

# ISAS Brief

No. 152 – Date: 29 January 2010

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## **The ‘Free-Market’ and ‘Social Concerns’: ‘Asian Values’ and ‘Walking on Two Legs’!**

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*‘The gods of the market tumbled, and their smooth-tongued wizards withdrew.’*

*- Rudyard Kipling*

### **Abstract**

The reservoir of knowledge, collected over time from human experience leads us to conclude that all beliefs that are not re-energised or re-invigorated by reformation movements tend to wilt and wither. Those of the free market are no different. As history unfolded, these ideas were buffeted by adversities of real-world experience. But after each such experience they re-emerged in new form, further sharpened and honed. That is why the current financial, or more aptly termed, economic crisis must be seen as an opportunity to seize upon, to feed *that* propensity of the market that has proved to be its more powerful tool of survival, that is, its ability to correct itself, perhaps with a little bit of help from society. In this phenomenon Asia has a leadership role to play, encompassing both growth and care for the poor.

### **Introduction**

This paper is about the placement of the ideas pertaining to the free market against the matrix of social concerns. This includes care for those who are on the flip side of the success story of the contemporary capitalist system. Also, how this juxtaposition is tempered in this part of the world by the so-called ‘Asian values’, reflected in loyalty to the family, corporation, and nation, preference for social stability over personal freedom, the pursuit of academic excellence, and, generally, thrifty behaviour.

### **The Idea of ‘Free Market’**

Here ‘the free-market’ needs to be clearly defined. So, what is it? Simply put, it is an economy without *needless* (and mark the word ‘needless’) intervention by the state except to regulate against force and fraud. It requires the protection of property rights, but no

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regulation, no subsidisation, no single monetary system, no government monopolies, and no centralised system of command. Of course one must render unto Caesar what is Caesar's, that is, pay one's taxes, but always remain vigilant that these are well spent, not for wasteful *government*, but better *governance*.

The beliefs had their ardent prophets. Adam Smith spoke of the 'invisible hand' that leads the individual, who intends only his own gain, to promote an end which is no part of his intention. It was not, as Smith said, from the benevolence of his butcher, or brewer, or baker that he drew his dinner, but from their regard to their own self-interest. Deriving from this concept, Richard Cobden floated ideas that, according to him, "advocated nothing but what is agreeable to the highest behests of Christianity, to buy in the cheapest markets and sell in the dearest". Based on these again Frederick Hayek developed the theory that market economies allowed for 'spontaneous order', a more efficient allocation of societal resources than any other design could achieve. Closer to our times, Milton Friedman argued for severe restrictions on the rule of the government and the economy. These thoughts, doubtless, led to fruition in policy terms in Reaganism-Thatcherism, and aided the process of contemporary globalisation.

### **Its Evolution**

When some critics bemoaned them, Jagdish Bhagwati, a friend of the process, forcefully held that globalisation does indeed have a human face; only that we must make it more agreeable. But the soaring ideals of the free-market were brought face-to-face with reality by John Maynard Keynes, who advocated the avoidance of the pitfalls of this unbridled free-market by appropriate interventions by the State to restore a modicum of social order. Capitalism has never been the same since. Of course some extreme advocates of change like Karl Marx, V.I. Lenin, or Che Guevara had called for a systemic overhauling through 'revolutions', while others like the Webbs saw merit in a gradual ('Fabian') transformation. Keynes and his ilk were for least disturbance in social harmony and saw value in insertions of appropriate policies. Keynes favoured the government's intervention through use of fiscal and monetary measures to mitigate the adverse effects of business cycles, recessions, and depressions. This is what finds resonance in contemporary governance, be it in Obama's United States or Hu Jintao's China. In Asia in particular, what was salient was the reliance on the underpinnings of liberal capitalist economics, while fusing into them a strengthened regulatory mechanism that espouses growth, coupled with a focus on equity and development.

