

Asia keeps the west's betrayed faith

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Before the current economic crisis exploded, most Asian policy makers and intellectuals believed that when it came to the theory and practice of economic development, the west knew best. This conviction was justified. For two centuries or more, western economies had far outperformed their own. Asian economies only began to perform well when they accepted and implemented Adam Smith's theories of free-market economics.

However, when the crisis led to a global recession, with severe downturns in several major western economies, many Asians began to question their belief in western competence. An important distinction needs to be stressed here: while Asians have retained their faith in western theories on economics, they have progressively lost faith in western practices of economic management.

For example, many Asians are genuinely bewildered that a great mind such as Alan Greenspan could believe that derivative traders did not need any regulation. In 2003, the then chairman of the US Federal Reserve said: "The vast increase in the size of the over-the-counter derivatives markets is the result of the market finding them a very useful vehicle. And the question is, should these be regulated?" His answer was that the state should not go beyond regular banking regulation because "these derivative transactions are transactions among professionals".

In contrast to this ideological conviction that markets knew best, the Asian mix of ideas on economic development would include a combination of the old-fashioned values of hard work, prudent savings and a dynamic private sector balanced by judicious government intervention when markets fail.

It is vital to stress the diversity of Asia. India is as different from China as Singapore is from Vietnam. Yet virtually all Asian societies believe that government has an important role in managing the economy. All Asian governments would agree with Amartya Sen, the Nobel prize-winning economist, that the invisible hand of the marketplace has to be balanced by an emphasis on the visible hand of good governance, a statement he made at the Lee Kuan Yew School of Public Policy.

Another striking difference that has emerged in Asian and western attitudes is that while the western mind remains ideologically committed to free markets, many western populations have in practice become wary of free trade. By contrast, the faith of Asian populations in free trade is growing stronger.

The "buy American" provisions recently enacted by the US Congress, for example, are entirely wrong-headed. They will make American industries less, not more, competitive. A stark new political reality in America is that it is virtually impossible to get the US Congress to ratify new free-trade agreements, even when they are overwhelmingly in the American interest. The US-Colombia FTA will benefit Americans more than Colombians if it kills the drug industry in Colombia. But this deal seems dead in the water.

By contrast, the Asia-Pacific region is exploding with new FTAs. The largest in the world will be the one between the 1.2bn people of China and the 500m of the Association of Southeast Asian Nations. This has already been signed and ratified, and comes into force in 2010. Japan, Australia, New Zealand and India are following suit with similar agreements with Asean. A recent study by the Asian Development Bank notes that there are about 20 cross-regional FTAs at different stages of implementation, which have significantly improved economic welfare. Asia is becoming awash with competitive liberalisation, while populist **protectionist** sentiment prevails in the west.

Recent analyses of the impact of the current crisis on Asian economies have correctly stated that the collapse of Asian exports to the US will also mean a decline in intra-Asian trade, since much of this is lower down the global value chain and involves products ultimately destined for the US. If this accounted for all the growth in intra-Asian trade, then one should be pessimistic about the future. The ADB notes, however, that the value of total merchandise trade between east Asia and **south Asia** increased eightfold between 1990 and 2007, with each region exporting according to its comparative advantage. Not all of it was due to American demand.

This decoupling of the Asian-western consensus could lead to major changes. It is entirely conceivable, for example, that the Asian economies will perform better than their western counterparts for a good while, by adhering to western ideas on economic development as western societies effectively backtrack from them, openly or surreptitiously.

Similarly, while many western populations are becoming increasingly wary of globalisation, there is virtually no evidence of this in Asian societies. Indeed, most Asians want more, not less, globalisation. The current phase of globalisation was generated by the west, to be sure, but now we may witness the Asianisation of globalisation. This seeming paradox, too, will be a result of the **decoupling** of the Asian-western consensus.

History does take interesting turns.

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