

THE REGIONAL IMPACTS OF THE 2008-2009 GLOBAL CRISIS ON GOVERNANCE

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Abstract

In this study, we examine the regional impacts of the 2008-2009 Global Crisis on Governance. We use World Bank's *Worldwide Governance Indicators* (i.e. WGI) which includes six dimensions of governance. These six dimensions are "Voice and Accountability", "Political Stability and Absence of Violence", "Government Effectiveness", "Regulatory Quality", "Rule of Law", and "Control of Corruption". The regions that we examine are North America, Europe and Central Asia, Latin America and Caribbean, East Asia and Pacific, South Asia, Sub-Saharan Africa, and Middle East and North Africa. We examine how the global crisis affected the ranking of each region in terms of these six dimensions of governance. Although, both pre- and post-crisis, North America had the highest ranking in all six measures and Sub-Saharan Africa had the lowest ranking in most measures, the rankings of other regions went up or down in different measures. Our findings show that, due to the crisis, while the overall rankings of Europe and Central Asia, Latin America and Caribbean, and South Asia improved after the crisis, the ranking of East Asia and Pacific declined. East Asia and Pacific's ranking declined in terms of "Political Stability and Absence of Violence", "Regulatory Quality", and "Control of Corruption".

Key Words: governance, wgi, economic crisis, region

Classification JEL: E02, E32, E65, G01, H12

1. Introduction and context of the study

Several previous studies examine the impact of financial or economic crises on governance. For example, Haggard (1999) examines the impact of the 1997 Asian Crisis on governance and argues that the political regime type, the structure of business-government relations, and the design of government agencies are the main factors that determine how governance is affected by a crisis. Jung (2010) discusses the roles of path dependence, centralization or decentralization, politicization, coordination and coherence, and time perspective on the disruption of the stability of public administration due to crises. Levine (2012) argues that, during the recent global crisis, "there was a systemic failure of financial regulation and that senior policymakers repeatedly enacted and implemented policies that destabilized the global financial system". Levine (2012) recommends a new independent institution with informed, expert staff which will evaluate financial regulation from the public's viewpoint.

While these previous studies examine the impact of a crisis on governance, all of these studies focus on a particular region or on a group of countries. In this study, we take a different approach and focus on the impact of a crisis, namely the 2008-2009 Global crisis, on all of the regions in the world (rather than focusing on a specific country or a group of countries). More specifically, we examine the impact of the 2008-2009 Global crisis on the seven regions of the world (i.e. North America, Europe and Central Asia, Latin America and Caribbean, East Asia and Pacific, South Asia, Sub-Saharan Africa, and Middle East and North Africa).

In order to examine the impact of the Global Crisis on these seven regions' governance measures, we use World Bank's "Worldwide Governance Indicators" dataset. This dataset covers 215 countries and includes data on six indicators of governance. These six indicators are "Voice and Accountability", "Political Stability and Absence of Violence", "Government Effectiveness", "Regulatory Quality", "Rule of Law", and "Control of Corruption".

We are hoping to illustrate the regions that are affected the most due to this Global crisis. We will also show which regions are affected more in terms of each governance measure (i.e. "Voice and Accountability", "Political Stability and Absence of Violence", and so on).

The paper proceeds as follows: Section 2 discusses the previous literature. Section 3 explains the data. Section 4 shows the results and Section 5 concludes.

2. Literature Review

Even before the Asian crisis happened, Remmer (1990) examines the relation between democracy in a country and the impact of an economic crisis. She argues that "if the magnitude of the debt burden at the outbreak of the crisis

is controlled, there is no statistically significant difference between democratic and authoritarian regimes, or between new democracies and more established regimes in terms of the impact of the crisis”. Therefore, according to Remmer (1990), the debt level of a country affects the relation between a country’s regime and the impact of an economic crisis.

There are a few studies that examine the impact of the Asian crisis on governance. Two of these are Higgott (1998) and Haggard (1999). Higgott (1998) explores the similarities in the countries that are affected by the crisis. He states that Japan had a significant role in the crisis for all of these countries. Higgott (1998) also discusses how these Asian countries’ economic development models are different from the Western countries’ system.

Haggard (1999) examines three possible factors that may have a negative impact on these Asian countries. These factors are the role of political regime type, the structure of business-government relations, and the design of government agencies. He argues that institutional weaknesses contributed to the onset of the Asian financial crisis.

Li (2003) also examines the Asian crisis. He argues that “economic development is fundamentally a process of establishing relation-based governance and subsequently making a transition to rule-based governance”. Li (2003) argues that the crisis affected different regions of the world in different ways mainly because the countries in different regions are at “different stages of development”.

There are quite a few studies that deal with the impact of the recent global crisis on governance. Fleischer and Parrado (2010) examine the impact of the 2008-2009 crisis on executive decision-making in Germany and Spain. They contend that, during this period, while both countries experienced a centralization of executive decision making, this was less pronounced in Germany due to its institutional setting.

