OPINION

Crazy rich Asia risks running into trouble

New film's celebration of wealth is also a warning about rising inequality

James Crabtree
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The romantic comedy film "Crazy Rich Asians" can be taken as a warning on rising inequality. © 2018 WARNER BROS. ENTERTAINMENT INC. AND KIMMEL DISTRIBUTION, LLC

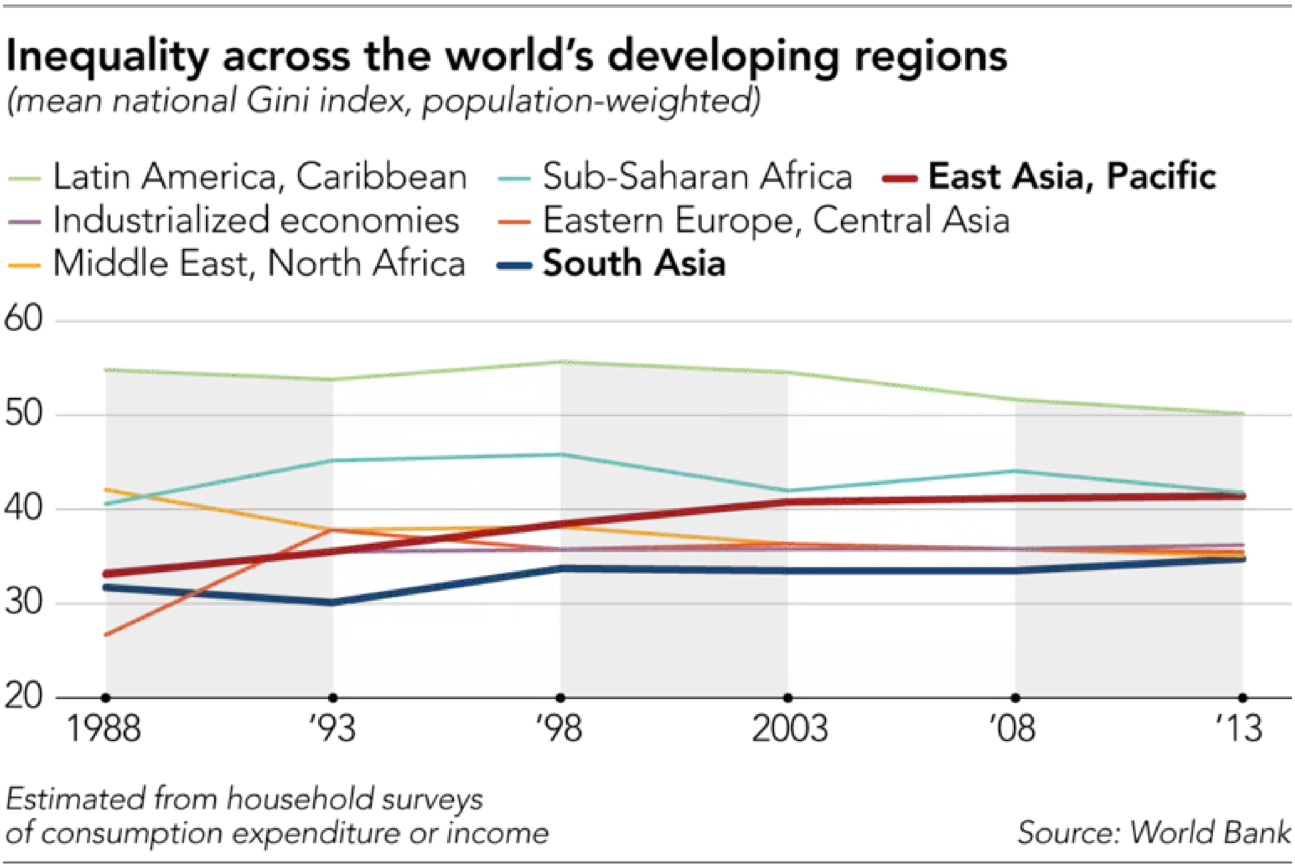
"Crazy Rich Asians," which has topped U.S. movie charts, gives a brazenly self-confident view of the continent's moneyed elite. Drenched in brand-name excess, the film has been praised for its breakthrough all-Asian cast. But rather than a celebration, Crazy Rich Asians should be viewed as a warning: of a continent once admired for inclusive growth now suffering a new era of rising inequality.

