

{GOD IS [GREAT] WALL STREET}

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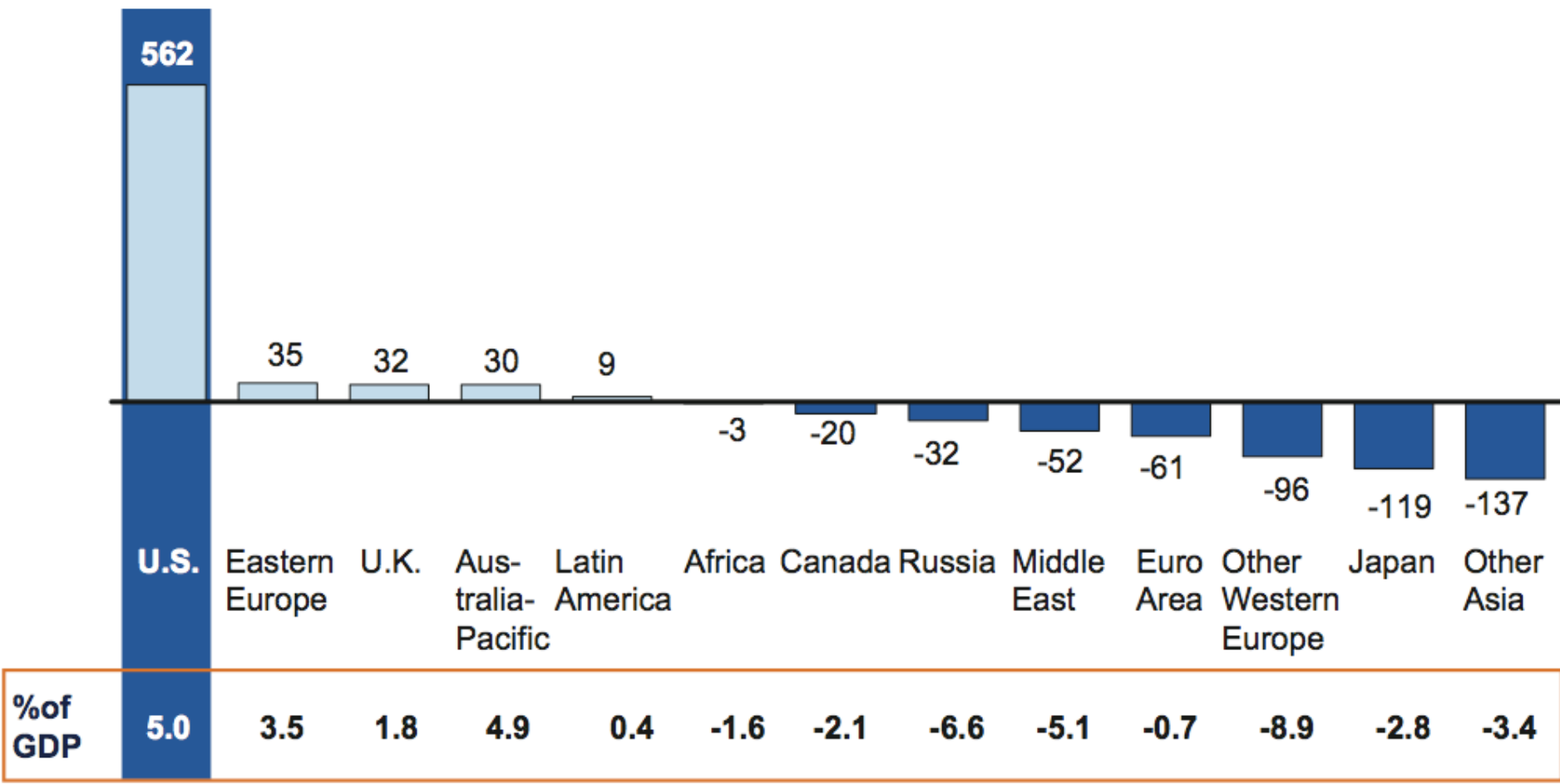
RECENT HEADLINES

- Citigroup wrote down \$23.2 billion in mortgage-related losses and provisions for future bad loans while also reporting a \$9.83 billion fourth-quarter loss. The firm has raised \$19.1 billion from sovereign wealth funds and investors.
- Societe Generale hit by Euro 4.3 billion loss.
- US Congress passes US\$168 billion stimulus package.
- Chinese companies bid for Rio Tinto Zinc, funded by China Development Bank.
- Issue of Islamic bonds held up in Bahrain by Shariah committee
- HK Chief Executive leads government/business delegation to Gulf.
- UBS revealed \$26.6 billion in exposure to risky U.S. mortgages distinct from subprime loans, increasing its vulnerability to the global credit crisis and sending its shares sharply lower.
- Qatar builds stake in Credit Suisse.

Average annual capital inflows minus capital outflows

\$ billion, 2001-05

■ Net capital importers
■ Net capital exporters



Note: Total net inflows exceed net outflows by ~\$1 trillion due to data inconsistency - capital outflows are harder to track than capital inflows for the individual reporting countries.