Jung (2010) argues that the global financial crisis has had a significant impact on public administration in most countries in the world. Jung (2010) examines “path dependence (adhering to existing policies or changing course), centralization or decentralization, politicization (reliance on political appointees or the permanent bureaucracy), coordination and coherence or retention of power by individual ministries or agencies, and time perspective (the search for quick relief or long-term solutions)”. Jung (2010) argues that the crisis disrupted the stability of public administration in many countries, and this, in turn, facilitated policy and institutional changes in these countries

Woods (2010) looks at the issue from a different perspective and examines IMF’s role after the crises. Woods (2010) argues that IMF’s dependence on loans from its wealthiest members restrains it from serious reform.

Peters, Pierre, and Randma-Liiv (2011) argue that the 2008-2009 global crisis has been perceived differently in different countries. They contend that the crisis has had differing impacts in countries such as Germany or Sweden when compared to the United States. These countries were at different starting points in their governance regimes when the crisis hits, therefore the policy and governance options available to them were very different.

Another study that examines the impact of the 2008-2009 global crisis is Gieve and Provost (2012). Gieve and Provost (2012) contend that there has been a lack of coordination between monetary and regulatory policy in the subprime mortgage market, and that this has been the main reason for the crisis. They recommend better coordination between monetary and regulatory policymakers in the future.

Kickert (2012) analyzes how the UK, Germany and the Netherlands responded to the crisis. Kickert (2012) argues that the subsequent stages of the global crisis involved many more levels of government including ministries, parliaments, politicians, parties, and social partners in deliberation and decision making. Kickert (2012) contends that economic recovery requires more politicized decision-making.

Levine (2012) contends that there was a systemic failure of financial regulation. Levine (2012) argues that senior policymakers repeatedly enacted and implemented policies that destabilized the global financial system. Levine (2012) recommends a new independent institution with informed, expert staff which will evaluate financial regulation from the public’s viewpoint

Posner and Blöndal (2012) argues that the current fiscal challenges has heightened the importance of early action and foresight in fiscal policymaking. Posner and Blöndal (2012) states that “the best chance of effectively dealing with the fiscal forces building up is to make timely decisions that have the broad support of as many interests and actors as possible”.

Kahler (2013) argues that international cooperation was better after the 2008-2009 crisis compared to the two previous big crises (i.e. the Great Depression of 1929-33 and the global recession of 1981-82). Kahler (2013) argues that the character of economic globalization was different this time (i.e. economic nationalism was less attractive this time due to global economic integration). Also this time, there were combined international constraints imposed by international economic cooperation. Another important factor this time was the major developing and transitional economies being more successful during the crisis. Kahler (2013) recommends the international constraints to be stricter. He warns us about the role of key emerging economies, such as China, India, and Brazil on global governance.

There are two recent studies that deal with African countries’ development issues. Desta (2012) argues that the development experts and policy makers suggest the application of East Asian developmental state model to African countries. Desta (2012) argues that East Asian development model may not be appropriate for African countries.

Mgonja and Tundui (2012) examine Tanzanian government’s ambitious and far-reaching reform programs to improve the socioeconomic condition of the country since 1990s. The authors contend that unless someone addresses “institutional shortfalls” within the greater system of governance, any policy or reform initiative aimed at improving good governance will ultimately fail to deliver.

3. Data

We use World Bank’s Worldwide Governance Indicators (i.e. WGI) dataset. The dataset includes six measures of governance. These measures and their definitions (as given by World Bank) are shown below:

Voice and Accountability:

Reflects perceptions of the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media.

Political Stability and Absence of Violence:

Reflects perceptions of the likelihood that the government will be destabilized or overthrown by unconstitutional or violent means, including politically-motivated violence and terrorism.

Government Effectiveness:

Reflects perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies.

Regulatory Quality:

Reflects perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development.

Rule of Law:

Reflects perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence.

Control of Corruption:

Reflects perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests.

For all six dimensions of governance, the estimate of governance (i.e. the score) ranges from approximately - 2.5 (weak) to 2.5 (strong) governance performance.

There are 215 countries in the dataset. The governance data are annual data and they are posted on the website www.govindicators.org. We examine the period from 2005 through 2011.

Table 1 shows each region’s governance scores from 2005 to 2011.

