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FEATURED BOOK REVIEWS

Lamenting Weak Governance: Views on Global Finance

REVIEW BY LESLIE ELLIOTT ARMIJO
Department of Political Science, Reed College

International Financial Governance under Stress: Global Structures versus National Imperatives. Edited by Geoffrey R. D. Underhill and Xiaoke Zhang. Cambridge: Cambridge University Press, 2003. 410 pp., $75.00 (ISBN: 0-521-81732-3).

International Financial Governance under Stress by Geoffrey Underhill and Xiaoke Zhang is too obviously a conference volume. The seventeen chapters, plus introduction and conclusion, are uneven. Nonetheless, the volume does contain worthwhile analyses and interesting stories, accessible to those who are familiar with the major contemporary debates about international finance. The book is organized thematically but not rigorously. The sections deal respectively with (1) concepts and arguments, (2) country case studies of emerging markets during the Asian financial crisis, (3) country case studies of "private-public interactions" in national financial regulation, and, finally, (4) norms and global governance. An alternative organization for the volume, focusing on the kinds of questions each contributor asks, might have helped clarify the ways these essays speak to one another. This review considers, instead, the contributions offering (1) prescriptive policy advice, (2) analysis of the political sociology of financial reform, and (3) theoretical perspectives on the "democratic deficit" in global financial governance.

The policy-oriented economists who contribute to *International Financial Governance under Stress* want to know what works and what does not. For example, John Williamson examines a series of policy variables—including opaque public and private accounting, moral hazard in the domestic banking system, fiscal or monetary excess, the wrong exchange rate regime—in Asian countries that faced currency and banking crises in 1997–1998. He finds that the common experience of countries that suffered crises was recent capital account liberalization. Vijay Joshi views the Indian experience through a similar lens, and both authors recommend limited capital controls. Manmohan S. Kumar and Marcus Miller evaluate the technical feasibility of various institutional alternatives proposed to compensate for the absence of a global lender of last resort. Along the way, they provide some clues to the bargaining strategies of actors including the International Monetary Fund (IMF), the US government, and private multinational lenders and investors. These user-friendly chapters are helpful and should have been grouped together. Unfortunately, they provide only a partial introduction to the several overlapping financial policy issue arenas touched on in the remaining chapters, which have a more direct political focus. For example, the Williamson and Joshi recommendations presumably apply to emerging markets only. Why did the editors omit a complementary summary of concrete policy options for advanced industrial countries afraid that financial globalization will inspire a regulatory race to the bottom or an end to the Western European social welfare state? These questions seem especially pertinent given that they clearly motivated the project as a whole. A quick

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tour of similar contemporary debates on domestic banking deregulation and reregulation in developing countries, corporate governance reform, and exchange rate management (each of which is a distinct arena of contemporary financial regulatory policy) would have rendered the remaining chapters more accessible to a general international political economy audience.

Most of the country studies in *International Financial Governance under Stress* venture into policy prescription only incidentally, if at all. Several chapters attempt to articulate a political sociology of financial policymaking in one or a few countries. In general, they ask who supports which alternative policies, and why? For example, Vladimir Popov warns against overvalued exchange rates, which he identifies as a key precipitator of financial crisis in Russia in 1998 and a source of weakness in other transitional economies. Popov draws an explicit parallel between Latin American economic populism and economic governance in the former Soviet Union and Eastern Europe today. He observes that overvalued exchange rates help weak postcommunist governments maintain mass consumption without having to tax newly wealthy and vastly influential capitalist oligarchs directly. Unfortunately, this fix is both temporary and risky for the national economy.

