IV A PERSPECTIVE ON GOOD GOVERNANCE[1]

“No matter how thin you slice it, there are always two sides” – J.C. High Eagle

If you want to know your past, look into your present conditions.
If you want to know your future, look into your present actions – Anonymous

Introductory remarks

Good governance has become a fashionable catch phrase in the aftermath of the financial and economic crisis in East and South-East Asia. Two perspectives are at stake in this context. First, the absence of good governance has been perceived as a major cause of the crisis, and the second prognosis is drawn by inference, namely, that good governance is imperative for durable development.

The 1997-1998 crisis has renewed focus on public and corporate governance …

Since July 1997, numerous writings have appeared and meetings have been convened with a focus on the excesses as well as the blemishes in public and corporate governance in this part of the developing world. In the process, a litany of recommendations of varying degrees of ingeniousness has been advanced for the post-crisis adjustment and reform of policies and institutions and for the revamped process of monitoring and enforcement. There should, indeed, be few excuses for the revealed imperfections and inadequacies in governance whether or not they are embodied as “corruption, cronyism and nepotism”. However, the prevalence of preventive rules and prudential regulations is not sufficient, in itself, to raise the standards of governance and/or to ensure good governance in the public and private sectors.[2]

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[2] This is clearly shown once again in several developed countries which have been advocated as a model for emulation in corporate regulation and governance, including the protection of minority shareholders. Nevertheless, a spate of massive corporate disasters in those regulatory bastions, due largely to bad governance, has created in their wake a substantial adverse impact on financial and business confidence, and on human welfare itself. A common concern in the current atmosphere is the restoration of trust which, itself, implies the existence of shared values and accepted standards, compliance with the set rules of the game, and full disclosure of transparent information.

… as a positive force for equitable growth and transformation

That good governance is an essential ingredient of durable development is not deniable, especially if it helps to promote "entrepreneurial capitalism" and, at the same time, rein in market capitalism of the "Wild West" variety. Indeed, a sobering thought in this context is the sustained, pre-crisis record of high economic growth and rapid social advancement achieved by the newly industrializing economies in East and South-East Asia. Such a "miraculous" performance as exhibited by these crisis-affected economies over the past three decades or so was unmatched and is likely to remain unmatchable globally. It has also changed postulates and shaped perspectives on development economics with some prominence being given to the so-called (East) Asian values and development-oriented governance or a "development State" as a positive force for economic growth and social transformation (more later).

Defining dimensions and limitations

Good governance entails full accountability to stakeholders …

Basically, good governance is predicated on full accountability to stakeholders (e.g., workers, shareholders, persons on fixed income, various social segments or strata and so on) in the exercise of mandated activities and functions by all concerned, whether they be central or local Government, managers of State and business enterprises, or civic and civil society organizations. It thus implies an informed, pluralistic and involved society but with shared basic norms, standards and aspirations. As such, good governance is clearly not without context; nor is it value-neutral. "Local contents", colours and nuances matter. However, there are in practice few, if any, cost-free short cuts and ready answers to sustaining good governance, which, in the absence of optimal solutions, embodies a process of trial and error and a choice among trade-offs. Nor are there precise and uniform prescriptions or magic bullets in fostering economic development, social citizenship, political socialization and changed mindsets. Furthermore, standards of governance do not necessarily rise simply because of outside intervention, whether or not such intervention is delivered with judicious tact and sensitivity, or accompanied by generous measures of material goodwill.

… and implies equity in access and participation as well as full disclosure of information

Characteristically, good governance requires the equitable participation of all stakeholders in the design and formulation of policies and institutions that affect them, or at least a majority of them at any given time. In addition, there has to be a fair attribution to all stakeholders of the fruits as well as the burdens and mistakes of development. Moreover, good governance is predictable: there exists equal protection, plus non-discriminate and non-retroactive treatment, for all in the enforcement of laws and the application of regulations. Transparency is essential, too. Full disclosure of information is a sine qua non for confident interactions between individuals or groups. It is also a prerequisite for an objective, systematic and timely assessment of public or private governance and its stated outcomes. Indispensable in all these regards is strict observance and enforcement of common norms and recognized benchmarks.