Source: McKinsey Global Institute Global Capital Flows Database

Exhibit 1.3

PETRODOLLARS AND ASIAN CENTRAL BANKS ARE EACH BIGGER THAN THE WORLD'S LARGEST ASSET MANAGER

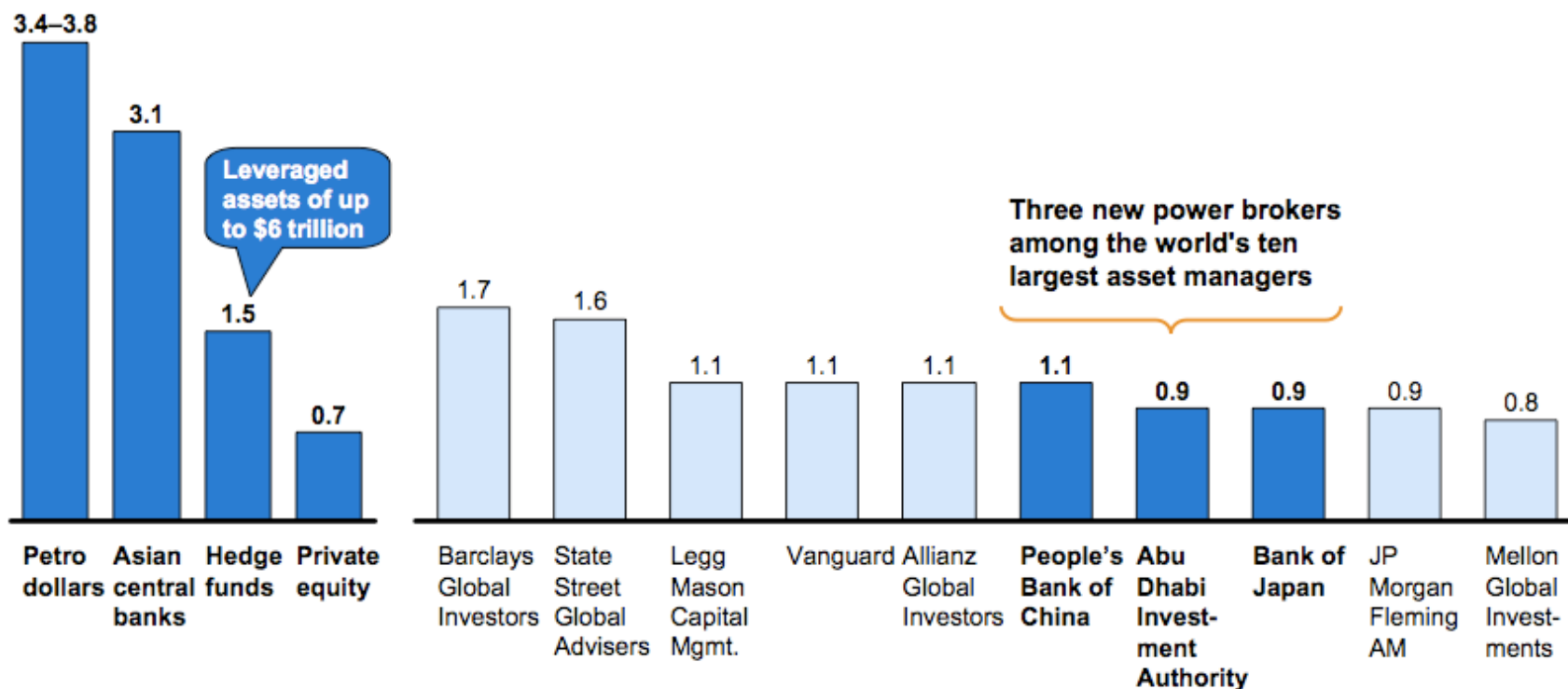
■ New power brokers

Size of players in assets under management, 2006E

\$ trillion

New power brokers

Top ten asset managers*



* Asset managers' 2005 assets extrapolated to 2006E using historical growth from 2004 to 2005; new participants' assets are 2006 actual.

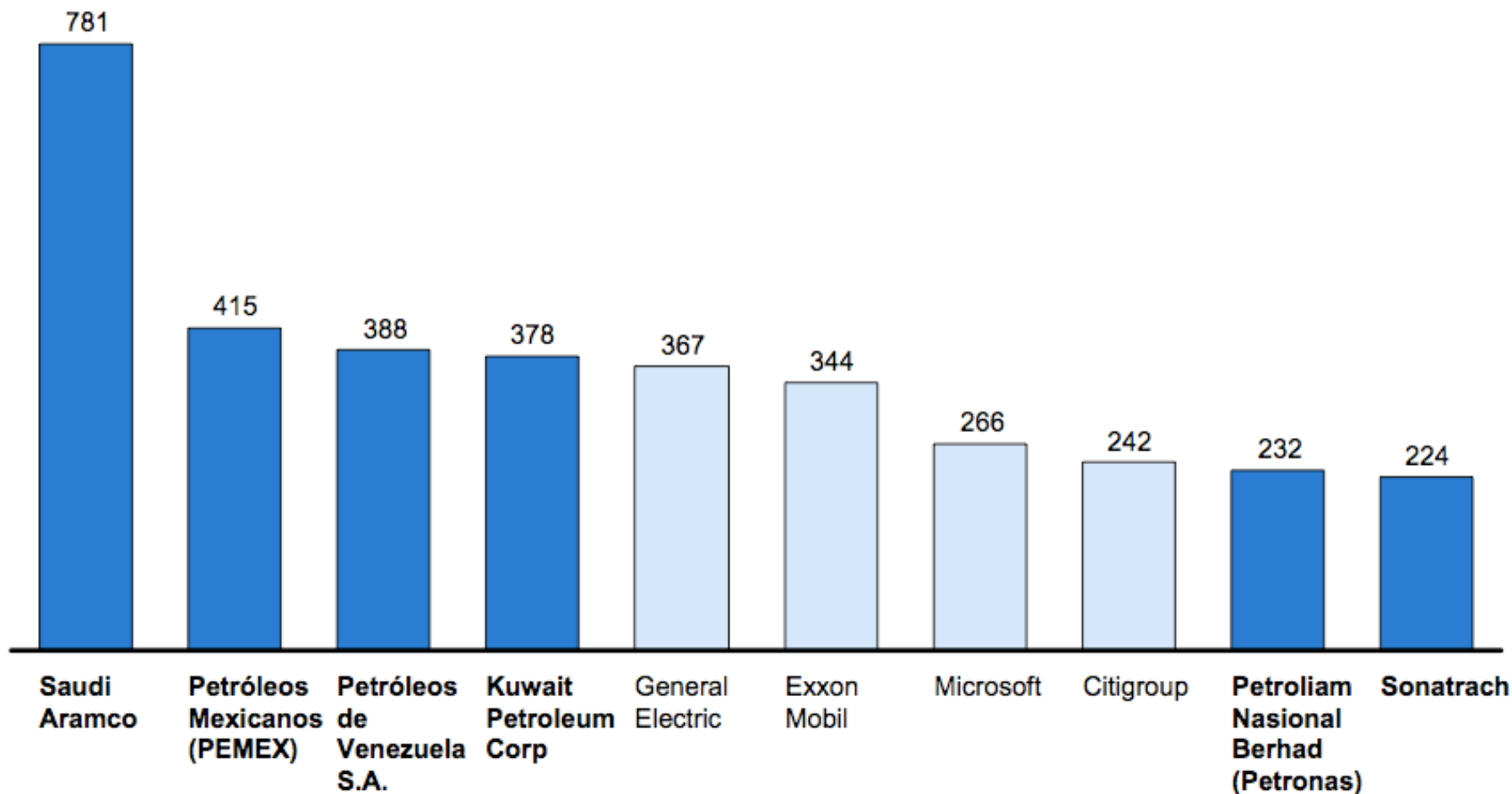
Source: World IPE Ranking; Morgan Stanley; McKinsey Global Institute analysis