Not long ago even extreme Asian wealth seemed welcome. Few of the continent's early tycoons made their fortunes without a single-minded ruthlessness that was often criticized, from Hong Kong property baron Li Ka-shing to pioneering Indian industrialist Dhirubhai Ambani, father of Mukesh Ambani, presently Asia's richest man. But against a backdrop of recent poverty, these early super-rich were a sign of renewed entrepreneurial vitality. More importantly, their wealth came alongside economic growth that was both rapid and equitable.

Much the same was still true when author Kevin Kwan published Crazy Rich Asians in 2013. A romantic satire, the novel told of Chinese-American professor Rachel Chu, who visits her boyfriend Nicholas Young in Singapore, only to learn that was heir to one of Asia's most impressive family fortunes. It is the specifically aristocratic quality of this wealth that gives Crazy Rich Asians much of its zest. "You really should have told me you're like the Prince William of Asia," Chu says at one point. "That's ridiculous," he replies. "I'm much more of a Harry."

Yet in the five years since the novel's publication, research has revealed a far more alarming picture of a continent growing less equal for decades.

Viewed by the Gini coefficient -- a measure where 0 indicates perfect equality and 100 means one person owns everything -- Asia's ranking shot up from 37 to 48 between 1990 and 2014, according to the International Monetary Fund. Earlier this year, the World Bank also published "Riding the Wave," an important report bemoaning the end of Asia's inclusive growth model. It suggests Asia is set to overtake sub-Saharan Africa as the world's second most unequal region after Latin America.



In a continent this large, with 4.5 billion of the world's 7.5 billion people, it is of course hard to paint an entirely uniform picture. Most Asian economies have much less wealth disparity than the U.S. Measured only by the gap between rich and poor nations, Asia has in fact become more equal over recent decades, as China caught up with the rest.

When you look at wealth disparities within countries, much of Asia's recent increases in inequality have come in China and India. Southeast Asia's picture is more complex, with poorer nations like the Philippines and Indonesia showing rising income inequality while the likes of Malaysia and Thailand become very marginally more egalitarian. Singapore, where Crazy Rich Asians is set, remains one of Asia's least equal countries measured by income. Inequality in the city state rose for much of the last three decades, although it has dipped slightly since the global financial crisis a decade ago.

Yet the broader pattern is clear enough. Almost no Asian country has made rapid reductions in inequality of late. A rising tide that once lifted all boats is now mostly lifting those at the very top.

There are good reasons to worry about this. Countries with high inequality tend to grow more slowly, in part because their middle classes consume less. They also show less stable development, often because they fail to introduce kinds of structural reforms that support long-term growth. Other research suggests wealth extremes corrode public institutions, which begin to respond only to the interests the elite. Indeed, this seems a fair description of Malaysia's recent history under ex-Prime Minister Najib Razak, who was engulfed by a series of corruption scandals prior to his election defeat in May.

Not everyone agrees with this picture. American economist Caroline Freund, for instance, argues extremes of wealth are a natural offshoot of the kind of creative destruction that accompanies globalization. Here she is thinking of the rise of billionaire entrepreneurs like Alibaba's Jack Ma from China or Grab's Malaysian co-founder Anthony Tan, both whom built admired businesses without recourse to crony capitalism, or what economists often call "rent-seeking."

Freund suggests East Asia actually has a good record creating this kind of dynamic, competitive wealth. Yet even here the authors of Riding the Wave find reasons for concern. "If that dynamism solidifies over time into elite capture and wealth concentrated in sectors from which high rents could be extracted, however, the growth-with-equity model may face a worrisome challenge," they write.

As it happens, this is just the kind of wealth portrayed by Crazy Rich Asians. Young himself is the scion of a property empire, a classic old economy sector. Almost of his plutocratic circle inherited their wealth. The only character that actually made his own money is a struggling software entrepreneur, portrayed as a borderline social failure.

The risk is that these types of social divisions will in time bring about just the kind of populist political backlash that engulfed western nations following their own decades of galloping inequality. Protecting against such an outcome will require various policy measures. Part of the answer, the World Bank suggests, will come from helping those at the bottom, for instance by making it easier for those with gray market jobs to join the formal economy, and especially so for women. Other steps must target the top, from sharply more progressive tax systems to aggressive competition policies to check the family-owned conglomerates that still dominate much of Asian business.