In practice, good governance is severely tested by conflicts of interest …

As is evident in practice, however, the "proper" exercise of entrusted power and responsibilities is neither that straightforward; nor are the outcomes of good governance that clear-cut a proposition. At one level, the internal "boundaries" are not fixed at the margin and conflicts of interest (elegantly termed the moral hazard problem) are inherent and unavoidable. Government and civil society members are actively involved in a wide range of competing business and other activities, not least in the provision of social facilities and services. Private firms "sponsor" civil society organizations and candidates for government offices; in varying degrees of subtlety, they also "shade" public opinion through multimedia outlets. Individuals can wear several hats at the same time, often as both "judge and jury", promoters and beneficiaries, or controlling shareholders and corporate managers. The rent-based, cosy ties between business and politicians, also known as the "military-industrial complex" and "crony capitalism", are not confined exclusively to the old West or the new East; nor is greed in whatever shape or expression it is manifested within institutional and corporate hierarchies, or cross-culturally.

… by shifting power centres and loyalties, and the deepening complexity of growth and change …

At another level, boundary stakes are moved and shifted through interdependent economic growth, socio-political change, technological advances and the manufactured risks and organized irresponsibilities inevitable in most human systems and organizations. On the one hand, diverse groups of domestic constituencies and stakeholders are normally linked to equally disparate power centres with a shifting interface of converged interests. In addition, such constituencies and linkages have increasingly assumed an international character, reflecting the upward trends in extranational interaction of both an economic and non-economic nature. Yet the global community remains fragmented and divided long after the disappearing Cold War. On the other hand, transactions within and across borders have snowballed, often at breakneck pace and on a real-time basis. In addition, they have embodied greater knowledge, creativity and technological sophistication while also displaying significant volatility and contagious ripple effects.

… by the strains and stresses on institutions and capabilities, and the constraints from "leaner and meaner" Government …

All these have added further wear, tear and fatigue to existing frameworks, institutions and capabilities in the public and private sectors, including those underpinning the prerequisites of good governance itself. Indeed, the higher vulnerability stake, in terms of both economic uncertainties and social risks, has not often been matched by a broadening of the space and scope for domestic policy management and manoeuvre in most developing economies.[3] Government has become "leaner and meaner", an almost universal reorientation in development policy since the late 1980s, to minimize resource leakages and a soft budget constraint. By accident or default, however, social policy and social protection tend to become a casualty, through both downsizing and hollowing out. But an adequate and accessible supply of broad-based and competent social infrastructure and

[3] In another context, the granting of generous managers' share options has not solved the "agency problem". Likewise, the availability of big (managers') bonuses and huge (advisers') fees for pulling off mega-deals is not reflected by the rather undistinguished economic record of many completed mega corporate mergers and acquisitions.

institutions is a prerequisite for, among other avenues of incentives and progress, the timely and effective internalization of social gains as personal returns.

… and by the many challenges from openness and deregulation

Meanwhile, a correspondingly larger and more deregulated role has been assumed by or given to private businesses and capital, both domestic and transnational. That this is an expected or natural imperative in development and transformation under market capitalism does not make the transition and sequencing processes any less complex and time-consuming. In hindsight, the financial and economic crisis of 1997-1998 in East and South-East Asia reflected, in part, a stumbling block in transition even for high-performing economies with the strongest leadership, administrative capabilities and outward orientation in the developing world. There is then another disturbing complication, namely, that cross-border transactions are not always "civil" in nature. Drug and arms smuggling, human trafficking, money laundering, counterfeiting and terrorism activities are not inventions of the high-tech, late twentieth century. However, the scale and incidence involved in such un-civil transactions are perhaps greatly more insidious and pervasive than their counterparts throughout history.