SIX OF THE TOP TEN GLOBAL COMPANIES ARE PRIVATE OR STATE-OWNED OIL COMPANIES FROM MIDDLE EAST AND ASIA

Size of ten largest public and private companies, December 2005

\$ billion

Public companies
Private companies



Arab Petropowers & China: Differences and Similarities

- Arab Petropowers have small populations, little manufacturing and much resources. China has the reverse. Yet, both have large current account surpluses that enable them to fund the US budget deficit, current account deficit and to bail out global banks in the current financial crisis. These similar outcomes are driven by similarities in their political economies.
 1. Both are ruled by an authoritarian elite that is open to talent.
 2. This elite is active in business as well as politics; to preserve cohesion, yet retain legitimacy, it must balance private self-interest against public responsibilities.
 3. Each elite controls state assets that appreciate with economic growth: the Petropower elite controls oil, the Communist Party of China controls all land and state-owned enterprises.
- There results a similar economic and financial relationship to the West
- Conversely, the West's democratic politics, separation of business from politics and private ownership of most assets lead to budget and current account deficits and the financial crises that today require Western financial institutions to be recapitalized by the sovereign wealth funds of the Arab Petropowers and China.

Arab Petropowers

- Own assets capable of generating output that has a high value on world markets relative to the production cost, namely, oil and gas. They must share some of the surplus with foreign companies with technology. The surplus continually rises with rising demand, especially from China.
- State assets are controlled by a royal family, plus associates of proven competence and loyalty. The royal family is legitimized by a history of social and spiritual leadership. Retaining legitimacy requires good standards of conduct, consistent with stewardship of state assets. Retaining power requires sharing state income with citizens. This provides the leverage to dominate a large population of immigrants who work to extract value from the state assets and sustain the lifestyle of citizens and elite.
- This tiered political economy, held together by spiritual authority and careful allocation of rewards and punishments, has brought political stability, coherent policies, plus reinvestment of most of the surpluses from state assets, hence budget and current account surpluses.

China

- The People's Republic of China also owns assets that can generate output with a high value on world markets relative to the production cost, namely, the land and companies “liberated” in 1949. The state also has to share some of the surplus with foreign companies with technology. State assets also appreciate continually with economic growth.
- State assets are also controlled by an elite bound by personal and family ties, but also selected for competence and loyalty. The elite must also retain legitimacy through good standards of conduct consistent with stewardship of state assets. Retaining power also requires the elite to share state income with larger groups: Party members and urban citizens. This provides the leverage to dominate a large population of internal migrants, who work to extract value from the state assets and sustain the lifestyle of urban citizens and the elite.
- This tiered political economy, held together by spiritual authority and careful allocation of rewards and punishments, has brought political stability, coherent policies, plus reinvestment of most of the surpluses from state assets, hence budget and current account surpluses.

The US

- Most assets have been privatized; private asset owners enjoy most of the capital gains from economic growth. They consume less of their income than the poor, so their rising share of national income surely raises national savings. Yet, US national accounts show declining savings, suggesting that the wealthy have been moving assets offshore, out of reach of the national accounts — and of tax authorities.
- Business is legitimized by Adam Smith's invisible hand, which frees it of social responsibility. Politics is legitimized by periodic elections. Future generations cannot vote, so democracies shift burdens onto them. Hence the large government and current account deficits, which authoritarian states are financing.
- Democratic politicians require electioneering funds, which they solicit from the rich via policies that favour them — in ways too subtle for most voters, especially in tax and financial matters. Absent sharp laws and aggressive, pro-active regulation, finance professionals keep inventing ways to disguise leveraged bets that shift upside gains to themselves and downside risk to passive investors and the taxpayers who have to bail out the financial system. This leads to periodic financial crises. Today, budget deficits limit taxpayer bailouts, so China and the Arab Petropowers are stepping in.

THE SNOW WHITE G7 DWARVES

- Asian Financial Crisis: IMF required monetary contraction and budget cuts in Thailand, Indonesia, South Korea. Brought economic collapse, suicides.
- Sub-prime financial crisis: US Federal Reserve and European Central Bank flood their banking systems with money; US stimulates macro-economy with tax rebates, despite massive largest current account deficit.
- Fed Chairman Ben Bernanke holds up developing countries' finance of US deficit as evidence of its "deep, liquid, well-regulated financial markets".
- IMF, OECD, etc., call for Sovereign Wealth Fund transparency and code of practice, with no evidence of wrongdoing; collapse of Long-Term Capital Management brought no such calls for hedge funds.
- Basel I Capital Adequacy rules targetted "unfair competition" from under-capitalized Third World banks that enjoy implicit state guarantees. Western banks' maneuvers around these rules brought subprime crisis. Now they seek Third World capital, and invoke implicit home government guarantees.
- G7 (US, Japan, Germany, UK, France, Italy, Canada) calls for economic stimulus from China, as Western economies face recession.