Above all, Asian economies need to create more effective state institutions, capable of both enabling and redistributing wealth. Being crazy rich is fun. But boring egalitarian Asians would enjoy a far brighter future.

James Crabtree is an associate professor in practice at the Lee Kuan Yew School of Public Policy at the National University of Singapore. He is the author of "The Billionaire Raj."

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OPINION

Asia's four lessons from 1MDB

Financial scandals will recur given region's weak enforcement of rules

James Crabtree

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The 1MDB scandal is not a rare scandal but should be taken as a warning for all of Asia. © NurPhoto/Getty Images

Malaysia's 1MDB scandal has all the hallmarks of a Hollywood thriller, starring Low Taek Jho, the fugitive financier alleged to have pulled off the heist of the century.

A friend of movie stars and supercar enthusiast, Low is said to have played a role in helping to defraud the state-backed investment group of at least $4.5 billion over a six-year period ending in 2015, according to allegations from the U.S. Department of Justice.

The scale of the Low's chutzpah has been underlined by the publication of a new book, "Billion Dollar Whale." Released last week by Wall Street Journal writers Bradley Hope and Tom Wright, it has done much to bring to light the extraordinary details of Asia's largest financial scandal.

Low, who denies wrong doing, is far from the only figure implicated in this vast enterprise. Earlier this week, for instance, Malaysia's former Prime Minister Najib Razak was formally charged in relation to 1MDB on counts of money laundering and abuse of power, charges which Najib denies.

Yet despite the scale of the suspected fraud, there remains a risk that 1MDB will come to be seen as a one-off event: an affair that on the one hand allegedly involved a charismatic and unique financier -- Low -- while also being the product of a specific period in Malaysian history -- Najib's premiership -- that has now ended.

This would be a grave mistake. Instead, 1MDB should remain a cause for soul-searching across Asia. As the nature of the alleged wrongdoing becomes clearer, it becomes ever more obvious that its lessons have barely begun to be learned. Here are four that should be heeded.

First, penalties for serious financial crime in Asia remain much too light.

At present Low is still at large. Malaysian officials have said he may be sheltering in China. Investigations are ongoing in the U.S., Switzerland, Singapore, and now also Malaysia, where the new government of Prime Minister Mahathir Mohamad is now vigorously investigating allegations against Najib, his former rival.

Some action has already been taken. Singapore last year sentenced one banker to 54 months in jail, and fined various others. The Wall Street Journal reported in July that Tim Leissner, a former Goldman Sachs banker alleged to have aided Low, is talking to U.S. prosecutors a potential plea deal. Leissner has previously denied wrongdoing.

"We helped raise money for 1MDB -- an entity owned and controlled by the Malaysian Government -- so it could make investments to benefit Malaysia," says a spokesman for Goldman Sachs. "We had no visibility into whether some of those funds may have been subsequently diverted to other purpose."

Yet given the scale of the alleged crime, the risk remains that many others involved in the 1MDB debacle will never be appropriately punished.

Malaysia is now seriously pursuing those it suspects of involvement, notably Low and Najib. But it is neither clear it will succeed in its legal moves, nor that it can or will also go after domestic and international financial institutions which allegedly facilitated the scandal.

Even Singapore, among the more aggressive authorities in Asia, in May 2017 levied fines against two implicated banks -- Credit Suisse of Switzerland and Singapore-based United Overseas Bank -- for breaches related to anti-money laundering laws. Yet while both banks accepted the judgment, the size of the fines -- more than $1 million -- were scarcely large enough to send a sufficiently serious signal to the sector.

Second: another 1MDB could very easily happen again. The scandal occurred under the noses of central bankers in Malaysia. Muhammad Ibrahim resigned as governor soon after Mahathir took power after it emerged that the central bank had bought a $500 million plot of land from the government, which used the proceeds to reduce 1MDB debt. The central bank has reopened investigations into its role in the affair.

Yet there is a broader problem here, namely that central banks and financial regulators across Asia are still either unwilling or unable to look into financial crimes of this sort, either because they lack resources, expertise, or because of political constraints imposed by their governments.