Other major issues for good governance have a social underpinning and an intergenerational dimension

Moreover, several other systemic issues for good governance are still to be resolved; and these (multidimensional) dilemmas are no easier to resolve in the new East or in the old West. A "natural" tension has long existed between efforts to sustain a society aspiring to the highest standards of human welfare and the promotion of privately-centred, risk-taking business activities, initiatives and innovation. Likewise, a balance has yet to emerge between the relative security of employment (and by extension, human dignity) in a kinder and gentler business environment and corporate governance devoted solely to a single-minded pursuit of short-term profit maximization. The former has to be funded or mutualized in part through employees' forced savings and lower returns on capital while the latter tends to carry with it opportunities for enrichment for some and demoralizing uncertainties and insecurities for many. Furthermore, public and private governance has too often failed to make adequate provision for the overlap between current necessities and future requirements within and across interdependent economies, the intergenerational sustainability of development.

As such, governance is often compromised by trade-offs and expediency

The net result is that consensus-building on major issues has often proved so intractable that convenience, opaqueness, exclusivity and expediency are "the name of the game", along with the skewed distribution of benefits and burdens. This may well be regarded as "the art of the possible". Nevertheless, the economic and social trade-offs thus implied can erode an important portion of GDP in the longer term. Curiously enough, justice may be blind towards race, religion or riches in an environment of good governance. Institutionally, however, the maintenance of "justice" and the (egalitarian) balancing between access and equity for the average "Citizen Kane" have become overly time-consuming, complicated and costly. And so is the acquisition and pursuit of knowledge and skills, the quest for public office or the incubation of a culture of accountability.

Meanwhile, the vulnerable socio-economic segments remain appreciably large in many economies, both developing and developed

Concerted efforts have been made to uplift the socially, economically and politically disconnected, who are, almost as a rule, not well or adequately represented. Nevertheless, these vulnerable and marginalized groups (whether in terms of wealth, skill, gender, ethnicity or age) have remained stubbornly large in many countries on both sides of the development spectrum. The perceived inequity in access and participation, in accountability, in the skewed patterns of development and distribution, and in intergenerational sustainability have given rise to a multitude of single-issue civil society organizations. Increasingly, such advocacy groups have also operated at an extra-territorial level. This is a trend which helps but has also complicated and hindered the process of good governance and the quality of its outcomes.

A level playing field is yet to be ready

Famously, the playing field is not level. For good governance will facilitate, but by no means guarantee, the emergence onto the domestic and global arena of competing players and actors who are actually provided with equal opportunities or endowed with comparable strength and capabilities. And this leads to another set of critical, but even woollier, issues of an international nature.

Old issues, new agenda

Global governance is tried and tested by long intractable issues …

Blurred territories, moving markers, role versatility and the absence of shared values in action, if not in principle, have created far-reaching difficulties for global good governance as well. Ideas, innovations, human resources and development finance can now be packaged, transmitted and relocated with relative ease across frontiers. However, the borderless movement of natural persons and equity of access remain intractable, notwithstanding the continuing goodwill and understanding shown in several parts of the global village. It is an issue as intractable as the "adverse selection" characteristic of North-South private capital and technology flows and the incidence of the South-North "brain drain" plus the sizeable cross-border flow of largely unskilled labour for largely manual jobs or menial occupations.

… and diverging perceptions and practices

More narrowly, standards and benchmarks are certainly perceived and set differently by peoples and countries at different stages of development and with different socio-historical legacies. And this applies not just to the norms and conditions concerning employment, labour relations and amenities in the workplace, the eco-friendliness of traded products and production processes and, for that matter, the extent of political conformity and steerage by Government. But one cannot have it both ways.

Trade is mutually gainful but obstacles remain …

It is not that the great virtues of openness and tolerance (including through policy liberalization and administrative deregulation) and of freer trade and investment have not been well appreciated, and some "loss of autonomy" accepted, by interdependent economies and enterprises within the developing region. It is also well recognized by them that the sustainability of growth is predicated on continuous productivity gains over time, and not on the (competitive) undercutting of real wages or on pricing productive assets below their renewal or replacement costs. There is, however, a common perception among developing countries that the "goal posts" have often been moved and changed by the shifting calculus of the external political and social economy. In particular, stubborn obstacles have remained in the way of their potential exports and the equally stubborn debt trap has sapped the potential for growth in many poorer economies. By and large, ours has become a world which is much richer materially but also less generous with aid and technical assistance, whether conditional or untied.

