

## SODA-75-asian Issue 09 · Jan-Mar 2011



## global-is-asian

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## Can Asians provide intellectual leadership?

The 21<sup>st</sup> century will be the Asian century. Power will shift to Asia. The big question is: will the power of ideas also shift to Asia? The paradoxical answer to this question is both Yes and No.

It is 'Yes' because Asian governments have begun to out-perform their Western counterparts. In the second decade of the 21<sup>st</sup> century, we will see several governments, including those of the United States and the European Union, struggle to achieve regular and steady economic growth. By contrast, several governments

in Asia, including those of the two most populous countries, China and India, will be able to sustain steady and high rates of growth. After the Western financial crisis of 2008/9, few emerging market governments look to either Washington D.C. or Brussels to find answers on how to achieve good financial governance. The G-20 process has shown that the world now recognises the impact and significance of Asia's role in the global economy. Asians are also having a greater say in international policy coordination discussions. Equally importantly, the

intellectual and political pilgrims searching for innovative and successful public policies are coming to Asia. Quite a few are coming to Singapore.

But the answer is also 'No' because Asian universities continue to be culturally dependent on the West for intellectual paradigms and leadership. This is a rather strange situation. Under normal circumstances, as Asian societies prosper, their universities should be at the forefront of fostering new ideas. However, especially in the field of social science, American domination is overwhelming. Asian social scientists still crave recognition from their American peers and seek to be published in leading American journals. This desire to be published means that Asian social scientists are reluctant to challenge Western mainstream opinions, even when it is clear that these mainstream opinions are headed in the wrong direction.

Since I am making a provocative argument let me cite one clear example. The greatest force that has changed the face of humanity is globalisation. For a long time, the champions of globalisation were in the West because the entire establishment of advanced Western economies, including the politicians, media and academia, used to believe that greater globalisation meant greater good for humanity and for their own populations. All of them used to preach the virtues of globalisation loudly to the



rest of the world. Now, as both the populations and politicians of the West begin to fear that increasing globalisation will mean more jobs for Chinese and Indians and not for themselves, we may see the signs of a gradual intellectual retreat in the West. Instead of preaching the virtues of globalisation, many leading intellectual voices in the media and academia are finding new ways to justify a retreat from globalisation. As a frequent traveller to the West, I am troubled by a silent but growing Western perception that Asian economies are only succeeding because they are not playing by the rules. There are frequent hints that the Asian economies are cheating. Few in the West believe that Asian economies are succeeding by applying Western economic rules and best practices better than the West.

All this is massive intellectual dishonesty. The simple and painful truth is that all "developed" countries will have to make painful structural adjustments to cope with the new competition from the emerging economies, especially from Asia. Instead of telling their own populations some hard truths about the necessary pain they will have to encounter to re-adjust, these Western intellectuals look for scapegoats. One obvious scapegoat is the

value of the Chinese Renminbi. Any Western reader of Western journals and newspapers should be forgiven for believing that all the problems of the world would be solved if China rapidly appreciated its Renminbi. Nobel Laureate Paul Krugman, for example, argues that China's currency policy has a "depressing effect" on economic growth in the US, Europe and Japan, and that "if we could get some change in China's currency policy, it would help the world." And Krugman is not alone. Fred Bergsten, Director of the Peterson Institute for International Economics, has written an influential article titled "We can fight fire with fire on the Renminbi," where he argues that "China continues to manipulate the Renminbi to the extent that it is now undervalued by at least 20 per cent." There is no doubt that it would be in China's interest and the world's interest to see a steady appreciation of the Renminbi. However, even if China revalued its Renminbi by 20 per cent, it would not change the fundamental flows in trade without fundamental American re-adjustments.

In reaction to this intellectual dishonesty, we should have seen a chorus of Asian intellectual voices pointing out that the West is retreating from the very principles that it once championed. There have been a few such Asian voices. Andrew Sheng, Chief Adviser to the China Banking Regulatory Commission, is the exception that proves the rule. He has said that, "simply put, we [Asians] have neither good Western theory to guide us in the way forward, nor are we institutionally and psychologically geared to provide that intellectual leadership that will remain under their control." What is striking is how few Andrew Shengs there are in the world.

This is therefore one of the most fundamental questions that Asian intellectuals face: when will we achieve intellectual independence and have the courage to challenge the Western intellectual mainstreams? There is one simple truth that Asian intellectuals should bear in mind. The laws of gravity operate in exactly the same way in all corners of the world. The laws of governance do not. Cultural and social differences do matter. We must therefore develop the courage to say that new and varied paradigms are needed in social science. We must switch from relying on theories developed by American social scientists to developing more universally applicable theories. When will the day come? GiA

### **ASIAN TRENDS**MONITORING BULLETIN

Cambodia has a population of 15.1 million and a GDP per capita of US\$2,951.

Cambodia obtains 71% of its energy from combustible renewables and waste, which is the highest among all Southeast Asian countries.

The average life expectancy of a Cambodian is 63.3 years. There are only 9 nurses and midwives per 10,000 people and an average of 540 maternal deaths will occur in every 10,000 live births.

For all the trends that matter in Southeast Asia in the sectors of health systems, energy security and trade and investment facilitation.















## Spectrum

Ageing Asia's social protection imperative  $\cdot$  Owed some protection  $\cdot$  Singapore's ABC Waters programme  $\cdot$  Announcing the Public Policy Primer  $\cdot$  Rejecting the power to waste  $\cdot$  Holding governments accountable  $\cdot$  The physics of organisations





## Ageing Asia's social protection imperative

#### Mukul G. Asher scans Asia's demographic necessity to give greater impetus to social protection.

A sian countries have traditionally seen rapid economic growth as their most important priority. Unfortunately, this has meant that to a large extent, they have been unable to construct adequate, accessible and robust social protection systems.

Social protection systems typically involve retirement income security (or pensions); accessible and affordable healthcare; arrangements to address work injury and related contingencies; and social assistance.

These systems smoothen consumption over an individual's lifetime; provide insurance (particularly against longevity and inflation risks); facilitate income re-distribution; and alleviate poverty. But in constructing these systems, countries must trade these objectives off against broad-based growth, labour market efficiency, and environmental sustainability. In addition, devoting resources solely to the elderly means incurring opportunity costs. These opportunity costs include investment in health, education and infrastructure.

Given this, why should Asian countries give greater weight to social protection?

Firstly, Asian populations are ageing rapidly because of declining fertility rates and increasing longevity. Asia's share of world population aged 60 or over will increase from 54 per cent in 2010 to 60 per cent in 2030. Asia will more than double its population above the age of 80 over this period.

In China and India, by the year 2050, the largest single age cohort will be women over 70 years of age, implying feminisation of the elderly. This means that there is a demographic imperative to give greater weight to social protection.

Secondly, in global terms, there is little experience with designing and administering pension and heatlhcare systems for such large elderly populations. The only way for Asian countries to gain the relevant experience is to invest in social protection, themselves.

Thirdly, the new generation of Asian 'baby boomers' have higher



expectations about their quality of life. Failure to meet these expectations could have adverse implications for social cohesion and inter- and intra-generational harmony. And finally, well designed social protection systems could help Asian countries reach the necessary level of productivity to achieve sustainable growth.

The 2008 global crisis has made the task of strengthening social protection systems more complex. This is primarily due to the adverse impact of the crisis on medium-term growth and on fiscal sustainability. But the global crisis also led to a considerably less benign environment for generating returns from pension assets.

In my view, the following reforms would improve social protection in Asian countries:

- First, Asian countries should reform their civil service and military pensions, bringing benefits more in-line with the rest of the economy;
- Second, Asian nations must improve the efficiency of their pensions; and
- Third, it will be necessary to improve healthcare delivery design and financing.

"Asian populations are ageing rapidly because of declining fertility rates and increasing longevity. Asia's share of world population aged 60 or over will increase from 54 per cent in 2010 to 60 per cent in 2030."

Finally, it is important to institute mechanisms, for example, a Pension Regulator, or a National Social Protection Council, that will provide a systemic perspective. This will ensure that complementarities among various pension and healthcare components can be found. For multi-tiered pension systems, involving differing risk management instruments and a mix of financing and plan sponsors, such a perspective is especially essential.

Two additional steps are equally important. Asian countries must construct relevant databases to promote evidence-based policy. Asian countries must emphasise the need for an outcome-oriented

rather than a welfare-oriented mindset among stakeholders. This will allow the incorporation of empirical research into the design and implementation of policies and schemes.

The extent to which Asia succeeds in meeting the challenges of rapid ageing will significantly determine the way the world manages this new phase in global demographic history. Asia is on the brink of great demographic change. It must act quickly. GIA

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Governments are benefiting from the labor of sex workers, who increase their countries' GDP and contribute directly to state coffers through taxes and fees paid by establishments that sell or support commercial sex. In return for their contributions to the state, governments owe sex workers (the majority of whom are women and girls) better protection of their rights, access to sustained rehabilitation assistance, and improved services to enhance future work options for girls and women.

A 1998 ILO (International Labor Organisation) study declared the sex industry to be "assuming massive proportions" in Southeast Asia. Governments were estimated to earn billions of dollars (2-14 per cent of GDP in some cases) from direct sex work and associated businesses, while an estimated 350,000 to 1.3 million women worked in the sector in four countries alone. Today, commercial sex in Asia continues to thrive, employing millions more than in 1998: recent estimates are 10 million sex workers in China; 20,000 in Hong Kong; 500,000 in the Philippines; 500,000 to 2,000,000 in Thailand; 200,000 to 300,000 in Indonesia; and 140,000 in Malaysia. Liberalisation in China and Vietnam, the feminisation of poverty and more open borders created by globalisation are only a few of the factors powering the sector's growth. Notwithstanding publicised raids and clamp-downs, not a single government is working systematically to curtail the sex trade. Revenues are simply too good and governments are simply too addicted.

Growth in the sex trade comes at a price, including human trafficking, child prostitution, violence and disease. Practically all the countries of East Asia serve as source, transit or destination points for trafficking for the purpose of sexual exploitation. In the Greater Mekong sub-region, UNICEF estimates that up to a third of sex workers are children and adolescents, aged 12-17, while the ILO put the number of child prostitutes in Java in 2004 at 21,000. Violence against sex workers is common. In 2008, a dramatic case occurred in low-crime Hong Kong, where a 16-year old sex worker was found decapitated, flayed and chopped into pieces. Throughout Asia, sexually transmitted disease (including, but not limited to HIV/AIDS) is a problem, reaching epidemic proportions in marginalised populations. Many countries depend on unsustainable outside funding for HIV/AIDS monitoring, screening and treatment. Besides HIV/ AIDS, other health concerns abound and are inadequately addressed, including illegal abortions, attempted suicides, drug addiction, HBV infections and mental illness.

If governments do not and will not curtail the sex business — indeed, they may have done exactly the opposite in the past by promoting certain types of tourism or "entertainment" clustered around foreign military bases — what then, is their duty towards citizens and migrant workers, whose bodies are the primary vehicle of revenue generation and who pay the price for risks inherent in sex work?

Governments must define and protect sex worker rights better. Adults who freely choose sex work as a profession must be granted equal protection under the law, including non-violent and non-exploitative treatment from law enforcement authorities; safety at the workplace, including, for example, condom use as a formal policy in sex work establishments; and non-discriminatory access to public health and other services that the state offers to other workers. The sex industry must be de-criminalised. In the Philippines, Thailand, Vietnam, mainland China and Cambodia, prostitution is illegal yet ubiquitous in brothels, bars, spas, massage parlors, health centres, music lounges, hotels, night clubs and

"Growth in the sex trade comes at a price, including human trafficking, child prostitution, violence and disease. Practically all the countries of East Asia serve as source, transit or destination points for trafficking for the purpose of sexual exploitation."

malls. Governments must stop hiding under the veil of hypocrisy that declares prostitution a crime but simultaneously permits, facilitates and tolerates its widespread practice. Criminalising sex work pushes the business underground, jeopardising the health of sex workers and feeding corruption through bribery, protection rackets, and other exploitative practices.

Governments must also allocate some revenues gained from sex work to fund sustainable rehabilitation programmes. It is difficult to identify the exact number of girls and women who would leave the sex sector if given a viable option, but enough studies show that many sex workers would like to leave prostitution if they could. Sadly, their options are few. They are stigmatised and have meager marketable skills. So-called official 'rehabilitation programmes' are often poorly funded or punitive. They fail to de-stigmatise former sex workers or give them sustained training and support to help them transition successfully to adequately compensated work outside the sex sector.

Finally, governments must re-define the value of girls and women by enhancing services — especially education — that will broaden future work options for the female population. In Asia, persistent beliefs underpin the mass market for commercial sex: that women and girls are inherently inferior to men; daughters may be used to pay for their brothers' and fathers' debts; men have physiological needs that prostitution can meet while still allowing men to uphold monogamy and family; sex is primarily for the enjoyment of men; girls and women should support their families; and sex with virgins can increase male virility and business prowess. These beliefs will not change soon, but government policy can help nudge practice and beliefs slowly away from traditional patriarchy and the devaluation of women. Educating girls and women will augment their selfesteem and strengthen their competitive skills. A future may come in Asia when girls and women still generate substantive revenue for the state, but sex work will no longer be the all-too-common option that it is today. GiA

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#### Singapore's ABC Waters programme



"The design guidelines
of the ABC Waters
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Rita Padawangi profiles Singapore's unique integration programme of its water bodies and social environment.

Singapore's Active, Beautiful, Clean Waters programme, often known as ABC Waters, was launched in 2006 by the Public Utilities Board (PUB) of Singapore. The main initiative of the programme was to integrate Singapore's streams, rivers and lakes with its parks and gardens.

To achieve its mission of creating 'a city of gardens and water,' the programme aimed at transforming Singapore's selected reservoirs and waterways into beautiful, clean streams, rivers and lakes. As a result, several design features of the ABC Waters programme led to the formation of naturalised environments for social and recreational activities.

Singapore applied the 'Garden City' approach to development by integrating its environment and development as early as in 1968. Therefore, the central idea of a green city that would be conducive for the physical and mental well-being of its people has

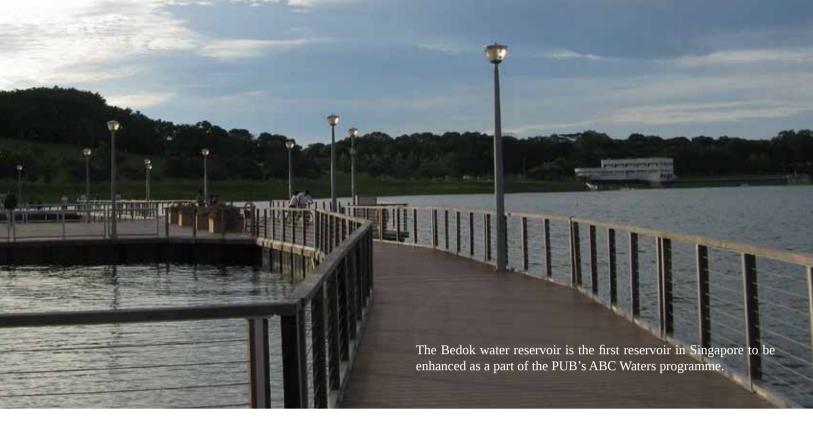
roots in the history of the island nation.

The idea of 'naturalising' Singapore's environment is not new. What sets the ABC Waters Programme apart is the fact that the programme has been implemented against the backdrop of an urbanised Singapore which witnessed rapid economic development. In this context, more than 20 projects were slotted to be implemented within the first five years of the programme.

The PUB's role in redefining Singapore's public spaces brought it to the centre of public space design. The design guidelines of the ABC Waters programme indicate the importance of keeping Singapore's waterways and water bodies clean by putting in place storm-water treatment and retainer systems, before allowing water to flow into the reservoirs. Thus, water cleanliness remains at the core of the programme.

PUB's focus on how existing waterways could be better utilised as recreational





public spaces, also gives the ABC Waters programme a distinct leverage. It demonstrates PUB's application beyond the functional use of waterways as conventional storm-water channels.

While working closely with the Urban Redevelopment Authority (URA) and National Parks on this programme, the PUB took into consideration the various design elements of the programme the behaviour and attitude of Singaporeans towards these water bodies. Such a collaborative approach which takes into account both the engineering as well as social perspectives depicts an endeavour to address Singapore's water issues holistically. Therefore, a detailed analysis of the implementation and related impact of the ABC programme would undoubtedly, yield a multi-dimensional understanding of Singapore's water bodies and their integration into the social fabric of Singapore life.

In this context and PUB's role in the ABC Waters Programme, the Institute of Water Policy (IWP) embarked on a research that will evaluate the initiative by studying the usage of the sites.

The study will look at the social activities and economic aspects of selected sites to understand the impact that the programme has on people's relationship with the waterways and water bodies as one of the key objectives of the programme.

The research will examine three levels of

engagement with water: the social and recreational activities carried out; the impact of water elements on day-to-day life; and the ideological awareness of the common populace of Singapore to appreciate, value and cherish water.

Meanwhile, the economic aspects of the programme will to be analysed through a combination of valuation methods. The overall research aims to bring together the qualitative and quantitative approaches of the programme through interviews, focus group discussions and surveys. IWP's study will identify the benefits of the ABC Waters programme and propose further improvement.

As Singapore continues to urbanise at a rapid rate, the balance between its green and water spaces with the built environment becomes more critical. In the past, trees and plants were imported to create a sophiscated look, but the tropical island has learnt its lessons well and is making better use of localised greenery and the reservoir environment.

As Singapore's population continues to grow and more green areas are cleared to make way for urban development, what remains to be seen is how these improved green areas will be received and used by a people more accustomed to shopping centres and in-door entertainment. It would be interesting to see if these areas would encourage a change in the lifestyle and entertainment preferences of Singapore

society and if that would further change the environment.

After all, the effect of human activities on the environment and its processes is no less significant than the effect of the environment on people and their activities. To a large extent, it is through a direct perception of and interaction with the environment, that the individual's awareness of wider environmental processes including, water storage, wastage, usage and even the perceived value of water will be enhanced; and that can only be a good thing.

However, with ABC Waters contributing to the beautification drive of water bodies and creating 'postcard-pretty' community spaces, the most important question to answer is how receptive will the people of Singapore be to the programme and how might these beautified water bodies would influence the behavior of common people towards them.

While there is no doubt that the ABC Waters programme improves the water-front landscapes of Singapore and provides a recourse in terms of social aesthetics and acceptability, what remains to be seen is how the relationship between people and their natural and built environment will evolve. GA

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#### **Announcing the Public Policy Primer**

TEXT · Sourav Rov

The latest book by the LKY School faculty digs into policy cycles and the role of public service managers in designing and managing policies.

Then Peter Ho, the former head of Singapore's civil services and a senior advisor to the Centre for Strategic Futures says, 'this is a must-read book for public managers and policy makers of the region, heads turn and everybody listens.

At the launch of The Public Policy Primer; Managing the Policy Process, written by LKY School faculty members, Xun Wu, M. Ramesh, Scott A. Fritzen and Michael Howlett, Ho remarked that the days of "government knows best" are over and modern-day governance is all about an educated and aware citizenry working in tandem with empowered civil servants.