THE COMING COLLAPSE OF CHINA THE CURRENT COLLAPSE OF THE US THE FINAL COLLAPSE OF GORDON CHANG

- 2001. Gordon Chang forecasted *The Coming Collapse of China* within 5 years, which was to have been triggered by the collapse of its banks from their hidden non-performing loans.
- 2006. Didn't happen, so Gordon changes the subject, forecasts nuclear showdown in Korea.
- 2007. Top 3 Chinese banks attain higher stock market values than top 3 US banks.
- 2008. Fed cuts interest rates twice to forestall collapse of US banks from their hidden non-performing loans.
- 2011. Nuclear showdown between North and South Dakota?

THE END OF FRANCIS FUKUYAMA

- 1989. With the fall of the Berlin Wall and the collapse of the Soviet Union, Fukuyama pronounces *The End of History*: “the universalization of Western liberal democracy as the final form of human government”.
- 1991-99. Russia adopts Western model. Economy and population collapse.
- 2000. China becomes second largest economy by PPP.
- 2004-7. President Putin ends experiment in liberal democracy and recovers state assets privatized to oligarchs. Russia resurges from higher energy prices.

GODILOCKS AND THE 3 BARE STERNS AT BEAR STEARNS

- Once upon a time, 3 bears came home to find Godilocks tasting their porridge.
 - The 1st bowl was too hot,
 - The 2nd bowl was too cold
 - The 3rd bowl was just right.
- The 3 bears recouped their porridge by eating Godilocks.
 - Brown Bear ate too much Godilocks: he thereafter did business only with God.
 - Yellow Bear ate too little Godilocks: he thereafter did business only with his family.
 - White Bear ate just the right amount of Godilocks: he could do business with anyone.
- White Bear grew rich, but lost it all when Bear Stearns disclosed bare sterns.
- He had to sell an arm, a leg and a sub-prime rib to Brown Bear and Yellow Bear, who lived happily ever after.

SPIRITUAL ROOTS OF POLITICAL ECONOMY

- Pre-modern societies achieved prosperity and stability when their spiritual systems limited the abuse of power and secured mass acquiescence, so that the elite could extract surpluses from production and exchange. This led to conservative societies that limited initiative and incentives and narrowed intellectual horizons.
- The West pioneered the institutions of democracy, law and open markets that released individual energies and liberated individuals and firms to coordinate their economic activities rationally and efficiently.
- The West built upon a crucial precedent from the spiritual system of Christianity: the notion that God himself dealt with nature and humanity through a stable framework of laws.

WESTERN INSTITUTIONS, WESTERN SUCCESS

The West pioneered:

1. The external frameworks of constitutional government and the rule of law that secure each individual's autonomy from the socio-political nexus of obligation and power.
2. The external frameworks of commercial and contract law, property rights, and accounting that allow each individual to seek personal prosperity by collaborating with whichever partners possess complementary skills and resources.
- 3a. The social construction of internal intellectual (=theoretical/mathematical) structures that allow individual search for objective truth to replace dogma and subjective belief.
- 3b. The social construction of internal psychological structures that allow the individual search for material well-being to replace social/spiritual obligations.

WESTERN INSTITUTIONS: JUST ENOUGH GOD

- From their conception that each person was equally important before God, the Christians eventually deduced an equal right to participate in government. The medieval Church was the first constitutional state with an elected head, governed by law. The thousand-year series of Church Councils that debated theological issues also provided crucial precedents for representative government.
- Modern accounting, financial and legal systems emerged from the symbolic systems that the medieval Church first developed for spiritual transactions. These symbolic systems defined new constraints on business dealings, which allowed people to contract freely with each other. They facilitated complex forms of cooperation in which each party was motivated to contribute their information, energy and skills.
- Calvin's doctrine of predestination defined the next world as unknowable. This focused Calvinist attention on individual accomplishment in this world.

CHINA: TOO LITTLE GOD

- China grew a large, stable, prosperous civilization through a unique merger of its spiritual and political systems: its Confucian “religion” amounted to injunctions to benevolent governance on the model of the family; its Daoist “religion” amounted to injunctions to minimize government interference in the economy.
- But China never constructed an objective framework for business that could embrace all potential business partners and employees. The Chinese instead conducted business via personal and family relationships, which limited the scale and scope of their businesses. Nor could Chinese entrepreneurs claim protection for property by reference to a legal system that constrained the conduct of the ruler.

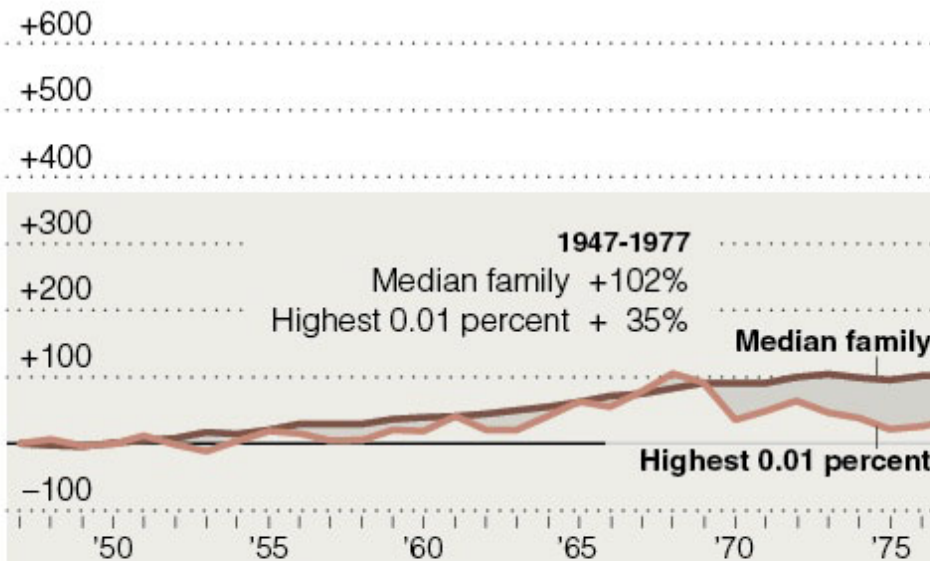
ISLAM: TOO MUCH GOD

- Islam was a pure, intellectually appealing religion that spread very quickly. Islamic societies grew rich mediating exchange across many other civilizations.
- Islam shares Christianity's fundamental religious conception: of a just, transcendental god who created and ordered the visible world.
- But the very simplicity and purity of the religion foreclosed the development of modern political and business institutions and imposed psychological and intellectual constraints.

