according to careful cost-benefit welfare calculations and the associated design of appropriate incentives. At the same time, relevant actors in these countries' polities, economies and, more broadly, societies shape policy outcomes via the provision of information and market coordination functions resulting from their private interest maximizing behavior. Placing the three case studies of this section into the matrix representation of Fig. 2 identifies the respective 'policy-making scenarios' that account for China's 1995 Commercial Bank Law as well as Korea's 2000 and Taiwan's 2001 Financial Holding Company Law. These scenarios are summarized on the right-hand side of the diagram. The latter effectively breaks down the specific micro level actors and motivations corresponding to the overall 'embedded state-society synergy' arrangements underlying banking scope governance outcomes in China, Korea and Taiwan.

The continued importance of both 'state', conceptualized here as dispassionate bureaucrats engaged in public interest cost-benefit analyses, and 'society', conceptualized as disaggregated groups of actors in pursuit of their own self-interest, to East Asian banking scope governance and policy-making as well as the specific nature of their contingent and fragile interaction is arguably in line with the analysis of the developmental state that O'Riain (2000) provides for East Asian and Irish high-technology industries. This similarity may suggest that his concept of the 'flexible developmental state' would have appeal beyond the confines of high-tech manufacturing industries and could also be used to describe contemporary East Asian financial services governance arrangements.

6. Concluding remarks

This paper set out to fill a perceived gap in the literature on East Asian economic development and policy-making. While most scholars now broadly support the view that both 'state' and 'society' contributed to the successful industrialization and development of Japan, Korea, Taiwan and, more recently, China, the tendency to refer to vague macro drivers of governance such as 'state-society relations' obscures investigation and understanding of the actual micro drivers of policy-making, that is, actors and their motivations. Therefore, following a review of the relevant literature, this paper conceptually complemented the focus on 'embedded state-society synergy' relations with a 'motivations-based analytical matrix' that can be applied to systematically account for the micro drivers of policy-making and governance in East Asia and potentially elsewhere.

To illustrate how this analytical framework works, the discussion then turned to illuminating recent episodes of banking scope regulatory policy-making in China, Korea and Taiwan. Apart from shedding an important light on empirical developments in this under-researched area of financial sector regulation, the presented case study materials showed how the public and private interest theories of policy-making can be fruitfully integrated with the macro perspectives to gain a richer and thorough understanding of the micro level drivers of governance in the contemporary East Asian financial services sector.

The paper makes three contributions. Firstly, it places the literature on the drivers of East Asian economic development in the wider study of governance. This is not to say that East Asia’s experience can be easily generalized and conveniently categorized within Western academic thinking on state-society relations; nevertheless, abstracting from East Asia’s experience does help clarify the common configurations underlying effective governance. Secondly, the paper identifies a key weakness in the current East Asian governance and political economy literature (i.e., its excessive focus on the macro drivers of governance outcomes) and suggests a more accommodating framework for systematically accounting for the *micro* determinants of policy-making. Thirdly, our analysis of East Asian financial sector regulatory policy-making provides additional support to the notion of a ‘flexible developmental state’ (O’Riain 2000) beyond its original applications in high-tech manufacturing industries in East Asian and Ireland. It is hoped that in the future further studies will be able to utilize and/or benefit from this new framework for illuminating policy-making and governance in other sectors, countries and time periods.

Note

[1] On the normative side of the equation, commentators typically assert that 'good' governance has to meet criteria such as accountability, transparency, openness, predictability and participation (Asian Development Bank 1998, quoted in Cheung and Scott 2003, 5).

[2] The governance arrangements characterizing Japan, Korea and Taiwan have differed substantially both across space and over time. Given this paper's concern with reviewing the East Asia's economic development stories based on the broader governance and political economy literature, however, these differences will not be elaborated on here. For a good overview, see Pempel (1999, 145-154).

[3] At the same time, the most sophisticated accounts of the 'developmental state' perspective in fact resemble today's 'synthesis' view, thus recognizing the importance of both state and society, or guidance/planning and the market, to economic development (e.g., Johnson 1999, 60).

[4] For example, scholars have suggested that solely focusing on the domestic dimension of the East Asian economic miracle is a potentially grave mistake: Japan, Korea and Taiwan all profited from various forms of US aid, market access and security provision during the Cold War (See for example, Pempel 1999, 146-147; Woo-Cumings 1997).

[5] It is also conceivable that actors who generally promote their self-interest at times support the public good.