"And it is this fine synchronicity that the book addresses meticulously, thereby suggesting methods of effective policy formation and implementation," added Ho.

"It is often said that 'policy is implementation' and 'implementation is policy' but the need to emphasise that the two are, in fact, part of a single value chain of good governance is pivotal. 'The authors of the book have taken into account that very aspect brilliantly," said Ho.

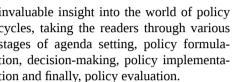
The Public Policy Primer provides an

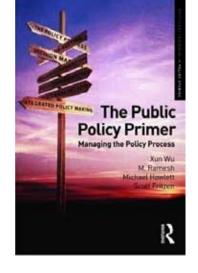
invaluable insight into the world of policy cycles, taking the readers through various stages of agenda setting, policy formulation, decision-making, policy implementation and finally, policy evaluation.

Stressing the timely importance of the book, Dean Kishore Mahbubani, opined that governments around the world are striving to strike a rich balance between the visible hand of the government and the invisible hand of free markets. This book will offer career civil servants and practitioners of public policy an innovative way of addressing future scenarios, added the Dean.

One often finds bureaucrats being blamed for stalled processes and systemic failure of policies. However, it is hard to imagine the challenges and complexities that career civil servants face.

Civil servants who assume managerial positions at various levels of public sector organisations play an integral part in designing and implementing public policies. They, however, find themselves shouldering a disproportionately larger share of public scrutiny for failures in public sector governance.





They are often branded as the 'bureaucracy', blamed for incompetence, thought of resisting change and accused of poor policy formulation and weak implementation of as initiatives. The flak flies from everywhere.

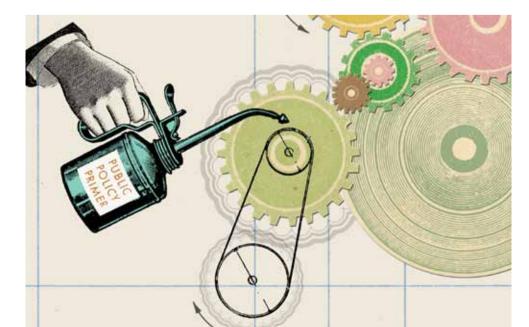
In addition to that, they also have to wrestle with the typical models of public administrations that thrive on 'politicsadministration' dichotomy, advocating a strong separation between administration and politics, and policy-making agencies from implementation agencies.

However, the authors of the book elucidate how recent developments have reinforced the need to expand the role played by public managers and how decentralisation and devolution have transferred critical policy roles to managers at lower levels of governments.

The authors also point to the emergence of a network or collaborative government practices which are built on participatory and consultative processes. Government authority is therefore, no longer solely topdown, instead, a parallel, bottom-up process exists in which public managers play a larger more continuing role.

Customer orientation in public sector governance, adopted widely across governments, has also strengthened the hand of the public managers who oversee the crucial delivery processes.

The Public Policy Primer revolves around an optimistic yet very realistic stand that career civil servants, informed by a better understanding of policy processes, can overcome many of the hindrances that undermine their potential for contributing to the policy process, and eventually, policy success. GiA



The Public Policy Primer: Managing the Policy Process has been published by Routledge, Taylor and Francis Group and can be ordered from www.routledge.com.

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Our ancestors preached it. Our parents taught it to us. The West is adopting it. So why are we Asians abandoning it?

I'm talking about environmental consciousness. Conserving water. Switching

countries. We don't want to re-use paper bags anymore. We don't even want to be seen conserving. We now have the power to waste, and we want to flaunt it.

The same change in mindset can be seen

their 30,000 inmates' sewage to provide biogas for cooking and compost for growing vegetables. Sunlabob, a private company in Laos, is renting solar lanterns to poor villagers, who find them more affordable than



off a TV that no one is watching. Calling the municipality to get a recycling bin in the building. Not

flushing the toilet at night (that one always raises eyebrows).

Growing up in India in the 1980s, our lifestyle was very different from today's. There was hardly any waste generated in a typical household. Everything was used and re-used until it fell apart.

We travelled in trains. We were reprimanded for wasting food. When my parents visited the United States for the first time, I didn't hear the end of their shock at the excess they saw – from the wastage of paper napkins and plastic cutlery at fast-food restaurants to the average household's usage of cars and electricity.

At the time, as a young Indian recently relocated to the West, I didn't want to be associated with stodgy parents who patiently folded used wrapping paper and stored it under their mattress. But now a renaissance of their mindset is taking place, as climate change becomes common knowledge. The wisdom of my parents' generation speaks to me again.

Losing touch with that wisdom was, perhaps, understandable. As India's economic boom transformed it from a global laggard into one of the world's key emerging powers, the new generation of Indians finally arrived – in business, science, and politics. Indian diasporas in the United States, the United Kingdom, and Southeast Asia are among the richest communities in these

in other emerging Asian economies. Conservation is regarded as a sign of weakness in this era of rising economic wealth. The desire to claim one's rightful place under the sun – to share the planet equally – is a driving force throughout the region, from Southeast Asia to Korea and China. Why should we conserve? The West was responsible for all the pollution and waste in the

first place. It is our turn now to ruin the

planet, and no one should try to stop us.

to the ancient Asian wisdom of conserving resources.

Unfortunately while we are queuing up for our BMWs, the rules of the game changed. The new lifestyle is no longer sustainable. It's the end of the road for gasguzzling cars, glass apartments that need constant air conditioning, water-thirsty washing machines and wasteful packaging. By 2050, Earth's population will be more than nine billion, and more than two-thirds will live in urban areas. We cannot survive the lifestyle that we desire.

There is an opportunity here for leadership. Infosys is redesigning every aspect of how it provides lighting, cooling, water, and transportation to their more than 100,000 employees, and aiming to reduce costs tenfold in the process. The Indian army is using solar steam cooking in Ladakh to cook for the 500 jawans (young army recruits) stationed there, and so is the Shirdi Sai Baba temple in Maharashtra.

Elsewhere, prisons in Rwanda are using

candles. The UAE is spending a chunk of its oil money to develop Masdar, the world's first zero-

carbon and zero-waste city. Singapore is using Newater, a treated form of wastewater that is potable. And British schools now include sustainability as a key part of the curriculum.

But some are falling behind in this thinking, namely well-to-do Asian households, and some Asian governments. Just five years from now, developing countries are projected to emit more greenhouse gases than all developed countries. We can either shrug our shoulders, or we can use the opportunity to revive our old values, re-think how we live, and change that projection.

Whether it is through low-energy housing, planting trees, teaching children to respect the environment, boycotting incandescent lightbulbs, or wrapping gifts in old newspapers, we have the opportunity to lead by example. Governments too, should collaborate with their developing-country counterparts to provide much-needed leadership in the climate-change debate.

Asia must leapfrog the unsustainable stage of development. We already have a deep-rooted tradition of conservation. Reclaiming it would make Asians trendsetters, and make the Asian way of life an example for others to follow.

Malavika Jain Bambawale worked as a Research Fellow with the Centre on Asia and Globalisation at the Lee Kuan Yew School of Public Policy. This article was first published by *Project Syndicate* in December 2010.

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## Holding governments accountable

Accountability is a cornerstone of good governance. Ora-orn Poocharoen and Jan Seifert tell us how governments fare when it comes to maintaining budget transparency.





The Open Budget Index (OBI) for the year 2010 assessed 94 countries from around the world in terms of their budget openness and accountability. The drive was coordinated by the International Budget Partnership, a Washington DC based independent think-tank.

Of the 94 countries reviewed, only 24 yielded satisfactory results when it came to maintaining a transparency in their budgets. Despite some notable improvements, many of the countries surveyed have numerous milestones to achieve.

The situation in Southeast Asia is even more worrying as none of the seven countries surveyed achieved a satisfactory score (i.e. at least 60 out of a possible 100 points). Singapore was, however, not included in the recent survey.

#### The importance of budget transparency for democratic, economic and social development

Transparency is a central theme of the good governance discourse. For economic and social development, in particular in a transitional/developing region like Southeast Asia, access to and information about budgets can make a real difference to citizens' lives.

There are several reasons that make budget transparency relevant:

- 1. Openness enables accountability of the government and is, therefore, a cornerstone of the democratic process;
- 2. The knowledge and analysis of revenues and expenditures can improve effectiveness and the quality of expenses;
- 3. Only open budgets allow ultimate trust in government policies. This, in turn, empowers citizens to participate in decisions taken by governments, thereby enhancing the credibility of public policies;
- 4. Transparency is key to prevent corruption and wasteful spending. Openness to government policies is bound to attract investments. Borrowing and lending costs would be considerably lowered if open information is provided to investors; and
- 5. Finally, budget transparency is imperative for advanced monitoring of the expenditure of public funds. This will facilitate processes such as fair use of revenues from natural resources or donor aid.

#### What does the index measure?

Keeping in mind the above parameters of budget transparency, the OBI developed a scorecard for the level of budget transparency of each country. The evaluation process consisted of independent researchers, in the respective countries, answering 123 survey questions. The focal point of transparency was determined predominantly on the publication and openness of the budget proposal of the government. The budget proposal accounted for about half of the score required to adjudicate the level of transparency of a country's overall budget.

Once the questions were answered by different country analysts, the answers were reviewed by external reviewers to ensure consistency across the board. Thereafter, the results were sent to various government officials and anonymous reviewers for comments and feedback. Finally, the International Budget Partnership accumulated and published the results. This process is repeated every two years.

The importance of the OBI attaching a numerical value to the

"Only open budgets allow ultimate trust in government policies. This in turn empowers citizens to buy into decisions taken, thereby enhancing the credibility of public policies."

budget transparency of the countries surveyed is that it is of empirical value to researchers and it helps to stimulate debates between countries, analysts and observers. Not only does the overall score help compare countries on crucial performing indices such as the state of development, resource dependency and legal systems to explain the numerous variations of openness, in fact the OBI endeavors to create an improved understanding of why and where transparency matters and how it could be used as an advocacy tool to improve the lives of citizens.

#### Findings of the Open Budget Index 2010

The scores in the OBI 2010 range from an almost near 'ideal budget transparency' in South Africa and New Zealand to a total lack thereof in Iraq, Fiji and Chad. What is interesting to note is that budget transparency is not necessarily linked to the state of development of a country. While South Africa is the top scorer, developed countries like Italy and Portugal fall in the upper middle-field of the index. One can also easily identify signs of resource curse, i.e. countries dependent on revenues from hydrocarbons, and which are not democratic, are ranked very poorly in terms of budget transparency. The fact that Mongolia and Liberia have made impressive advances in budget transparency while that in Fiji has decreased depicts that development is indeed in the hands of governments. In that context, quite often progress can be achieved by simply publishing documents that would have traditionally remained only for internal use.

More information about the OBI 2010 and its results can be found on www.openbudgetindex.org. The authors are currently working on a scoring for Singapore and are available for advice on the general findings of the OBI and its results for Southeast Asia. SIA

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## The physics of organisations

Siva Ramakrishna Devarakonda delves into the atomic level to find suitable inspiration for organisations.

As a trained engineer, I have always been interested in looking at public policy and social systems from an engineering perspective. After all, public policy is about designing a framework for a society, akin to what engineers do in their respective domains.

In this post, I shall make an endeavour to explain how transformation-leadership should work in organisations, by applying two interesting concepts from the discipline of physics. One related to atomic physics and the other related to rocket science.

In atomic physics, there is a concept known as 'lattice dislocations'. It refers to a

condition where the atomic structure is dislocated or distorted due to external or internal stress factors. Lattice is termed as the arrangement of various atoms, which are the building blocks of all materials, in a particular fashion such that the atoms stay in mutual equilibrium. Here it is important to note that the property of a material is determined by the way atoms are arranged. For example, the difference between plastic and iron exists due to the atomic characteristics of the respective materials. Thus, lattice dislocation is a state where atoms are in dis-equilibrium with respect to each other, which undermines the fundamental characteristics of the material.

"A leader can be compared to an engineer who has the ability to estimate the purpose of the material and mould the property of the material such that it can be used effectively."

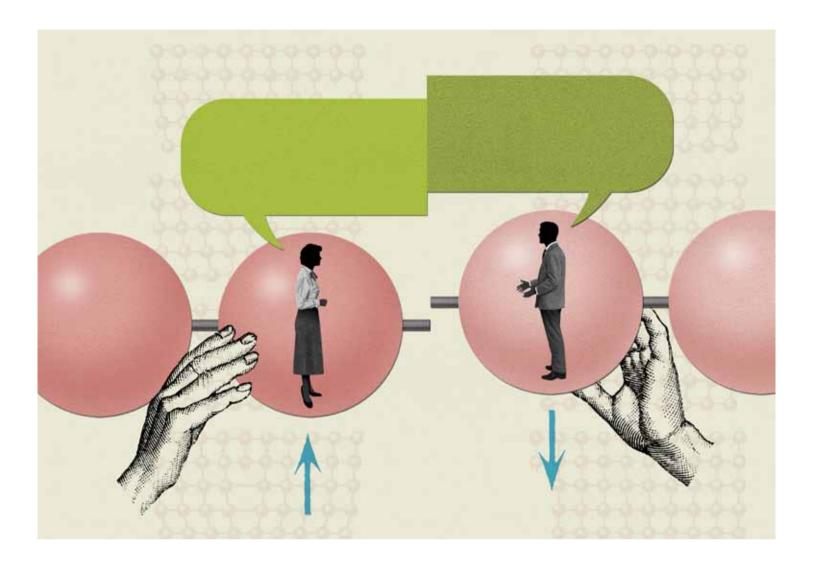
This same concept when applied to organisations translates to the idea that each organisation is unique in its own respect and has a specific property and vision to fulfill. However, when the organisation experiences stress, be it due to employee resistance, mis-management of resources or due to political interference, we can safely derive that the organisation is facing a dislocation problem.

In this regard, leadership and human resource management is a key strategy to realign the organisational interests and bring it to normal condition or elevate it to a new

level. Here, I would like to highlight the concept of 'heat treatment' in physics.

In heat treatment, the material is melted to fluid form and is subjected to purification processes, which accordingly removes foreign particles. Usually, such foreign particles are stress factors in the atomic structures of materials, and are a cause for material breakdown under external pressure.

Depending upon the kind of heat treatment, the material quality is governed. By applying the principles of heat treatment to organisational transformation I would argue that the slower and detailed



the organisational treatment method is, the better the alignment of the interests within the organisation.

For instance, there is a process in heat treatment termed as 'quenching'. Typically, in quenching, a fluid material is cooled rapidly. The parallel treatment in an organisation is 'organisational quenching', where the leader of the organisation infuses methods which are short term in nature and seek immediate results. The danger of such treatment is that the organisational values would be governed by short term goals, and accordingly the employees face an identity crisis with respect to their future roles and responsibilities.

On the other hand, there is another treatment known as 'tempering' where the material is subjected to a slow cooling rate depending upon the type of the material property the engineer prefers to achieve. The higher the desired quality, the slower would be the cooling rate. And such a material finds its application in very sensitive and high-significance applications. For example, the silicon that is used in our processors is manufactured using this technique.

Similarly, for organisations to sustain and to achieve high-performance 'organisational tempering' is a necessity. In this respect, the leader can be compared to an engineer who has the ability to estimate the purpose of the material and mould the property of the material such that it can be used effectively. In here, the human resources can be compared to 'atoms', which are dislocated and need structural adjustment. Organisational tempering, achieved either way, should therefore, be the norm for organisational change and transformation.

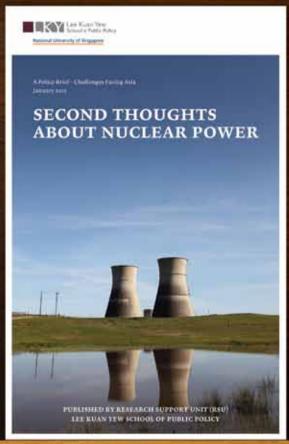
Let us now apply the second analogy of rocket science to organisational change. A rocket scientist envisages the purpose of the rocket and accordingly equips the rocket with several boosters, which enable the rocket to reach its orbit. These boosters are similar to incentive structures and organisational processes which motivate the employees at various levels and enable them to overcome the 'gravity of selfishness' while performing their duties.

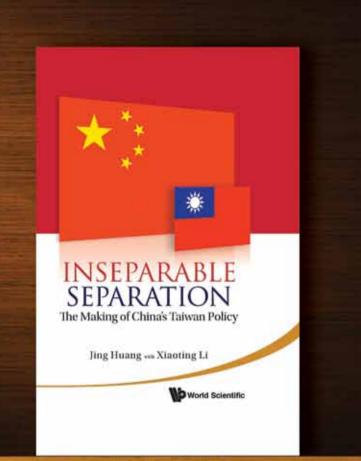
Let us agree to the fact that for any organisation, a selfless employee who derives a sense of purpose, is a great asset and it is the duty of the leader to facilitate or create such an employee. In the case of GE, Jack Welch achieved the necessary organisational infrastructure that would facilitate the growth of such employees, and Jeff Immelt emerged as one such classic example.

As is evident, one can acquire a deeper insight into the working and challenges of the structure of organisations by applying the concepts of physics. One can safely conclude that the application of the principles of natural sciences allows us to compare and understand organisations and social systems in a much deeper way.

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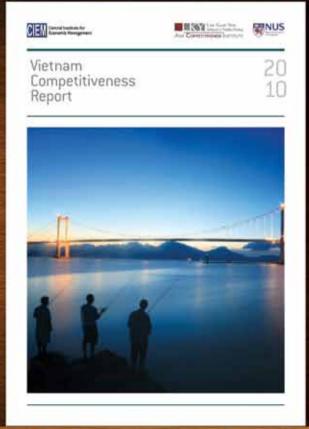




by Benjamin Sovacool

by Huang Jing





### Focus

#### Post Global Financial Meltdown

Asian leadership in the 21st century world  $\cdot$  The meltdown chronicle  $\cdot$  Learning lessons  $\cdot$  Towards a more robust EU  $\cdot$  The ongoing impact of the global financial crisis on Southeast Asia  $\cdot$  Correcting evolutionary failures  $\cdot$  The power of G-forces





# Asian leadership in the 21st century world

TEXT · Stavros N. Yiannouka

Asia has risen. Two years ago, it was still possible to speak of Asia as 'rising.' To be sure, the region enjoyed dynamic growth, but it was still not occupying centre stage. Its best years were still ahead, 2020 at the earliest but many thought it more likely to reach its apex by 2030 or 2040. Although Asia, and in particular its two powerhouses China and India, were catching up fast, the Western powers were still firmly in control as custodians of the global order.

Then came the financial and economic crisis of 2008 and 2009. Even though its aftermath is still being played out, one thing is evident: the crisis has accelerated the shift of power from West to East. Asia, ready or not, now finds itself thrust into the limelight.