The chapters on Indonesia, China, and Japan see market-oriented domestic financial reform as necessary. Although more guarded, they also see the role played by the international financial community in pressing for these reforms as generally positive. For example, Richard Robison is deeply skeptical about how much Indonesia's crony capitalism has been transformed as a consequence of the deepest and longest postdevaluation banking crisis in East Asia, not to mention the fall of President Soeharto. The problem is at least twofold. First, the judiciary, tasked with pursuing cases of egregious white collar crime, is too corrupt and politically compromised to pronounce judgment and mete out punishment. Second, Robison asserts that the old conglomerates in practice can hold any government to ransom. Specifically, unless the domestic oligopolists are allowed to operate freely and profitably, private foreign investors will lack confidence in Indonesia's recovery and will not return. This thesis is strong and controversial, and it cries out for explicit comparative analysis. On the other hand, Andrew Rosser, also writing about Indonesia, identifies the resistance to greater corporate transparency and regulatory "good governance" as largely residing in the clientelistic parts of the vast state bureaucracy. Rosser reports on beleaguered orthodox technocrats elsewhere in the state, who hope that pressure from the international financial institutions and mobile foreign capital will push forward stalled reform. Shaun Breslin's chapter on Chinese domestic financial reform, or the lack thereof, is largely about relations between the center, on the one hand, and provincial and local governments, on the other. He pointedly assesses the national political leadership's justified fear that the social costs of market-friendly, efficiency-oriented financial reforms may lead to social upheaval. Clearly, these three contributors see the mix of opportunities and constraints from financial globalization differently. It is a pity the volume makes little effort to compare their visions more systematically. For example, Robison and Breslin seem to assume that private global investors hold most of the cards, whereas Rosser gives more weight to the influence of the International Monetary Fund.

The authors of the chapters on South Korea and Thailand, each of which experienced a serious crisis but has since substantially recovered, are more dubious about the consequences of neoliberal reforms, especially those insisted on by foreign actors. In harmony with the chorus of criticism of the IMF's prescriptions for Thailand (see especially Stiglitz 2002), Pasuk Phongpaichit and Chris Baker argue that the IMF's immediate postcrisis recommendations worsened outcomes for Thais. Although they generally support efficiency-oriented reforms, Phongpaichit and Baker point out that private foreign banks and investors have supported Thailand's domestic banking and corporate governance reforms for entirely self-interested reasons. In the end, the goals of multinational capital are seldom closely aligned with those of ordinary citizens in emerging markets. For example, they note that the International Monetary Fund and the US Treasury insisted that the Thai domestic market be opened for inward investment by foreign, especially US, banks, but that "American finance, in the form of Goldman Sachs and GE Finance, showed interest only in Bottom-fishing—buying and selling distressed assets" (p. 109). The Phongpaichit and Baker analysis of the activities of private international finance capital resembles that of Benjamin J. Cohen, author of one of the "concepts" chapters in the volume's initial section. Echoing the analysis of Williamson and Joshi, Cohen observes that waves of academic economists have rethought their previous resistance to capital controls as a viable option for emerging markets. Given that capital account liberalization continues to be the hegemonic ideology in intergovernmental institutions concerned with finance, Cohen concludes that power and interests must be driving this outcome, including both multinational finance capital with ties to the US government and internationalized sectors within developing countries.

A somewhat different weighting of the role of private US financial interests emerges in the volume's chapters on South Korea and Japan. Stephen L. Harris notes US and Organization for Economic Cooperation and Development (OECD) pressures on South Korea to open its external capital account as a good faith gesture to speed up its admission to the rich countries' club, but he interprets this less as an instance of inappropriate external influence than as a case of an excessively autonomous Korean bureaucracy, formed under an authoritarian state and habitually indifferent to public needs and preferences. (Note that this assessment contrasts sharply with Rosser's conceptualization of Indonesian technocrats as the good guys.) Interestingly, Masayuki Tadokoro locates the main source of international financial outcomes involving Japan squarely within the domestic political arena. He notes the US's refusal to share international financial leadership with Japan during the Asian crisis (for more colorful accounts see Blustein 2001; Laurence 2002), but he implies that it is Japan's inability to pursue domestic banking reform that has robbed it of both the moral authority and the cash that might have allowed the country to play this role.