The current economic crisis has posed stiff challenges for globalisation. Indeed, what began as a trans-Atlantic crisis assumed global proportions because, in what Thomas Friedman has called 'the flat world', the global economy of the twenty-first century has become closely integrated. A dense web of trade and financial linkages resulted in a quick spread of the contagion since the collapse of the Lehman Brothers. Analysts, academics and policy-makers from several parts of the developing world, including from Asia, began to argue that the crisis exposed the pitfalls of globalisation. There were others who urged calm. They pointed out that it was not just the failure of market, but really of *governance* – one that must be shared by both the market and the governments.

### **Its Asian Matrix**

As a region, the Asia Pacific is increasingly becoming one of the most economically integrated parts of the world. Intra-regional trade has been particularly robust since the Asian

meltdown of 1997. That crisis spurred efforts for the movement towards an integrated trade architecture. It gave birth to the 'Chiang-Mai Initiative', and there was even talk of a separate Asian Monetary Fund, something that not only did not die down, but appears to have received a fillip from the present crisis. The Association of Southeast Asian Nations (ASEAN) framework has become more tightly organised since then. At the same time, shaken confidence in the global trade regime has led to a proliferation of bilateral pacts among East, South and Southeast Asian economies. The upshot was the growth of 'the noodle bowl', an intertwined set of multiple agreements covering the entirety of South, Southeast, and East Asia. Singapore's Senior Minister, Goh Chok Tong, reminded us that it would be increasingly difficult to regard the various regions of Asia as "distinct theatres interacting only at the margins."

From a regional perspective, the chorus of voices for greater Asian integration began to gain ground. A few months ago it received a thrust forward following the change of government in Japan and the installation of Prime Minister Yukio Hatoyama. Organisations like the Asian Development Bank (ADB) espoused the cause institutionally through studies and research. A remarkably palpable sense of 'Asian-ness' has emerged. Could the Asian Age have come upon us sooner than expected? Back in 1935 a Japanese economist called Kaname Akamatsu had developed a multi-tiered hierarchical 'flying-geese' model (which gained popularity in the 1960s) to demonstrate how industrialisation travelled from the developed to developing countries. The academic, if not policy-making circles, were now abuzz with talk of whether the 'flying geese' model could be applied to the integration of contemporary Asia, with the big economies leading and the smaller ones following, drawing power and strength from the flappings of the wings of the leaders! The President of ADB, Haruhiko Kuroda, confidently asserted that the world today was looking at Asia to lead the way!

To begin with, most stakeholders from this region were committed to the rule-based multilateral trading regime administered by the World Trade Organization (WTO). This was further buttressed by the joining of this multilateral forum by China, then the second largest economy of Asia (after Japan), and now poised to be the largest. Of late, however, there has been considerable disappointment at the lack of progress in the Doha Development Round. This is not to say that there has been any significant erosion in confidence in the purposes that the institution stands for. In other words, the benefits accruing to these stakeholders from the multilateral framework have remained undisputed. It may have opened the door to thoughts about the world body being replicated regionally to respond to the specific issues of the region. An Asian Trade Organisation, perhaps?

In several ways the financial crisis has provided an opportunity to examine more closely the existing inefficiencies in the current multilateral framework and addressing them. For instance, there are several outstanding issues that continue to pose significant roadblocks to the efficient movement of goods and services across the world. One of the key challenges confronting the free-marketeers must be to prevail upon the concerned authorities the urgent necessity of removing these constraints. There is little doubt that the rules of the game governing global trade need to become more accommodating and acceptable. Prolonged discussions on trade distorting subsidies and impediments to market access to date have yielded little results. Then again, more generic trade-related issues have not received the attention they deserve. These include uniform 'rules of origin', 'safeguard measures', and movement of skilled professional personnel. Global trade can become truly market-oriented and effective only when the market mechanism is allowed to function unencumbered. Selective application of rules and modalities must be avoided at all times. Otherwise it will

feed the penchant for evolving alternative mechanisms in Asia, and the ‘decoupling’ of Asian economies from other parts of the world. This would adversely impact the world to the extent that ‘interdependence’ is good for global peace and stability.