Now that Asia has arrived onto the global stage, the world will legitimately seek answers to the following key questions:

- 1. What kind of leadership will Asia's pre-eminent nations need to offer the rest of the world:
- 2. Will this leadership be different from that offered by Europe and America in the 19<sup>th</sup> and 20<sup>th</sup> centuries; and
- 3. Are Asia's pre-eminent nations able and willing to exercise the kind of leadership that is necessary for the world to successfully overcome the challenges it faces in the 21st century?

The first two questions are easier to answer. The kind of leadership that is required in the 21<sup>st</sup> century will be different from that needed in the 19<sup>th</sup> and 20<sup>th</sup> centuries. It will be different, but not because Asian societies are fundamentally different from European and North American societies. All societies aspire for the same fundamental goods:

Asian leadership for the 21<sup>st</sup> century will need to be different from the leadership offered by Europe and the United States in the 19<sup>th</sup> and 20<sup>th</sup> centuries. Circumstances demand it. The question is, are Asia's pre-eminent powers willing and able to lead?



personal and collective security, food and shelter, prosperity and development, and room for individual expression and fulfillment. Societies may debate how to strike the right balance between these aspirations, but they all pursue them nonetheless. As a consequence, Asian leadership will not be different because of fundamental differences in values. Rather, the differences will arise because the world of the 21st century is very different from the world of the 19th and 20th centuries. And because the context is different, the kind of leadership that is required will, by definition, have to be different.

What, then, are the forces at work that are shaping the 21<sup>st</sup> century? By understanding these forces, we can also begin to discern the kind of leadership that will be required if humanity is to enter the 22<sup>nd</sup> century in better shape than it did the 21<sup>st</sup>.

There are two major forces at work today that will profoundly shape the next halfcentury: demography, and the development and diffusion of power.

#### Demography and development

Demography (the study of human population) has fallen out of favor in recent decades. Whereas in the past, a large population was seen as a major impediment to the elimination of poverty, the opposite is true today. Countries with growing populations are perceived as having the best development prospects, whereas countries with shrinking populations are seen as being in terminal decline.

Demography, however, is poised to make a comeback as an area of concern. With a global population fast approaching 9 billion, there is an urgent need for societies around the world to re-think their approach to development. Simply put, the current, carbon-intensive model of development is unsustainable. This model arose in the 19th century when the total population of the world was around 1 billion. At the time, the Earth's resources would have appeared infinite and the impact of industrialisation on the environment, negligible. Moreover, this model served the development needs of a relatively small number of people: the 200-300 million or so Europeans and North Americans who pursued it most intensively. Today we should know better. What worked for 300 million people in the 19<sup>th</sup> and early 20th centuries cannot be made to work for the billions of the 21st century without significant adaptation and modification.

It is in the arena of development that Asia's pre-eminent nations can have the most profound impact. By forgoing a 19<sup>th</sup> century model of development in favor of a more sustainable 21<sup>st</sup> century model, Asian nations can provide the world with much-needed leadership. Two sectors of the economy, in particular, lend themselves to the kind of technological leapfrogging that is required: transportation and energy.

Leading Asian nations should be building more railroads and fewer roads and they should be investing heavily in renewable and nuclear energy. Finally - and this is perhaps the most pressing leadership challenge of all — Asia needs to lead in redefining what it means to be happy and successful in the 21st century. The current imagery associated with success - McMansions and sports utility vehicles — is a product of a 20th century culture of conspicuous consumption bequeathed on the world by a post-war United States. Much as many people across Asia and the world may wish to emulate this culture, it will not be possible. The arithmetic simply does not work. Instead, Asia should be looking to its own advanced economies, countries like Japan and Singapore, for examples of how modernity and progress can be made to work for relatively large populations without degrading scarce resources or the environment.

#### Diffusion of power

Geopolitical power today is more diffused than ever before in human history. This is a paradoxical phenomenon, because this diffusion of power also coincides with a period in history where one power, the United States, possesses overwhelming military superiority over all others. This paradox arises because of both cultural and practical constraints on the use of military power today. For example, our universal

"Approaches to development that worked for 200 to 300 million Europeans and North Americans cannot work for three to four billion Asians without significant adaptation."

values today could never accept the kind of total destruction of one's enemies that was once possible. In 146 BC, when the Roman Republic decided to rid itself once and for all of the threat posed by its historical rival Carthage, it took the city, burned it to the ground, and enslaved the people that had survived the siege and ensuing massacre. As for our more recent history, it is hard to imagine the European conquest of the Americas taking place today without huge international outcry over the rights of indigenous populations. Practically, it is also much harder today to hold onto territory without the consent of the people who are already there. The ability of those who are weak in terms of conventional military power to significantly even the odds through asymmetric warfare has been amply demonstrated in Iraq and Afghanistan. In both these cases, conventional military victory was achieved in record time with very limited losses in life and equipment on the part of the victors. On the other hand, occupation has proved enormously costly and may ultimately prove to be futile.

There are two possible paths that a world in which power is diffuse can take. The first is a world in which the great powers try to cancel each other out through a system of competing alliances in an effort to achieve a balance of power. The second is one where the great powers collaborate in an effort to accommodate each other's interests. The most recent example of a world with diffused power was Europe in the late 19th and early 20th centuries (1870 - 1918). For most of that period, and despite wrenching economic and social changes, peace between the great powers was maintained through the so-called Concert of Europe, an informal but frequent gathering of the continent's leading powers. The system began to

break down early in the 20<sup>th</sup> century and was replaced by a series of competing alliances. The result was the First World War, a war that destroyed Europe and planted the seeds for an even greater catastrophe that was to follow 20 years later. In the 21<sup>st</sup> century, it will be in everyone's interest for the great powers to collaborate rather than attempt to play the dangerous balance of power game.

#### Can Asians lead?

This brings us to the final question posed in this article. Can Asia's pre-eminent nations provide the kind of leadership required by the times? There are grounds for both pessimism and optimism.

On demography and development, pessimists would point to the fact that in absolute terms, China is today the world's greatest emitter of greenhouse gases and both India and Indonesia are in the top five and rising fast. Moreover, most developing Asian nations persist in their carbon-intensive approach to development by citing fairness as the justification. The fairness argument runs as follows: (a) As Europeans and Americans are responsible for the current stock of greenhouse gases, they should take the lead in reducing emissions; (b) The West should not deny Asians their opportunity to use the same development tools that served it so well in the past; and (c) In any event, on a per capita basis, Asian emissions are still far lower than those of the United States and the European Union.

These arguments do have merit, but ultimately they do not serve Asia well. To begin with, as author L.P. Hartley wrote, "The past is a foreign country: they do things differently there." What happened in the 19th and even the 20th century is largely irrelevant to the question of what needs to happen today. As noted above, approaches to development that worked for 200-300 million Europeans and North Americans cannot work for 3-4 billion Asians without significant adaptation. Is it right for Asians to demand that Europeans and North Americans make proportionally greater sacrifices in cutting greenhouse gases? Of course it is. Should Asian nations wait for Europeans and North Americans to do something before acting themselves? No. In order to lead, one must be prepared to show the way and to move first. Ultimately, it is in Asia's own best interests to ensure that global warming is kept to a minimum and the worst projections do not become a reality. As this year's catastrophic floods in Pakistan demonstrated,

leading Asian nations remain vulnerable to the effects of climate change. Here there are some grounds for optimism that Asia and, in particular, China can exercise effective leadership. Both China and India have explicitly acknowledged that they have no intention of achieving US levels of per capita greenhouse gas emissions. Moreover, China is today the largest investor in renewable and nuclear energy and has also invested heavily in developing a high-speed rail network to link its major cities.

On the issue of power diffusion, there are again grounds for both pessimism and optimism. The case for pessimism centres on China's recent assertiveness over its territorial claims in the East and South China Seas and its establishment of strategic partnerships with Myanmar, Sri Lanka and Pakistan (the string of pearls) around the Indian Ocean. Even under the best of circumstances, China's rise was inevitably going to make the whole world nervous - never mind its immediate neighbors. As Napoleon once famously remarked, China, "once awake, would shake the world." Well, China is now truly awake, and the world is paying close attention to even the slightest tremor emanating from Asia's pre-eminent power. Under a worstcase but nevertheless plausible scenario, China's neighbors, in particular Japan, India and Vietnam, perceiving a threat, might seek to balance its rise with a strategic partnership of their own that would also include the United States. This kind of balance of power game coupled with competition for scarce resources could easily lead to the kinds of miscalculations that plunged Europe into war in the early 20th century.

The case for optimism rests primarily on the hope that Asian nations have learnt the lessons of history, and that thus Europe's past need not be Asia's future. Asian nations today are linked to each other and to the rest of the world through a series of formal and informal institutional arrangements that act as a safety valve and help defuse disputes before they escalate into open conflict. The hope is that arrangements such as ASEAN+should eventually evolve into a Concert for Asia where disputes are surfaced and interests reconciled in a multi-lateral setting.

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**1** t spread like a wildfire and figure out what was on. The damage was done at lightning pace. Not even during the Great Depression did things go down so fast. I knew we were staring at a crisis brought about by modern globalism."

That is the long and short of how the global financial meltdown affected the world, in the words of Paul Volcker, Chairman of the Board of Trustees for the Group of Thirty and the Head of President Barack Obama's Economic Advisory Panel (2009-2011 January).

Speaking at the LKY School of Public Policy, Volcker said the global fiscal meltdown that began in the United States of America was not merely a failure of the banking and the financial system. It was a crisis

that built up over the years and eventually broke the back of the global financial order.

But how exactly did the world come to the brink of losing it all? Volcker says the breakdown of the American economy was nothing short of a train-wreck waiting to happen due to its voracious consumption pattern and lagging productivity.

"For some years the pre-conditions of the crisis were building up in the United States of America. We, as a nation, had been consuming much more, in this century, than ever before or what would have been sustainable," said Volcker.

"Normally Americans consume 2/3 or less of the country's GDP, however, it rose up to an alarming 70 per cent before the breakdown. On top of that we had a big boom in housing," added Volcker.

The former chief of the US Federal Reserve said that Americans began consuming and investing in real estate more than the country could handle.

Pointing to a stark contrast in the consumption pattern of China, Volcker said China, meanwhile, produced much more than what it could consume nationally.

"China, on the other hand, was doing exactly the opposite. While, we were consuming 70 per cent of our GDP, it was consuming a mere 35 per cent of its GDP. A striking difference in behaviour."

Volcker reasons that a massive surge in Chinese productivity had huge impacts on America and the rest of the world. Increasing exports from China and other Asian countries eventually led to American securities landing in the control of foreign hands.

"It was all reflected and bounced out in huge imports from China and the rest of Asia, which we paid for with dollars that they more or less held. And those held dollars kept our interest rates low."

"So it was a wonderful cycle. We could consume, they could produce, we had cheap money and they built up their dollar holdings. It was great, but the only trouble was, it could not last," added Volcker.

Volcker opines that the lack of American productivity, over-consumption patterns and the real estate and housing boom, coupled with modern financial engineering put the American economy at the worst risk ever.

"Normally Americans consume 2/3 or less of the country's GDP, however, it rose up to an alarming 70 per cent before the breakdown. On top of that we had a big boom in housing."

"Modern financial engineering and complicated financial mortgages, derivatives, securities and credit default swaps, made us directly deal with all the risks in the market," said Volcker.

"And we thought we were so sophisticated and fancy that we did not have to worry about a financial breakdown."

However, Volcker adds that all this happened when the American regulators were 'somewhat asleep' and led to the greatest confusion of the 21<sup>st</sup> century.

So what imparted the final death blow to the fragile and collapsing American economy? Volcker points at the dubious real estate and housing crisis.

"As soon as real estate prices stopped going up, all the weaknesses

in the financial system were exposed in a flash. That was enough for the system to collapse completely."

Volcker reasons that the global financial meltdown was not just a mere example of regulatory framework and market failures. It was, as he says, a mirror which reflected the various dis-equilibriums that had crept up with the support of ambiguous innovative financial engineering tools. The collapse of the American economy had a global domino effect, added Volcker.

"It took not just the United States but went all around the entire developed world. It took trillions of dollars of government intervention in one way or another and put economies under strain."

Volcker added that compensation practices, which had gotten out of hands and egged financial people to aim for short-term money and benefits, without worrying about the financial consequences, precipitated the crisis.

"Wall Street got so innovative and profitable that all these people trained as engineers and architects now became financial engineers, they thought they were putting things together in the economy as it is done in the physical world. That I think was a big error in thinking," said Volcker.

Volcker stressed that the way ahead was to ensure that future banking and financial regulatory frameworks were not prone to any sort of crisis and accompanying severity. Volcker added that, although financial systems fluctuated naturally, however, they should not be allowed to put the entire economy in jeopardy.

"We need to make serious re-adjustments and corrections. We cannot afford to fool ourselves any further. It is time to re-visit the roots of a real, commercial banking mechanism," said Volcker.

While the world rests on corrective regulatory guidelines and frameworks such as the Volcker Rule, as propounded by Volcker himself, it still battles head on with the challenges of recovery from the global financial meltdown.

The question is, have global economies learnt enough or do they have to endure more crises to emerge stronger? GIA

## Learning lessons

Global banking institutions are constantly innovating better management systems. Hugo Bänziger reasons out why financial managers of future regulatory frameworks ought to possess the right blend of education and qualifications.

One of the key lessons we learned from the recent financial crisis was the importance of education and training. While there were many contributing factors to the huge losses some organisations faced in recent years, what mattered most was the competence of management. Managers with the ability to understand the complex challenges they faced and to make the right decisions were able to steer their institutions through the crisis relatively unscathed. Conversely, other institutions were harshly punished for poor management decisions.

The competence of managers is firmly rooted in education. This applies not only to the training provided internally by banks, but also to the external world of academia. Universities clearly have a role to play in improving the skills, qualifications and expertise within our industry. It is no coincidence that Deutsche Bank has partnered with Lee Kuan Yew School of Public Policy and other select institutions globally,

including the London School of Economics, the Luxembourg School of Finance, the New York University Stern School of Business and the Chicago University Booth School of Business. We recognise the importance of educating the next generation of managers and bank executives in improving the overall financial industry framework.

In strengthening standards across our industry, we can also take simple lessons from other parts of society. For example, there are many ways to avoid or mitigate road accidents. A regulatory or rules-based approach of traffic lights and speed limits will certainly have an impact. However, it is the skills of the driver that is the most important factor in reducing road accidents. It is therefore no surprise that we require drivers to take an examination and obtain a licence to prove they are qualified to drive safely.

So why do we not have a similar certification within the banking industry that demonstrates the competence of people making the key decisions and navigating the risks? Whilst we have some examinations for parts of the banking system, such as accountancy exams, in general our industry from both the public and private side has failed to address this gap. This is despite several years of debate on numerous aspects of our regulatory framework.

Surely our system would be safer if key managers had a better understanding of regulation, of the detailed implications of Basel II on credit and market risk, and the advanced measurement approach for operational risk, as well as the capital and liquidity requirements under Basel III. This could easily be done via webbased training, testing and evaluation, and mandatory annual re-certification, which would undoubtedly bring more rigour to the decision-making process.

This focus on improving knowledge and expertise must also be accompanied by a strengthening of the risk culture within the banking industry. In some banks this is





already underway, with the emergence of Enterprise-wide Risk Management (ERM). The ERM approach aims to raise awareness of risk across the whole organisation, for all staff, from front office to back office and across the supporting infrastructure. At Deutsche Bank we often talk about the four lines of defence: The front office, risk and liquidity management, underlying profitability and capitalisation.

I have listed these in deliberate order. The defence starts in the front office, where a genuine understanding of risk has to be embedded. Allied to this must be a strong risk management framework with transparent governance, robust technology infrastructure and prudent liquidity management. The third line of defence, profitability, enables any financial losses to be absorbed by profit earned in previous years. The active building of a significant capital buffer is the final line of defence, and also provides headroom for losses to be absorbed. Each of these defences requires staff at all levels of

the organisation to have an understanding of risk. Put simply, prudent risk management is everyone's responsibility. It is about educating staff on risk management topics, providing the tools and learning opportunities, and by doing so, change behaviours.

These efforts to strengthen the risk culture and the knowledge of people have been ignored for too long. We must take the current opportunity to embed these important aspects into our new regulatory framework, alongside new rules on capital, liquidity and other important areas. People are the heart of the banking industry, the difference between failure and success. Regulatory change has to address this fact, via formal learning and qualifications for participants at all levels within our industry. Education and the testing of knowledge should not stop when we leave university.

Hugo Bänziger is a member of the Management Board and the Group Executive Committee of Deutsche Bank. He officiates as the Chief Risk Officer of the bank.

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#### Towards a more robust EU

TEXT · Sung Lee and Sourav Roy



Klaus Regling, the Chief Executive Officer of the European Financial Stability Facility, tells *Global-is-Asian* why the European Union will emerge stronger in the near future.

**GiA**: The European Financial Stability Facility will be able to borrow over €400 billion to lend to struggling Euro area countries and this will be guaranteed by European countries itself. Your own country, Germany, seems to be on the hook for around €150 billion of those guarantees. Now that's using a lot of public money. How does that augur overall for the recovering German economy?

KR: The European Financial Stability Facility (EFSF) will not borrow over €400 billion. The EFSF has a maximum guarantee commitment of €440 billion, the actual lending amount available will be substantially less due to the structure including the 120 per cent over-guarantee required and the cash reserve to protect investors. Also, I would not describe Germany as being "on the hook." The Euro is the most integrated part of the European Union. No member state questions the Economic and Monetary Union (EMU).

Furthermore, the German economy benefits enormously from being a part of the Euro area. Therefore Germany, as all other Euro area member states, takes its responsibilities very seriously and provides a guarantee commitment of €119 billion to the EFSF.

**GiA**: There is a growing perception that Germany has to unwillingly play the role of a 'paymaster' of the crisis in failing European economies. Would you agree to that? If no, then how does Germany gain from its contribution to the guarantees and bailouts?

**KR**: You are right, neither Germany, nor any other country for that matter, should be a 'paymaster' and this is definitely not the case. Germany is merely providing its contribution to safeguarding the stability of the Euro area via its guarantee commitment.

It is important to stress that we are talking about a guarantee commitment. We will not be re-distributing public funds; our financing will come from the capital markets.

Furthermore, if you consider the history of the IMF, very few countries have ever defaulted on their loan repayments, and the chance of that happening in a united Euro area is even less likely. More generally, Germany's economy has benefited greatly from the Euro because it protects the European Single Market where Germany can trade without any exchange rate risks and cost.

**GiA**: How will future lending processes be different from what we have seen so far?

KR: In October the European Council agreed to set up a permanent crisis mechanism in 2013. One month later, on 28 November, Euro area finance ministers agreed on the key elements that will define this new permanent mechanism. The key difference of the European Stability Mechanism (ESM) compared to the current EFSF is the decision to include private sector involvement in a crisis resolution, if considered appropriate. This will be dealt with on a case-by-case basis using debt sustainability analysis and following established IMF policies.

