

Economic Liberalism in Asia

Dr Razeen Sally



About This Paper

This paper is an edited version of a speech delivered by the author at IDEAS' Liberalism Conference in Kuala Lumpur on 19 September 2015. This one-day conference was designed to discuss the trends, challenges and future prospects of liberalism in Malaysia, with invited speakers from all sides of the socio-political divide. The title of the panel discussion for which this speech was delivered was "Economic Liberalism: Curse or Cure?"

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Image Source: Apachee Kings. 3D Animation Earth Day/Night. Digital image. Youtube. Apachee Kings

It is easy to be gloomy about the state of liberalism in Asia. China is firmly authoritarian, indeed more so under Xi Jinping. Democracy has been reversed in Thailand and is under threat in Malaysia. It is fragile in South Asia, except India, and hardly exists in Central Asia. The Middle East is in flames. Economic liberalisation has slowed down since its heyday in the 1980s and '90s, and even stalled in some countries.

Is this gloom justified? Up to a point, but it is overdone. There are chinks of liberal light. Their most penetrating rays are those of the market economy, not those of democracy and human rights.

My focus is economic liberalism in Asia – for two reasons. First because it presents a paradox: it has hardly taken root as an idea, but it is much more widespread in the daily lives of Asians. And second, because it is at least as important as political or social liberalism. What matters most to ordinary folk, rather than middle or upper-class intellectuals, are their everyday freedoms, not least their freedom as consumers and workers. Without such freedom, political and social freedom might be non-existent, or not mean much in practice.

Economic liberalism as an idea

Big ideas on how to organise human society originated in the West and spread to the rest of the world. Collectivist ideas - socialism, communism and nationalism were spread via colonial conquest, trade and Christian missionary activity. But this was also true of liberal ideas, centred on the individual's freedom and rights. Of course there are native traditions of political, economic, legal and social thought outside the West – most collectivist, a few liberal. But the imperial march of European ideas – Greco-Roman, Judeo-Christian and secular modern – pushed them back.

Asia has imported mostly collectivist ideas from the West. Liberal ideas spread in the nineteenth century, mainly in British colonies, but imperial domination triggered a backlash. Rather, socialism and communism, imported from the West and bound up with nationalism, fuelled the native reaction to Western imperialism. These ideas gathered steam in the decades before post-1945 decolonisation, and only ran out of steam several decades afterwards. Socialism, if not communism, is still far from spent.

Of all “liberalisms”, political liberalism has had the most mileage in Asia. Civic freedoms (rights to free speech, assembly and association) and representative democracy have enjoyed more success as ideas than economic freedom (the individual's freedom to produce and consume goods and services) and social freedom (individual freedom concerning the family, gender, sex, the workplace, and so on). But even political liberalism is much more contested in Asia than it is in the West – China being the outstanding example.

Economic liberalism regained ground in the West from the 1970s to the 1990s, especially in the Anglosphere. Milton Friedman and Friedrich Hayek led the charge. But it is remarkable how little their ideas resonated in Asia. Rather the governing philosophy of Asian elites (to use “philosophy”

in its loosest sense) is “pragmatism”. They are not beholden to any economic doctrine, they say; instead they will do “whatever works”, mixing authoritarianism, social engineering, paternalistic nudging, and the free market in different combinations, depending on the situation, and altering the mix as circumstances change. All free of ideological blinkers. How often one hears such talk from Chinese Communist Party technocrats. It is the credo of India's Prime Minister Modi and Indonesia's President Jokowi. Lee Kuan Yew shouted it from the rooftops; it remains the Singaporean elite's mantra.

If this were the whole story, the state of economic liberalism in Asia would be very bleak. But it is only part of the story. In Asia, economic liberalism in practice is far more widespread than it is as an idea. Indeed it permeates ordinary people's lives more than ever. The idea may be essentially Western in origin, but its application is near universal. This is the paradox I want to explore.

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Economic liberalism in practice

For most of the past millennium, Asia had predatory states that suppressed individual freedom and enterprise. They lacked market-supporting institutions – credible laws and enforcement mechanisms to uphold property rights and contracts, the freedom of trade and employment, free price formation, sophisticated money markets and accountancy standards, and so on. They repressed creative and critical thought. And they shut themselves off from the rest of the world. This was true in China, India, Japan and the Islamic world. Asia's twentieth-century experience has been similarly blighted. Think of China under Mao, India's “Licence Raj” from the 1950s to the 1980s, Indonesia under Soekarno, Vietnam under Ho Chi Minh, Cambodia under Pol Pot, and Burma under Ne Win. The list goes on.