Table 1. Governance Scores for Regions

	Year	EAP	ECA	LAC	MENA	NA	SA	SSA
Voice and Acc.	2005	0.07	0.91	0.44	-0.85	1.28	-1.01	-0.53
	2006	0.14	0.94	0.52	-0.99	1.07	-0.92	-0.44
	2007	0.12	0.95	0.51	-1.01	1.09	-0.72	-0.49
	2008	0.16	0.93	0.54	-1.00	1.12	-0.50	-0.52
	2009	0.13	0.94	0.53	-1.05	1.12	-0.50	-0.72
	2010	0.19	0.93	0.50	-1.02	1.15	-0.49	-0.79
	2011	0.23	0.95	0.50	-0.99	1.13	-0.50	-0.80
Political Stab.	2005	0.72	0.47	-0.01	-0.49	0.79	-1.48	-0.42
	2006	0.54	0.58	-0.01	-0.47	0.82	-1.40	-0.30
	2007	0.46	0.57	0.01	-0.37	0.80	-1.57	-0.35
	2008	0.49	0.56	0.06	-0.37	0.83	-1.61	-0.30
	2009	0.46	0.55	0.07	-0.45	0.72	-1.49	-0.29
	2010	0.52	0.55	0.07	-0.41	0.92	-1.37	-0.24
	2011	0.55	0.56	0.15	-0.64	1.00	-1.35	-0.46
Govt. Effective.	2005	-0.09	0.75	-0.08	-0.26	1.57	-0.35	-0.88
	2006	-0.13	0.72	0.07	-0.18	1.56	-0.27	-0.82
	2007	-0.19	0.62	0.13	-0.16	1.59	-0.27	-0.81
	2008	-0.20	0.61	0.12	-0.17	1.54	-0.47	-0.79
	2009	-0.28	0.64	0.15	-0.21	1.40	-0.62	-0.76
	2010	-0.23	0.70	0.14	-0.17	1.44	-0.49	-0.84
	2011	-0.24	0.68	0.20	-0.33	1.41	-0.55	-0.85
Reg. Quality	2005	-0.12	0.95	0.19	-0.18	1.56	-0.46	-0.70
	2006	-0.17	0.94	0.26	-0.17	1.55	-0.47	-0.66
	2007	-0.26	0.88	0.26	-0.19	1.49	-0.52	-0.72
	2008	-0.32	0.91	0.33	-0.16	1.53	-0.59	-0.64
	2009	-0.29	0.96	0.27	-0.04	1.40	-0.63	-0.63
	2010	-0.32	0.88	0.33	0.07	1.45	-0.66	-0.61
	2011	-0.33	0.85	0.35	0.00	1.49	-0.67	-0.69
Rule of Law	2005	0.53	0.59	-0.27	0.03	1.53	-0.35	-0.84
	2006	0.51	0.63	-0.29	-0.22	1.59	-0.26	-0.68
	2007	0.46	0.71	-0.32	-0.20	1.59	-0.33	-0.66
	2008	0.40	0.78	-0.28	-0.09	1.63	-0.44	-0.65
	2009	0.14	0.75	-0.23	-0.06	1.55	-0.46	-0.73
	2010	0.08	0.77	-0.22	-0.11	1.60	-0.55	-0.75
	2011	0.11	0.77	-0.21	-0.21	1.59	-0.56	-0.79
Control of Cor.	2005	-0.11	0.33	-0.12	-0.30	1.53	-0.51	-0.78
	2006	-0.23	0.31	-0.19	-0.39	1.33	-0.58	-0.68
	2007	-0.31	0.23	-0.19	-0.31	1.35	-0.72	-0.60
	2008	-0.31	0.18	-0.11	-0.19	1.42	-0.77	-0.72
	2009	-0.25	0.22	-0.19	-0.28	1.35	-0.68	-0.67
	2010	-0.26	0.27	-0.22	-0.17	1.33	-0.66	-0.70
	2011	-0.30	0.29	-0.23	-0.29	1.31	-0.70	-0.66

Below is a list of the regions with their abbreviations:

EAP: East Asia and Pacific
 ECA: Europe and Central Asia
 LAC: Latin America and Caribbean
 MENA: Middle East and North Africa
 NA: North America
 SA: South Asia
 SSA: Sub-Saharan Africa

4. Empirical Results

Figures 1 through 6 present the regional governance data shown in Table 1 graphically. Figure 1 shows that, from 2005 to 2011, South Asia surpassed both Middle East and North Africa and Sub-Saharan Africa in terms of “Voice and accountability”. Especially Sub-Saharan Africa declined sharply.