[6] It is again important to note that this paper deals with the positive - not the normative – dimensions of governance and policy-making. Proponents of the 'state friendly' view of governance may in fact argue that the state not only contributes importantly to effective governance in East Asia but that it *ought* to do so as well, utilizing the mechanisms indicated under the public interest theory of policy-making. At the same time, if faced with predatory state behavior (for example in the case of Indonesia), one may conversely wish to argue for a reduced state role in policy-making. Similarly, some supporters of the 'market friendly' view may point out that given the positive role played by decentralized societal actors in effective East Asian governance, their role in policy-making should be strengthened. Others, though, may argue for minimizing societal actors' role precisely because the private interest theory of policy-making allows for both (welfare diminishing) 'capture' and (welfare enhancing) 'invisible hand' outcomes. Reflecting the former view, societal governance/market adherents often call for a general devolution of decision-making away from any centralized policy processes potentially subject to capture (see Chang 1999, 185). Consequently, significant complexity attaches to the normative implications of various governance arrangements. These will not be discussed here.

[7] The development of high-tech science parks in East Asia broadly corresponds to this abstract example.

[8] While it may seem trivial to assert that the expected public interest cost-benefit trade-off of any policy scheme supported by a governmental bureaucracy is positive, incorporation of the private interest theory of policy-making into the narrative of policy adoption process quickly undermines such apparent clarity. Thus, if one also considers actors' *private* motivations for action, it becomes well conceivable that a governmental bureaucracy advances a policy scheme that will in fact significantly hurt the public interest because bureaucrats, for example, expect private compensation from industry for their policy proposal.

[9] Of course these considerations matter more in the case of societal pressure groups and less so in the case of governmental actors. The members of the political top executive, for example, have access to key governmental

decision-makers virtually by definition. At the same time, there may be struggles for privileged access even within governments, for example when different ministries vie for the top executive's attention.

[10] The practice of (elected and in particular unelected) officials retiring into private sector positions following the end of their public service terms is known as *amakudari* ('descent from heaven') in Japanese and is a key institutional feature of East Asia's synergistic governance arrangements (see Beeson 2003, 30).

[11] See Note 6.

[12] On the political economy of banking scope regulatory policy-making in America more generally see for example Kroszner (1999), Kroszner and Strahan (2001), Kroszner and Stratmann (1998).

[13] In the light of the fact that the theoretical discussion in Sections 2-4 and the bulk of the relevant literature focuses on the cases of Japan, Korea and Taiwan one may wonder why China is introduced into the discussion here. Two points are relevant in this respect: Firstly, some authors have indeed also seen elements of the East Asian developmental state in China post-1978 (cf. Johnson 1999, 33, 40; Woo-Cumings 1999, 9-10, 29), ensuring a degree of comparability. Secondly, pairing Korea and Taiwan with China in the discussion of banking scope regulatory policy-making allows comparison of Korea and Taiwan (which followed advanced industrial countries in deregulating commercial banks' permissible business scope) with the 'divergent case' of China, which initially did not embrace deregulation. Including a divergent case in the discussion in turn allows for a more differentiated analysis of the relevant micro level drivers of policy-making (cf. George 1979, 55).

[14] This 'Leadership Small Group' in 1995 included Jiang Zemin, Li Peng and Zhu Rongji, the top three leaders of the CCP, as its key members.

[15] While the discussion here can only cover the most salient aspects of the political economy of banking scope regulatory policy-making in China, Korea and Taiwan in 1995, 2000 and 2001 respectively, fuller treatments (including extensive academic references and a list of primary and secondary sources) are provided elsewhere, see for example Brück and Sun (2007a, 2007b).

[16] *Law of the People's Republic of China on Commercial Banks*. Available at http://www.lexmercatoria.org, and accessed January 2nd, 2007.

[17] One type of potential cost is the enlarged room for corruptive collusion between Korean government officials and private agents under the new banking sector strategy, as for example indicated by a currently unfolding scandal in which America's Lone Star Fund apparently bribed Korean Ministry of Finance officials to acquire a state-owned Korean bank at a discount (see e.g., *Forbes*, July 12, 2006, 'Lone Star stands up to South Korea'. Available at http://www.forbes.com and accessed on May 15th, 2007).

[18] See for example *Wall Street Journal Europe*, June 12th, 2006, page 19: "China will let banks establish insurance arms" and September 5th, 2006, page 5: "China's insurers push into the banking sector"; also Brück and Sun (2007b).