Western Europe caught up with and overtook Asia well before the Industrial Revolution – to the extent that Asia fell prey to European conquest. Asian backwardness played

its part, but so did the commercial rise of the West. From the Middle Ages, rulers of towns and cities, and then nation-states, began to treat merchants and entrepreneurs as socially useful. A variety of market institutions emerged to support competition and enterprise. The market expanded through international commerce. These were the ingredients of successive commercial, agricultural and industrial revolutions. The Industrial Revolution made the West really take off and outdistance the rest. This was the Great Divergence that lasted until the late twentieth century.

However, Asia did have golden ages of commerce before European colonisation – China under the Sung dynasty, India under the Mauryas, and the Silk Route during the Pax Mongolica, for instance. Most interesting is the Indian Ocean and Southeast Asian seagoing trade over five centuries ago.

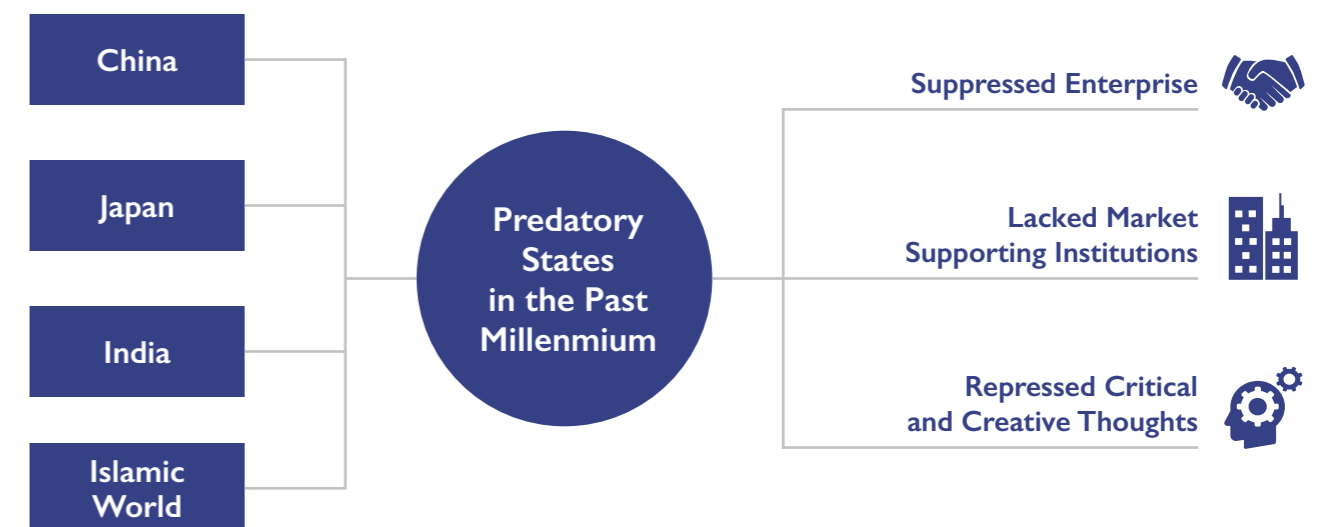




Image Source: The Silk Road. Digital image. Marco Polo, Investigation Cosmos.

Arabs rode the monsoon winds to trade in ports all over the Indian Ocean, reaching as far as Chinese ports by the mid eighth century. Arab diasporas knitted this trading network together from East Africa to China. As the Tales of the One Thousand and One Nights describes, Sinbad the Sailor, a Baghdadi trader, plied the route from Baghdad to Canton, stopping at entrepôts along the way. The Indian Ocean was *Mare Liberum* before the Portuguese muscled in during the sixteenth century, not controlled by any power and fully open to trade. Coastlines were dotted with “port-polities” such as Aden, Hormuz, Cambay (near Ahmedabad in modern Gujarat), Goa, Canannore and Calicut (on the Malabar coast), Aceh, Malacca (close to Singapore) and Macassar (in the Spice Islands). These were independent towns and cities whose lifeblood was seagoing trade. Indian textiles, spices from the Moluccas, Chinese silks and porcelains, were all traded vigorously and without discrimination. As Sultan Al’auddin of Macassar put it:

[God made the land and the sea; the land he divided among men and the sea he gave to them in common. It has never been heard that anyone should be forbidden to sail the sea.