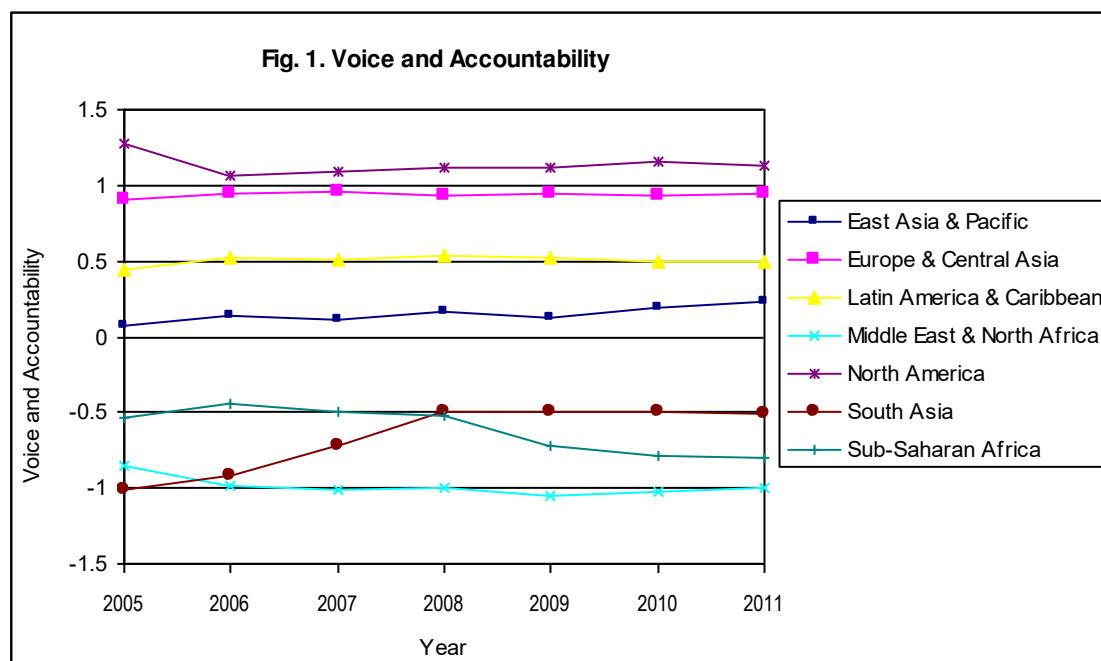


Figure 2 shows that, over the same time period, Europe and Central Asia surpassed East Asia and Pacific in terms of “Political stability and absence of violence”.

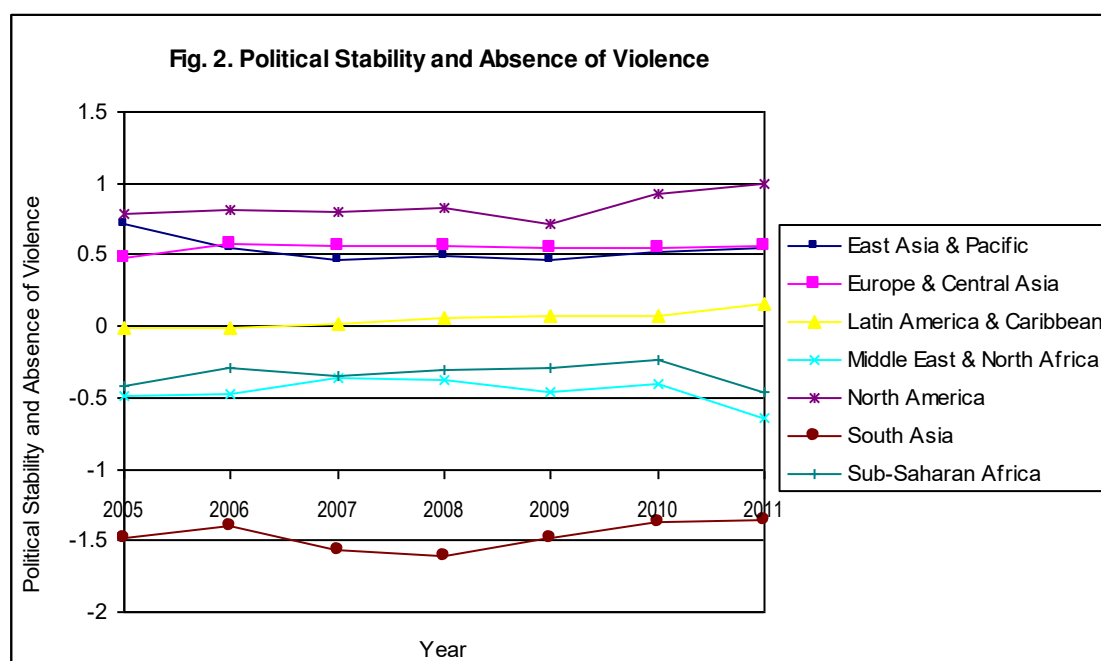


Figure 3 shows that, the rankings did not change from 2005 to 2011 in terms of “Government effectiveness”. Middle East and North Africa surpassed East Asia and Pacific for a few years, but later it declined.