An important feature in this context will be the introduction of Collective Action Clauses (CACs) for all future Euro area government bonds from June 2013. Already common market practice in the US and the UK, CACs allow a super-majority of bondholders to agree to a debt restructuring, should it be required with the aim of helping the debtor country to return to a sustainable debt situation. Once again, it is important to state that the introduction of CACs will only

take effect from mid-2013 and will have no impact on bonds issued before that date.

**GiA:** Is there a remote possibility of setting up a European 'bad bank' to take over bad loans or to invest directly in banks that fall short of capital?

**KR**: No, I do not consider this to be a possibility. The banking sector of each Euro area member state is under national responsibility. Any problems are to be dealt with on the level of the relevant country although in order to maintain a level playing field without the distortion of state aid, the European Commission will steer a pan-European approach by requesting and supervising the restructuring of ailing banks.

**GiA**: You are believed to have said that in case of an emergency, there is bound to be a trade-off between transparency and efficiency. The fund has to be able to act quickly even if that reduced the understanding of outsiders? How would this reflect upon the public perception of the fund and the lending economies, considering populations are less forgiving of opacity in today's world?

KR: This quote is from an interview I gave more than a decade ago, when I told a conference on reforming the IMF that there was a trade-off between transparency and efficiency. Times have changed a great deal since then, but occasionally such a trade-off exists. However, I do not think that transparency will be sacrificed in the context of the EFSF. We have spent a lot of time on the road meeting investors and also the press in order to explain how we work and the structure and organisation behind us.

**GiA**: Your organisation has been set up to bailout struggling Euro area countries. However, there is a huge outcry over enormous bailouts considering the fact that public sector salaries and pensions have been slashed in countries like Germany, France and Italy? What are your reactions to that?

**KR**: The EFSF is not here to provide a bailout. It has been set up to provide temporary





liquidity assistance to a Euro area member country that is experiencing difficulty in financing itself on the capital markets at sustainable rates. We do not take over their debt, we merely give them some time which then allows them to take the necessary steps to re-structure and reduce their budget deficits to re-gain competitiveness and creditworthiness. To reach this any financial aid provided by the EFSF is linked to strict conditionality.

**GiA**: In your recent interview with the German daily *Bild*, you said, "The safety umbrella is big enough for everyone. The fact is that only Ireland has asked for help." Is there really enough money to go around to help other ailing European economies?

KR: In the *Bild*, the question was specifically asked whether we had the capacity to provide assistance to Portugal and Spain. To answer this question, yes, the EFSF does have the capacity. But let me be clear, until now only Ireland has asked for help. The Irish request represents less than one-tenth of our overall lending capacity. Besides, Portugal and Spain have both shown great determination by introducing and implementing reforms and austerity measures in order to reduce their deficits and boost growth. I do not forecast that they will need financial assistance from the EFSF. And of course, it was never the objective to provide

financial assistance to the entire Euro area when the EFSF was decided.

**GiA**: What is the overall risk of the Eurozone collapsing due to the debt crisis?

KR: There is no risk that EMU will fall apart. All member states are committed to safeguard financial stability and to protect the common currency. The proof of this can be seen in the many actions that have been taken so far this year to confront the crisis such as the financial aid package of €110 billion that was provided to Greece, the €750 billion rescue package combining the forces of the EFSF, EFSM and IMF.

Finally, important steps have been taken to prevent future crisis with the creation of a new surveillance architecture that will be in place from January 2011. The European Systemic Risk Board (ESRB) will monitor macro-prudential risks to the EU's financial system. In addition, three supervisory authorities, EBA, EIOPA and ESMA, will oversee banking, insurance and securities markets respectively from early 2011. Furthermore, the Euro area member states will enhance economic governance by strengthening the Stability and Growth Pact and addressing imbalances through intensified supervision of economic policies.

GiA: Is there a chance that the Euro could

fail in the future? Will European countries opt to leave the Euro?

**KR**: No, this is not an option. If one thing has emerged from this crisis, then it is that the Euro area member states have stuck together and are working hard to try and resolve the problems. Once this crisis has been resolved, and not for the first time, Europe will emerge stronger. Everyone is committed to safeguarding the euro.

**GiA**: The EU intends to hold new round of stress tests in 2011 to check the robustness of European banks. How reliable do you think these stress tests are considering all major Irish banks passed the previous EU stress tests in July 2010?

KR: The EU will start a new round of rigorous and comprehensive bank stress tests in February 2011. The lesson learnt from the previous tests was that liquidity risk, or the risk that a bank may be forced out of business if it is unable to obtain credit or if savers withdraw deposits, must also be assessed. This, obviously, was the case for the Irish banks. The next round of tests must provide the fullest transparency and cover all relevant liquidity risks.

Klaus Regling was a European Union Fellow at the Lee Kuan Yew School of Public Policy (2008-09). "In the financial arena, the development within Southeast Asia of more compatible regulatory regimes and more integrated financial markets would raise the region's profile and influence. More thinking needs to take place on what regulatory structures would be most appropriate for the region."

## The ongoing impact of the global financial crisis on Southeast Asia

TEXT · Andrew Spindler and Astrid S. Tuminez

**\( )**011 seems to be a long way from 2008,  $\angle$  when the global financial crisis erupted, wiping trillions of dollars off the world's balance sheets and unnerving policy-makers worldwide. Southeast Asia was not immune to the effects of the crisis, but strong fundamentals shielded it from the worst outcomes. What can be learned from the crisis and what is its ongoing impact on the region? How will Southeast Asian political and economic relations with the rest of the world likely change? What reforms are needed to strengthen the region's financial health and make Southeast Asia a stronger player in international financial decisionmaking circles?

These were some of the issues discussed at an LKY School symposium on November 2-4 2010. Organised by the LKY School and New York-based Financial Services Volunteer Corps (FSVC), a non-profit organisation whose mission is to strengthen financial infrastructure in emerging markets, the symposium was underwritten by Eton Park Capital Management and DBS, UOB, and OCBC banks. Approximately 30 financial experts from Southeast Asia, the United States, China and Russia gathered at the LKY School for intensive discussions over a three-day period. Paul Volcker, Chairman of President Barack Obama's Economic Recovery Advisory Board and former chair of the US Federal Reserve System, and Tharman Shanmugaratnam, Singapore's Minister for Finance, gave keynote speeches.

Volcker launched the discussions by commenting that the United States used to think of itself as the "centre of the world", but that is no longer the case. Globalisation, which has greatly benefited Asia, is an irrevocable fact. The global economic system needs to find a new equilibrium at a time when textbook models no longer seem to apply. Change will be slow, and patience is necessary.

Minister Tharman observed that the world is in the midst of a multi-speed recovery, with emerging market countries generally performing more robustly than advanced developed ones. He further observed that this dichotomy has greatly complicated the choices available to policymakers around the world.

Participants agreed that the global financial crisis was precipitated by broad problems in the financial sectors of the United States and other advanced countries, but that underlying problems of a more fundamental nature — relating to key global imbalances — also contributed in a major way. Global economic and financial prospects are complicated in the short term by the uneven speed of the recovery, as cited by Minister Tharman. Another factor further clouding the short-term picture is uncertainty over the longer term, as many of the world's largest economies need to make serious structural shifts, including major fiscal adjustments, driven in part by their changing demographics. Participants also discussed the current pattern of large capital flows into the emerging market world, a spill-over effect of US government stimulus policies, and also a result of the natural tendency of investment monies to seek the highest possible returns.

What are the implications for Southeast Asia and its relations with the rest of the world? First, it is clear that we do not live in a "de-coupled" world. Decisions made in the world's financial and political capitals do affect outcomes in countries many time zones away. Policy coordination across countries and regions is critical. Second, deeper financial markets and stronger supervisory and regulatory regimes are needed in emerging markets, and in Southeast Asia in particular. While Singapore has been an exception, financial markets and the capacity to oversee them have been slow to develop in the region. Third, the world



urgently needs international financial and monetary reforms. The new focus on G-20 decision-making gives Southeast Asia some voice in the reform process, but the influence of the region has been lessened by its heterogeneity as well as legal and regulatory uncertainty. Fourth, Southeast Asia needs to expand the provision of financial services to small businesses, the middle class, and under-served population segments. Certain countries in the region, including Laos, Cambodia and Vietnam, lag behind others in this regard and in the development of their financial sectors more generally.

Asia now accounts for 50 per cent of the world's GDP. Economic power has gravitated to Asia, not just to its two giants, China and India, but also to Southeast Asia. The region must step up and play an expanded role in international decision-making. In the financial arena, the development within Southeast Asia of more compatible regulatory regimes and more integrated financial markets would raise the region's profile and influence. More thinking needs

to take place on what regulatory structures would be most appropriate for the region, and what structures could provide common ground among countries that have highly differentiated profiles and, in some cases, face economic and political tensions. Greater thinking about these issues, combined with more regional financial integration, would enable Southeast Asia to raise its relevance in the international financial reform process.

Participants under-scored the need for continued US leadership in the world, in part, because there is no clear substitute for it. But a different style of US leadership is called for, one reflecting the world's increasingly multi-polar nature. US policy-makers need to be more collaborative in their approach and more sensitive to the interests of other countries affected by their decisions.

Capital inflows are an important area of concern as well for Southeast Asia. Stronger financial frameworks within the region, together with stronger local financial institutions, would help the region deal with the

volatility associated with these in-flows. A further issue considered by symposium participants was how the region could increase its effectiveness in G-20 policy-setting fora. Given the myriad financial regulatory topics, many of them highly technical, on the agendas of groups such as the Basel Committee on Banking Supervision, the countries that arrive at the table best prepared will often have the greatest say. Southeast Asia will need to 'do its homework' in order to wield the influence that it deserves in such bodies. Leadership will be crucial, particularly from countries with the most sophisticated store of expertise, but such leadership may not be easily accepted by all. GiA

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#### Correcting evolutionary failures

With global financial markets collapsing like a house of cards and public trust in the banking and finance sector melting like clarified butter, governments and corporate institutions have resorted to a slew of correctional methods, hoping to restore markets and the shattered confidence of people.

However, the 'Zillion-Dollar' question

is, can the cumulative power of all correctional initiatives, Dodd-Frank's reforms and Volcker's rules plus innumerable more, truly bring about a one hundred and eighty degree turnaround? Or is there a fundamental change required in the core human values of our times? Is it time for the power of truth to replace the power of the treasury? Is it even possible for non-violence to eliminate

market aggression?

To get an insight into the metaphysical aspect of the financial meltdown and to do some soul-searching, the editors of the magazine read between the lines of *East Asian Economies: The Miracle, A Crisis and The Future*, a 2001 book written by **Bhanoii Rao.** 

Following is an excerpt from the book:



#### Values, evolution and evolutionary failure

Mutual trust is essential for the healthy development of a market economy. Trust reduces the need for contract enforcement. Trust also helps the elimination of monitoring costs for work entrusted by the employer to workers. However, lasting trust cannot be built without the adherence to truth.

A landlord uses bonded labour with no concern for the relationship between what the worker is paid and what he or she has contributed. A similar comment applies to slave workers as well as child workers. These are instances of exploitation of one form or the other and reflect a sort of violence. Such exploitation could be conducive for economic growth by reducing costs, promoting profits and increasing investments. Yet, the civilised world rejects it simply because it is considered inhuman to exploit the vulnerable.

#### Which way progress?

One hundred and thirty years ago, Charles Darwin asserted: "... progress has been much more general than retrogression;...man has risen, though by slow and interrupted steps, from a lowly condition to the highest standard as yet attained by him in knowledge, morals, religion." It is pertinent to note that Darwin has acknowledged progress on the moral and religious front as well.

What will one say about 2100 [or even as soon as 2030?] from the vantage point of 2000?

He or she will probably voice fantastic ideas as near instant travel (the twin of instant communication); mail-order facilities for synthetic body parts for use in place of the worn out; end of immigration restrictions on the earth along with their imposition on the moon and Mars (leaving a highly polluted earth for the poor), etc.

What probably will not even find mention in the projection is the achievement of transformation of the human mind from untruth to truth, and from violence to non-violence. The absence of such an idea in the projection of the future may be justified since greed, violence and war have been the evils that have continued to inflict injury on the human race right up to the dawn of the twenty-first century.

#### **Evolutionary failure**

After the birth of the human species, came the agrarian settlements. Then the great civilisations of the valleys of Nile, Indus and Yellow Rivers flourished some five to six thousand years ago. After that, we saw the spread of the thoughts of great men (Lao Tzu, Confucius, Mencius, Buddha, Socrates, Plato and Aristotle, for instance) over the past two and a half millennia. If the wisdom of these masters were to fully and truly influence human nature, there would be no violence, war and destruction on earth. This was not so in spite of the Industrial Revolution and the phenomenal increase in material prosperity. The very fact that the growth in industrial power coincided with slavery and colonialism should be considered as significant evidence of evolutionary failure.

Evolutionary failure as defined above can be ascertained from the record of the twentieth century. One does not have authoritative historical statistics on all types of violence, but the innumerable instances of killing in formal wars and all sorts of terrorist acts testify against human evolution towards perfection. Technology, the basis of economic development in the world, has also been employed to produce sophisticated weapons of mass destruction. The motive to kill has not ended in the human psyche.





#### Correcting evolutionary failure

The typical texts in economics prescribe state intervention to correct market failure, and if the state is failing in its intervention, then the prescription is for the economy to go back to market discipline (via deregulation, privatisation, etc.) Just as the case of a cheat failing to fulfill a contractual obligation such as servicing a loan could lead to market failure, a corrupt regulator not enforcing the contractual obligation is an instance of government failure. Note that both are the result of evolutionary failure and any amount of correcting one failure with another will not work in the absence of the transformation of the human agents.

Markets and states need not fail if all the actors adhere to truth. Efficiency is then driven by markets and by truth as well. Then free riders will not exist and moral hazards will be out of place. There is then nothing fundamentally wrong with state ownership or nothing fundamentally unsound about private ownership when there is no abuse and mis-use of either for purely private and undeserved gain.

Some reputed social scientists (for example, Fukuyama 1999) think that an evolutionary logic to human history would lead countries to liberal democracy and markets. Is it possible for democracy to move humanity towards manifesting the core human

values of non-violence and truth? Democracy can at best ensure public outcries against all those who do wrong, who are corrupt, and who do not perform. Protracted litigation can lead to the exposure and punishment of the violent and the corrupt. Civil service reforms can help weed out the inefficient. Electoral reform can reduce corruption among the politicians. Despite such possibilities, democracy and its institutions can at best control, and not eradicate, violence and untruth. Eradication requires a fundamental change in a person's value system. His or her contemplations alone must lead to a full appreciation of the transient nature of one's own identity, an appreciation of the equality of all life and a movement from the mental propensity to be violent and corrupt to total freedom from them.

Freedom is not a licence to kill and cheat. It is a great opportunity to contemplate and question, to exercise choices and enjoy, and to give and take, with harm to none. Freedom, without the core human values of non-violence and truth can be the destroyer of freedom itself. To protect and preserve that freedom, which mankind treasures so dearly, there has to be a conscious movement towards human perfection.

Human evolution has been occurring increasingly on the mental plane and not on

the purely physical side. One could easily see scientific and technological progress of the past three to four centuries as the end result of a mindset change. The problems created by science and technology, however, cannot be corrected by more science and technology, in the absence of a change in the human mind towards the manifestation of the core human values of non-violence and truth. There is nothing in science and technology today, especially within the framework of intellectual property rights and profit seeking research and development (R&D) investments, to ensure compassion and human values become part of the overall concerns. R&D must go on, but with due stress on human values.

One hopes that the core human values can be consciously promoted at all levels of formal education as well as at all layers of informal education. This will require a change in the mindset of leaders, policy makers, educators, media barons and all others who influence social policy.

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## The power of G-forces

Charles Adams examines the outcome of the G-20 Seoul summit and its lack of progress on global re-balancing.



T he conditions leading up to the Seoul summit in November 2010 were not propitious for maintaining the high but diminishing levels of co-operation evident at earlier G-20 summits in Washington, London, Pittsburgh and Toronto.

Most importantly, with the threat of economic catastrophe having essentially evaporated, there was not the same pressure to agree to the kinds of bold policy measures agreed at earlier summits.

The multi-speed nature of the global recovery also implied that there were growing divergences in policy priorities across countries. Moreover, whereas the first G-20 summits had the relatively easy task of laying out the broad principles for financial reform, the Seoul and other recent summits have had the mandate of forging agreement on specific financial reform measures.

Achieving consensus at Seoul was further complicated by high-profile disagreements on exchange rate issues between the two largest G-20 economies, along with

talk of currency wars. Expectations for a major breakthrough at the Seoul summit had already been scaled back considerably by the time the G-20 leaders met in early November.

The Seoul summit, nevertheless, had difficulty meeting even the lowered expectations and was characterised by widening differences of view on a number of issues. Compared with the apparent high degree of consensus at earlier summits, particularly Washington and London, Seoul served to bring to the fore the challenges in sustaining economic policy cooperation among large groups of countries, especially when immediate threats to economic stability are not evident.

The G-20 has now reached a critical juncture where the success of the process will be judged by its ability to confront a number of key outstanding policy issues, especially in the areas of global rebalancing (and exchange rates) with regard to the financial reform agenda.

Given the failure of the Seoul summit to reach agreement in these areas, or the deferring of important details to subsequent meetings, attention will turn now to the upcoming G-20 meetings this year in France. Achieving consensus will again be difficult given the increasingly multi-polar world (as typified by the G-20 itself) and the differing policy priorities across countries. Agreement will be critical, however, in determining not only whether the global economic recovery can be sustained but also whether meaningful reforms can be introduced to reduce the frequency and severity of financial crises.

The success of the G-20 process will ultimately require a much greater commitment on the part of all its members to ensure an adequate supply of the global public good of financial stability.

In the case of the major advanced economies, the major immediate challenge will be the implementation of "exit strategies" from the extraordinary measures adopted during the global crisis in such a way so as to balance short-term concerns about the pace of the recovery with achieving medium-term policy sustainability. In addition, many of these countries will need to implement significant financial reforms to address the weaknesses in financial sector oversight and practice made clear by the global crisis.

In the case of the largest emerging market members of the G-20, on the other hand, there needs to be a much greater acceptance of their responsibilities to contribute to the global re-balancing effort, including through permitting greater exchange rate flexibility, and a willingness to play a more constructive role in developing solutions to the challenges faced by the world economy. In addition, strengthening the effective supervision and regulation of financial systems remains an important policy priority in these countries.

More generally, the G-20 itself will need to scale back its increasingly broad economic policy agenda and focus on achieving consensus in a limited number of critically important areas.

The suggestion that the Seoul meetings were not very successful might be contradicted by the wide-ranging leaders' declaration issued after the summit. In-line with the practice at other G-20 summits, the twenty-paragraph declaration speaks to virtually all the key economic issues in the international economic and financial system such as: improving crisis prevention and management; strengthening international financial safety nets; successfully concluding the Doha trade round; improving international economic governance; poverty reduction; ensuring financial inclusiveness; infrastructure spending in the developing world; and addressing climate change.

Unfortunately, however, the declaration's twenty paragraphs include little that is new or concrete and, in many cases, can be read more as a "wish list" or a stock-taking of progress, rather than a plan of action.