The Monetary Authority of Singapore did set up a new anti-money laundering in the aftermath of 1MDB, but in general few regulators have the capacity or inclination properly to monitor the kind of opaque financing allegedly involved in this scandal.

"It could all easily happen again, in Malaysia or anywhere else really," Tom Wright, co-author of Billion Dollar Whale, told me recently. "Unless there are much firmer punishments, and central banks begin to focus closely on large, suspicious flows."

The third lesson is geopolitical, about waning U.S. power. It is no accident that 1MDB came to light at a time when American regulators were willing to probe crimes in almost any country. Above all, it has been the investigations by the U.S. Justice Department, kicked off under former President Barack Obama, that brought the scandal into public view.

It unlikely the U.S. will now continue to play this role in Asia, and especially so given the inclinations of President Donald Trump. Wright suggests the scandal "probably" would not have come to light at all if Trump had been in power, rather than Obama.

Yet if America is less likely to play global financial policeman, it only underlines the importance of financial and anti-corruption regulators in the region stepping up to fill the gap. And the role of democratic elections where voters have the chance to impose their will, as happened in Malaysia.

Financial wrongdoing is not a problem that will go away as economies grow richer, as the money laundering scandal in Europe involving Denmark's Danske Bank shows. Without regulatory vigilance, the risk is that it simply gets more sophisticated, and the sums extracted more eye-catching.

This then brings us to the final lesson, which involves China, and its growing financial heft.

China has lately taken center stage in the 1MDB investigation, not least because Malaysian officials think Low is hiding in the country. So far Beijing has said nothing about his whereabouts, although China has said it will support moves elsewhere to investigate 1MDB.

Yet the more details of 1MDB that come to light the more it seems like that the scandal has links to China too. In July, Lim Guan Eng, Mahathir's finance minister, suggested a connection between the scandal and Malaysia's involvement in China's Belt and Road Initiative infrastructure scheme. Specifically, Malaysia is examining whether loans from Chinese state-owned banks were used to repay debts run up by 1MDB.

Whatever the details of this, there is a general lesson to be drawn, which is that as Asia's financial system becomes more dominated by opaque Chinese flows, the odds of future 1MDB-style scandals will only increase. The giant quantities of money linked to the Belt and Road Initiative and sloshing with little transparency from China are an obvious channel for potentially carrying out and concealing fraud.

Around the region, and especially so in Beijing, there is a sense that Malaysia should now quietly move on from 1MDB. This would be exactly the wrong thing to do. 1MDB remains the biggest recent stain on Asia's reputation for financial probity. On present form, it isn't going to be the last.

James Crabtree is an associate professor in practice at the Lee Kuan Yew School of Public Policy at the National University of Singapore. He is author of "The Billionaire Raj."

OPINION

WhatsApp, murder and the dark side of social media

Amid controversy over lynchings in India, message service must boost support in emerging markets

James Crabtree
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Facebook's WhatsApp messaging service has clearly failed to deal with the downsides of its services in emerging economies. © Reuters

No company wants to see its products caught up in mob violence, as Facebook's WhatsApp has been in India, following a spate of allegations that it is being used to facilitate lynchings.

Yet beyond the tragedy of the acts themselves, they also represent a double setback for founder Mark Zuckerberg, as he struggles to avoid a growing backlash against his company around Asia.

The latest bad headlines arrived on the weekend of July 14-15, with reports that police in the southern Indian state of Karnataka had arrested around 30 people, allegedly involved in the lynching earlier in the month of a man named Mohammad Azam, following rumors about threats to local children spread via a WhatsApp group.

That killing is the latest in a series of violent episodes linked to the service. At least 33 Indians have been killed in the last 18 months after online rumors about child safety, according to India Spend, an online data portal. Prior to 2017, such stories were all-but unknown.

WhatsApp has become a focus in this debate in part because of its huge popularity in India and emerging Asia more broadly. The service has 200 million active Indian users, making it WhatsApp's largest market globally. Continued expansion in high-growth markets like India is crucial to justifying the $19 billion Zuckerberg paid for the nascent service back in 2014.

Gruesome though these lynchings are, this focus on WhatsApp is actually welcome. For all of its size and importance, it has been strangely missing from recent debates about online disinformation, which have focused almost entirely on Facebook and Twitter.