GLOBALIZATION UNDERCUTS ANGLO-SAXON POLITICAL AND CORPORATE GOVERNANCE

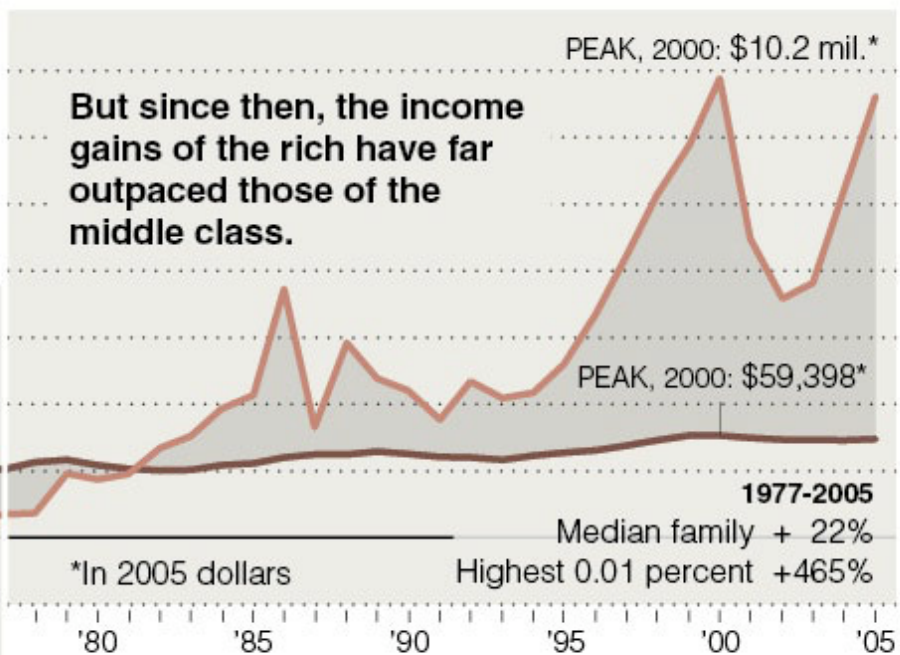
- Democracy led politicians to shift tax burden to future generations. Globalization allowed budget deficits to be financed from abroad without rises in interest rates.
- Business institutions of accounting and commercial law become ineffective under globalization. Profits transferred abroad by MNCs through transfer pricing. Personal wealth shifted to trusts domiciled in tax havens.
- Individualism led to dysfunctional incentive schemes that encouraged risk seeking. Ragurham Rajan calls for paybacks by executives who got bonuses from organizing complex derivative transactions that later collapsed.

+700% FAMILY INCOME



For much of the three decades after World War II, the income of the typical family rose faster than the incomes of the richest Americans.

But since then, the income gains of the rich have far outpaced those of the middle class.

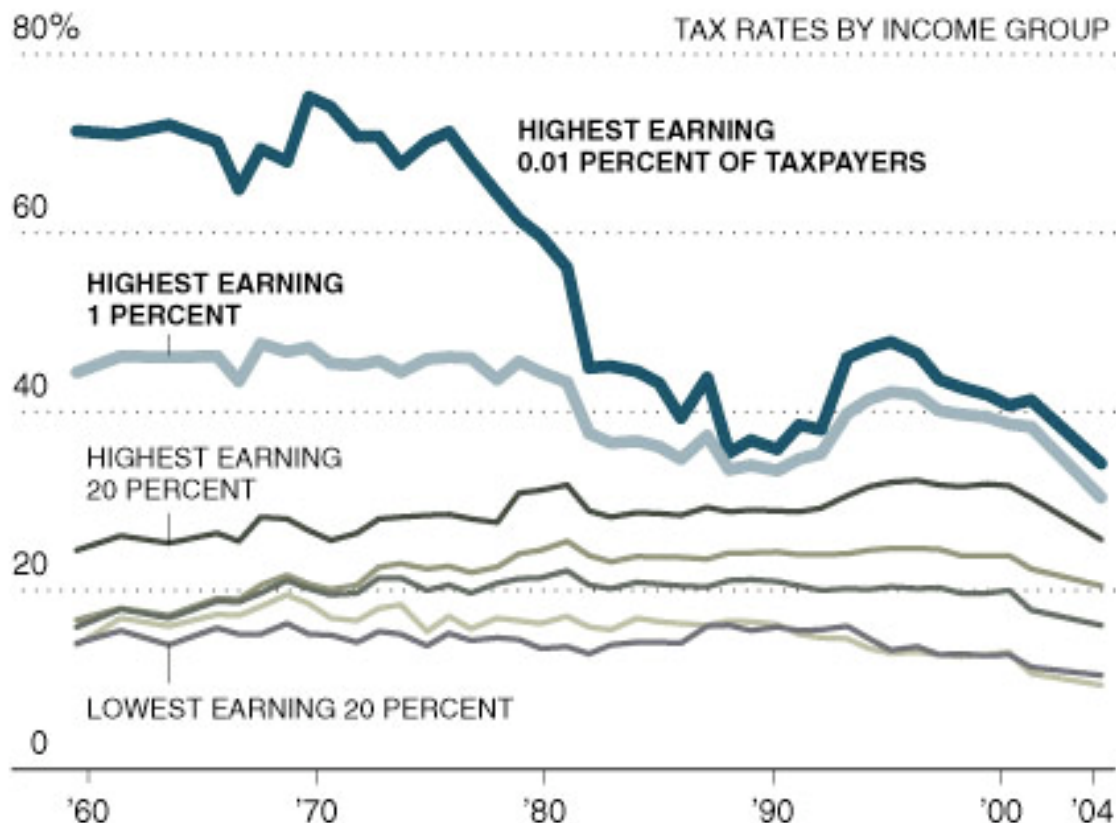


There have been two periods, the mid-'60s and the late '90s, when incomes rose quickly for both groups.