The leaders' declaration refers to a Seoul action plan agreed by the G-20 leaders; this is presumably where the details reside. The action plan is described as including "comprehensive, co-operative and country-specific policy actions to move closer to our shared objective, with the latter defined as the achievement of strong, sustained and balanced growth.

In addition, the G-20 leaders issued a seventy-four-paragraph summit document, along with various annexes, that are described as outlining the specific policies and interventions agreed to achieve the objectives. Unfortunately, however, many of the agreed policies are not spelled out clearly enough to allow an evaluation of their effectiveness or their international consistency.

Arguably, the plethora of G-20 documents and materials evidences a serious lack of progress in reaching consensus rather than an indicator of success in international economic policy co-ordination.

The very broad-ranging coverage of the Seoul declaration conceals a number of critical areas of dis-agreement among the G-20 leaders. Two key areas of disagreement are with regard to the policies for global re-balancing (including the role to be played by the exchange rate) and the large outstanding agenda for financial system reform. Both of these are the centre of international efforts to sustain the on-going economic recovery and address the short-comings in financial systems that contributed to the global crisis.

In the area of global re-balancing, Seoul made only limited progress agreeing on the specific policy adjustments that would be implemented by surplus and deficit countries. Instead, and notwithstanding the fact that re-balancing has been on the international economic policy agenda since at least the IMF's multilateral consultation exercise launched before the global crisis, the leaders could only agree on very general principles. In particular, the leaders re-affirmed that countries with significant external deficits would under-take policies to support private savings while countries with significant external surpluses would seek to strengthen domestic sources of growth. Such a declaration, however, is little more than a characterisation of re-balancing and does not move the process forward in a meaningful manner.

A key objective ahead of the Seoul summit was to reach agreement on the specific policy requirements for re-balancing in both deficit and surplus countries. As was discussed in the media, however, US efforts to secure agreement on the underlying economic policies required for re-balancing, or on targets for external surpluses and deficits, were not successful.

For the most part, this was the result of a reluctance on the part of surplus countries, including in Asia, to sign on to such approaches, notwithstanding agreement that re-balancing would be important for sustaining the global recovery.

In its carefully worded commentary on the G-20 process, the IMF has noted, as part of an agreed G-20 Mutual Assessment Process, that: "important challenges remain to meet the objectives of strong, sustainable and balanced growth agreed by (G-20) leaders;" that "limited progress is being made towards external re-balancing, with current accounts expected to widen again towards pre-crisis levels;" and, that "G-20 structural polices have made limited progress thus far in specifying concrete and far-reaching plans for key reforms."

To those with any familiarity with official 'speak,' this represents, at best, a tentative passing grade for what has been agreed thus far by the G-20; at worst, it represents a failing grade.

The Seoul summit also did not reach an agreement on the role to be played by the exchange rate in the international rebalancing effort. As has been well-documented, there have been significant differences between the US, on the one hand, and some of the large Asian economies, on the other, on the role to be played by exchange rate flexibility in the adjustment process.

On a modestly positive note, the G-20 leaders indicated agreement that they would "move toward more market-determined exchange rate systems and enhance exchange rate flexibility to reflect underlying economic fundamentals and refrain from competitive devaluation of currencies."

On a less positive note, however, this language is not very different from other G-20 declarations and from recent International Monetary and Financial Committee (IMFC) communiqués, none of which have produced very tangible results. And, in its contribution to the G-20 Mutual Assessment Process, the IMF noted that key emerging economies still needed to follow-through on their commitments to increase exchange rate flexibility in order to facilitate external re-balancing.

Even more troubling, the stated commitments on exchange rates

are so obviously at variance with the policies being pursued by some of the larger G-20 members and the ongoing very public debate on whether the US will designate China a currency manipulator.

Whether such declarations on exchange rate policies will strengthen or reduce the credibility of the G-20 process is a moot point. Contrary to what had been hoped, a number of key emerging market members of the G-20 still do not appear willing to have their exchange rate policies scrutinised by the international community, let alone allow exchange rates to be more market-determined.

Drawing attention to the G-20's lack of progress on global rebalancing and exchanges rates is not intended to suggest the issues are easy. Not only are exchange rate issues by their nature complex, many earlier efforts to asymmetries in the international adjustment process between surplus and deficit countries have also not been very successful.

In addition, it is difficult for any grouping of countries to achieve consensus when there are very sharp differences in view among its largest members. Rather, the key point is that even though global re-balancing is the central component of the G-20s agenda of achieving strong, sustainable and balanced growth, there is still no agreement on specific re-balancing policies. This

is especially troubling since a failure to adopt re-balancing policies could re-ignite the kinds of trade and currency tensions that the G-20 managed successfully to contain during the depths of the global crisis, in addition to impeding the recovery.

The G-20 emerging economies in Asia will need to play a more pro-active role on re-balancing policies commensurate with their international responsibilities. Most importantly, either individually or collectively, Asian members of the G-20 will need to develop time-

bound action plans to strengthen domestic demand and stimulate the growth of intra-regional trade in goods, services and financial assets as a key component of their contribution to re-balancing.

In addition, there is a need for a much greater degree of exchange rate flexibility in several Asian economies in order to facilitate rebalancing. To the extent to which an unwillingness to allow currencies to be more flexible is the result of first-mover problems, these efforts could be supported by greater exchange rate cooperation within groupings such as ASEAN +3 or the East Asia Summit.

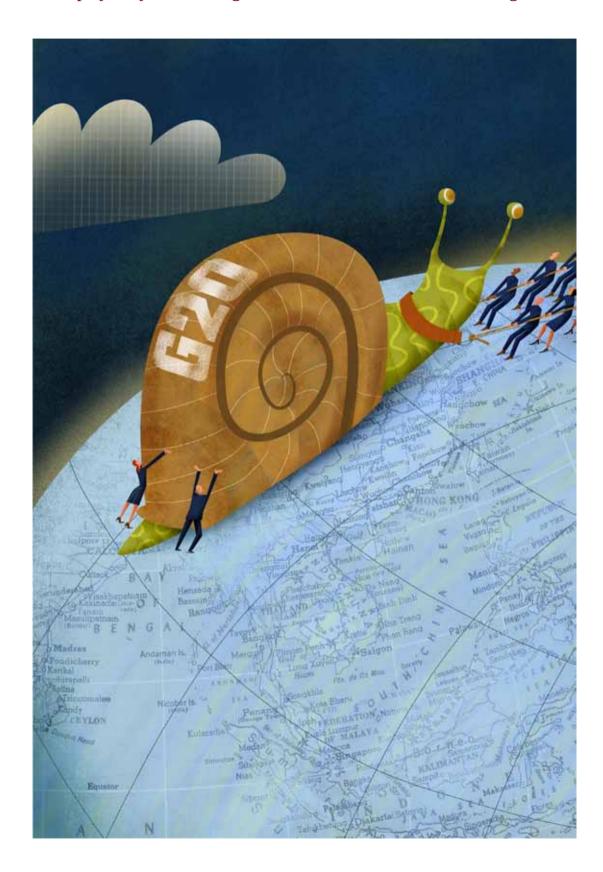
To be sure, a number of Asian economies are appropriately concerned about the risk of currency over-valuation should exchange rates strengthen too rapidly. The problem for several regional currencies at the moment, however, is one of significant under-valuation and massive sterilised reserve accumulation. Greater exchange rate

flexibility would be helpful in addressing concerns in this regard. In addition, it would not preclude intervention to limit 'excessive' appreciation and the use of macro-prudential measures to contain the risks associated with more flexible exchange rate regimes.

The Seoul summit had some success in moving the financial reform agenda forward but even here a guarded assessment is necessary. This is because many of the detailed reforms required to make financial systems more robust still need to be agreed upon fleshed out. Several countries have essentially chosen not to co-ordinate their approaches to reform, and the extent to which the reforms will achieve their intended objectives is not clear.

In addition, the G-20 has been relatively slow in prioritising the various reforms, identifying the areas where international cooperation is most essential, and in addressing the special concerns of emerging market economies in maintaining financial stability. As the G-20 moves forward on financial system reform, sharp differences in views on priorities and solutions, which have not been far below the surface, are starting to emerge as detailed reform proposals are reviewed and discussed.

The post-crisis financial reform agenda will be implemented at the national level, albeit with international standard setting bodies such as the Basel Committee on Banking Supervision (BCBS) and "The Seoul summit also did not reach an agreement on the role to be played by the exchange rate in the international re-balancing effort."



the International Organisation of Securities Commissions (IOSC), international organisations such as the IMF and the Bank for International Settlements (BIS), as well as the new Financial Stability Board (FSB) playing key supporting roles.

Against this background, the role of the G-20 has essentially been to provide high-level political direction and support and ensure that the work of the various independent standard setters, organisations and the FSB is appropriately co-ordinated. In this regard, at least, the G-20 process has been relatively effective and a comprehensive financial sector reform is being developed with input from many countries inside and outside the G-20.

On the positive side, the Seoul summit was able to note some potentially significant progress at the national level with regard to strengthening and re-capitalising impaired financial institutions, introducing potentially far-reaching financial reforms, and developing macro-prudential policy frameworks.

In addition, a number of G-20 countries have reformed and strengthened their regulatory architectures and set up systemic risk councils or committees to help address macro-prudential issues. The key area of progress in financial reform progress ahead of the Seoul summit has been in the area of bank regulation, however.

Especially significant for the G-20 leaders was the agreement reached by the BCBS ahead of the Seoul summit on a new bank capital and liquidity framework, which is to be known as Basel III.

Key features of this framework, several important details of which still need to be fleshed out ahead of implementation at the national level, include increasing the quality, quantity and international consistency of bank capital and liquidity, the introduction of cyclical capital buffers above minimum capital requirements, and an internationally harmonised leverage ratio. Together, the agreed measures are intended to help improve the safety and soundness of national banking systems and reduce the need for future bank bailouts.

Agreement on financial sector reform will necessarily take time given the complexity of the issues involved. In addition, there is broad agreement that reforms will need to be phased in gradually to avoid imposing excessive burdens on financial institutions struggling to recover from the global financial crisis.

The G-20 leaders supported the implementation of the new Basel framework over a relatively long time period, with all measures to be only implemented fully by the beginning of 2019.

Even though welcoming the new Basel framework, the G-20 leaders noted several details that still needed to be fleshed out and that broader issues such as the treatment of systemically important financial institutions (SIFIs), moral hazard concerns, and addressing cross-border bank resolution issues still require work.

Accordingly, the G-20 leaders broadly 'reaffirmed (their) view that no firm should be too big or too complicated to fail and that tax-payers should not bear the costs of resolution' and 'endorsed the policy framework, work processes, and timelines proposed by the FSB to reduce the moral hazard risks posed by systemically important financial institutions (SIFIs) and address the too-big-to-fail problem'.

There were three key areas in the financial reform agenda that did not receive much attention at the Seoul summit and which have been left for consideration to a later date based on input from the IMF, BIS and FSB.

First, and most importantly, the summit did not pay much attention

to how the problem of regulatory arbitrage might best be addressed and the emergence of 'shadow' financial systems avoided. As in the past, there is a risk that frameworks such as Basel III may lead to a migration of financial intermediation to the less regulated parts of the system. While noting the importance of regulatory perimeters being appropriately set, the summit left detailed consideration of this issue for a future time.

Second, little attention was paid to how best to strengthen the power and independence of the supervisory process as a critical compliment to strengthened regulation. Instead, the measures to be taken in this regard were viewed as part of the ongoing work programme that would be discussed at later summits. Based on experience, a strengthening of supervision is a critical compliment to an appropriate regulatory structure. And, arguably, the supervisory process will become even more important as financial system oversight seeks to become more pro-active in identifying emerging threats to financial stability.

Finally, little guidance was provided on the key next steps in the on-going work programme to develop and strengthen macroprudential frameworks and tools.

An area of particular concern at the Seoul summit was the belated admission by G-20 leaders that the financial reform agenda had thus far been largely based on the conditions and concerns of its advanced economy members. In particular, the leaders noted that the kinds of regulatory reform issues that were especially relevant to emerging market and developing economies had thus far received inadequate attention.

These issues included: the management of foreign exchange risk; dealing with capital flow volatility; regulatory and supervisory capacity; information sharing between home and host authorities; and trade finance.

Somewhat belatedly, the G-20 leaders also noted that common approaches to assessing and addressing the systemic risk posed by SIFIs for advanced and emerging market economies might not be appropriate. This was reflected in the recognition that emerging market economies might want to classify systemically important institutions differently from the advanced countries depending on the extent of their international activities.

Looking forward, the advanced economy members of the G-20 will need to recognise that one-size-fits-all approaches to financial regulation and supervision are not likely to be appropriate for countries at different levels of financial development and that forcing such conformity is not desirable.

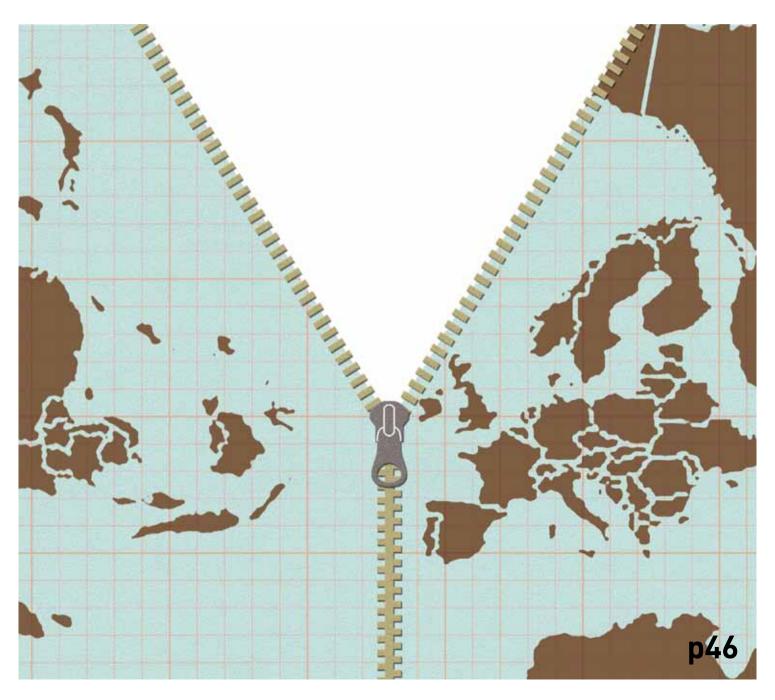
At the same time, the work programme will need to better reflect differences in the key risk factors across emerging market and advanced economies to recognise, in particular, that capital flow and exchange rate volatility are of much more concern to the emerging economies than the advanced economies.

In doing so, the advanced G-20 members can help address emerging market concerns about moving toward greater exchange rate flexibility and thereby facilitate the policies that are required for the global re-balancing that is in the interests of all G-20 members and the world economy.

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# **Spotlight**

Uneven Asian incomes – a growing problem  $\cdot$  Healthcare in Asia – A hopeful cry for the next decade  $\cdot$  De-coupling from the West  $\cdot$  Getting the basics right







**National University of Singapore** 



# Asia Challenge 2020

Preparing for a future-smart Asia

What does one get when the brightest Asian youths are dared to think big and suggest fresh ideas to tackle the key challenges of Asia's growth and prosperity? Simple, one gets a team of winners and a plethora of refreshing ideas for a future-smart Asia.

Winners are exactly what the Asia Challenge 2020 essay competition produced in plenty. The pan-Asia essay contest was jointly organised by the Asia Business Council, TIME magazine and the LKY School of Public Policy.

More than 400 Asian nationals, under the age of 32, had submitted essays addressing the questions: "What is the most important challenge facing Asia over the next decade? Why? What should be done about it?"

While India's Sarabjit Singh's winning essay, that

was featured in TIME magazine, emphasised the need to address economic inequality in Asia and the necessity for inclusive development; runners-up Gemlyn George, Rohit Pathak, and Su Hsing Loh, wrote about deficiencies in Asia's healthcare system, the challenges of governance in Asia, and the de-coupling of Asia from the West, respectively.

The contest was judged by Zoher Abdoolcarim and Michael Elliott from TIME magazine; Nobuyuki Idei from Quantum Leaps Corp, Japan; Lubna Olayan from Olayan Financing Company, Saudi Arabia; and Kishore Mahbubani, Stavros Yiannouka and Astrid S. Tuminez from the LKY School of Public Policy.

In the following pages, we present the summarised versions of the winning and runners-up essays of the contest.

# Uneven Asian incomes – a growing problem

TEXT · Sarabjit Singh

### Winning Entry

In the aftermath of the worst global financial crisis since the Great Depression,

experts in the financial centres of London and New York speak of strong economic growth in Asia that will continue in the years to come. As Asia has grown, however, so has an underbelly of poor. Many Asian countries today face a growing impoverished population, versus the few who are experiencing success on a growing scale. What becomes of the poverty-stricken is a dependency upon the rich, making the rise in economic inequality in Asia a weakness. Real national growth depends upon balance. How serious is it?

A recent report revealed that eight Indian states have more poor people than the 26 poorest African countries combined. The picture isn't much better for China, where the average per capita income for the richest 10 per cent is 65 times higher than the bottom 10 per cent. Trends continue to show an increasing gap between income classes, as the Asian GINI coefficient has continued to rise over the last few decades.

For economic development to be sustainable, it is imperative that Asian countries find workable solutions. The challenge will be to do so without compromising the growth that has already pulled so many of their citizens out

of poverty. The good news is that we may not have to go very far to find our answers. A study of economic history in developing nations uncovers a rich database of economic initiatives, development programmes, and rising and falling indicators.

#### ESLH research framework

We can call the historical analysis approach the Economic Sustainability Lessons from History, or ESLH research framework. The

underlying idea is to isolate instances in the history of developing where nations income inequality has fallen as the economy continued to grow. Once identified, these windows can then be studied further for specific policies that helped to

equalise opportunities and incomes, while maintaining economic growth.

Mexico offers a good example. Between 1999 and 2008, Mexico's GINI co-efficient fell from 53 to 46, less than any recorded Mexican score in the last 60 years. In the same period, the country's real GDP continued to grow at an average rate of around 3 per cent. A closer look at these years offers at least one useful lesson that is equally applicable across many parts of Asia - the country's focus on rural development. By encouraging nonagricultural activities

as tourism and services, Mexico was able to bring down extreme poverty in rural areas from 42.4 per cent to 27.9 per cent, while contributing to economic growth at the same time. Other histories contain further success stories which may be emulated.

such

In the last few decades, smaller Asian economies such as Malaysia and Singapore have had a mixed bag of experiences, with rising and falling GINI and GDP numbers. And while the statistically significant drops in their inequality indices in this period are partly explained by periods of economic distress such as the Asian financial crisis



The ESLH framework relates to periods in economic history - marked in arrows in the sample chart above, when rising GDP accompanies a falling GINI index.

or the recent economic crisis, a closer look into their economic and social development policies will, no doubt, give rise to a better understanding of cause and effect with respect to inequality of income classes.

