

## Commentary

---

# New Asian Perspectives on Governance

KISHORE MAHBUBANI\*

THERE IS NO DOUBT THAT the great global financial and economic crisis of 2008–2009 had a profound impact on Asian policymakers. They watched with horror as the world was brought to the brink of a total economic meltdown in early 2009, and they saw how we were rescued only by coordinated global action. None of us looks at life the same way after we have had a near death experience. In the same way, this crisis has led to new thinking among Asian policymakers on key governance challenges, though it is still too early to tell what their final conclusions will be. The goal of this essay is to provide insights into how Asian views on governance in general and financial system governance in particular have begun to diverge from Anglo-Saxon thinking.

The first real result of this crisis is the loss of any lingering faith that Asian policymakers may have had with the Reagan–Thatcher revolution in governance and economic philosophy. Reagan’s views on governance were best captured in his well-known statement, “Government is not a solution to our problem, government is the problem.” This attitude has major consequences. It has led over decades to the progressive deterioration in the quality of public service in America and elsewhere, as there was no real motivation to fill the ranks of public servants with the best and the brightest. Instead, they flooded to the investment banks and the consulting firms, the legal fraternity, and the lobbying industries. The rule was simple: Follow the money.

In contrast, Asian governments have not looked at government as the problem. Instead, many were convinced that it can provide solutions. Hence, in the same years that saw a deterioration in the quality of public service in America, we witnessed the Chinese Communist Party

\*National University of Singapore

seeking to become as meritocratic as a Goldman Sachs or a McKinsey, attracting the brightest in its ranks. In many Asian countries, like India, salary remains low. However, many work in public service not just for pay but for a calling and an intrinsic interest in contributing to or making policy. Following this crisis, most Asian governments will redouble their efforts to fill the public service with the best minds available. Quality of people in public service does matter.

Another damaging aspect of the Reagan–Thatcher revolution was the fundamentalist belief that “markets know best.” One of the most prominent advocates of this ideology was Federal Reserve Chairman Alan Greenspan, who, even as one of the chief U.S. regulators, genuinely believed that it was not the role of government to interfere with the market. Unfortunately, nowhere was this market fundamentalism more damaging than in the regulation and development of the financial sector, the epicenter of the recent global financial crisis. Greenspan was once asked whether we should regulate the market in derivatives, and he replied that the state should not go beyond regular banking regulation because, “these derivative transactions are transactions among professionals.” Even though Greenspan was the leading financial regulator in the world, he seemed to have little faith in either regulators or the need for regulation. In an April 2008 article in the *Financial Times*, Greenspan wrote “Bank loan officers, in my experience, know far more about the risks and workings of their counterparties than do bank regulators.” Greenspan’s remarks reflected the skepticism of many American politicians about the competence of their public servants—for if they were really talented, they would have obtained high-paying private sector jobs.

This crisis has demonstrated that Greenspan was totally mistaken in his ideological assumptions. His assumptions about the way the financial system worked and therefore how it needed to be regulated were more ideologically, rather than reality, based. To be fair, when asked whether his ideology pushed him to make decisions he should not have made, he admitted publicly, “Yes, I’ve found a flaw. I don’t know how significant or permanent it is. But I’ve been very distressed by that fact.” This is, of course, a shocking admission from the man once considered the grand master of financial management. But it also represented a broad consensus on financial sector management and development that had enthralled the U.S. and Anglo-Saxon financial policy community for two decades. The obvious question in the minds of many Asians is: How could ideology have so blinded him to the realities of actual market functioning, which brought the world to the brink of a total meltdown?

In contrast to Greenspan's ideological views, most Asian policymakers traditionally worked on the pragmatic assumption that in the real world, it was important to maintain a balance between the "invisible hand" of free markets and the "visible hand" of good governance.

One story illustrates well how Asian policymakers have changed their attitudes. In 2008, a European banker consulted the Reserve Bank of India to learn how to get a banking license in India. He was briefed on the conditions and told that the Indian authorities would also assess his home-country regulator. The European banker smiled and said: "No problem. We have excellent regulation." The Indian officer replied: "After subprime, we are not sure of U.S. regulation; after Northern Rock, British regulation; after Société Générale, French regulation and after UBS, Swiss regulation." In short, the gold standard that the West assumed it had in the field of financial regulation has vanished.

One reason why Asian governments are relieved that they kept their regulatory institutions strong and conservative relative to previously established Anglo-Saxon norms is that they can see clearly how difficult it is to regain authority after it has been lost. In theory, public sector regulatory institutions are meant to be politically stronger and more powerful than the private sector banks and financial institutions that they are meant to regulate. In practice, the power balance in America has clearly moved against the regulators. In many cases (like the Commodity Futures Trading Commission), the regulators have been "captured" by the industry they are meant to regulate and are incapable of providing independent checks and balances. Such regulatory capture was aided and abetted by the prevailing orthodoxy in economics and finance academia. It was very difficult for regulators to go against the theory of efficient markets and markets and market participants knowing best.

In contrast, the problems faced by the Asian regulators are the exact opposite. In virtually all major Asian economies, the regulator remains more powerful than the industry they regulate, and they have not been "captured" by their industries. The danger that Asian policymakers face, therefore, is that of overregulation. The "light-touch" regulation advocated by British and American regulators (in part, as a result of ideological assumptions of the Reagan-Thatcher revolution) has clearly failed. Indeed, the British Financial Services Authority has formally recanted on its former "light-touch" regulation and now wants to do "intrusive" regulation. But in moving away from the ideology of "light-touch" regulation, there is a real danger of "heavy-touch" regu-

lation in Asia that could stifle the development of the financial sector. Hence, one key struggle that Asian regulators are facing is how to find the right balance.

Finding the right balance in redesigning their financial architecture over the range of complex policy structures and issues mentioned above will be much more difficult for Asian policymakers in the post-crisis environment. In the past, whenever they had doubts or if they wanted to find the best solution, they would travel to the leading cities in the Anglo-Saxon-dominated developed world. They would fly to Washington, New York, London, or Basel. Now, they would be wary of doing so and even more wary of any advice that they might receive from these cities. One clear result of this crisis is the loss of faith in Anglo-Saxon competence in financial policy decision making.

After this crisis, the importance of good, strong governance has come back with a vengeance. Few, especially in Asia, believe that governments should step aside. Indeed, most Asians are now convinced more than ever that governments need to take the lead in preserving the right balance between the “invisible hand” and the “visible hand” in managing the economy. In trying to find the right balance in redesigning the new financial architecture, the Asian governments know they must avoid both extremes: the debilitating heavy-touch nature of Soviet central planning as well as the irresponsible light touch of the Reagan–Thatcher revolution and financial market fundamentalism. In short, once again, as advised by many Asian thinkers several thousand years ago, the challenge for Asian societies is to find the “golden mean.”

---

KISHORE MAHBUBANI, Dean of the Lee Kuan Yew School of Public Policy, National University of Singapore, is the author of *The New Asian Hemisphere: The Irresistible Shift of Global Power to the East* (PublicAffairs, 2008).

---