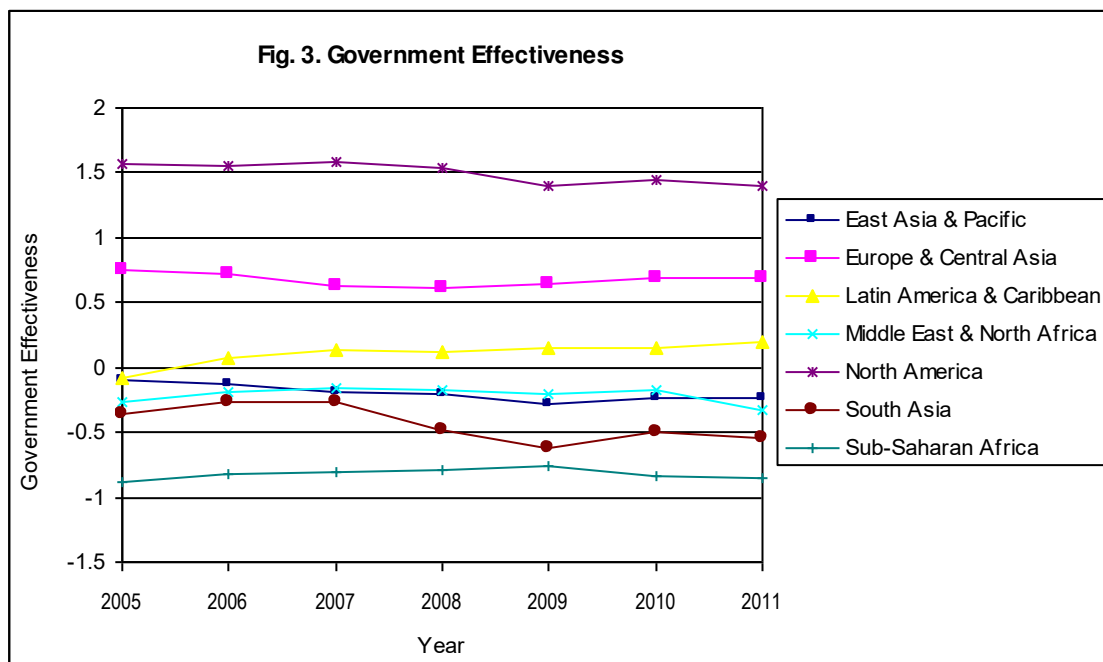


Figure 4 shows that Middle East and North Africa surpassed East Asia and Pacific in terms of “Regulatory quality”. Other countries’ rankings did not change. Sub-Saharan Africa surpassed South Asia for a short period, but later it declined.