… while collective action is not always distinguished by a common position as regards trade-offs

Meanwhile, the revolution in information, communications and transport technologies has helped to truncate the ethnic, cultural, geographical and political divides. Whether natural or human-made, prosperity or disasters nowadays can hardly, if at all, be split into and fenced off within isolated, localized fragments of affluence, suffering and instability within domestic regions or national frontiers totally shielded from the coverage and commentaries, whether balanced or intrusive, of the world's high-tech multimedia and watchdogs. Collective action is needed for a better and more equitable world, and for meeting higher human aspirations under the altered conditions and circumstances in our times. Yet it does not help that such action has often become amorphous and tenuous, in part, because of the lack of "universal" standards and common norms leading, in turn, to the conspicuous absence of consistency and persistency in action. Furthermore, there are many issues and prerequisites, as yet unresolved collectively, to ensuring due accountability in pressing matters ranging from third-party injury (also known elegantly as collateral damage) to the protection of the fragile ecology and endangered species.

The distribution gap has apparently widened within the global community

In addition, the daunting gap between the haves and the haves-not (the so-called issue of marginalized economies and vulnerable groups) has posed another formidable challenge to global good governance. There is simply too huge a number of people across the globe who remain disenfranchised in income, in digital connectivity, in cutting-edge knowledge and innovation, in education and learning (plus access thereto), etc. A sharp contrast in this connection is the seemingly unfathomable net worth of the wealthy and the disproportionate influence of massively huge corporations in industrialized countries. Such personal or corporate riches are far greater than the combined national incomes of a very large number of poor countries in any one year and, for that matter, of the very large majority of individuals living in these same industrialized countries as well.[4]

[4] Those outcomes are far different from the postulated, long-term convergence of international income levels through globalization and technology transfers so forcefully put forward by trade economists. They are also far different from the standard bell-shaped curve of relative equity in domestic income distribution so beloved by statisticians. Some of the composite indicators of inequality in terms of income, gender and ethnicity within the global community reported by UNDP in 1998 are telling. For example, the income gap between (the top and bottom one fifth of) the world's richest and poorest was 30 times in 1960 and 82 times in 1995. Disturbingly, such income polarization has become sharper since the early 1980s. The richest 225 persons in the world had a combined wealth equivalent to the annual income of 47 per cent of the global population (totalling some 2.5 billion persons). The three wealthiest persons had assets exceeding the combined GDPs of the 48 least developed countries in the mid-1990s.

All in all, a sense of disenfranchisement is felt by many

The uncontrollable forces of globalization and "global big business" in trade and technologies, and the seemingly unsustainable patterns of development and distribution have generated simmering fears, discontents and a sense of disenfranchisement that have permeated across several socio-economic strata within the global community. All these undercurrents and cross-currents are behind the recent upsurge in economic, social and ecological backlash which has marred the once clubby meetings of several multilateral agencies as well as of representatives of the richest and most powerful economies in the world.

The 1997-1998 crisis was a mutual failure of fundamentals …

Closer to home, the current Asian crisis and its aftermath can also be viewed as the destructive after-tremors of a cultural shock in an inter-dependent environment of imperfect governance, dissimilar mindsets and conflicting agendas, whether hidden or revealed. In particular, the rationality of the so-called "animal spirits" is not value-free; and professional successes and investment returns have been defined, understood and propagated all too narrowly, all too technically and all too impersonally. But it takes "two to tango", and the massive "round-tripping" of (short-term) external capital will simply cause an unserviceable shock, regardless of whether such an action is rational and necessary for a manager of external funds to share in a piece of the profitable action (herd-instinct exuberance) or to preserve share owners' equity value (self-centred panics).

… with devastating, but skewed distribution of, damage to third-party and long-cemented relationships

And the result is unprecedented, contagious damage wrought on hard-earned economic progress, the communal fabric and social stability of all and sundry, including well managed and governed (but indebted) enterprises and economies. Third-party collateral damage has been devastating, particularly for the poor and more vulnerable social groups. The crisis has highlighted once again that the insidious tyranny of dominant positions and blatant business opportunism are just "par for the course". Indeed, "robber barons" are not confined just to the new East or the old West; nor are the free-riders and cynical manipulators of all shades and sizes. The crisis has also exposed the fragility and impermanence of long-cemented relations and commercial partnerships, linkages founded on mutual material benefits but often (although not always) potentially denuded of compassion and higher values. Countries and corporations are thus stitched onto a cross-cultural patchwork of shifting alliances and convenient interaction, whether by enlightenment, design or default. This is a systemic trade-off of frightening proportions in troubled times.