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Table 1: The public and private interest theories of policy-making and their analytical relevance to the East Asian development experience

	Public interest theory of policy-making	*Private interest theory of policy-making*
Actor(s)	The **state** (relevant governmental bureaucracies)	Groups of actors in polity, economy, **society** more generally
Motivation(s)	Social welfare maximization	Self-interest maximization
Decision-making process	Cost-benefit analysis	Group competition
Assessment for the East Asian case	Benefits: • Captures important dimension of East Asian experience ('developmental states at their best') Drawbacks: • Simplistic; naïve	Benefits: • Richer analytical framework; acknowledges the importance of self-interest maximization Drawbacks: • Simplistic; cynical

Table 2: Key players in the recent banking scope regulatory policy-making arena

Player category	China in 1995	Korea in 2000	Taiwan in 2001
'Government'			
Executive	CCP party-state: - Central level: finance and economics	- President (MDP)[b] and prime minister (ULD)[b]	- President and prime minister (DPP)[c]
Legislators[a]	'leadership small group'; finance and economics *xitong* - Local level: sub-central governments	- National Assembly (GNP dominated)[b]	- Legislative Yuan (KMT-dominated)[c]
Regulators	- People's Bank of China	- Ministry of Finance and Economy; Financial Supervisory Commission	- Ministry of Finance
'Financial sector'			
Banks	- 'Big-four' state-owned commercial banks	- State-owned (nationalized) commercial banks and their unions; foreign banks; International Monetary Fund	- State-owned commercial banks; private sector banks, often with links to industrial enterprise groups; foreign banks
NBFIs	- Trust and investment companies; securities companies	- Investment banks and insurance companies, often with links to the *chaebol*	- Investment banks and insurance companies, often with links to industrial enterprise groups
'Customers'			
Corporate	- Large state-owned enterprises	- *Chaebol*	- Industrial enterprise groups; large SMEs
Retail	- Individual savers	- Individual consumers of financial services	- Individual consumers of financial services
'Others'	NA	- Mass media, for example newspapers, magazines and electronic media	- Mass media, for example newspapers, magazines and electronic media

Note: [a] Legislators in the case of China typically follow the executive. [b] MDP refers to Millennium Democratic Party, ULD to United Liberal Democrats, and GNP to Grand National Party. [c] DPP refers to Democratic Progressive Party, and KMT to Kuo-Min-Tang (the National Party).

Sources: Press and literature search and interviews in Shanghai, Seoul and Taipei in 2006.

