Governing Finance: East Asia's Adoption of International Standards

Andrew Walter
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More than a decade has passed since the East Asian economies were marred by the massive financial crisis, which some assessed as the best thing that could have happened to the region (Kristopf and WuDunn, 2000). This 'blessing in disguise' allegedly comes from the fact that the governments of the crisis-hit countries 'responded by launching one of the most ambitious governance reform projects in living memory' (p. 1). Such reform is implemented by the East Asian governments' active compliance to international standards of transparency, finance, and corporate governance. The influence of this so-called 'regulatory neoliberalism' has been credited as the source of convergence of East Asian economies to international norms.

In *Governing Finance*, however, Walter casts doubt on this conventional and scholarly wisdom by introducing the notion of mock compliance, where countries covertly resist compliance to some international standards by diverging their policies and actions from the formal rules. This mock compliance is induced by the high political and social costs of compliance domestically, which challenges the fundamental governance of those countries. Developing and emerging market countries thus strategically choose to rely on mock compliance when (a) the costs of outright noncompliance with those standards are high, (b) private sector compliance costs are high, and (c) the third and external party monitoring costs are also high. Walter argues, therefore, that the wide-spread compliance problem reveals how the politics of state transformation have been misconstrued by agents of international standards projects, leading to underestimation of reform failure.

In a very informative and detailed description of the 'international financial standards project' (Chapter 2), Walter identifies four elements important international standards: Special Data Dissemination Standards (SDDS), banking supervision, corporate governance, and accounting standards. The author then tests the argument in cases from

Indonesia, Thailand, Malaysia, and South Korea. In each country chapter, Walter evaluates the level of compliance and explains the outcome by resorting to a domestic political story, but entertains various possible alternative explanations (administrative and institutional capacity, the role of crisis, international forces and ideas). In summary, Walter finds support for his theory of compliance in the empirical studies, where all four countries substantively complied with the SDDS where the cost of private sector compliance is low, and of third party monitoring is also low, while most countries showed mock compliance to other standards, especially in the area over corporate governance, where both of these costs are high.

Governing Finance is thoroughly researched and succinctly written, and it provides us with valuable insights into the political economy of post-financial crisis East Asia through in-depth analysis of what the governance reform and convergence entails. It sheds important light on the debate over transformation of East Asia since 1997, where evaluation tends to be polarized. By specifying the notions of international standards, reform and transformation, Walter successfully evaluates how each country has engaged in either substantive or mock compliance to those standards. Malaysia, for example, is a country regarded to have defied the IMF and 'international standards', but if one looks into the level of regulatory financial governance, it demonstrates much more stringent compliance than many other Asian countries (p. 108). However, due to the tension between the principles of bumiputra and open-access regulatory framework, Malaysia resorts to mock compliance in the area of corporate governance.

The book also contributes significantly to the globalization literature, as it takes the domestic conditions seriously and finds that they are fundamentally important as a country adopts and responds to international forces. By introducing layers of possible points of noncompliance, from ratification to regulatory forbearance, from administrative failures to private sector compliance failures, this study illustrates concretely how mock compliance comes about. It is, Walter emphasizes, pressure inside the black box of domestic politics that produces a massive gap between international standards and substantive compliance (Figure 2.2, p. 44).

Despite these valuable insights, *Governing Finance* leaves a few important considerations unattended. First, although Walter claims that mock compliance is a phenomenon observed throughout developing countries, he does not provide any examples from other parts of the world. Particularly relevant, I would think, would be the comparative perspective arising from Latin America, a region which went through financial crises and intervention on the part of 'international financial community' to shape up its financial governance. An exploration of examples from other regions, even a brief one, would provide the substance to Walter's claim, and would heighten the importance of this insight as it seeks to understand the source of the gap between the international standards and domestic compliance. In addition, a regional comparison would establish whether mock compliance is regionally unique, or if it is the result of relatively universal political dynamics in advanced developing countries when rules and standards are imposed on them. This would, in turn, address the broader question of variety of economic development models.

Finally, compared with complete analysis of the dependent variable (the level of compliance to different international standards and rules), the book contains only brief discussion of the sources of compliance failure and mock compliance. There the author tends to assume that the costs to the private sector and the political power of certain agents based on their political importance and social networks would automatically lead to the governments to either be lax on implementing regulations or to allow companies to get away with violations. Although plausible, it would have helped the reader if there was some elaboration. Moreover, Walter does not elaborate effectively categorization of noncompliance discussed above even though each implies different political tension.

In short, Walter's book is a precious contribution in the field of international political economy, and it makes us think beyond the rhetoric of globalization and reforms. It also opens up many doors to future research on the dynamics between domestic politics and global governance.

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Reference

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