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When the Short Leash Starts to Choke.
Freeing Finance as Political Crisis Management in Taiwan and China.

"The real problem is that we understand so little about how and when nations should optimally move on to more open, deregulated financial systems…"

Joe Studwell. "How Asia Works. Success and Failure in the World's Most Dynamic Region". 2013

The main argument of the book is that financial liberalization in Taiwan (ROC) in the 1980s and in the People's Republic of China since 2013 were essentially political sets of measures aimed at managing legitimacy crisis facing KMT and CCP regimes at respective periods. We tend to believe, that – with undoubted importance of International impetus and constraints - fundamental logic, sequence, structural dynamics and outcomes of these "deleveraging packages" are crucially dependent on the type of political regimes (systems) of the state entities concerned. Thus we adopt here a "state-centered approach".

Explaining financial deleveraging in developing and transitional economies inevitably has to deal with neo-liberal discourse ("Washington consensus") and anti neo-liberal arguments. The fundamental problem is that be it neo-liberal "free market" capitalist optimism or anti-neoliberal social-democratic "furious criticism" – both proceed from predominantly economic or social criteria of "growth, efficiency, social justice" etc. Moreover, both tend to invoke immediate impacts of deleveraging on economic performance and social wellbeing, quite often failing to consider longer-term factors of systemic political sustainability.

Clearly, getting rid of repression on capital has important and obvious economic and social dimensions. However, we tend to believe that economic dimension is of primarily a technical character, while social dimension is a kind of a derivative value from more general political economy arrangement depending on the type of political regime.

Since we believe that the underlying issue of financial liberalization is how to manage political legitimacy crisis, the crucial criteria of its success should be political viability and sustainability of the regime in the "deleveraged" economic setting.

Financial liberalization in practical socio-economic terms means, simply put, multiplication and increase in diversity of investors with free choice to allocate their capital. Therefore, in terms of political institutions it – at least, implicitly – requires transition to more pluralistic and liberal setting. Ultimately, it entails the development of democratic political system. Therefore, our second fundamental argument is that financial deleveraging relates to democratic transition in terms of both semantics and practice. Moreover, the viability of the first is rather impossible without sustainable progress of the latter and vice versa. The impact of this intricate relationship on socio-political and economic setting as a whole is deep and in many ways shocking. Consequently, the crucial criteria of "deleveraging" success is whether the regime, while managing its legitimacy crisis by means of freeing finance, could withstand this double economic and political transitional shocks and did not crumble.

Taiwan (ROC) in the 1980s and PRC today belong to different types of political regimes. The first one was authoritarian, the second – post-totalitarian, being the heir to the legacy of Maoist totalitarian utopia of the last century. Authoritarian regimes tend to control the norm of profit in the existing market economy, while totalitarian Marxist-Leninist regimes strive to annihilate market as socio-economic institution. Therefore, financial deleveraging in authoritarianism implies the liberalization of capital allocation within the existing institutions and practices of the market economy. Post-totalitarian financial deleveraging means vanquishing the soft-budget constraints of the key economic players, still tightly intertwined with the ruling party-state. The latter continues to perform the obligations of the lender of last resort in half-plan, half-market transitional economy.

These differences in systemic settings shape distinct constellation of actors in the process of financial and political "deleveraging" and can greatly influence its outcomes.