Asia today is in ferment. It is aware of its tremendous potentials, and of its ability to play a decisive role in the global economy. But the clout it wields must not confine its objectives and endeavours only to the region. We live in an interconnected world. With each passing day we are approaching the reality of a single ‘global village’. Economic jingoism, whether national or regional, eastern or western, must be discarded at all costs. Western trade and economic actors, both state and non-state, will need to acknowledge the shifting global balance and realign themselves in a way so as to become a key instrument in the growth and development of the East. Likewise, the East must always remain conscious of the critical importance of growing together in harmony in a mutually cooperative and collaborative framework. With due apologies to Rudyard Kipling, the twain must be made to meet for the good of all concerned.

So, what is to be done? We must accept that protectionism ultimately benefits none: not those sought to be protected, nor those from whom they are purported to be protected against. Tariffs, or even non-tariff barriers are the Berlin walls of the contemporary economic scene that must be pulled down. Even assuming that globalisation has significant pitfalls, it must be realised that it is on an irreversible trajectory. Instead of trying to reverse the process, we are better off making it more meaningful and welfare-oriented. Joseph Stiglitz, who had earlier focused on globalisation’s “discontents”, penned a more recent tome suggesting how to “make it work”, arguing that the process, if properly managed, as in the successful development of much of East Asia, can benefit alike both the developed and developing countries.

In Asia, a combination of beliefs, faiths and traditions have rendered it unacceptable that the flip side of our success ethic be the neglect of those who cannot make the grade. Progress must be that experience of the evangelical ‘rapture’ in which all participate, and none is left behind. Policy must involve ‘walking on two legs’, that is, the market must be free to operate but for those for whom it fails, the state should cast, and catch them in, its safety net. That would be in consonance with Asian mores. This is at the root of the National Rural Employment Guarantee Program (NREGA) in India. Bangladesh, once considered a basket-case by Henry Kissinger, is forging ahead aided by similar policies, and ‘home-grown’ innovative schemes like ‘micro-credit’, which its initiator, Professor Mohammed Yunus holds, will soon be able to consign poverty to the museum of history. Most developing countries in Asia are in the driver’s seat, in control, of their own destiny. Their ‘best practices’ are replicable in societies of comparable milieu in Africa, and in Latin America.

### **Towards A Global Village**

It is essential that while we aspire to our goals, we do not divide humanity into separate compartments. Nobel Laureate Amartya Sen has stressed upon the need to dialogue on the richness of human identities, and on the need to avoid placing people in rigidly separate boxes, linked with religion or community. A structure of common human empathy must be built that should link all. After all, there can be no escape from the Gulag of life if the man who lives in the warmth does not feel for the man who lives in the cold.

There is a tendency in Asian societies for progress to be spearheaded by a ‘vanguard’ elite group in the society. This concept, of course, is not uniquely Asian. In the West, this was at the core of Plato’s ‘Republic’, designed to be ruled by ‘guardians’ or ‘philosopher kings’ (and all western civilisation, it has been said, is but a footnote to Plato). But its practical application was more apparent in Asia. As Gandhi had once said, a small body of determined spirits fired by an unquenchable faith in their mission can alter the course of history. But Asians must not attempt to go at it alone. Just as the West needs to reorient itself to accept Asia’s ‘rise’, Asia must also recalibrate its collaboration with others in the world in the creation of the new ‘global village’.

## **Conclusion**

The entirety of the global community faces a challenge to work together, be it in development, or climate change, or ridding the world of weapons of mass destruction. The striving must be relentless bearing in mind the warning of the mighty Rabindranath Tagore – that you cannot cross the sea by merely standing at its edge, and staring at the water!