If you seek to do that you will take bread from the mouths of the people.]

These port-polities had a reasonable separation of market and state, with light-touch regulation. Trade tariffs were modest – 3-6 per cent on imports and zero export duties in Malacca. The latter had a legal structure for trade that prefigured the English common law.

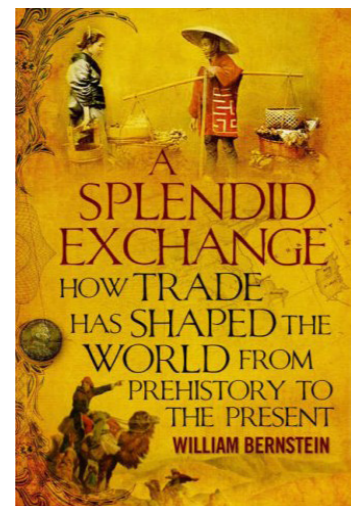


Image Source: Bernstein, William. 2008. “A Splendid Exchange: How Trade Shaped the World.2008.” Grove Press.

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A medieval eBay in the tropics, in which good rules attracted good traders, who in turn insisted on better rules.
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- Bernstein, 2008

A customs judge, assisted by a panel of local and foreign traders, valued cargos and conducted auctions. According to William Bernstein, the author of *A Splendid Exchange*, this was “a medieval eBay in the tropics, in which good rules attracted good traders, who in turn insisted on better rules.”[Bernstein,2008]

In essence, freewheeling economic competition flourished alongside decentralised, flexible political institutions. Fractured geography and competing polities combined to promote economic freedom, growth and prosperity – as it did in medieval and early modern Europe. Moreover, these were religiously tolerant, highly cosmopolitan places. Tome Pires, an apothecary who accompanied the founders of the Portuguese Estado da India, counted eighty-four languages spoken in Malacca. Some port-polities had Hindu rulers and local populations, but Muslims dominated trade. Islam spread through trade and bourgeois example, not by the sword as it did elsewhere.

The Voyages of Discovery, and then Portuguese, Dutch and British colonial expansion, smashed economic freedom in the Indian Ocean and Southeast Asian archipelagos. Portuguese conquistadors barged in with extreme violence and commercial rapine – “in search of Christians and spices”. They took control of the seas, and then coastal entrepôts, through murder and marauding, lying and stealing. They sought monopoly control of spices and grabbed markets from local trading diasporas. The Dutch East India Company did the same, only with more ruthless efficiency. The British followed in Dutch footsteps.

It took the Pax Britannica to restore *Mare Liberum* and free trade in the Indian Ocean. Stamford Raffles gave economic freedom in Asia a massive boost with his founding of Singapore in 1819. He envisaged a “vast emporium”, fully open to trade and capital, and to migrants seeking work and enterprise. He was probably the first to realise, in concrete form, Adam Smith’s vision in *The Wealth of Nations*. The British took Hong Kong just over twenty years later, founding what became Asia’s other great modern free port.

In the second half of the nineteenth century, the British Empire removed most mercantilist restrictions and allowed multilateral commerce to flourish. Chinese and Indian diasporas fanned out across the Empire, creating new trading networks.



Image Source: Singapore River: 1823. Singapore. Robertson Quay.

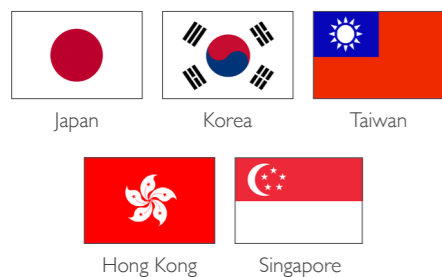
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Free markets, the freedom of the seas and free trade were shredded again in the first half of the twentieth century. Asia suffered even more than the West. In the 1960s, the Swedish economist Gunnar Myrdal portrayed an “Asian drama” [Busch, 1968] – a continent trapped in unequal exchange with the West, and mired in myriad market failures that precluded escape from poverty. Myrdal and other development experts concluded that only massive infusions of Western aid, Soviet-style planning and import-substituting protection could overcome market failures and kick-start industrialisation, growth and development. In a cultural echo from the same period, V.S. Naipaul dismissed India as a “broken, wounded continent”, full of “walking skeletons” [Naipaul, 1977]. Karl Marx, Max Weber and others wrote off China and India, given their hidebound, progress-shy traditions.

