Liberty Outside the West

We hear much about the "Rise of the Rest"—non-Western emerging markets, led by China and the other BRICS. This is supposed to be their century—especially an Asian century or a Pacific century. The centre of global political and economic gravity is shifting from the Atlantic to the Pacific.

At the heart of this shift is an Asian drama, but not the one described by Gunnar Myrdal in the 1960s: a continent trapped in unequal exchange with the West, and mired in myriad market failures that precluded escape from poverty and progress to prosperity. The conclusion Myrdal and other development experts drew was that only massive infusions of Western aid, Soviet-style planning and import-substituting protection could overcome market failures and kick-start industrialization, 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". Karl Marx, Max Weber and others wrote off China and India, given their seemingly hidebound, progress-shy traditions.

How different the Asian drama looks today: the exact opposite of Myrdal's diagnosis and prognosis. China, as Napoleon feared, has awoken from its centuries-long slumber and is shaking the world. And, as Gurcharan Das (one of modern India's leading commentators) tells us, India is now "unbound". East and South Asia are on the move, globalizing and catching up with the West, although there is a long, long way to go.

The crucial enabler of this transformation has been liberalization: of internal and external trade, of domestic and foreign investment, of product and factor markets. These "negative" acts—removing restrictions that repress economic activity—have unleashed the animal spirits of ordinary people. Peter Bauer's descriptions of the enterprise of small-scale cocoa producers in the Gold Coast and of rubber growers in Malaya, penned in the 1940s, holds true of swelling hundreds of millions of people today. I see it all over China and in the bustle of Hong Kong; I see it from sunrise to sunset among the industrious Vietnamese; and among the emerging middle classes of large- and small-town India. People now have incentives to exercise their "natural liberty" (Adam Smith's term for economic freedom); they are doing so with gusto and are transforming the world in the process. This indeed a vast continental awakening.

How can we make sense of this liberty outside the West? Theorists and policy wonks talk drily of changes in public policies and institutions. That is necessary. But they tend to overlook the obvious, what stares them in the face when they look out of their hotel or car windows: the unprecedented expansion of economic freedom outside the West.

What is happening exactly? What are liberty's prospects outside the West? And what impact will it have back in the West? I don't know the answers, but I can have a stab at the questions and offer a few broad-brush observations, for these questions are surely among the most vital in our time.

Political and economic trends

The last economic era, roughly from 1980 to 2008, was the most successful combination of globalization, growth and prosperity in history. This was when the Rest came on board: "underdeveloped countries" (as they used to be called) cast off post-colonial isolation and embraced the world economy. The East Asian Tigers started earlier, of course, but they were joined subsequently by the BRICS and others.

Protectionist barriers tumbled. The average tariff in developing countries was over 30 per cent in the mid 1980s; it is now about 10 per cent. Current accounts opened and currencies became convertible. Internal licensing restrictions were removed, markets opened to foreign investment, and services sectors opened up as well. Jeffrey Sachs and Andrew Warner tell us that only 20 per cent of the world's population—overwhelmingly in the West—lived in open economies in 1980; now about 90 per cent live in broadly open economies. 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 PPP) in 1950. By 2001, its share had doubled. By 2030, it should account for more than half of world GDP. Around that time—probably earlier—China will be the largest economy in the world in absolute terms (at market exchange rates), with India in third place. The Asian Development Bank says that Asia could account for half of global GDP at market exchange rates by 2050, with per capita incomes rising sixfold from today's baseline, delivering living standards similar to European levels today.

The recent global economic crisis initially affected the Rest as much as the West: both suffered contractions in growth, trade and investment. But the post-crisis recovery has opened up a chasm between the West and emerging markets. The West suffered a financial crisis, leaving gaping holes in household, corporate and government balance sheets. Hence an anaemic recovery, although with exceptions such as Germany, the Scandinavian countries, Australia and Canada. The main emerging markets, in contrast, except Russia, went into the crisis with healthy balance sheets: hence a less severe crisis and a sharper rebound. China and India sailed through the crisis; they grew 10 per cent last year. Developing Asia grew 9.5 per cent and Brazil 7 per cent last year. Even sub-Saharan Africa grew 5 per cent. The latest IMF World Economic Outlook forecasts emerging markets to grow 6.5 per cent this year—even higher for developing Asia (8.4 per cent)—compared with 2.5 per-cent growth for advanced economies.

