



New challenges for Asia's governments

As the roles of the region's governments expand and change, they must transform their capacity and performance.

David Skilling

Across the world, the role of government in the economy is expanding as a result of the implosion of credit markets and the subsequent sharp decline in economic activity, as well as concerns about social and political stability.

In the West, this expansion has provoked a debate about whether it's just a temporary response to great economic and financial turbulence or if it represents a discontinuity that will redefine government's economic role in a significant and enduring way.

But in much of Asia, the intensity of the West's debate on the role of government is hard to fathom. Big government hasn't returned to Asia; it never left. Long before the current crisis, governments in fast-growing Asian economies such as Malaysia and Singapore routinely endeavored to shape economic outcomes by developing and implementing industrial policy, managing exchange rates, deploying reserves, and using state-owned assets. China's blend of Marx and markets—Deng Xiaoping's “capitalism with Chinese characteristics”—never envisioned a withering away of the state.

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So for many who live or do business in this dynamic region, ideological angst about government's role in the economy misses the point. In Asia, political and business leaders are far more apt to focus on what works.

This pragmatism will be vital over the coming years. Clearly, the crisis will require significant change. Asia is less exposed to financial turmoil than the West is, because Asian countries responded to the

previous decade's regional crisis by improving their current-account positions, accumulating reserves, and ensuring that their banking systems operated prudently. But the crisis has exposed the limits of the region's dominant economic-growth model. Asian economies will need alternative sources of growth to compensate for the

rapid fall in demand from Western markets. The export-led model that propelled many Asian economies so effectively for the past 30 years must be adapted to a different global economic context.

The crisis, and its longer-term implications, will also pose challenges to the way Asia's governments operate, requiring continued adjustments to their roles. In particular, Asian governments are likely to become more prominent in three areas over the coming years.

Government as principal investor. Many Asian governments already have significant holdings of financial and physical assets, controlled by commercially oriented state-owned enterprises, sovereign-wealth funds, and the like. These government holdings will probably expand further as a result of the ongoing accumulation of reserves and the organic growth of existing publicly held assets. This expansion will raise difficult strategic questions about the best way to use a government's balance sheet. Will the goal be to maximize returns on assets, or will governments use them to pursue other development objectives—for example, by applying reserves to domestic infrastructure projects rather than foreign investments? To the extent that governments increasingly use their balance sheets to boost economic growth, careful thought will be required to preserve the efficiency and returns of assets.

Government as alliance builder. As prospects for another round of multilateral tariff reductions falter and protectionist pressures rise around the world, Asian countries will find the possibility of regional

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economic collaboration more appealing. Many of them are too small to achieve minimum efficient economic scale. Fortunately, they have ample opportunity to expand regional free trade, enhance regulatory efficiency, and deepen capital pools through arrangements such as joint currency areas, regional investment funds, and regional bond or equity exchanges. Borders and national sovereignty will remain, of course, and an EU-style arrangement has no real likelihood of emerging in the region, but Asian governments will probably start to think harder about which functions they should handle independently and which would be more efficient if shared.

Government as economic strategist. Asian governments have long shown a willingness to shape and develop their economies deliberately rather than limit themselves to providing a stable platform for private competition. As the global economy's competitive intensity increases, these governments will probably remain actively involved in attracting capital and labor and in developing skills to bolster competitiveness. Governments across Asia are also likely to use stimulus packages and longer-term measures to help their economies make the transition to a more regionally oriented growth model.



In Asia as elsewhere, the role of government is changing and expanding. Not all of the innovations will succeed, but governments in the region may pioneer new approaches—to regional economic integration, economic strategy, and the management of government balance sheets—that may hold lessons for the rest of the world. To handle these new responsibilities, governments must urgently transform their ability to perform. They need much greater access to the people and expertise some new functions will require. They'll have to develop new organizational structures facilitating far more effective collaboration among government agencies, across countries, and between the public and private sectors. And they must create new operating models that enable government agencies to respond much more rapidly and responsively to external events. Business as usual won't be sufficient. ○