The scholarly community concerned with the comparative and international political economy of finance should make a greater collective effort at cumulation and comparison. Even a brief taxonomy of financial issues, actors, and alternative policy solutions—such as the introduction to T. J. Pempel's (1999) book on the Asian crisis—would have helped the reader of this volume. The recent work of Jeffry Frieden and Ernesto Stein (2001) and Carol Wise and Riordan Roett (2000) provides hypotheses about the sectoral political economy of exchange rate politics, with several contributors beginning from the "liquid asset holders" versus "fixed asset holders" dichotomy. Stephan Haggard, Sylvia Maxfield, and several of their collaborators have attempted to model the politics of domestic financial reform and structural adjustment in developing countries (Haggard, Lee, and Maxfield 1993; Haggard and Kaufman 1995; Maxfield 1998). In their more recent work, they have each sought to understand how political democratization alters, constrains, and multiplies societal interests. Haggard (2000:219–222) has been willing to conclude that mass political democracy probably aids in the recovery from financial crises. Even if tentative, this hypothesis is significant. In contrast, the country chapters in *International Financial Governance under Stress* are mostly silent on the implications of democratization, except to note that it complicates policymaking by including new domestic actors, who make new demands, and by weakening a previously authoritarian state, which they seem to imply was more competent. For example, in their own case study editors Zhang and Underhill observe that the early stages of political democratization in both Thailand and Korea may have increased opportunities for the private sector to capture the regulatory process. Does their analysis have implications for the other stories being told here about regulatory conflicts in China, Indonesia, or Russia?

The third and final set of chapters, again scattered throughout the volume, are those that focus on international financial governance. These chapters include essays by Underhill and Zhang (introduction and conclusion), Jonathan Story (diverse ideological and theoretical perspectives on globalization), George Vojta and Marc Uzan (private sector involvement in international standard setting), Jean-Marc Coicaud and Luiz Pereira da Silva (generic global governance), and Andrew Baker (the Group of 7 and financial governance). These contributors frequently mention the "democratic deficit" at the international level, where financial policymaking is largely technocratic and dominated by those schooled in orthodox (that is, neoliberal) assumptions. As a result, for example, the international financial institutions routinely privilege inflation-fighting over stimulating growth or maintaining employment (see especially the chapter by Andrew Baker). These authors, mostly from western Europe, distrust US dominance of global financial policymaking—across the range of functions (from crisis management to standard setting) and across the policy venues they consider (in particular, intergovernmental and international public–private venues such as the Bank for International Settlements or the International Organization of Securities Commissions). The contributors are also concerned to preserve national capitalisms, along with variations within the OECD in democratically mandated social welfare benefits. Given this concern, several authors might have been clearer if they had focused more directly on relative power relationships in the interstate system. Coicaud and Pereira da Silva, for example, see the problem as one of a lack of legitimacy for international organizations, and they urge states to "become less protective of their sovereign powers" (p. 319). The reader might be forgiven for doubting that gentle exhortations to global policymakers will remedy the problem. Only Story's contribution attempts to analyze the relationship of power and interest driven ideologies at the global level. Commendably, he includes both the power of states and that of firms in his analysis.

The muted discussion of global power politics in most of these essays raises more than stylistic issues. Much of the contemporary literature on global governance presumes a global commonality of interests and values. Yet, the perception that interstate interactions are essentially competitive and that the job of national leaders is to pursue relative power rather than absolute gains, is clearly alive and well in the world's sole military—and financial—superpower: the United States. A view of preserving US security that requires maximizing US decision-making autonomy, free from entangling alliances, has dominated the George W. Bush administration. This view is attested by the continued US wrangling with both Europeans and the UN Security Council over policies in Iraq and by the Bush administration's declaration of the need for an offensive military capability. Why should the global monetary and financial arena be different? Both insider and journalistic accounts of recent international financial diplomacy and policymaking (as in Blustein 2001; Stiglitz 2002) highlight the structural power of the United States in this arena and US policymakers' willingness to use this power. Liberal institutionalists such as Michael Mandlebaum (2002) might prefer to stress commonalities of interests among the Western democracies and the ways in which mutual trust can assist in overcoming dilemmas of collective action (Olson 1971). Yet, in the financial sphere, in which the technical complexities of the issue arena have greatly limited wide public debate domestically and internationally, the more cynical analysis of the realists, or at least the neorealists, may be closer to the truth (on the US dominance of financial governance see Brawley 2002).