These basic facts and figures tell us two things. First, the crisis has induced sharp divergence of economic performance between the West and emerging markets. And second, this short-term divergence has accelerated the long-term convergence between emerging markets—particularly in Asia—and the West. That has profound long-term political and economic ramifications.

There is similar divergence in the global policy outlook. The West's "crisis interventions"—massive financial bailouts, fiscal-stimulus packages and extra-loose monetary policy—have vastly increased public debt, amounting to 30 per cent of OECD GDP in 2008, akin to financing a world war. This has wrecked public finances. It has stark, medium-to-long-term macroeconomic implications: for taxes, expenditure, interest rates and inflationary threats. But these crisis interventions also provided cover for "Big Government" micro-interventions that, at the margin, have reversed previous liberalization. This distorts competition and restricts economic freedom in the West; it compromises prospects for recovery. This is the record of the Obama administration and the Democrat-controlled Congress of 2008-10 in the United States. It is also the record of the EU, plagued by stalled internal-market liberalization, and a bureaucratic, almost command-economy approach to sovereign-debt crises in its periphery. Most emerging markets, in contrast, again with the Russian exception, retain healthier balance sheets and have a much more promising outlook.

But I don't want to paint too rosy a picture of emerging markets. There are several clouds on the horizon. First, market reforms have stalled, though they have not suffered major reversal. That is true of China, India and Brazil. Russia is more extreme: it has deliberalized under Mr. Putin. All these countries have not moved significantly from "first-generation" Washington Consensus-type reforms, such as border liberalization of trade and foreign investment, to "second-generation" reforms: more complex, politically sensitive domestic regulatory reforms to unlock competition and boost productivity. Domestic red tape—on property rights, contracts, licensing arrangements, opening and closing businesses, paying taxes—continue to stifle emerging markets' business

climates much more than in the West. This is reflected in the World Bank's *Doing Business* Index. OECD countries occupy 8 of the top 10 places (Hong Kong and Singapore are in first and second place). China is 79th, Indonesia 121st, Brazil 127th, India 134th and Russia 123rd. Let us not forget that these regulations repress economic freedom at the same time. This is reflected in the rankings of the Fraser Institute's *Economic Freedom of the World* Index. Only a handful of non-Western emerging markets—Hong Kong, Singapore, Chile and Mauritius, all small, open economies—are in the top ranks. China is 82nd, Russia 84th, India 87th and Brazil 102nd.

Hence there is huge unfinished business to expand economic freedom outside the West. Generally, emerging markets' economic institutions—public administration, enforcement of property rights, domestic regulatory authorities—remain relatively weak and keep business costs high, repressing entrepreneurship, innovation and consumption. This is related to political systems, which range from authoritarianism to democracy. Emerging-market powers suffer their own divisions: witness the mistrust and geopolitical rivalry between China, India and Japan in Asia. They are still reactive and do not display real leadership in global economic institutions like the IMF, World Bank and WTO. And they suffer from poorly integrated regional markets, beset by high barriers to intra-regional trade, investment and the movement of workers: a far cry from the EU and NAFTA.

Emerging markets are indeed rising, and the Shift to the East—to Asia in particular—is undeniable; but the constraints I have mentioned still hold back the non-Western world. That means that we will not see Chinese, or wider Asian or emerging-market "leadership" for a long time to come.