This research approach is a good initial step toward formulating an effective plan. The key point is this: in the journey of Asian economic development, there is a growing chasm between the wealthiest and poorest income brackets, making some of the apparent economic progress for Asian nations illusory. Strong countries are built upon strong individuals, so a robust and sustaina-

ble success will depend upon finding
ways to more evenly
spread the
wealth.

GiΔ



## Healthcare in Asia – a hopeful cry for the next decade

TEXT · Gemlyn George

"Asian countries recognise the problems facing them and have begun to invest in the healthcare sector." A sian nations seem to be grabbing headlines for all the right reasons in the recent past. A testament to its versatility would be the way Asia has emerged largely unscathed from the global financial crisis.

On the social front, however, things are not as rosy as they could be. The health-care system currently faces huge shortfalls in government funding, manpower, and infrastructure. In addition, the spectrum of diseases and the challenges they pose varies tremendously. For example, infectious diseases are still a major killer in the rural hinterland, while increasing affluence and a change in lifestyle has led to the emergence of an increasing percentage of chronic diseases, such as cancer, which need constant follow-up and multi-disciplinary support.

Asian countries recognise the problems facing them and have begun to invest in the healthcare sector. Efforts from many nations have been directed at increasing manpower, providing insurance, and becoming hubs of innovation and medical tourism. However, are we really doing enough to create systems for future needs or are we seeking what amounts to a band-aid for the present?

As a part of the process to 'future proof' our systems into the next decade, utilising the myriad possibilities of IT-enabled services could play an important role. Utilising electronic systems will help providers by ensuring that valuable information about patients does not get missed. Errors in drug delivery, dosages, and allergies would be minimised. Data about services delivered could be used to generate region specific solutions.

Creating an interface with traditional forms of medicine within this existing system would allow us to discover potentially new ways of treating people. The ability to gather data fast is a vital tool for being able to contain emerging diseases (for example: a decreased response time to the next pandemic with safety lessons learnt built into standard policies).

Hopefully, the future world of medicine will have a holistic, multi-disciplinary, interconnected, organised, and personalised approach to disease. The question is, are we ready for the needed changes?

The process of de-coupling from the West will be the greatest L challenge that Asia will face in the coming decade. The key is to engage and co-operate with the West but allow more room for Asia to find its own niche and maximise its potential.

nomics and pegging currencies to the dollar were what triggered the

financial crisis in the first place. In addition, most Asian economies

have achieved the greatest level of growth under semi-authoritarian

regimes (e.g. Taiwan, South Korea, Singapore and China), an indi-

Due to the eminence of the West in recent centuries, its norms, values, standards and methods have become the de facto hardware and software of the world, and Asia is often at the receiving end. Continued re-liance benchmarking against the West in all these realms is not the way forward, primarily because Asia is different in several ways.

First, what is tried and tested in the West has not always worked for Asia. For instance, during the Asian financial crisis in 1997,

countries like Japan to developing countries like Thailand, from democracies like the Philippines to authoritarian regimes like China, most Asian countries continue to be plagued by volatile domestic pol-

economic growth but not domestic political stability. From developed

### **Decoupling from** the West

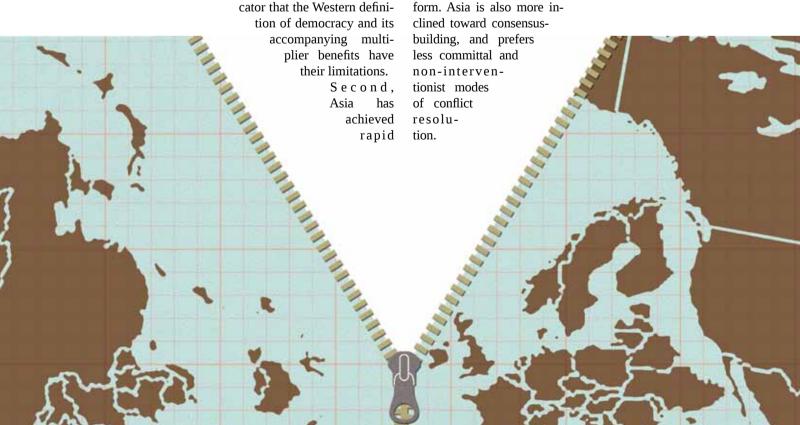
TEXT · Su Hsing Loh

itics despite economic growth. This is a critical problem because if Asia does not achieve domestic stability, continued upheavals would certainly hamper economic growth.

Third, there marked wealth disparity in Asian countries, without in-built mechanisms to handle the social ramifications or to re-distribute wealth. Asian countries have increasingly restive domestic populations as they make the transition from elation as a result of economic growth to disillusionment, realising that

they are not going to benefit directly from the growth. And yet the Western solution of social safety nets and welfare systems might not work for Asia. Corruption and nepotism are also deeply embedded in many Asian societies.

Fourth, as many Asian countries have only recently (re)acquired their sovereignty, they are apprehensive about any membership in organisations that requires them to cede sovereignty in name or in form. Asia is also more in-



recommendations from the International Monetary Fund (IMF) did not alleviate the situation. There were also suggestions that the IMF recommendations for maintaining high domestic interest rates, liberalising ecoThese characteristics necessitate a different paradigm in dealing with Asia's problems and charting its future development. In addition, Asia's new-found wealth affords it the resources and confidence to explore new modes of development and problemsolving. The rapid growths in intra-regional trade, formation of regional groups and the reduced reliance on foreign capital have triggered fears of an Asian bloc, designed to keep out the West. This should not be the intent of Asia.

De-coupling entails a great degree of innovation, getting over inherent inertia, and the courage to challenge and change the status quo. It should not be defined by aggression, the desire to claim an Asian era or to undo past 'humiliation'.

As the late-comer to the game, Asia should learn and adapt from the experience of the West in its development. It should also maximise the advantage to go even further by applying currently available technology and cutting-edge thinking to leapfrog the West.

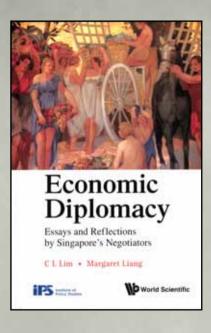
Further, Asia should build and capitalise upon its own drivers and engines of growth; cultivate an autonomous momentum of growth, by harnessing the rising purchasing power of the expanding middle class, continuing investment in massive infrastructural development, as well as applying measures to expand intra-regional trade and investment.

In addition, Asia has to innovate on all fronts rather than merely benchmarking against the West or importing technology. While Asia has been strong on investment-based growth founded on capital accumulation and imitation, it is very weak in innovation-based growth, which stems from technological change and innovation.

Lastly, Asia needs to perceive and carry out de-coupling as a logical extension of its growth, and not a measure to break away from the West. This would be highly challenging, given the historical sensitivities and inherent competitive nature between Asia and the West, and the disparate agendas of the different Asian countries.

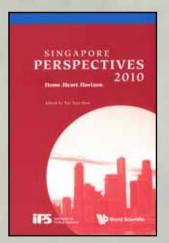
Asia is well poised to take advantage of the current upswing in its development and whether it makes the necessary leap to de-couple from the West (and successfully manages Western sentiments in the process) would determine its growth path in the future.

### **Just Released**



Singapore, a small Southeast Asian country with limited resources, transformed itself from a trading post to a successful, cosmopolitan nation with one of the most impressive growth rates in the world. Less well known, however, has been its role in regional and global trade negotiations. This book is a collection of sixteen essays written by a group of diplomats, policy-makers, and professors who became involved

in international economic affairs, notably in GATT/WTO, regional and bilateral free trade negotiations. Here, they reveal their thoughts about the world economy and trading system, reflect on their experiences, and explain how they promoted national interests while advancing the global trade agenda. This book will appeal not only to professional diplomats, but to anyone interested in how international economic diplomacy works and Singapore's role and perspective as an open trading nation.



Also available

**Singapore Perspectives 2010** 

Home · Heart · Horizon



## Getting the basics right

TEXT · Rohit Pathak



T he basic problem due to which most of Asia's progress is hindered, is still the problem of governance, as without it all policies, plans or solutions are redundant.

The biggest hurdle in the way of good governance is corruption, since it is the cause of almost the entire spectrum of our problems. Furthermore, on a bigger and a broader scale, political instability in some parts of Asia also remains a major hurdle in Asia's way of overall socio-economic prosperity.

Consider, for example, this story of an illiterate and poor Indian farmer named Ratan Bhuria. Despite a Union Government policy that entitles his family to a 35kg bag of grains, sugar and kerosene every month, Bhuria does not receive anything because the officials who are supposed to distribute these bags seldom do their job or issue food rations for themselves or their friends.

Studies also show that almost 70 per cent of a roughly \$12 billion budget is wasted, stolen or absorbed by bureaucratic and transportation costs. The Union Government of India with its noble intentions of ensuring food security to every citizen below the poverty line, has a reasonably good policy in place. It also has considerable funding for the project and even a widespread Public Distribution System (PDS) along with an army of bureaucrats in villages to ensure the distribution of food grains at the lowest

level. However, all is in vain because of the un-redeemed presence of corruption.

The ill effects of corruption are too grave to be ignored. Not only does it affect a nation on a macro-economic scale, but also at the most fundamental and basic level, it deprives the poor and the under-privileged of the already bare essentials that they have to sustain on. Therefore, it must be eradicated before anything more complex or demanding is to be achieved.

The wonders of IT, however, can help us in preventing or at least reducing corruption in the first place, especially at the lowest level where it matters the most. The transparency that computers can introduce in the system will make governments more accountable and, therefore, more efficient.

For instance, in the case of Bhuria, instead of giving officers in the PDS system the responsibility to distribute food to the poor, the Indian government can issue electronic food coupons directly to the people, just along the lines of the proposed Unique Identity numbers, so that it can be soundly ascertained that the intended recipients have actually received their share.

Similar transformations in other areas of governance can also go a long way in considerably reducing any scope of corruption and hence the evil of corruption itself.

Moreover, as important as eradicating

"The transparency that computers can introduce in the system will make governments more accountable and, therefore, more efficient."

domestic corruption, is the achieving of political stability in Asia. Instability in any region will be detrimental to the entire continent. A stable political region, on the other hand, by providing an atmosphere conducive to economic integration and co-operation, will immensely benefit the economic prosperity of different neighbourhoods, which in turn will contribute to the overall prosperity of Asia.

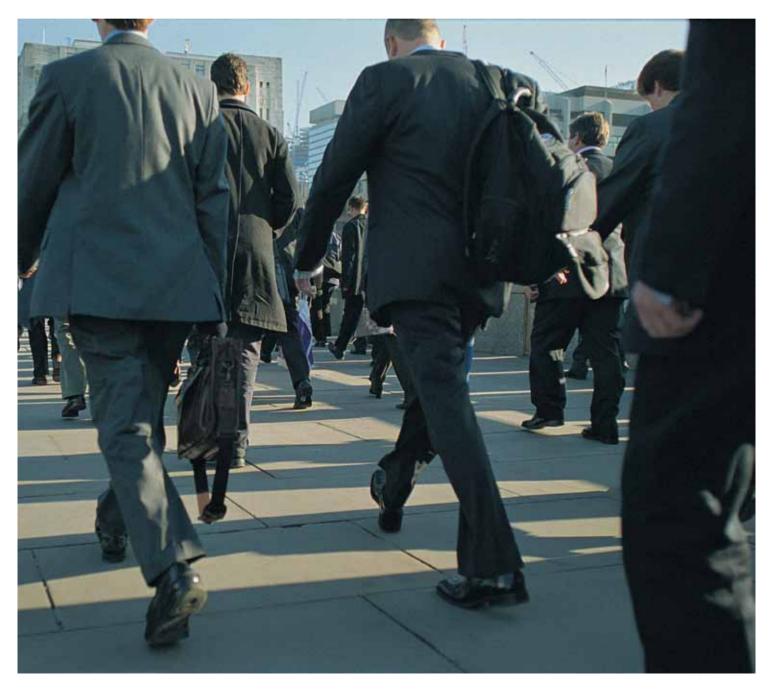
If these problems of general governance are addressed in the next decade, economic growth in Asia will be smarter, accelerated, more inclusive, more sustainable, and capable of confronting many long unresolved problems.

It is, therefore, time that we got our basics right, for in the decade after the next and the ones after that, we will have even grimmer challenges to face and we better be prepared for them. GIA



# **Executive Education**

Tripoli's winds of change carry Libya to Singapore  $\cdot$  Leading with compassion  $\cdot$  Warming up Asia for global warming  $\cdot$  Collaborating successfully with the corporate world



"With the highest literacy rate among North African nations, the world's largest man-made river project, and having chaired the UN Commission on Human Rights in 2003, Libya has come of age."



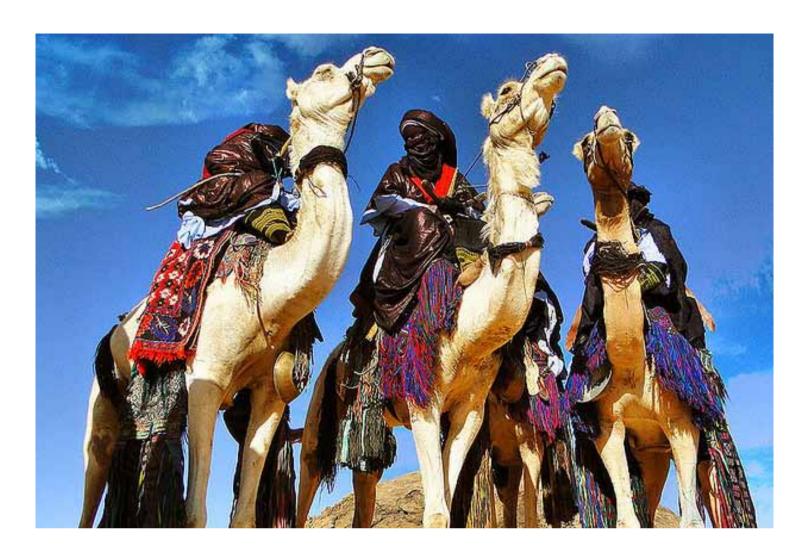
Shamsaddeen Mohamad Faraj from the University of Al-Jabal Al-Garbi

# Tripoli's winds of change carry Libya to Singapore

TEXT · Sourav Rov

A Libyan delegation visits the LKY School to draw lessons from Singapore's experiences in public policy and effective management systems. Cour life is a riddle. Our death is a riddle. This passage through the world of ours is also a riddle," writes celebrated Libyan novelist, Ibrahim Al-Koni, in *The Seven Veils of Seth*. Al-Koni's protagonist in the novel, Isan, compels nomads to stay rooted to the Libyan desert and search for the solutions of life within the sandy dunes. It's all in the desert, not in the oasis, stresses Isan to his tribe.

"But the tides of time have changed everything. Unless you move out of your comfort zone, cross the desert, conquer your inertia; you shall be devoid of the power of knowledge. That is precisely why we travelled halfway around the world to learn about successful public administration from Singapore," says Shamsaddeen Mohamad Faraj, from the University of Al-Jabal Al-Garbi, who led a team of 15 Libyan officials



to attend an executive programme on leadership and public sector governance at the LKY School.

Faraj's comments not only indicate a departure from antediluvian administrative policies but also reflect a keenness of the oil-rich nation to adopt more successful governance.

Libya is opening up and its leaders are putting their best foot forward to attract foreign investments and technology transfers. "This is to ensure that the future of our forthcoming generations remains bright," says Faraj.

While it is true that the North-African nation has made considerable progress in moving toward a market-based economy and announced plans for privatisation, it still has many important milestones to cross.

"The Libyan leadership realises very well that the training we undergo at the LKY School is the first step in revamping our reforms and making them people-friendly," adds Faraj.

Faraj believes Singapore's vast experience in policy reforms, along with the executive education programmes at the LKY School of Public Policy, can empower Libyan statesmen, academia, public and private sector officials and policymakers in bridging the gaps of Libya's social fabric.

A classic example of how the adoption of a Singaporean model has turned out to be a key learning experience for Libya is the implementation of Singapore's primary school curriculum in Libyan schools. "This is a lesson in itself. We have understood that besides adopting the curriculum, we have to make efforts in producing Singapore-grade competent teachers who would be able to deliver and motivate our students," adds Faraj. Why travel half of the world to find inspiration in Singapore in the first place?

Singapore has emerged as an example of efficient public and private governance. And not all such successful economies have the magnanimity to invite you over and share their experiences, says Faraj. "That is why I think, for officials from developing countries getting an opportunity to acquire a whole new set of value added skills in leadership, it is actually a generous favor being granted by the Singaporean government and the LKY School," says Faraj.

"Take, for instance, the medical doctor in our team who attended the executive education programme. He is now returning home with a new set of leadership skills that will not only enable him to better manage the public hospital he works in, but also allow him to step into a key position in the Ministry of Health, if required," adds Faraj. "That truly is an empowerment of an individual Libyan that will benefit millions of others."

One assumes the central character of Al-Koni's novel, Isan, is still looking for his solutions in the dunes of sand. Perhaps the oasis is not meant for some. Thankfully, others seek its refreshment, even if they have to travel halfway across the globe. GIA

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## Leading with compassion

TEXT · Aigerim Bolat

Soh Mee Choo, the Principal of Delta Senior School, Singapore, elucidates how training at the LKY School strengthened Delta school's conviction and commitment for the intellectually challenged.

The LKY School's Executive Education department trains government officials and managers by challenging their thinking and inspiring them to be committed and responsible leaders of their respective societies. However, the LKY School does not always get to see the results of the training immediately, as these officials return to their respective domains and continue with their daily lives.

In some remarkable instances, though, the process of change is real and the transformation visible after the delivery of a few short-term programmes. Recently the LKY School tagged up with its long-term partner, Social Service Training Institute (SSTI), to deliver a week-long Senior Management Programme for 25 trainers of the APSN Delta Senior School, Singapore.

The Delta Senior School (DSS) is a vocational training school that facilitates quality transition for youths with mild intellectual disabilities. Leading from the front is Soh Mee Choo, the Principal of the school, who along with her team of purpose-driven and committed trainers, strives to provide a better life for the intellectually challenged.

In an 'open-heart' session, Soh Mee Choo shares her insight on the challenges of heading the Delta school and how her staff benefitted from the training at the LKY School:





**AB**: What are the most challenging leadership tasks you face at DSS and how do you manage to motivate your staff and keep them longer at the school?

**SMC**: The transformation of culture to bring accountability and excellence, and not giving in to ready excuses and a sense of urgency is by far most challenging to DSS. However, it is most fulfilling seeing how many students and families have benefited from this breakthrough, and in the process growing a community of excellence. This creation of a new era evokes fear, insecurity and dissonance and inner turbulence for those involved. Leading DSS thus demands unyielding personal conviction, bold vision and making a personal choice to suffer for staunch values to navigate courageously in the sea of chaos, noisy distractions, cynicism, and abuse at times. As the development of the transition programme at DSS is a pioneering piece of work, its contingency and complexities requires staff to break new grounds, pushboundaries, either perceived or pre-set ones and stretch beyond one's imagination. Only people with such pioneering spirit, mental, emotion and physical agility and fitness, who are ready to accept and confront brutal truths are suitable for DSS.