A more direct analytical focus on power and conflicts of interest at the interstate level is preferable for another reason as well. Underhill and Zhang define the democratic deficit in global financial markets largely as a consequence of the loss of authority and resources by all sovereign states in the face of increasingly wealthy, influential, and footloose global private capital. They note (Ch. 4:80–81) correctly that:

> [Although] financial integration tends to benefit mobile asset holders and enhances their ability to hedge against market volatility, it generally leads to welfare losses of internationally immobile factors of production, such as domestically oriented firms, labour and agriculture. This, together with reduced government intervention in market activities, has contributed to growing income inequality among different social groups within countries. . . . The traditional concept of democracy has therefore been rendered problematic by the fundamental mismatch between the national dominion of democratic politics and the global scope of markets which limit the competence and effectiveness of national political authorities . . . . Governments in most advanced countries have begun to lose credibility with the majority of the population as they experience increasing difficulty acting in the interests and on the desires of their citizens. . . . In many developing countries, the accentuation of already intolerable economic and social inequalities under the impact of financial globalisation has led to dangerous pressures on emerging democratic governance.

Consequently, Underhill and Zhang recommend "a change in the balance of power between public authority and private market interests and the accompanying transformation in the notion of 'public interest' that defines the financial order" (p. 83).

At one level, one cannot help but agree. Multinational bankers and hedge fund operators ought not to determine levels of inequality or employment in a national or a global context. But in painting the principal conflict as one of private versus public national interests two other conflicts of interest may be analytically buried. The first such conflict is that within the Atlantic Community, or more explicitly, between the United States and Europe. This division receives some attention in the volume, although it is not the primary focus of any chapter. A second critically important, although much overlooked, conflict of interests inheres in relations between the North and South globally. The legitimate demand of the advanced industrial democracies other than the United States for greater participation and representation—that is, democracy—in global economic policymaking is, in this volume and elsewhere, too often casually conflated with the equally legitimate desire of developing countries to have a greater say in global governance. Unfortunately, it is not clear that expanding the participation of the former easily leads to an increase in participation of the latter. Even though North–South economic bargaining should not be perceived as zero-sum, real differences divide their needs, values, and especially their preferred distribution of global resources (financial and otherwise).

Global governance of agricultural trade is an obvious case in which most Western European governments and Japan find themselves aligned against most developing country governments. But many similar instances are found in the financial and monetary realm as well (see Kitching 2001). For example, increasing numbers of activists and scholars in the wealthy industrial democracies understand "corporate governance reform" to mean encouraging institutional investors to divest of their emerging-market holdings to protest labor or environmental exploitation. But reasonable, and equally high-minded, observers might differ on this interpretation of reform, which reduces overall investment and employment in poor countries. Moreover, many of the intergovernmental bodies set up to study post-Asian crisis reform of the global financial architecture exclude developing countries or offer them only token representation, as Andrew Baker's essay recognizes. By this logic, enhanced cooperation within the North around the goal of regulating increasingly mobile private financial capital would be laudable, but it would not greatly reduce the global democratic deficit.

Interdisciplinary research agendas—which bring together political scientists, economists, business school professors, and the occasional international technocrat and which combine international/global and domestic/regional/national analytical foci—are to be encouraged. *International Financial Governance under Stress* represents such an agenda. But absent a greater collective effort at mutual listening and the drawing of explicit comparative lessons, we will not learn as much as we easily could.

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