Ideas and history

The liberal tradition, in its myriad forms—philosophical, political, legal, economic and cultural—is a product of the West. These ideas sprouted from Greek, Roman, Jewish and Christian minds. They bloomed into West-European modernity a few centuries ago, took secular form, and found expression in public life. Economic freedom gradually expanded under more limited government, the rule of law and other market-supporting institutions in the state and civil society. Political liberalism accompanied this trend in some places—notably Britain and the United States—but less so in others. After 1945, political and economic liberalism permeated all Western societies, though they coexisted uneasily with rival collectivist traditions. All over the West, space opened up for Smithian natural liberty.

Those of us who are Western-centric—the majority of classical liberals, I suppose—like to think that liberty is the West's intellectual property with no equivalent outside the West. It is for the West to export it to benighted lands—to lead them out of their "areas of darkness" (to borrow a favorite V.S. Naipaul term). This immediately creates a big problem. Time and again, in various places outside the West, I have felt a sense of unease when white men in suits have preached the virtues of Smith, Hayek and Friedman, not to mention Reagan and Thatcher, to black, brown and yellow audiences. When they do so, without any reference to indigenous liberal thought (where it exists), and when they assume that it is a simple matter of transplanting Western practice, it comes across as patronizing and colonial. When locals do this, fresh from American graduate programs and with an American twang to their accents, they come across as "coconut brown" (brown on the outside, white on the inside). No wonder this attitude does not work beyond groupuscules of nutty libertarians who split hairs between what Hayek said on Monday morning and what Mises said on Tuesday afternoon. This smacks of Lord Macaulay's much-quoted passage in his Minute on Education: "We must at present do our best to form a class of persons, Indian in blood and colour, but English in taste, in opinions, in morals, and in intellect."

Do not get me wrong. I am not arguing for a rampant relativism, a post-modern political correctness in the non-Western world. I agree that the liberal tradition comes *mainly* from the West. I am all for plugging the ideas of Smith, Hume, Hayek and Friedman, just as I am for plugging the ideas of Eucken, Böhm and Röpke, outside the West. (On a recent visit to Beijing, it gave me great pleasure to hear that the books of Wilhelm Röpke, in English translation, are to be found in Chinese bookshops). But it will not work unless a serious connection is made with local intellectual traditions and local history. It is the height of arrogance and ignorance—worthy of a Parisian salon intellectual or a Quai d'Orsay diplomat—to assume that there are no worthwhile parallel liberal traditions outside the West. That smacks of another Macaulay quote: "A single shelf of a good European library is worth the whole native literature of India and Arabia."

For there have been minority liberal traditions of thought outside the West, including affirmations of economic liberalism. These range from passages in Confucius's *Analects* to pre-colonial Indian critical thinking to passages in the Quran advocating the freedom of trade. Let us not forget that the founder of Islam, Muhammed, was himself a trader.

But I am the first to admit my lack of knowledge of liberal intellectual traditions outside the West. It is one of my "areas of darkness", to which I must shine a light. All I am arguing for is some humility and a serious effort to explore non-Western liberal traditions, and then make the connections with Western classical liberalism—all the better to make a more powerful intellectual case for the expansion of economic freedom outside the West. This is a challenge above all for locals, less so for visiting Westerners.

A Western-centric view of non-Western development runs along the following lines. It was through Western colonialism that European-style commerce and commerce-supporting institutions were transplanted elsewhere. Markets were widened across lands and seas; backwaters were brought into contact with advanced commercial hubs in Western Europe. There might be a grain of truth in this script, but much of it is plain wrong. The history of long-distance trade tells a different story: I will focus on trade in the Indian Ocean.

Long-distance trade started in the Tigris-Euphrates basin one to two millennia before the Greeks and the Romans, and fanned out in a network across the Middle East. It was Arab traders who rode the monsoon winds to trade in ports all over the Indian Ocean. The *Pax Islamica*, following lightning-fast Muslim conquests, was the framework for flourishing trade across the Eurasian landmass and the Indian Ocean. Seafaring trade led the way, reaching as far as Chinese ports by the mid eighth century. Arab diasporas in coastal ports knitted this trading network together from East Africa to China. Singapore's new ArtScience Museum on the Belitung shipwreck displays an Arab dhow, sunk off the coast of Java in the ninth century, containing a massive quantity of Chinese porcelain. It was on its way back from China along "Sinbad's Way", or what William Bernstein calls the "Baghdad-Canton Express" in his book *A Splendid Exchange*.