A numeraire is needed to justify, regulate and stabilize policies, institutions, practices and interactions among players and actors

Good governance is not context-free. Yet compassion and moral norms, socio-cultural ethos and intergenerational priorities often are not featured with due emphasis in discussions and prescriptions on domestic and global good governance. There are now innumerable markets for money-making within and across nations. However, functioning or competent markets for morality and shared responsibilities, for trust and for cross-cultural tolerance are few and far between. But shared values provide the numeraire needed to justify, regulate and stabilize institutions and policies that are set up and carried out. This applies, in particular, to the collective legitimization and the pluralistic accountability of all those unpalatable trade-offs and transitional dislocations as just, and hence tolerable, for the sake of future opportunities for all. Featuring prominently in such opportunities are four things: enlarged economic space, enhanced social citizenship and mobility, improved political socialization and representation, and a more balanced intergenerational distribution of income and access.

First things first

The "miraculous" success of tiger capitalism has transformed the socio-economic landscape in East and South-East Asia

Most of the (second-generation) tiger economies in East Asia were desperately poor, often resource-scarce and densely populated. It is not an accident of history that they managed to realize in less than three decades a "miraculous" performance in income growth and in social progress, an achievement which had required many more decades and much social sacrifice in the now advanced North. It is also not just a matter of mere international goodwill that a new and distinct nomenclature was invented some two decades ago to refer more accurately to this new breed of high-performing, developing economies in the development literature.

The dramatic and sustained successes of "tiger capitalism" are real; and so is good development governance, (East) Asian style. The policies and processes involved often require enforced and prolonged sacrifices, necessitate much public conformism and steerage by Government, and result in some misdirected allocations of resources. They have also had their share of mid-course corrections or even reversals. Uniquely and remarkably among all other developing areas, however, they had worked well in this part of the world so that decades of technological progress and social advancement were leapfrogged with high economic returns. In fact, a handful of these tiger economies have become major players on the global economic scene after just two decades of dedicated transformation, a distinction shared by very few others in the world.

But there are issues concerning the transformation process

However, issues have also been raised as regards the "quality" of East Asian economic growth. In particular, the adding-up problems seem to be revealed by the (relatively) subdued gains in total factor productivity (the so-called Solow residual); this issue became rather controversial in the region during the (pre-crisis) mid-1990s.[5] The headlong rush for growth has also blindsided a more timely and intensive rethink of, among other basic parameters, the pursuit of creativity and excellence, social capital formation and social protection, and environmental integrity. Indeed, the conditions and circumstances of today are such that individual creativity and individual value-creation, for once, come to the fore in the management of change. However, the new economy itself also emphasizes the great virtues of networks and alliances.

[5] Notwithstanding a host of methodological and measurement problems, the issue was brought to people's attention by Paul Krugman but it was based largely on a series of research results by Allyn Young. Subsequently, the controversy spawned several studies which have provided a sharper perspective on endogenous (macroeconomic) growth and growth accounting.

The crisis has a silver lining for the region …

There are grounds for cautious optimism, nevertheless. The 1997-1998 crisis has sped up in a large part of the region a series of events and reactions which, on balance, have much improved accountability, participation, transparency and, to a considerable extent, predictability. All these are critical components in the arsenal of human rights and good governance. The crisis has also revitalized efforts in social capital formation, which apparently had not kept pace or been in tune with the changing context of development ushered in by trade and investment globalization, and the new (knowledge-based) economy.[6] Issues in social security are being readdressed as the communal protective foundation is gradually eroded by the current patterns of socio-demographic transition (including townward migration, urbanization, smaller nuclear family size and looser extended family ties, and longer life expectancy). Indeed, such erosion resulted in a less effective response to the socio-economic disruption and dislocation caused by the 1997-1998 crisis.