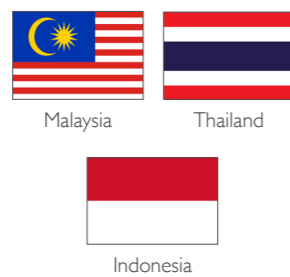
But Asia has had a remarkable comeback over the past sixty-five years – an Asian Drama, but the exact opposite of Myrdal’s prognosis. It began with the first generation of

East Asian Tigers (Japan, South Korea, Taiwan, Hong Kong and Singapore), then spread to Southeast-Asian Tigers (Malaysia, Thailand and Indonesia), then to China and Vietnam, and later to India. What started in a handful of East Asian economies fanned out all over East and South Asia. Markets were freed up and integrated into the global economy. East Asia became the production hub of global manufacturing supply chains. According to Angus Maddison, Asia accounted for 60 per cent of the world’s population but less than 20 per cent of its GDP, at Purchasing Power Parity (PPP), in 1950. [Bolt & Van Zanden, 2014] By 2001, its share of world GDP had doubled. By 2030, it should account for more than half of world GDP. China has already become the world’s largest economy (at PPP). The Asian Development Bank estimates that output in developing Asia increased 7.5 fold, and per-capita GDP increased 6 percent annually, between 1990 and 2009. The World Bank also estimates that over 1 billion people escaped extreme poverty in East and South Asia between 1990 and 2011.

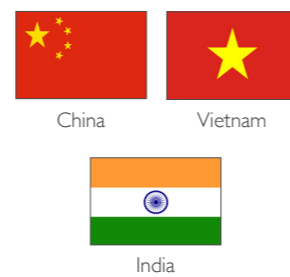
First Generation of East Asian Tigers



South-Asian Tigers



Expansion of free markets all over East and South Asia



However, dry numbers mask the essential story of Asia today – its unprecedented expansion of economic freedom. What Adam Smith called “natural liberty” [Smith, 1776] – the individual’s ability to exercise choice in daily economic activity – has charged ahead in “globalising Asia” (by which I mean East and South Asia, not less-globalised West and Central Asia).

Technological progress has helped, but its crucial enabler is liberalisation – of internal and external trade, of domestic and foreign investment, of product and factor (land, labour and capital) markets.

These “negative” acts – removing restrictions that repress economic activity – have unleashed the animal spirits of ordinary people. They now have incentives to exercise their “natural liberty”; they are doing so with gusto and are transforming the world. Peter Bauer’s descriptions of the enterprise of small-scale rubber growers in Malaya and cocoa producers in the Gold Coast, penned in the 1940s, holds true for hundreds of millions of people today.

One sees this particularly among the aspiring younger generation. Their commitment to education, work and self-improvement is everywhere in view. These are the most uplifting sights in Asia. What a contrast with much of the West today, particularly in Europe.

But there is still a long, long way to go, for most of Asia remains far behind the West. Asia is still home to half the world’s extremely poor – almost three-quarters of them in South Asia. And economic freedom, though expanding, remains repressed.

Asia Remains far Behind the West



Asia is home to half the world’s extremely poor



Red tapes choke producers and consumers all over Asia



Asian financial markets are heavily regulated



Protectionism in agriculture and services



Government intervention in Asia energy markets

Repressed economic freedom is most felt in everyday acts of buying and selling, trading and investing. Red tape – on registering property, enforcing contracts, opening and closing businesses, getting licenses and permits, paying taxes, getting credit, hiring and firing workers, clearing goods through customs – chokes producers and consumers all over Asia. Only four Asian countries are in the World Bank's list of top twenty countries in which to do business. Most are way down the list; India, Pakistan, Bangladesh, Cambodia, Laos and Myanmar are among the worst in the world.