This is odd, because WhatsApp is actually a perfect platform for "fake news." The service is beloved by groups of users in countries like India, who use it to gossip and share pictures and videos. A widely cited article in the Wall St Journal earlier this year noted how WhatsApp's systems struggle to cope each morning as tens of millions of Indians forward brightly colored images bearing good morning messages.

Yet precisely because WhatsApp is used so widely among groups of friends, it is especially vulnerable to dubious forwarded material. Academics who study online communication call this a problem of "information cascades," meaning unreliable information that courses through digital social networks.

Sometimes this is inadvertent, as when anxious rural users in India forward along warnings about a stranger in their village. Just as often, though, it is deliberate, as malicious groups spread hateful messages for their own ends. The front cover of India Today magazine made this point in brutal fashion, featuring the service's iconic green and white logo re-crafted to look like a bomb with a lit fuse, under the headline "the weaponisation of WhatsApp."

India's authorities condemned the service earlier in July, saying "WhatsApp must take immediate action to end this menace" and arguing that it has not done enough to stop the spread of false information in general.

Sensing a potential backlash, WhatsApp responded with a letter to India's government, arguing it was "horrified by these terrible acts of violence," and full-page adverts in Indian newspapers giving advice on how to spot fake news. It is also trialing a new feature in which it marks "forwarded" material, with the hope of helping users distinguish dubious viral content.

To the extent WhatsApp is to blame for the violent incidents, these basic steps seem unlikely to make much of a difference. Even so, some caution is still needed. India has a regrettably widespread problem with mob killings, which were common long before WhatsApp. It is far from clear that the social media service is causing a significant increase. Similar scare episodes about threats to children have been common in other countries, notably various pedophile scares in the U.K. The real culprit behind these lynchings is likely to be a combination of long-standing social tensions, for example caste conflicts, and feeble local policing.

Yet whatever the truth of the allegations in any specific case, WhatsApp in particular and Facebook in general are clearly failing to get to grips with the downsides of their services in emerging economies.

Facebook has been criticized for its slow response to worries about hate speech spreading over its network, which led it to be temporarily shut down in Sri Lanka earlier this year. The most troubling example has come in Myanmar, when United Nations investigators accused the U.S. social media giant in March of having played "a determining role" in long-running violence against the Rohingya minority.

Facebook rejects this accusation, and it has since invested more resources to combat problems of online disinformation around Asia, but it still does not have an office in Myanmar.

Yet if this slow-moving response is a problem for Facebook, it is doubly so for WhatsApp, which is a famously lean service. When Zuckerberg bought it in 2014, it had only 35 engineers. Today it clearly still lacks the resources needed to understand and mitigate the effects its service might have in countries like India.

WhatsApp is a troubling presence in the "fake news" debate for one further reason, namely that its messages offer a more private form of communication than either Facebook or Twitter. The service is also encrypted. This makes it hard for authorities to police, until it is too late.

The result is contradictory. On the one hand WhatsApp provides free message services to hundreds of millions of poorer users, for the price of an inexpensive data connection. The economic benefit from the service is huge. And yet it is increasingly obvious that WhatsApp, in common with other social media, is playing a problematic role in emerging societies like India and Myanmar which have deep social divisions and relatively weak mainstream media institutions.

At one level the solution to India's spate of lynchings lies not in technology at all, but greater investment in basic law and order. Companies like Facebook also tend to point to increased media literacy and education as long-term solutions. This may be part of the answer, but it is unlikely to be enough. And it is hardly a quick enough response to the immediate challenges.

More important is that profitable businesses like Facebook and Twitter begin to invest more in the emerging economies in which they operate. This means rapidly setting up new teams with knowledge of local culture and institutions, who can respond quickly when violence flares up, and develop local answers to local problems. Establishing proper offices in countries like Myanmar or in individual regions of large countries like India must be a critical part of this.

The world's social media giants are not doing enough to deal with the downsides their platforms bring to developing nations, including India. Services like WhatsApp have huge benefits, but they are disruptive. Until that disruption is mitigated, Zuckerberg's Asian headaches are not going to go away.

James Crabtree is an associate professor in practice at the Lee Kuan Yew School of Public Policy at the National University of Singapore. He is the author of "The Billionaire Raj."