To facilitate collective engagement, a shared sense of purpose through an interactively visible presence and modelling values in action has been critical in building a culture of shared vision with the alignment of roles and responsibilities, to create a culture of success and excellence. DSS has today many signature strengths. The staff and I have jointly developed from a zero base and that is what we are proud of. Some of these include the transition-based vocational curriculum, school-home-community partnership, quality assurance and management system.

The day-to-day work has now become defining moments of innovation and stimulation for on-going learning. The vibrancy of the continuous improvement also provides hope for the staff. My role as the leader is to help staff to be tenacious, to grow in authenticity, coherence and congruence, integrating work as a hobby and hobby as work for a much larger purpose, going beyond 'here and now' for students, families and stakeholders. Eventually, all these loop back for personal and professional growth. In this way, we ensure staff that choose to stay on at DSS for the right reason, that is care and love with a vision, real actions and proven results. In short, interest, coupled with meaning, yields an intrinsic motivation, which in turn translates into self-actualisation in order to self-generate a sustainable source of energy.

**AB**: Intellectually challenged individuals quite often become the targets of prejudicial attitudes and discriminatory practices which hamper their chances of becoming fully functioning members of society. Training the intellectually challenged is one thing but how does one ensure a positive attitude within the society?

**SMC**: The education and training of individuals with intellectual disabilities is crucial to improving their skills and competence to function as independently as possible in society. Their enhanced skills will help them integrate better into society and create a more positive attitude on the part of society towards them. The question here is: where does the onus of changing attitudes towards persons with disabilities in society lies. Does it rest on persons with disabilities and their efforts and/or society?

To create a society where there is less prejudice and discrimination and a more positive attitude towards persons with intellectual disabilities, society itself needs to change and such change begins with the education of its citizens, especially with its young. When the young have the opportunity to learn to interact and form relationships with children with special needs from an early age, they learn the values, skills and knowledge to accept, include and advocate for

others who are different from themselves. Likewise, children with special needs also learn the values, skills and knowledge associated with becoming a full member of mainstream society. Achieving the vision of an inclusive society then becomes possible.

**AB**: It is well known that caring comes at a cost. Quite often professionals who manage the pain, suffering, anxiety and learning of the intellectually disabled are subject to an intense compassion stress. How do you ensure that a form of compassion fatigue or burnout does not creep into the lives of your trainers/teachers?

**SMC**: Compassion stress leading to fatigue does happen especially in trying to make up for lost time and opportunity for DSS students. At DSS, we facilitate student development and growth by tapping on more than one source of energy. In addition to compassion, vision, dreams, hopes weaved with passion, tenacity and purposeful actions are the other core sources of energy.

In addition, the nature of work at DSS is greater than giving unconditionally. It has a hidden looping effect for persons who care to receive graces simultaneously. Hence, the 'What Is In For Me' (WIIFM) model along with integrity prevents compassion fatigue. The vibrant learning environment at DSS, aligning personal aspiration with the philosophy of the school in developing oneself to develop others, transcends throughout the school. This has provided for an on-going metamorphosis which fuels all the souls. The synergy of communion to grow, develop authenticity, spirit and resilience towards life in the teachers/trainers provide the eternal source of fuel to keep the fire burning. Therefore, when input is managed to be more than output, fatigue is unlikely to happen.

**AB**: Did the training at the LKY School empower the commitment and output of your team in any way?

SMC: The training endorses the vision, conviction, high expectations and the way of life at DSS for the students and their families. It further strengthens the will and courage to re-frame, dream and execute well through focused strategy and operational excellence in a disciplined and yet nimble manner. The training guided the leadership team at DSS with simple tools and perspectives for analysis and decision-making to undertake

the range of complexities and opportunities at DSS. More importantly, the clarity and wisdom of being congruent and, cautiously avoiding transference, ensures personal needs do not override students' and families' needs, and this will ensure a long-term ethical commitment of leaders and staff at DSS.

**AB**: *Global-is-Asian* spoke to your corporate partners who provide the students of Delta Senior School with employment opportunities. Every single partner is determined to continue their commitment of providing an income opportunity for your students. How does such strong positive support from the corporate sector turn around the world for your students and their families?

SMC: Work, besides bringing about financial independence, develops in our students self-determination skills, enhances their self-esteem and provides invaluable opportunities for their social inclusion. The strong positive support from the corporate sector reflects our partners' endorsement of DSS students' capabilities and their passionate belief in the shared vision with DSS of our students' human worth. The commitment and support of our corporate partners give a new lease of life and hope to many families of our students who have experienced lonely struggles against rejection, ridicule, worries and concerns about the place and future of their children in society.

As more corporate partners join with DSS to support our students, enjoy and celebrate their successes, our partners grow in their 'know-how' and 'heartware' to truly appreciate and value our students as members of their own staff. When our corporate partners enhance their own capabilities, perspectives and convictions to include our students, they exemplify for others the influence and impact corporate services can have on making society and the world more accessible to and respectful of persons with special needs.

**AB**: Finally, what is the upside for society, on the whole, to integrate individuals with intellectual disabilities in mainstream business? And what innovative ways could be adopted to achieve this?

**SMC**: Society needs people with disabilities to be whole. Wholeness accepts the spectrum of our human lives and its vulnerabilities that accompany us, as we journey through life. Hence, the inclusion of persons with intellectual disabilities within the ordinary routines

and environments we all access, whether they are mainstream schools, community settings and businesses, is actually good for society as more opportunities are opened for people with and without disabilities to interact and form relationships.

Their vulnerability helps us to befriend our own inevitable vulnerabilities. The innovation and creativity lies in how mainstream environments cater to and support the inclusion of persons with intellectual disabilities in diverse employment opportunities. The basic premise for such innovation is to adopt a strength-based and positive approach towards appreciating the 'hidden' gifts and abilities of persons with intellectual disabilities. To see and share their gifts with others requires authenticity and creativity as well as truthful and receptive hearts.

**AB**: In 2010, President Barack Obama approved of Rosa's Law, introduced by Senator Barbara Mikulski that replaced the usage of 'mentally retarded' with 'intellectual challenged' in the policy books of USA. While such social activism is evident in the Western hemisphere of the world, do you think Asia needs to devise better policies to treat the intellectually challenged?

SMC: Rosa's Law replaces terms such as "mental retardation" and "mentally retarded" with person-first language, that is, acknowledging them as a person first and a condition second. The change in nomenclature used to describe this particular group of individuals underscores the importance of how language can influence society in its perception and treatment of these individuals. More importantly, Rosa's Law arose from the commitment of one family to not use pejorative language to describe a member of their family, which can snowball into community activism to promote the inclusion, dignity and respect of all persons with intellectual disabilities. The point here is that the 'spirit' of the community, inspired by the particular, undergirds and supports the development and implementation of policies. There are policies and frameworks regarding people with disabilities in Asia. The question is, whether we in Asia can let ourselves be inspired by individual stories and mobilise the community for such change. GiA

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# Warming up Asia for global warming

TEXT · Sourav Roy

Rapid economic growth has yielded impressive GDP figures for Asian nations. However, is Asia paying a much higher price for its lightning-fast development? *Global-is-Asian* explores.

One Chinese afternoon in August 2009, the dust from the zooming cavalcade of SUVs had barely settled down, when, among animated waves and greetings, former British Prime Minister Tony Blair emerged.

The tiny village of Baigong in Guizhou province of China had never been face-to-face with a visitor of such prominence.

The former premier had a well-defined reason for his appearance in the tiny hamlet. Along with Chinese martial-arts star and son of the soil, Jet Li, Blair was in Baigong to inaugurate a 1000-village solar LED initiative. This was aimed at equipping China's villages with low-energy lighting for a reduced energy consumption.

He announced that his mission was to see how clean energy for the future could be developed in China, not just at the grand level of meetings between political leaders, but also at the grassroots level.

It didn't take a flying kick from action hero Jet Li either to drive home his point to fellow countrymen that alarm bells had begun ringing in homeland China. Li reminded them to check their gargantuan energy consumption and the apocalyptic consequence it would have on their immediate environment.

A year on from Baigong, China remains the fastest growing global economy with an annual GDP growth of over nine per cent. It also retains its undisputed position as the world's largest emitter of greenhouse gases.

The red dragon's shifting economic base from light export industries such as garment and shoe production to heavy industries such as steel, cement, automobiles and construction added to its voracious appetite for fossil fuels, compounding the retrogressive impact on nature and climate.

While the low-energy 20-watt bulbs running on solar panels, inaugurated by Tony Blair, are still burning bright in over 400 Chinese villages, the need to address the arduous challenges of climate change, excessive energy consumption, and over-exploitation of natural resources has intensified manifold in China.

The situation is no different in other booming Asian economies such as India, Indonesia, Malaysia, Thailand, Japan, South Korea, the Philippines and Singapore.

Across the Bay of Bengal, a rapidly growing Indian economy achieved tremendous capital gains at the cost of major climate changes. India's environment minister Jairam Ramesh acknowledged in November 2010 that the world's second-fastest growing economy was indeed among the nations most vulnerable to climate change.

The minister's announcement came at the back of an Indian Network for Climate Change Assessment report that forecast global warming could make India two degrees warmer within the next 20 years. That would imply heavier rainfall in the Himalayas and the northeast but ever fewer days of rain, increasing the likelihood of sudden flash floods and droughts.

Any disruption in the Indian rain cycles would also mean breaking the backbone of water supplies and jeopardising Indian agriculture, the mainstay for over 1.2 billion Indians.

However, not all is lost. Asian economies have started to monitor the situation actively. They have realised that the way ahead is to look inward and set their own house in order.

The perils of climate change are for real and its consequences are not only devastating but also far-reaching and irreversible. Ice caps and glaciers have already melted alarmingly in the Himalayas and many rivers across India, China, Burma, Bangladesh and Pakistan have either dried out or caused catastrophic floods.

Asia's massive consumption trends have

also compounded the complexity of the situation. It is estimated every day over five billion bowls of rice are eaten around the world, and 90 per cent of that consumption is in Asia. Arguably, Asia's booming population and the need for economic speed is spelling trouble for its natural resources.

Rice yields in Thailand have decreased considerably due to global warming attributed to industrial and vehicular pollution, seriously challenging its position as the rice bowl of the world. The situation is the same in the Philippine islands.

Since food shortages in Asia are increasing, due to climate change over the past few

"It is established beyond any argument that rapidly growing Asian economies have to address the complexities of climate change sooner than later and innovate more sustainable mechanisms of business and corporate operation."

decades, food prices have also shot through the roof.

So what is Asia doing to address the pressing needs of climate change? Is it taking enough corrective and preventive steps to meet the challenges lying ahead? Can a strong political will and business leadership save the day for Asia?

To find answers to some of these probing questions, one knocks at the door of Sumi Dhanarajan.

Dhanarajan leads the 'Public Roles of the Private Sector' at the Centre on Asia and Globalisation (CAG), at the LKY School.

Dhanarajan and her colleagues at the LKY School, along with the University of Cambridge's Programme for Sustainability Leadership, recently put together

a programme for senior Asian executives with the theme, "Business Leadership for a Sustainable Southeast Asia." The programme targets corporate heads and business leaders in Asia whose organisations identify the importance of sustainability as an overall part of business operations, highlighting the many tangible benefits such an approach brings.

Companies are likely to see risks emerging on a number of fronts due to climate change impacts, particularly in a region like Southeast Asia, which has been identified as a 'climate change hotspot', says Dhanarajan.

Gone are the days when large profityielding organisations could turn a blind eye to the environmental havoc they cause. At the end of the day, their very existence, let alone profits, faces the risk of being wiped out.

"The risks could be physical, for example, to their buildings or their operations on the ground. There are also clear risks to reputation, to capital as investors increasingly build sustainability management into their valuations, and finally from the consequences of not being able to meet regulatory requirements." adds Dhanarajan.

"It is certain that, in the future, climate change risks will inevitably impact all aspects of Asian business models. We need our businesses to be 'fit for purpose' in a future that is highly disruptive, highly unpredictable, and highly complex because of climate change challenges." Dhanarajan's statements are a clear warning of the dangers that climate change could bring to the surface, if unchecked.

In October this year, the Thai Rice Mills Association reported a 20 per cent fall in rice production, owing to heavy rains and flash floods in 24 provinces of the country. Earlier this year, Bloomberg reported that the deadly floods in Pakistan and the Philippines, the world's third largest rice exporter, cut crucial global rice supplies, leading to a 45 per cent surge in prices in Chicago. This is a testimony of the fact that climate change effects in Asia certainly had transnational consequences.

How can Asian business and political leadership augment their policies and strategies to guarantee a sustainable growth? To begin with awareness about the looming environmental disasters and their related socio-economic affects having a trickle down



impact surely helps CEOs and governmental heads to pool their respective intents and share responsibilities in a collective manner.

According to Dhanarajan, an impetus on effective scenario planning, implemented by a determined leadership, is the way ahead.

"In our programme, we chose to focus on scenario planning and leadership development as the two most important tools for policy-makers and business leaders. Being able to anticipate and manage this uncertain future and to lead change boldly and purposefully is absolutely critical. We want to support Southeast Asian captains of industry in doing just that."

However, despite the intent to incorporate sustainability aspects and environmentally responsible modules, will Asia's profit-churning, GDP-crazy economies have the courage to put these intent in practice?

Yes, because the environment and economics are not opposed to each other, says Ann Florini, Director of CAG.

"There are two common misunderstandings when you talk about economics and the problem of climate change. The first is that economic growth and environmental sustainability are somehow in opposition, which is just not the case. They are questions of looking at the same problems through different time scales," said Florini.

She maintains that the parameter of economic growth and the way it is computed does not present a true picture.

"Economic growth, the way we measure it, isn't actually growth. It is just a measure of activity. If you were a country that had great natural resources in the form of forests, your GDP would certainly increase if you deforested every inch of the land until the day you have none left. Thereafter, your GDP was bound to collapse. Is that growth? No, it is simply a whole lot of activity generating a lot of money in the short term," adds Florini.

According to Florini, the role of civic societies in Asia, as in other parts of the world, will increasingly play an important part in getting the action going on climate change. Business leaders, governmental heads, politicians, and NGOs all across Asia have to work together to shape the agenda because climate change is not just restricted to a specific country, say India or China, but is borderless and transnational.

Most of Asian business models have not been known to be sustainable and traditionally never factored the cost of environmental damage due to their surging operations. Florini believes this trend has to give in to a newer, wiser and more pragmatic approach. "The current business models cannot be sustained anymore. Sooner or later they will break down. That is precisely why Asia needs dynamic business leadership that comes up with a different operational model before everything breaks down," she adds.

Martin Kalunga-Banda of the Presencing Institute, United Kingdom, opines that climate change in developing countries will not only hit them hard but also pose risks to the lives and livelihood of millions of people worldwide and bring imbalances in food and water supplies, precipitation patterns and aggravate hazards in global hunger and poverty.

"Nature and the planet we live on are a gift to us, no matter if you work in the business sector or are in the government," says Kalunga-Banda. "When we squander certain elements of nature, it is not only businesses that are going to be affected. Government and general populace will suffer as well. Therefore, the dialogue that goes on between the businesses, government and civil society leaders needs to continue in a manner that is full of trust and everybody should be wishing for the well-being of our planet," adds Kalunga-Banda.

One hopes Asian business and political leaderships heed Kalunga-Banda's advice. However, the matter of the fact is that China, India, and other emerging nations, exempted from the 1997 Kyoto pact, have until recently not wholeheartedly accepted calls by developed nations to commit by treaty to restraints.

It is established beyond any argument that rapidly growing Asian economies have to address the complexities of climate change sooner than later and innovate more sustainable mechanisms of business and corporate operation. GDP-flashing Asian economies will also have to put effective policies and regulations in place, if they want a place among responsible governments.

The situation can be best summed up by a 10-year old boy from Stakmo village, in the Himalayan valley of Ladakh, "You do not have to put the globe in a microwave to understand climate change. Just find me the glacier that my grandfather always spoke about." GIA

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# Collaborating successfully with the corporate world

TEXT · Luana Chow

Public and private sector collaboration is key for economic and social development. However, only when both sides manage to understand each other, success is ensured. Considering this, the Executive Education department of the LKY School collaborated with various multi-national companies to offer learning modules and extensive programmes for business executives and leaders.

In a programme conducted with Sanofi-Aventis, participants learned about the public policies and healthcare trends of different countries and to specifically understand the role of public administration in the healthcare sector.

"In this programme, I learnt that public interest is always bigger compared to corporate interest, thus we need a long term view to prepare for possible changes," said a participant from the Sanofi-Aventis programme.

In a separate programme, Microsoft engaged the LKY School for a third consecutive year in delivering the Innovative Government Executive Programme.

From 'Clusters and Competitiveness,' to 'Cloud Computing and IT for Economic Development,' the programme provided a forum for a deeper understanding and collaborative networking between the public and private sectors.

"Public-private sector collaborations can drive innovation, especially in capital-intensive projects. Practical information technology applications can significantly improve government services and in turn, the life of the citizens," said one of the participants at the 2010 Microsoft executive programme.

Luana Chow is an Assistant Manager with the Executive Education department of the Lee Kuan Yew School of Public Policy. 

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### Policy and Society

An Interdisciplinary Journal of Policy Research

Policy and Society is an interdisciplinary journal exploring policy and its manifestations in broader political, economic and social contexts. Each issue of *Policy and Society* is typically devoted to a single policy theme. The theme may be approached from the perspective of single or multiple disciplines.

Policy and Society seeks to explore how policies are shaped by their context and, in turn, shape it. The Journal welcomes submissions that deal with policy theory and practice at the local, national and/or international level, including review issues on the state of the field.

Issues normally consist of an introductory review article (approximately 6 - 8,000 words) and 5 - 7 articles (approximately 6,000 - 8,000 words). Each issue is normally overseen by a special guest editor.

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Volume 29, Issue 1, 2010.

'Public Policy and Genomic Science,' - Edited by Michael Mintrom
Volume 28, Issue 4, 2009.

'Deliberative Governance in the Context of Power,' - Edited by Carolyn M. Hendriks Volume 28, Issue 3, 2009.

'Integrated Land Management,' - Edited by Jeremy Rayner and Michael Howlett Volume 28, Issue 2, 2009

'Civil Society in Europe,' - Edited by Hans-Joerg Trenz Volume 28, Issue 1, 2009

'Climate Change, Energy and Transport,' - Edited by Benjamin K. Sovacool Volume 27, Issue 4, 2008

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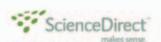
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# Alma Mater

Maximising the Singapore experience  $\cdot$ 

Vietnam at the crossroads





# Maximising the Singapore experience

The Indian Administrative Service (IAS) is an elite core of the public services framework in India. Public service managers of this agency play an integral part in designing and implementing crucial policies in the second most populous nation of the world.