Asian financial markets are heavily regulated; governments still control many Asian countries' financial systems. China retains a command-economy-style banking system at the heart of an otherwise liberalised economy. Such systems favour inefficient public-sector enterprises and private-sector cronies, while starving the rest of the private sector of capital.

Foreign trade and foreign investment are much more open than domestic financial markets in Asia. But that still leaves large pockets of protectionism – less so in manufacturing, but much more so in agriculture and services.

Finally, government intervention throttles Asian energy markets even more than finance. Public-sector monopolies, price controls, subsidies, and restrictions on exports and inward investment, are the norm.

Persistent government controls are not difficult to explain. They have everything to do with alliances between politicians, officials and entrenched interests with power, profits and ill-gotten gains to defend.

But how do we explain Asia's virtuous cycle of freed-up markets, growth and prosperity? The answer has little to do with the power of big ideas – much less so than in the West. The explanation, rather, is pragmatism. Leaders have changed

course when existing policies have manifestly failed – when their economies have got stuck, or careened towards crisis and calamity. The usual triggers are hyperinflation, mushrooming public debt, a plummeting currency and exhausted foreign-exchange reserves. Sometimes a famine – as in Vietnam in the mid-1980s. Often, a political crisis mixed up with an economic crisis, threatening the collapse of the state or existing political system – as Deng Xiaoping felt was true of China in the mid-1970s.

In such situations, Dr Johnson's dictum applies: "When a man knows he is going to be hanged in a fortnight, it concentrates the mind wonderfully." [Boswell, 1990] And when those in charge have opted for market reforms, they have copied better practice elsewhere – countries that have succeeded by opening markets and integrating into the world economy.

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Where to from here?

The Southeast Asian Tigers emulated Hong Kong, Singapore and the Northeast Asian Tigers. Then China copied both Northeast and Southeast Asian Tigers; India and others followed. Deng Xiaoping launched pro-market policy experiments far away from politically rigid Beijing, notably Special Economic Zones in southern China. Other cities and regions copied these success stories, and ultimately Beijing changed its policies and rolled them out nationwide. The historian David Landes calls this "initiation from below and diffusion by example." [Landes, 1998]

Pragmatism has expanded markets and freedom in Asia. But no one should count on it alone to deal with huge unfinished business. Market liberalisation can easily get stuck or be reversed. In fact that has happened worldwide since the global financial crisis. The pendulum has swung back to collectivism with Keynesian macroeconomics and new micro-interventions in markets, starting with financial markets. Asia is no exception.

The problem with pragmatism is that most policy-makers do "whatever works" without a compass – an overall orientation, or a set of guiding principles. That leaves them exposed to the conventional wisdoms of the day. Like big ideas, epigonal and ephemeral ideas usually originate in the West and are exported around the world. And like the slender Asian bamboo, those in authority sway with the wind. In Asia and elsewhere outside the West, they suffer from the prolonged post-colonial hang-up of mimicry. They resemble V.S. Naipaul's Caribbean "mimic men", unconsciously, slavishly aping whatever passing fad comes out of the West. [Naipaul, 1967]

This brings me back to the power of big ideas. Economic liberals should provide a compass in Asia, not least to counter collectivist conventional wisdom, whether home-grown or wafting over from the West. They should rely on

the Western intellectual canon, of course. But it would help enormously to draw on indigenous liberal traditions.

To take one example: Gurcharan Das advocates a liberal state, a free-market economy and a bottom-up civil society in India. To make this case he draws on dharma [Gucharan, 2012], a word in ancient Sanskrit texts that connotes proper moral conduct. It provides underlying norms in Indian society. And Das argues that it contains surprising liberal principles, akin to "bourgeois virtues" that enabled market society to flourish in the West. Dharma, he says, has limited the power of kings, infused the behaviour of merchants and helped to spread markets all over India.

John Stuart Mill said "the word in season does much to decide the result." [Mill, 1924] The "season" refers to the real world, which one must approach pragmatically. But the "word", in season, can change reality for the better. What is the classical-liberal word? It is that freedom and prosperity have bloomed on Asian soil because government predation has been checked and markets unleashed. Limited government (a "strong but small" state that performs its core functions well but does not intervene left, right and centre) free markets at home and free trade abroad: that is the "system of economic liberalism", as Joseph Schumpeter [Schumpeter, 1954] called it, to which Asians should aspire.

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