In the aftermath of the 1997/98 Asian financial crisis, Western governments and the major international financial institutions (the World Bank and the International Monetary Fund [IMF]) pushed for—and many Asian countries’ governments sought—major changes in the regulation of the crisis-hit countries’ financial sectors. East Asian countries’ domestic political institu-
tions and government leaders, who lacked even a basic understanding of economics, were key reasons for the severity of the crisis, as Shanker Satyanath has shown in *Globalization, Politics, and Financial Turmoil*. Yet, national policymakers and senior officials of international organizations quickly converged upon blaming a politically less-sensitive culprit: lack of regulation of financial intermediaries, weak standards and poor enforcement, and, above all, overly cozy relationships between bankers and the senior managers of corporate borrowers. This diagnosis of the Asian financial crisis led to the shift toward “regulatory neoliberalism” that is the starting point for Andrew Walter’s timely new book.

Regulatory neoliberalism, as defined by Walter, refers to the arm’s-length, nondiscretionary approach to regulation characteristic of liberal market economies, where “agencies that apply and enforce regulation” are supposed to be “technocratic, apolitical, and insulated” (p. 1). It was to be a stark change from the relational, discretionary approach that previously characterized the bank-based financial systems of most Asian countries. Such a radical change was to be achieved by adopting a set of international standards, ranging from data dissemination standards and standards governing corporate governance, accounting, auditing, and procedures for insolvency, to standards for the supervision of financial intermediaries, such as capital adequacy requirements for banks. But was it all just declamatory politics?

Cognizant that the actual behavior of the governments and firms that are the targets of international rules or standards may not conform to the prescriptions of those formal rules and standards, Walter sets out to answer three closely interrelated questions: First, to what extent do governments and private actors in the four most-severely crisis-hit Asian countries—Indonesia, Thailand, Malaysia, and South Korea—comply with the international financial standards that they nominally adopted in the aftermath of the crisis? Often, to be legally binding, an international standard requires domestic implementing legislation, which can be blocked in a country’s legislature. Even after such ratification occurs, the government may refrain from fully implementing the standard, or the implementing national or local bureaucracies may undercut compliance through weak enforcement. Finally, when private actors such as banks or firms are the target of the standard, they have the opportunity to bring about “private sector compliance failure” (p. 32).

In sum, domestic actors, who often have no involvement in international standard-setting, have many opportunities to bring about non-compliance. It may therefore seem surprising to observe any cases where bureaucratic and private sector behavior becomes genuinely consistent with the adopted standards in the post-crisis period. Yet, Walter finds such “substantive compliance” (p. 32, passim) in the case of the IMF’s standards for data dissemination (SDD), which specify the macroeconomic statistical data that governments must regularly provide. By contrast, substantive compliance with the corporate governance standards of the Organization for Economic Cooperation and
Development (OECD) is notably improved only in Malaysia, and compliance with Basle Committee standards for banking supervision is mixed and most improved in South Korea. Walter therefore asks, second, what explains the variation in compliance?

Within countries, Walter argues, compliance varies across individual standards, with compliance poorer the more a standard requires behavioral change of private actors (for a variety of specific reasons explored in the country-specific case studies) and over time, with compliance deteriorating during economic downturns, as more firms cut corners to save costs and regulators hesitate to risk pushing firms into bankruptcy. Compliance also varies across countries, Walter argues, as a function of the relative power of pro-compliance interests, such as consumers, institutional investors, technocratic reformers, and highly competitive firms. Domestic forces opposed to compliance can be counteracted by international financial institutions and international investors, who can create political or market-based “compliance pressure” (p. 39). Such external pressure should make overt non-compliance (rejection of the World Bank/IMF or investor-favored international standards by governments or legislatures) a rare event, but may only bring about what Walter calls “mock compliance” (p. 3). He then asks, third, under what conditions is mock compliance sustainable? The answer again sheds light on variation across standards: For most standards, obtaining information about the stringency of enforcement and the quality of private sector compliance is “difficult or even impossible for outside parties” (p. 42). For those standards, mock rather than substantive compliance is the most likely outcome.

After introducing the main issues and his general explanation of variations in compliance in the first two chapters, Walter examines in chapters 3–6 the evolution of financial sector regulation after the Asian financial crisis, focusing on capital adequacy standards and banking supervision in Indonesia, corporate governance standards in Thailand, standards for both of these issue areas in Malaysia, and also on financial reporting standards in South Korea. He documents in detail the interaction of domestic politics and international compliance pressures for several key standards and shows how the cost of third-party monitoring has enabled the persistence of mock compliance. Chapter 7 then draws broader comparisons across countries and issue areas, including an overview of regulatory outcomes not covered in the country-specific chapters.

Governing Finance raises a number of important questions for future research. One is how to work out the causal mechanisms with greater precision to allow policymakers to predict non-compliance ex ante and create counter-incentives. Another concerns ex post monitoring. Walter draws extensively on joint assessments by the World Bank and the IMF, which, for most of the past decade, appear to have gathered detailed information about the level of (non) compliance in these four countries, even if much of it was not made public. Why have the World Bank and IMF allowed mock compliance? Have their economic experts concluded that international standards are not suitable for
developing countries that lack mature financial markets or regulatory capacity? If so, what changes in domestic policy or international standards can reduce the vulnerability of such countries to severe financial crises?

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