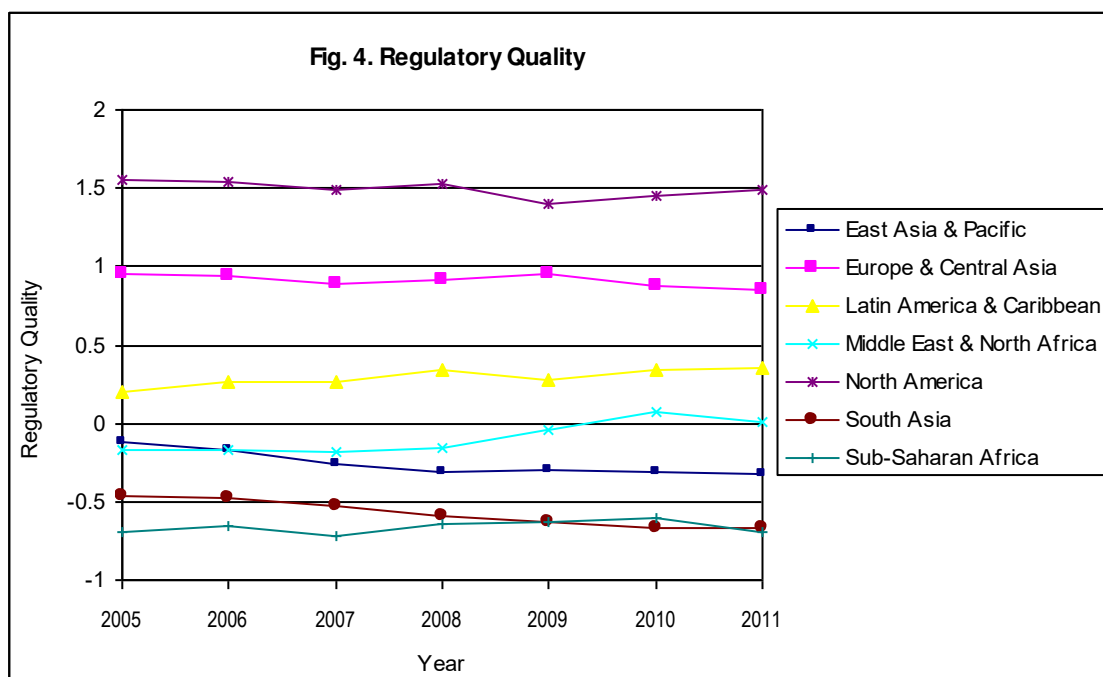
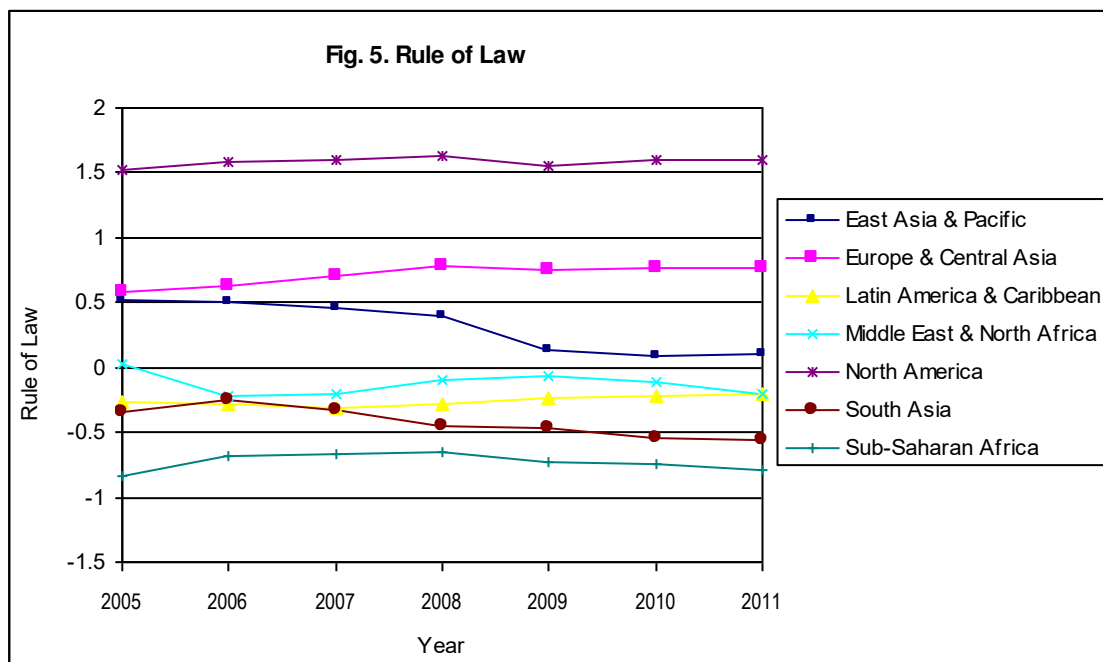


Figure 5 shows that Latin America and Caribbean surpassed Middle East and North Africa in terms of “Rule of law”. Other countries’ rankings did not change.



Finally, Figure 6 shows that except for North America and Europe and Central Asia, all regions’ rankings changed in terms of “Control of corruption” over that time period. The rankings of Latin America and Caribbean, Sub-Saharan Africa and Middle East and North Africa improved, while the rankings of East Asia and Pacific and South Asia declined.