Sources: Thomas Piketty and Emmanuel Saez from I.R.S. data; Economic Policy Institute from Census data

Shifting the Tax Burden

Compared with the 1960s, the highest and the lowest earners pay a smaller share of their income in federal taxes, while those in the middle pay somewhat more.



Numbers include income taxes, capital gains taxes, payroll taxes, estate taxes, gift taxes and corporate taxes (which are effectively paid by stockholders). 2004 tax rates are based on 2004 tax law applied to 2000 income adjusted for income growth.

Source: Thomas Piketty and Emmanuel Saez

THE NEW YORK TIMES

US Deficit

- The US government reports that its deficit for the fiscal year ending September 30, 2007 was \$162.8 billion. This shortfall is covered by borrowing. However debt is rising faster than this indicates. The total federal debt during the past fiscal year grew from \$8,530.4 billion in 2006 to \$9,030.6 billion in 2007 — a \$500.2 billion increase.
- It has only been a little more than a decade ago that the US government started preparing its accounts according to Generally Accepted Accounting Principles. The Secretary of the Treasury, in coordination with the Director of the Office of Management and Budget, is required to submit financial statements for the U.S. government to the President and the Congress each year. The Government Accounting Office is required to audit these statements, but its financial statements have never received an unqualified opinion.

US Deficit

- *“Considering this projected gap in social insurance, in addition to reported liabilities (e.g., debt held by the public and federal employee and veterans benefits payable) and other implicit commitments and contingencies that the federal government has pledged to support, the federal government’s fiscal exposures [i.e., its aggregate direct and indirect debt obligations] totaled approximately \$53 trillion as of September 30, 2007, up more than \$2 trillion from September 30, 2006, and an increase of more than \$32 trillion from about \$20 trillion as of September 30, 2000. This translates into a current burden of about \$175,000 per American or approximately \$455,000 per American household.”*

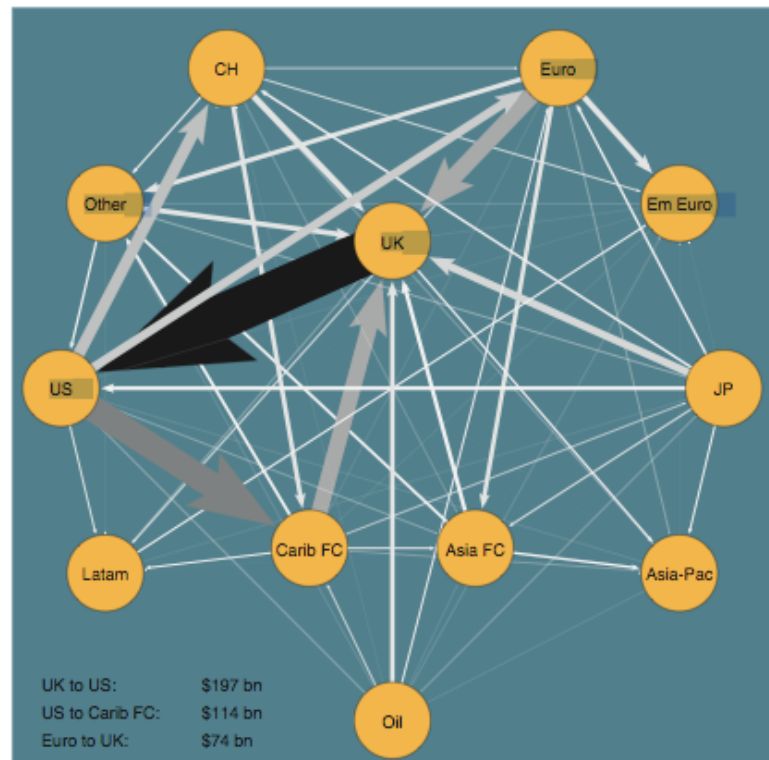
US Deficit

- However, the report discloses a unique asset that the US government can use to repay its debts.
- *“Assets included on the balance sheets are resources of the Government that remain available to meet future needs. The most significant assets that are reported on the balance sheets are property, plant, and equipment; inventories; and loans receivable. There are, however, other significant resources available to the Government that extend beyond the assets presented in these financial statements. Those resources include stewardship assets...and the Government’s sovereign powers to tax, regulate commerce, set monetary policy and **the power to print additional currency.**”* [emphasis added]