G.P. Upadhyaya, an alumnus of the Master in Public Management course (MPM-2006), is an officer of this elite cadre with the rank of a Commissioner and deployed to the north-eastern state of Sikkim in India. Currently, Upadhyaya is on a central deputation with the Government of India, serving as the secretary-general of the Federation of Indian Export Organisations (FIEO) at the Ministry of Commerce. The savvy engineer-turned-administrator recalls his days at his alma mater and tells **Ranmalee Mendis** how his learning at the LKY School strengthened his hand as a public service manager.

"I feel the relevance of this course is increasing day-by-day, particularly in a rapidly growing and expanding economy like India."

**GiA**: Why did you choose to pursue a Master in Public Management (MPM) degree at the LKY School?

G.P. Upadhyaya: While looking for a suitable Masters course for a mid-career officer, which aimed at updating one's knowledge with the latest developments in public policy and honing one's existing skills, the MPM course at the LKY School stood out as a unique programme for senior administrators with a true international flavor. The uniqueness of the course was further bolstered by the fact that part of the course was to be done at the Kennedy School of Government at Harvard University in the regular classes with an attachment programme at a Singapore Ministry to learn from Singapore's successful public policy interventions. Moreover, the location of the LKY School being in Singapore and the distinct focus on Asia made the course all the more appealing.

**GiA**: As an Indian Administrative Services officer, you are probably the closest to witnessing rapid economic growth at the grassroots levels in India. How did the lessons in environmental economics help you appreciate the aspect of sustainable development in a growing economy?

G.P. Upadhyaya: I feel the relevance of this course is increasing day-by-day, particularly in a rapidly growing and expanding economy like India, where the biggest public policy challenge in the years to come will be balancing explosive economic growth with sustaining the environment. The environmental economics course, taught by Prof. Dodo, was eminently able to sensitise us on this very important aspect and made us think of the long-run scenario. All this is coupled with the incumbent responsibility of rapidly developing countries like India and China towards sustainable development. As is amply evident, the whole

world has now been forced to think of the imperatives of sustainable growth in order to save the planet and humanity.

**GiA**: How did the Game Theory that you learnt at the LKY School empower you professionally as a public service manager? Is it as interesting to implement it as a policy manager?

**G.P. Upadhyaya:** I feel the concepts of Game Theory that we learnt are immensely useful while planning various initiatives as a public policy practitioner. As a matter of fact, this is an extremely useful tool which enables one to prioritise various steps. Since public policy interventions typically affect multiple stakeholders with conflicting interests, the Game Theory concepts are indeed helpful in minimising resistance and maximising the success rate of those interventions.

**GiA**: While pursuing the course you were attached with the Ministry of Environment and Water Resources (MEWR) and the National Environment Agency. What lessons in policy management and application from Singapore's waste management model can India take home?

G.P. Upadhyaya: I think solid waste management in India has already assumed serious proportions, not only in bigger cities like Delhi/Mumbai but also in various tier-II and tier-III cities. While Singapore's model of waste disposal by incineration certainly cannot be replicated in India, presently, due to the high cost, civil society opposition to incineration and easy availability of land for landfill; it has great applicability with regard to effective waste collection, segregation and recycling and making the urban population pay appropriately for collection and disposal of the waste that they generate. I have already given several presentations highlighting the effectiveness of Singapore's model and the lessons for India which has elicited enthusiastic response. GiA





# Vietnam at the crossroads

Wang Yen Peng visits Vietnam on a study tour and presents her take on the challenges for the Vietnamese economy. The study trip for MPA (Master in Public Administration) students to Hanoi, Vietnam, in the first week of December, 2010 proved to be quite an eye-opener. From the word go, it helped all eighty of us develop a deeper understanding of Vietnam's economic development.

Vietnam is a fast developing country with immense potential for growth, however, it faces many daunting challenges as well.

We had the opportunity to interact with Vietnamese officials from the city of Hanoi, representing both the public and private sector. In their sessions on Vietnam's Economic Development Policy, the officials provided a critical insight into Vietnam's economic journey.

Some of the key lessons from the interactive sessions were on the Human development Index (HDI) of Vietnam. HDI is a composite statistic used to rank countries in terms of human development and grades the principal components of development such as health, education and income, etc.

In Vietnam's case, the average life expectancy at birth stands at 74 years, which is

"The entrepreneurial spirit in Vietnam remains reasonably high. About 98 per cent of Vietnam's business comprises of small and medium scale enterprises."

higher than other neighbouring Asian countries such as Indonesia, Thailand, China and India. The adult literacy rate in 2008 was also an encouraging 93 per cent. With a per capita GDP of US\$1,278 and a growth rate of 10.3 per cent, Vietnam aims to become an 'advanced economy' targeting a per capita GDP of US\$10,000 by 2050.

With that in mind and as we travelled along the way, what struck most of us was the immense air and noise pollution that engulfed entire Hanoi. In the due course of our journey, we learnt that besides environmental pollution, there were other tough and compelling challenges that Vietnam needed to address. Some of them being:

- 1. Under-developed infrastructure such as lack of roads, electricity, seaports and airports;
- 2. Macro-economic instability high inflation rate and fluctuating exchange rates;
- 3. Literate but largely (68 per cent) untrained human capital and an acute shortage of skilled labour;
- Inadequate legal regulations a huge schism between law in the books and law in practice; and
- 5. Corrupt bureaucracy that leads to wastage of crucial state resources, time and money.

Vietnam is also plagued by a gaping trade deficit. Till date, it has signed over 122 trade agreements with various global economies. In 2000, it signed the Bilateral Trade Agreement (BTA) with the US and later in 2007 joined the World Trade Organisation (WTO), both of which contributed significantly to Vietnam's business spectrum.

However, despite a large number of trade agreements, Vietnam's trade deficit has not decreased. As of now, 42 per cent of Vietnam's debt portfolios have been taken up by

the Japanese Yen. This is worrisome for the country since the Yen has been appreciating against the Vietnamese Dong, and this escalates the debt further. In addition, low interest rates and easy money have also led to surge in imports, thereby widening the deficit gap.

After the 1986 'Doi Moi' economic reforms in Vietnam, the private sector played a more proactive and defined role in defining the economy. The private sector has progressed in leaps and bounds, since then.

The entrepreneurial spirit in Vietnam remains reasonably high. About 98 per cent of Vietnam's business comprises small and medium scale enterprises. Household business contributed to 30.7 per cent of the total GDP, on an average, from 2000-2009. The net contribution of formal private enterprises to the total GDP of the country increased from 7.3 per cent in 2000 to 10.8 in 2008.

It is an interesting matter of study that most of the businesses in Vietnam are weak in the six 'M's, namely: money, machinery, materials, marketing, management and manpower. While most of the sunrise businesses are newly founded and lack experience and expertise, productivity of labour remains low in contrast to operating costs, which are certainly high. There is limited competitiveness, lack of a conducive environment and support system, and coupled with it is the fact that land and real estate prices are sky-rocketing in Vietnam. The country has also been adversely affected by high oil prices, a weak US dollar and the global financial crisis.

It is clear that Vietnam needs a smart industrialisation strategy. At the moment, it is not in a position that can accelerate its growth in becoming an advanced economy, while boosting the industries, nor can it excel in its labour-intensive industries. The wages in Vietnam are becoming too high for labour-intensive industries, while on the

other hand, the technological advancements and human capability are not adequately developed for its knowledge-based industries. This is precisely why Vietnam finds it hard to move up the ladder in the regional or the international value chain.

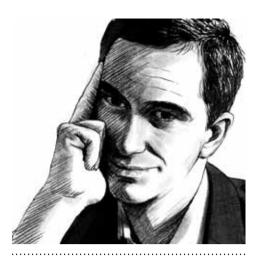
It is amply evident that Vietnam's industrialisation process has remained slow for the past three decades, therefore, besides empowering the private sector and attracting foreign direct investment, the country needs a dynamic, non-corrupt government to act as a catalyst for rapid economic development.

It is clear to the observing eye that Vietnam needs to improve its overall transparency and accountability of the state machinery and bureaucracy. Its administrative system, whether at the local or at the central level, has to be made corruption-free. The state has to make serious endeavours in attracting skilled, committed and passionate youth to serve the public sector. There is also a pressing need to implement smart strategies and polices in order to bring about a macro-economic stability.

While Vietnam has to develop a good infrastructure system and build an efficient, effective and non-corrupt business environment it also needs to find a balance in attracting specific industries that can further develop into clusters.

The challenges are daunting for Vietnam but what is certain is that, with the right economic strategies and focus in place, together with an impetus on developing skilled human resources, the country will move forward towards achieving its aim of becoming an advanced economy.

Wang Yan Peng is a student of the Master of Public Administration programme at the Lee Kuan Yew School of Public Policy.



Jonathan Marshall is a full-time faculty at the Lee Kuan Yew School of Public Policy where he teaches leadership. An executive coach and psychologist, he heads the LKY School's coaching programme and maintains a consulting and psychotherapy practice.

# Will we duck in time?

Throw a stone at the guy opposite you and  $oldsymbol{ol}}}}}}}}}}$  the chance of the contract of the co of ducking. And if you'd conducted the same experiment a couple of million years earlier, the same unlucky fellow would have done an equally good job. His brain, like yours, evolved a long time ago to become a phenomenal machine for avoiding tangible dangers that pose an immediate, personal threat. Sadly, his brain (like yours) is not evolved to handle the very real dangers that threaten us today, e.g., destruction from nuclear weapons, pandemics, and climate change. A recent survey I conducted of public policy experts shows that they believe there is a 33 per cent likelihood of us destroying the majority of the human race within 200 years.

In the twinkling of an eye, in evolutionary terms, our brains almost tripled in size from the half kilogram of homo habilis, 2 million years ago, to the hunky 1.3 kilogrammes, 200,000 years ago of



Evolution's second omission is an antidote to our tendency towards fear and aggression. While psychologists comparing humans with other species have described us as "psychopathic" because of this pre-disposition, most of us politely describe the core of the problem as our having "sensitive egos".

homo sapiens (humans). That remarkable transformation produced a frontal lobe that makes us unique among animals at foreseeing the consequences of our action. As a result, we've been able to create antibiotics, astronomical instruments, and atom bombs. But we never evolved to handle the power we now possess. Evolution left out two key abilities: handling abstract problems and coping with fragile egos.

Unlike our ability to handle oncoming rocks, we are not good at coping with the enormous, abstract problems our frontal lobe has helped us create. Take climate change. It's hard for our minds to grasp the real effects of melting ice caps, increased ocean acidity, and changes to weather patterns. To most of us, all that stuff can seem a bit, dare I say it, nebulous, even irrelevant, as we think about what to do with our busy days. To make matters more difficult, anything we try to do now doesn't bring what our brains expect: an immediate, tangible increase in our safety. In brief, because our species never needed to handle these abstract problems, we simply haven't evolved to handle them well.

Evolution's second omission is an antidote to our tendency towards fear and aggression. While psychologists comparing humans with other species have described us as "psychopathic" because of this predisposition, most of us politely describe the core of the problem as our having "sensitive egos". I recently witnessed an example while coaching a former executive of a major financial institution. For a year he had worked with his firm to make sure they were prepared for him to take early retirement. He missed his children and wanted to be part of their daily lives. He wanted to drive them to

school. However, on his last day of work, the CFO of the firm became demeaning, rude, and contemptuous of him. Rather than brush that off and embrace his children as he had planned, my client vowed to strike back at the CFO by destabilising the firm's half billion dollar investment in Southeast Asia. He worked slavishly at his new project for three years until his original firm was clearly suffering. His mellow retirement had been entirely hijacked by his ego and his children continued to be driven to school by a chauffeur. (Incidentally, his original firm then offered him one of the most senior positions in their company and a lucrative signing bonus. He turned them down – and then he did, finally, take his retirement.)

However, the effect of ego-pinching goes far beyond corporate vendettas. Several senior statesmen, including Singaporean luminaries, believe that one of the reasons for the US-led invasion of Iraq was a vendetta against Saddam Hussein by the family of George Bush. If that is true, thousands of innocent men, women, and children have died because of ego.

There are now 22,000 nuclear warheads, each of which is between 100 and 1000 times more powerful than the bombs that destroyed Hiroshima and Nagasaki. Several are "missing" and may be in the possession of rogue states that are led by people with particularly sensitive egos. It is simply logical to think that it is a matter of time before our technological prowess and tendency towards aggression meet in catastrophe. After all, in the last century alone, we killed more than 100 million of our own kind and we did not have the type of technology that is available today.

I had the privilege of asking the former Secretary General of the United Nations,

Kofi Annan this question. He said that we have a 30 per cent chance of destroying ourselves. I went on to ask ten faculty members of the LKY School and Harvard Kennedy School how likely they think, it is that we will destroy at least half of our species in 200 years. The median response was 33 per cent. When asked what they thought the likelihood was of our destroying our species at some point in the future, they responded "100 per cent."

I asked Annan how we might overcome these two flaws in our psychology. He said, "We have to build empathy. Those with the ability to fix the problems must see the impact these problems have." My initial reaction was that his solution sounded weak, tedious, and ineffective. But the more I think about it, the more I realise we have no other choice. Fortunately, recent research on empathy and compassion shows that people who deliberately try to cultivate these qualities themselves become happier. In fact recent brain scans have found that among the happiest people studied are those who deliberately try to cultivate compassion. So perhaps empathy and compassion aren't as weak as they sound.

As I look at the running shoes I am wearing, which may well have been made in an exploitative Nike-like sweatshop; as I consider the carbon footprint of a holiday I have been planning for months, I hope others will do better than me at developing real empathy for our grandchildren. I am hoping that others will change their behavior and spare me the cost. At the same time, I am forced to realise that this makes me part of the problem. And that may be an important step in developing the real empathy I will need to create my own change.

## Faculty achievements

#### Caroline Brassard



Caroline authored a chapter entitled "Bhutan: Cautiously Cultivated Positive Percep-

tion" in Rising China: South Asian Perspectives, a book edited by the Institute of South Asian Studies, National University of Singapore and published by Routledge Publishers in December 2010.

Caroline was also invited to join a UNESCAP panel of experts at the *Policy Dialogue on Emerging Macroeconomic Policy Issues and Development Challenges in the ES-CAP Region.* 

#### Eduardo Araral



Eduardo's work was cited in the background papers for the 2011 World Development. He

was appointed UNDP advisor to the Vietnamese government to help draft its 2011-2020 Socioeconomic Development Plan.

Eduardo's work with Wu Xun, Associate Professor at the LKY School and Rita Padawangi, Research Fellow at the Institute of Water Policy, was cited by the Asian Development Bank in its *Evaluation Report* of water policy. His work was also cited in the World Bank's *Appraisal Report* for a major poverty alleviation project in the Philippines.

### Boyd Fuller & Vu Minh Khuong





Khuong and Boyd have had a paper titled "Exploring the dynamics of policy interaction: Feedback among and impacts from multiple, concurrently applied policy approaches for promoting collaboration", accepted in the *Journal of Policy Analysis and Management*.

### Darryl S.L. Jarvis



Darryl published the following:

Jarvis, Darryl S.L. "Risk, Globalization and the State:

A Critical Appraisal of Ulrich Beck and the World Risk Society Thesis," in George Ritzer and Zeynep Atalay (eds.) *Readings in Globalization: Key Concepts and Major Debates*, Wiley-Blackwell, pp. 271-280.

Jarvis, Darryl S.L. (2010), "Race for the Money: International Financial Centres in Asia," *Journal of International Relations and Development*, Volume 14, pp. 60-95.

Jarvis, Darryl S.L. (2010), "Theorizing Risk and Uncertainty in Social Enquiry: Exploring the Contributions of Frank Knight," *History of Economics Review*, No. 52, Summer, pp. 1-27.

Jarvis, Darryl S.L., (2010), "Institutional Processes and Regulatory Risk: A Case Study of the Thai Energy Sector," *Regulation & Governance*, 4, pp. 175-202.

### Suzaina Bte Abdul Kadir & Charles Adams





In November 2010, Suzaina and Charles were awarded the Excellence in Teaching Award for NUS Faculty.

### Paul Barter



In November 2010, Paul released the *Final Consultant's Report* version of Parking Policy in Asian Cities, a 93-page report funded by the Asian Development Bank, and which studied in depth the parking policies of 14 Asian cities.

### Wong Marn Heong



In October 2010, Marn Heong jointly organised an event with Associate Professor Dar-

ryl Jarvis to launch a project that addresses customs efficiency within ASEAN as well as that between ASEAN and China.

In November 2010, Marn Heong delivered a presentation on 'ASEAN Competitiveness - Perspectives from Singapore & ASEAN Business' at a seminar organised by the Singapore Business Federation.

# 6

Fausto was appointed as the Trade Commissioner of Ecuador to Singapore.

### Allen Lau (PhD student)

Fausto Valle (MPP 2009/11)



Allen was invited as a speaker to the Graduate Institute of Public Policy (Feng Chia Univer-

sity, Taiwan). Allen spoke on the emergence of collaborative capacity through crisis learning.

### Leong Ching (PhD student)



Leong Ching was awarded a Fellowship at Tsinghua University, China.

# Students achievements

Aarushi Sinha (MPP 2009/11, Editor-In-Chief, AJPA) & Naomi Jacob (MPP 2009/11, Adminstrator, AJPA)





Thanks to the dynamic duo of Aarushi and Naomi, the LKY School's Asian Journal of Public Affairs (AJPA) is now partnering with the Journal of Public and International Affairs (JPIA) at the Woodrow Wilson School of Public and International Affairs at Princeton University.

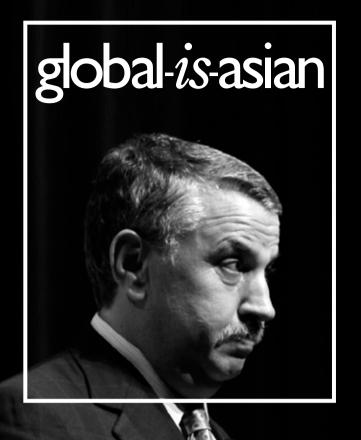
### Tan Mei Xiu Denise (MPP 2010/12)



Denise was awarded the Harwin Academic Excellence Award (Gold) for the first semester.







### What's in the Apr-Jun 2011 issue:

Find out why Thomas Friedman wants the world to change its leaders, not just light bulbs

John Elkington on the power of unreasonable people

The truth about nuclear energy

PNG's solar power gets eclipsed due to cultural barriers

Plus much more



Inspiring Leaders Improving Lives Transforming Asia





Kathryn Wightman-Beaven Master in Public Administration, Class of 2011 LKY School of Public Policy, NUS

Former Global Director for Corporate Responsibility, Pricewaterhouse Coopers

### Make a difference, not just a living.

Throughout her career, Kathryn Wightman-Beaven has always been engaged in making a difference. As a project leader for PricewaterhouseCoopers, she worked closely with UNHCR to support the education of refugees in Eastern Chad. Working at the intersection of the public-private sectors for the last two decades, she decided to return to school to further hone her skills and take on new challenges in Asia. She chose to pursue her passion for effecting social change at the Lee Kuan Yew School of Public Policy (LKY School) at the National University of Singapore (NUS), ranked number 3 in Asia.

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