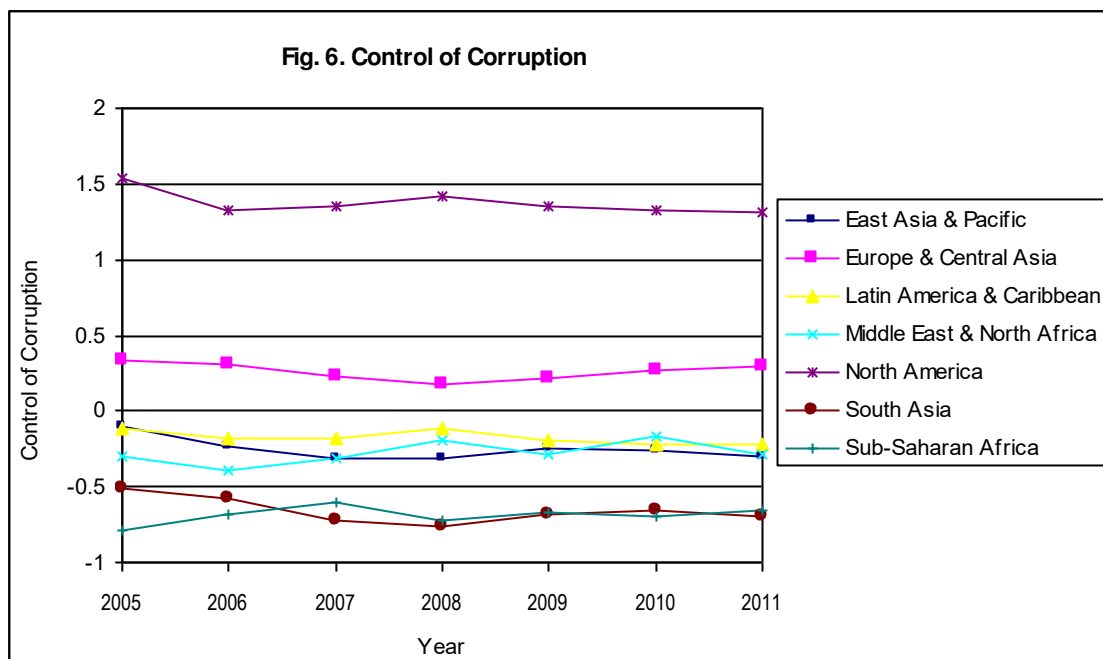


Table 2 shows the regional rankings in our six governance measures in 2005 and in 2011. Table 3 shows the changes in each region's rankings in each measure from 2005 to 2011. In 2005, in terms of “Voice and accountability”, North America is number one, Europe and Central Asia number two, Latin America and Caribbean number three, East Asia and Pacific number four, Sub-Saharan Africa number five, Middle East and North Africa number six, and South Asia is number seven.

Table 2. The Governance Ranking of Regions

Panel A. Pre-Global Crisis (2005)						
Region	Voice and Acc.	Political Stab.	Govt. Effective.	Reg. Quality	Rule of Law	Control of Cor.
North America	1	1	1	1	1	1
Europe and Central Asia	2	3	2	2	2	2
Latin America and Carib.	3	4	3	3	5	4
East Asia and Pacific	4	2	4	4	3	3
South Asia	7	7	6	6	6	6
Sub-Saharan Africa	5	5	7	7	7	7
Middle East and N. Africa	6	6	5	5	4	5
Panel B. Post- Global Crisis (2011)						
Region	Voice and Acc.	Political Stab.	Govt. Effective.	Reg. Quality	Rule of Law	Control of Cor.
North America	1	1	1	1	1	1
Europe and Central Asia	2	2	2	2	2	2
Latin America and Carib.	3	4	3	3	4	3
East Asia and Pacific	4	3	4	5	3	5
South Asia	5	7	6	6	6	7
Sub-Saharan Africa	6	5	7	7	7	6
Middle East and N. Africa	7	6	5	4	5	4

Table 3. Improvement or Decline in Regions' Rankings after the Global Crisis

	Voice and Acc.	Political Stab.	Govt. Effective.	Reg. Quality	Rule of Law	Control of Cor.
North America						
Europe and Central Asia		up				
Latin America and Carib.					up	up
East Asia and Pacific		down		down		down
South Asia	up					down
Sub-Saharan Africa	down					up
Middle East and N. Africa	down			up	down	up

In terms of “Political stability and absence of violence, the regions are ranked from the best to the worst as follows: North America, East Asia and Pacific, Europe and Central Asia, Latin America and Caribbean, Sub-Saharan Africa, Middle East and North Africa, and South Asia.

In both “Govt. effectiveness” and “Regulatory Quality”, the regions are ranked from the best to the worst as follows: North America, Europe and Central Asia, Latin America and Caribbean, East Asia and Pacific, Middle East and North Africa, South Asia, and Sub-Saharan Africa.

In terms of “Rule of law”, the regions are ranked from the best to the worst as follows: North America, Europe and Central Asia, East Asia and Pacific, Middle East and North Africa, Latin America and Caribbean, South Asia, and Sub-Saharan Africa.

In terms of “Control of corruption”, the regions are ranked from the best to the worst as follows: North America, Europe and Central Asia, East Asia and Pacific, Latin America and Caribbean, Middle East and North Africa, South Asia, and Sub-Saharan Africa.

North America was number one in all six categories in 2005 and it was still number one in all categories in 2011. From 2005 to 2011, Europe and Central Asia improved its ranking in “Political stability and absence of violence”, and Latin America and Caribbean improved in both “Rule of law” and “Control of corruption”.

East Asia and Pacific was the worst region because its ranking declined in three categories. These are “Political stability”, “Regulatory quality”, and “Control of corruption”. The results for the other three regions are mixed. South Asia went up in “Voice and accountability” and down in “Control of corruption”. The opposite happened for Sub-Saharan Africa. Its ranking declined in “Voice and accountability” and improved in “Control of corruption”. Middle East and North Africa’s ranking improved in two categories and declined in two categories. The region improved in “Regulatory quality” and “Control of corruption”, and declined in “Voice and accountability” and “Rule of Law”.

Overall, we can say that three regions (North America, Europe and Central Asia, and Latin America and Caribbean) held steady or improved their rankings, three regions (South Asia, Sub-Saharan Africa, and Middle East and North Africa) went up in some categories and went down in some categories, and one region (East Asia and Pacific) mostly declined (i.e. declined in three measures).