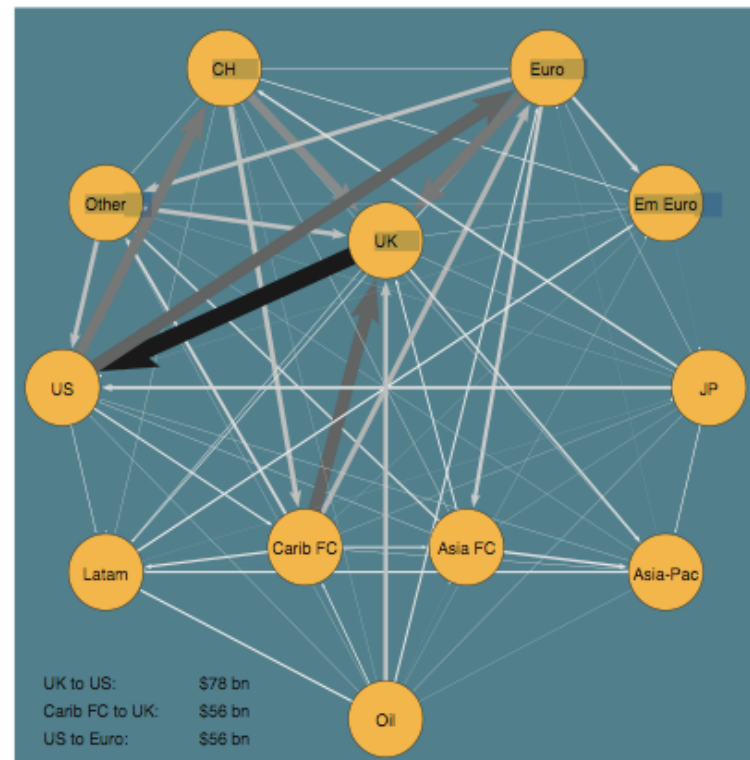
Net flow of funds through the international banking system¹

Exchange rate adjusted flows, first quarter of 2007

Total net flows



Interbank net flows



Asia FC = Asian financial centres (Hong Kong SAR, Macao SAR and Singapore); Asia-Pac = China, India, Indonesia, Korea, Malaysia, Pakistan, the Philippines, Taiwan (China) and Thailand; Carib FC = Caribbean financial centres (Aruba, the Bahamas, Bermuda, the Cayman Islands, the Netherlands Antilles and Panama); CH = Switzerland; Em Euro = emerging Europe (Bulgaria, Croatia, Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia, Slovenia, Turkey and Ukraine); Euro = euro area member states excluding Slovenia; JP = Japan; Latam = Argentina, Brazil, Chile, Colombia, Mexico and Peru; Oil = OPEC member states (excluding Indonesia) plus Russia; Other = Australia, Canada, Denmark, New Zealand, Norway and Sweden; UK = the United Kingdom, Guernsey, the Isle of Man and Jersey; US = the United States.

¹ The thickness of an arrow is proportional to the amount of net bank flows between countries/groups, and is comparable across panels. An arrow points from A to B if net flows in this direction are positive, calculated as net interbank claims (assets minus liabilities) of banks in A on banks in B, plus net claims of banks in A on non-banks in B, minus net claims of banks in B on non-banks in A. (This last component is missed if B is not a reporting country.) The graph does not show intraregional flows or reporting banks' lending to domestic residents. See also P McGuire and N Tarashev, "Tracking international bank flows", *BIS Quarterly Review*, December 2006.

“The largest net transfer of funds during the quarter (\$197 billion) was from residents of the UK to those of the United States, primarily in US dollars. This was mostly due to an increase in claims reported by banks in the United Kingdom on non-banks in the United States (interbank flows accounted for \$78 billion). Even so, non-banks in the United States placed more deposits overall than they borrowed from BIS reporting banks. As a result, for the United States the net inflow from the United Kingdom was largely offset by net outflows to Caribbean offshore centres (\$114 billion), Switzerland (\$51 billion) and the euro area (\$38 billion), leaving a relatively small overall net inflow (\$13 billion) to the United States. The net transfer of funds between the United States and Caribbean financial centres was driven mostly by non-banks in the United States sending dollars to banks located in the Caribbean.”

4: The net inflow was less than the quarterly average of \$35 billion since 2000. Total capital inflows into the United States during the quarter were \$176 billion. From “Highlights of International Banking and Financial Market Activity”, *BIS Quarterly Review*, September 2007

- UK-based banks lent (197-78 =) 119 billion to US-based corporations.
- US-based corporations sent 114 billion net to Caribbean tax havens .This is mostly corporate flows to banks (The diagrams show that net inter-bank flows from the US to the Caribbean is tiny compared to total net flows)
- The flows to and from the Caribbean are entirely tax driven, comprising payments to subsidiaries registered there, partly offset by loans from the subsidiaries back to the operating companies in the US.
- In fact, the gross flow from corporations to the Caribbean will be much larger but is offset by loans from Caribbean subsidiaries back to the US.

China's Modern Political Economy

- Historically, most ruling elites struck a deal with landowners and businessmen: the rulers protected the wealthy in return for a share of their income. In China today, the ruling elite is integrated with a business elite that manages state and collective firms. Thereby, China's rulers join in wealth creation, rather than preying upon wealth creators.
- The integration of political and business elites facilitates corruption, as officials and managers collude to siphon off some of state/collective assets. But the state/collective assets fund much of the state budget, so China could afford a decent government services, yet avoid some of the economic distortions arising from taxation and from tax avoidance.
- China's state/collective assets also fund much of the investment in infrastructure and fixed assets, so it could grow fast and deploy advanced technologies without a sophisticated financial system.
- China's integration of political and business elites implies both an efficiency loss and an efficiency gain; its fast growth indicates that the gains outweigh the losses.

Comparative Advantage from State Assets

How did this happen?

- In both classical and modern China, the elite legitimized power by delivering good governance. But in 1949, the Communist Party took control all assets (land and capital). In principle, it “liberated” these assets from private owners on behalf of “the People”.
- When China joined the global economy, these state assets enabled it to dominate global manufacturing; unlike rival exporters like Indonesia or Bangladesh, China’s production costs did not have to include a return to capitalists or a rent to landlords for factory space or for land to grow food to feed the workers.

Socialism With Chinese Characteristics

- How to empower and motivate officials to use state assets for The People?
- How to use the price mechanism to decentralize decisions on resource allocation to local officials, who have better information?
- Local officials could do business via collectively-owned enterprises, i.e., state firms whose ownership was devolved to local governments and whose control was devolved to local Party officials.
- Local governments could jump-start local investment by encashing some collectively-owned assets, e.g., by selling apartments built on state land. However, the resulting assets still belong to the local government. Inevitably, some of the collectively-owned assets were stolen during this process.