Figure 1: State-society relations in the East Asian economic miracle

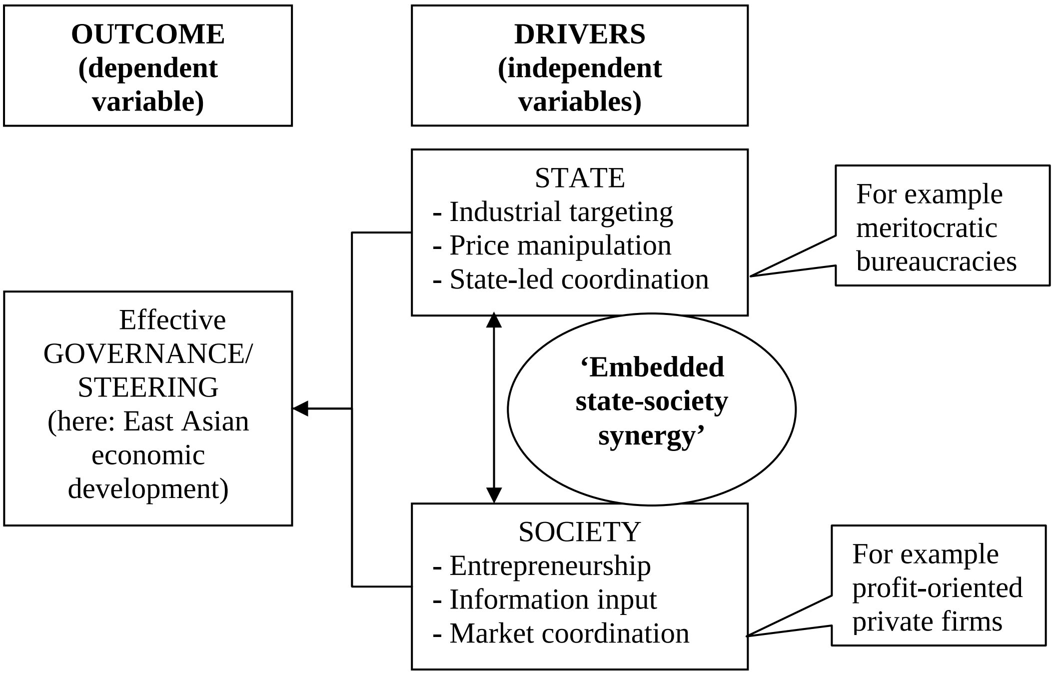

Figure 2: A matrix representation of the motivations-based analytical framework

		Private interest theory of policy-making	
		Balance of interests in favor of PI	*Balance of interests opposed to PI*
Public interest theory of policy-making	*Benefits of PI > costs*	**A** Adoption	**B** Either
	Benefits of PI < costs	**C** Either	**D** Rejection

Note: PI stands for 'policy initiative'.

Figure 3: Conceptual match and inter-exchange between the governance and political economy of policy-making literatures

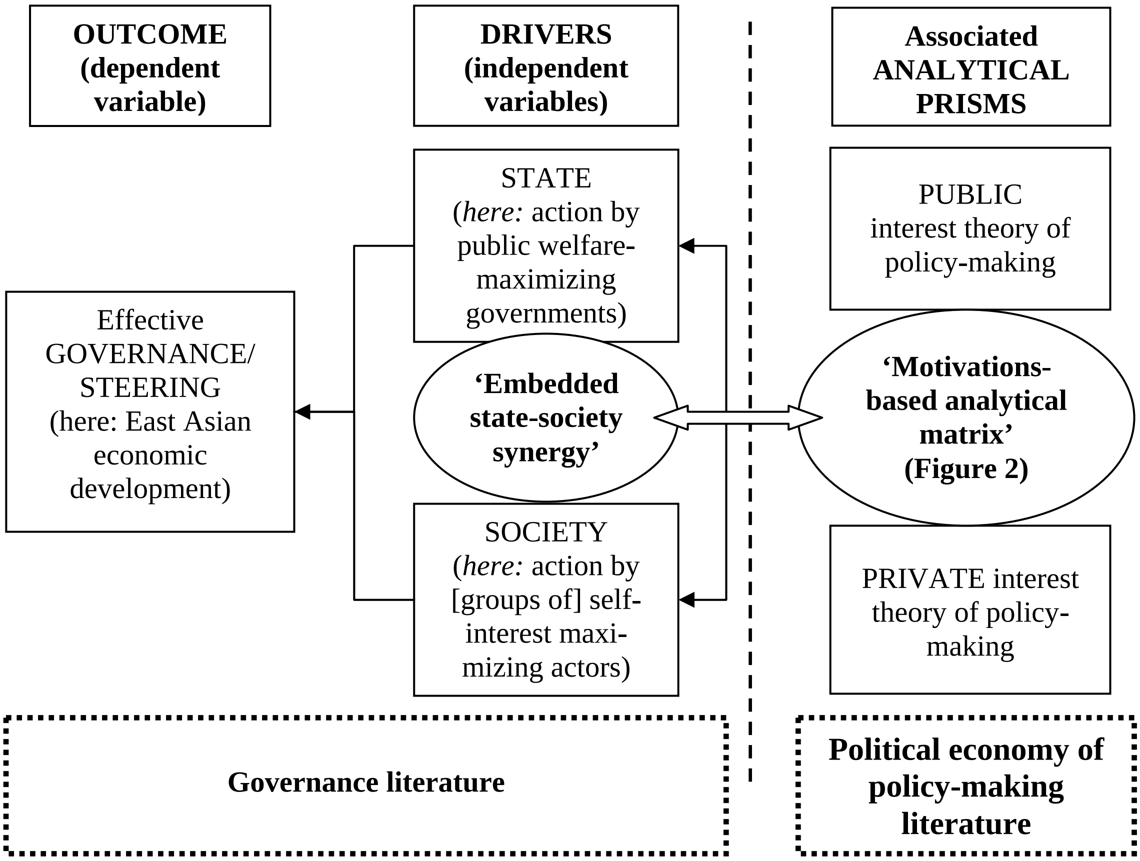

Figure 4: Governance structures and policy outcomes in recent East Asian banking scope regulatory policy-making episodes