Table 4 shows each region’s improvement or decline in its overall ranking. The region with the lowest sum of “total rank score” had the best overall governance. For example, North America’s score was 1 from each measure, so its “total rank score” is 6, both in 2005 and in 2011. Similarly, we add up the rank scores for each region from Table 2 and come up with a “total rank score” in 2005 and a “total rank score” in 2011.

North America has the highest scores in all categories before and after the Global Crisis, therefore its score is flat at 6. Europe and Central Asia’s “total rank score” is 13 for 2005 and 12 for 2011, meaning that the region improved its overall governance ranking among all regions. Similarly, Latin America and Caribbean improved from a “total rank score” of 22 in 2005 to 20 in 2011. South Asia also improved its overall ranking. Its “total rank score” is 38 in 2005 and 37 in 2011. The only region that declined, albeit sharply, is East Asia and Pacific. East Asia and Pacific’s “total rank score” worsened from 2005 to 2011. It is 20 in 2005 and 24 in 2011.

Table 4. Improvement or Decline in Overall Ranking after the Global Crisis

Region	Pre-Crisis total rank score	Post-Crisis total rank score	Up/Down
North America	6	6	
Europe and Central Asia	13	12	Up
Latin America and Carib.	22	20	Up
East Asia and Pacific	20	24	Down
South Asia	38	37	Up
Sub-Saharan Africa	38	38	
Middle East and N. Africa	31	31	

5. Conclusion

In this study, we examine the regional impacts of the 2008-2009 Global Crisis on Governance. As measures of governance, we use World Bank’s Worldwide Governance Indicators (i.e. WGI) which includes six dimensions of governance. These six dimensions are “Voice and Accountability”, “Political Stability and Absence of Violence”, “Government Effectiveness”, “Regulatory Quality”, “Rule of Law”, and “Control of Corruption”.

We examine the 2005-2011 period which is the six-year period surrounding the 2008 crisis. The regions that we examine are North America, Europe and Central Asia, Latin America and Caribbean, East Asia and Pacific, South Asia, Sub-Saharan Africa, and Middle East and North Africa. We examine how the global crisis affected the ranking of each region in terms of these six dimensions of governance. We use the 2005 rankings of each region as our pre-crisis rankings and we use the 2011 rankings of each region as our post-crisis rankings.

We find that, both pre- and post-crisis, North America has the highest ranking in all six measures of governance. We also find that, pre-crisis, Europe and Central Asia was number two in all measures except for “Political stability and absence of violence”. Our results show that, post-crisis, Europe and Central Asia was number two in all six measures.

We find that, pre-crisis, Latin America and Caribbean was number three in “Voice and accountability”, “Government effectiveness”, and “Regulatory quality”, number four in “Political stability and absence of violence” and “Control of corruption”, and number five in “Rule of law”. Post-crisis, the region’s ranking improved in “Rule of law” and “Control of corruption”. In “Rule of law”, the region climbed to number four and in “Control of corruption”, it climbed to number three.

When we look at East Asia and Pacific, we find that, pre-crisis, the region was number two in “Political stability and absence of violence”, number three in “Rule of law” and “Control of corruption”, and number four in all

other measures. Post-crisis, the region's ranking declined in terms of "Political Stability and Absence of Violence", "Regulatory Quality", and "Control of Corruption".

When we look at South Asia, we find that, pre-crisis, the region was number seven in "Voice and accountability" and "Political stability and absence of violence", and number six in all other measures. Post-crisis, the region's ranking improved in "Voice and accountability" but declined in "Control of corruption".

When we look at Sub-Saharan Africa, we find that, pre-crisis, the region was number five in "Voice and accountability" and "Political stability and absence of violence", and number seven in all other measures. Post-crisis, the region's ranking declined in "Voice and accountability" but improved in "Control of corruption".

Finally, when we look at Middle East and North Africa, we find that, pre-crisis, the region was number four in "Rule of law", number six in "Voice and accountability" and "Political stability and absence of violence", and number five in all other measures. Post-crisis, the region's ranking improved in "Regulatory Quality" and "Control of Corruption", but declined in "Voice and accountability" and "Rule of law".

To summarize, due to the crisis, while the overall rankings of Europe and Central Asia, Latin America and Caribbean, and South Asia improved after the crisis, the ranking of East Asia and Pacific declined. East Asia and Pacific's ranking declined in terms of "Political Stability and Absence of Violence", "Regulatory Quality", and "Control of Corruption".

Future research may examine the issue deeper by employing individual countries' GDP per capita, Management type (democracy, monarchy, dictatorship) and other characteristics. Do the characteristics specific to each region drive these results or do the individual countries' characteristics like GDP per capita also matter? This current study explores the issue from the perspective of a single dimension, which is "regions". How do the other characteristics of the individual countries affect how they react (or affected by) a big financial/economic crisis? More detailed studies in the future will provide us with a better picture.

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