… and the agenda remains challenging in ensuring equity and rewarding risk-taking

The symphony of change is unfinished. A durable balance has yet to be sustained between the imperative of ensuring a level playing field for all and the need to encourage the creative destruction process and sustain risk-taking behaviour, two pillars of value creation and economic dynamism under market capitalism. As surely, one should not lose faith in, or become impatient with, laissez-faire and competition, all in combination with a little regulatory push and oversight from Government. These market forces, in synergy with competent public sector policies and public institutions, will eventually triumph as a vigilant and unadulterated disciplinarian to rate, to punish and to rein in unproductive corporate cronies and other hangers-on, and counterproductive inter-firm linkages.

The process of change and adaptation has to be nurtured judiciously …

Public and corporate governance under the altered paradigm of world development entails cultural adaptation. But systemic changes and context shifts cannot, and properly should not, be a one-way street. It is well recognized that currently a single model does not yet fit all sizes and shapes; governance institutions are interrelated and path-dependent, being rooted as they are in society and history. Certainly, there will be entrenched resistance as the process of adaptation and evolution constitutes a clear and present threat to fixed mindsets, institutional inertia, (unearned) current privileges, or the failure to adapt and evolve. Without doubt, however, truly people-centred governance, enlightened leadership and cross-cultural accommodation will help to ease the transitional dislocations and collateral damage, thus making

[6] Labour demand, along with the associated rewards, changes structurally as dictated by technological advances and competition. Production was moved from households to mechanized factories with the discovery of steam power. Railways and steamships replaced horse-drawn vehicles and tall ships, accelerated the search for scarce inputs and mass markets and, together with gunpowder, led to the establishment of "new settlements" and colonies for resource supplies and consumption outlets. Meanwhile, electricity greatly facilitated production on an assembly line within factories and culminated in major innovations in industrial organization – notably Taylor's stopwatch sequencing and control of on-the-job motions, and Ford's automated manufacturing on a large and integrated scale. The far-reaching implications of the new economy for labour market transformation are yet to be understood, especially in relation to the emergence of brain (instead of brawn) power and skills more complementary or conducive to the creative and innovative use of intellectual capital, information, networks, and leaner and flatter modes of organization.

the promise of change much larger and more humane than the multisided threat from change itself.

… for there is no substitute for "good governance" and a caring community within the interdependent global villages of our times

The whole issue of governance is far more complex and encompassing than has often been portrayed and perceived in many quarters. The "invisible hand" can be both kind and ruthless, especially if unregulated. Research and applied technology are now increasing in the private domain. Without judicious governance, they are unlikely to be a solution to distribution and social justice problems.[7] Thus Spake Zarathrustra of the long-standing question: Would it be feasible to aim at securing a compact embodying fewer rough edges of untempered market capitalism among interdependent global neighbourhoods and interconnected knowledge societies?[8] There is, indeed, much to be said for a system, style and shade of public and private sector governance whereby various actors and interest groups feel, in everything, duty-bound to do unto all others as they would have all others do unto them. Regrettably, however, such a welcome and needed vision in human interaction and a caring society at large is still wanting at the edge of the new millennium.

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[7] The printing press might have ended the Age of Darkness in Europe in the Middle Ages, ushered in the Age of Reason and Enlightenment and led eventually to political emancipation, the rule of law and democracy. Nevertheless, it failed to ensure universal literacy and suffrage, and distributive justice between the (old) landed class, the capital-owning (newly) rich, the (poorly educated and poorly skilled) peasantry and labour classes, and the populace at large.

[8] Market capitalism and its incentive structures have proved their superior quality, great usefulness and lasting power. This can be seen in the widespread and speedy collapse of the economic and socio-political system of central planning and distribution, plus the triumphant ending of the Cold War in its wake. But the market system itself has its own share of excesses. Some of these blemishes were noted earlier. Other major imperfections can be found in cut-throat competition, beggar-thy-neighbour orientation, self-serving protectionism, wealth accumulation for its own sake, and unbridled commercialism and consumerism.