Controlling Corruption

- Those officials who refrained from stealing too much could grow their local economies fast and be promoted.
- The prospect of promotion for encouraging local growth also led senior officials to encourage foreign investment and private business by:
 - limiting predation by lower officials
 - using local assets and local government income to build infrastructure and improve the workforce through education and training.

State Banks

- Local and national leaders directed loans from State Banks to state and collective enterprises.
- State Banks were recapitalized by the Ministry of Finance and by seignorage: printing money in line with economic growth.
- Thereby, the Party
 - maintained legitimacy by upholding state workers' livelihoods
 - protected the status and income of the local officials who manage unprofitable state enterprises
 - maintained and grew the assets under the control of the Party.

The Party and the State

- The assets growing under Party control remain available to reward Party members and their families. It gives the most talented Chinese an incentive to join the Party. It preserves Party cohesion : factional competition is constrained by the joint objective of preserving Party legitimacy and power.
- Joining the Party is like joining an investment bank: you hope either to share eventually in the big rewards at the top (by becoming a national leader in China, a partner in the investment bank). Or to siphon off some rewards along the way (by stealing state assets in China, by use of contacts and insider information in the investment bank).
- State assets help fund infrastructure, pay for government and social welfare and also serve to reward Party members. But the rate of use is limited because the authoritarian government does not have to buy votes from an electorate. The growth of state assets shows up in impressive macroeconomic statistics that raise national pride and reinforce party legitimacy.

State Assets Today

- Under China's reforms, the vast stock of assets "liberated" in 1949 appreciated in value in line with economic growth, under the patronage of national and local governments. The stock now includes:
 - All land: land near cities has risen vastly in value as it is converted to commercial and residential use, but the state retains ultimate ownership.
 - Companies owned by national and local governments. These appreciate fast as management improves under pressure of competition from private and foreign enterprises; until 2007, these state and collective enterprises reinvested all dividends.
 - Controlling blocks of shares in many banks and enterprises listed in China, Hong Kong and abroad. 72 percent of shares of listed firms remain under state and collective ownership.
 - The domestic and foreign assets of the PBOC. The domestic assets rise fast as seignorage grows along with economic growth. The foreign assets rise fast with China's current account surpluses.

State Assets Tomorrow

- China's state assets comprise a unique resource, with no counterpart in other countries. The closest analogies are the energy resources owned by the Arab countries and Russia. But China's assets are growing in value under active management. By contrast, the energy resources are not renewable, although they appreciate with rising world demand.
- The state assets enable China to save at a high rate. State and collective enterprises never had to pay dividends until 2007, i.e., companies saved and reinvested 100 percent of their profits.
- In response to excess capacity at home, these state assets are now driving investment abroad. The state firms leverage their assets through IPOs overseas to secure the foreign exchange that enables them to buy up overseas companies. Overseas acquisitions by Chinese companies climbed to almost \$28 billion this year, compared with \$19 billion in all of 2000. The government has approved funds to raise the equivalent of \$42.2 billion to invest abroad as of Sept. 30, according to central bank data. In July, the nation's insurers were allowed to invest 15 percent of an estimated \$300 billion of assets in foreign currency holdings.
- The domestic story of state assets will now be repeated abroad: the assets will grow; the benefits will be shared between the ruling elite and the people.

Sovereign Wealth Funds and the Subprime Crisis

- Asians and Petropowers amassed their sovereign wealth funds (SWF) just in time to recapitalize a Wall Street hit by the subprime mortgage crisis. This was not a coincidence, for the rise of the SWF and the subprime crisis are two sides of the same coin. Both reflect the international comparative advantages enjoyed by the US on the one hand and by East Asia and the Petropowers on the other — comparative advantages conferred, not just their resource endowments and skills, but also by their financial systems, political systems, demographics and cultures. These comparative advantages led Asians and Petropowers to export goods to the US, and import financial assets.

- The growth of this trade encouraged China to produce a wider range of goods via longer, more sophisticated production processes — see China's rapid switch from assembly operations to the export of complex capital goods, such as machine tools. This lengthening of China's physical production processes required capital investment, especially in physical infrastructure, and better corporate/political governance. China's growth had increased the value of its state assets — especially land. These capital gains, plus the rising profits of state firms, allowed massive investment, even as China ran an export surplus. However, China's corporate/political governance has not kept pace — see the corrupt privatization of state assets, especially land.

- The burgeoning trade likewise encouraged the US to produce a wider range of financial assets using longer, more sophisticated production processes — see the supply chain that feeds sub-prime mortgages into mortgage backed securities, then into collateralized debt obligations, then into structured investment vehicles, then into hedge funds. This lengthening of the US financial production process required more financial capital, deeper regulatory infrastructure, and better corporate/political governance. Instead, financial managers leveraged the brand equity of their institutions, while shifting their financial production offshore and off balance sheet. Similarly, US politicians leveraged their “state asset” — the brand equity that makes their dollar the reserve currency and enables cheap funding of their deficit.

- These maneuvers exploited the gaps in Anglo-Saxon corporate and political governance opened up by globalization, which exacerbates the information asymmetry between the owners and the managers of financial institutions, between buyers and sellers of financial assets, and between voters and legislators.
- Dysfunctional systems of executive compensation and risk management allowed finance executives to “privatize” stockholder capital by putting at risk the brand equity of their firms — and of their country.
- To sustain the brand equity, hence global financial stability, required re-capitalization of Wall Street. Fortunately, capital was available from China’s SWF as it converted state assets into state capital via exports of manufactures. More state capital was available from the Petropowers, enriched by rising energy demand from Asia.

- The SWF would not interfere in investment decisions. But they could intervene to revamp Wall Street's risk management and executive compensation systems, whose dysfunction in the sub-prime crisis reflects the failure of the Anglo-Saxon model of corporate governance under globalization.
- The SWF recapitalization of Wall Street provides an important opportunity to strengthen the governance of Western financial institutions, by exploiting the comparative advantages bequeathed by the cultures and political systems of East Asia and Islam