The Mongol invasions smashed the *Pax Islamica*. Its successor, the *Pax Mongolica*, allowed land-based trade to flourish; it was the last hurrah of the fabled Silk Route. The travel accounts of Marco Polo and Ibn Battuta give us a flavor of land and sea trade in this period.

This brings me to the zenith of economic freedom outside the West in pre-modern history—medieval Indian Ocean trade before European colonization, a golden age of South and Southeast Asian commerce. Before the Portuguese muscled in, the Indian Ocean was *mare liberum*, not controlled by any power and fully open to trade. Coastlines were dotted with "port-polities", independent towns and cities whose lifeblood was overseas trade. Freewheeling economic competition went in tandem with decentralised, flexible political institutions: the Indian Ocean's

equivalent of Eric Jones's *European Miracle*. Fractured geography and competing polities combined to promote economic freedom, growth and prosperity.

Tomé Pires, an apothecary who accompanied the founders of the Portuguese *Estado da India,* describes the features of this system before it was obliterated by European mercantilism. Trade took place between port-polities: 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). Some had Hindu rulers and local populations, but Muslims dominated trade (the other way round in Cambay). Islam spread through trade and bourgeois example, not by the sword as it did elsewhere. These were religiously tolerant, highly cosmopolitan places. Tomé Pires counted eighty-four languages spoken in Malacca, for example.

In these entrepots, there was a reasonable separation of market and state. 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. A customs judge, assisted by a panel of local and foreign traders, valued cargos and conducted auctions. According to William Bernstein, this was "a medieval eBay in the tropics, in which good rules attracted good traders, who in turn insisted on better rules." Indian textiles, spices from the Moluccas, Chinese silks and porcelains, were all traded vigorously and *without discrimination. Mare liberum* united these port-polities. As Sultan Alauddin 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.

The Voyages of Discovery, and then Portuguese, Dutch and British colonial expansion, put paid to this system of "natural liberty" in the Indian Ocean. Vasco de Gama, Afonso de Albuquerque and Francisco de Almeida and those that followed barged in with extreme violence and commercial rapine "in search of Christians and spices". They took control of the seas, and then coastal entrepots, through murder and marauding, lying and stealing. They imposed extreme mercantilism and sought monopoly control. They grabbed markets from local trading diasporas and forced them to sell at below market prices, so that they (the Portuguese) could sell on to captive European markets at huge mark-ups. The Dutch East India Company adopted similar goals and methods in the Spice Islands, only with more ruthless efficiency and success. The British followed in Dutch footsteps.

It took the *Pax Britannica* to restore m*are liberum* and freeish trade in the Indian Ocean. 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. This system was shredded again in the first half of the twentieth century.

But the last sixty years has seen a remarkable renaissance. We are familiar with the "Asian Comeback", starting with Japan, South Korea, Taiwan, Hong Kong and Singapore, spreading to the Southeast Asian Tigers, then to China and Vietnam, and now to India. These countries are at the heart of modern reglobalization. But what we do not sufficiently appreciate is that commercial clusters in and around coastal cities, connected with each other across oceans, are the fulcrum of late twentieth century and early twenty-first century globalization, just as they were in previous eras of globalization. This is perhaps most pronounced in East and South Asia. It recreates the golden age of Indian Ocean commerce, only this time its networks are complex manufacturing and services supply chains linking them to global markets.

There is a political parallel too. We are accustomed to thinking of a world divided into land-based nation-states: the Westphalian system. Decolonization, following Western imperialism, exported the Westphalian system from the West to the Rest. But it is striking that so much policy innovation that promotes economic freedom and commercial society takes place at sub-national levels: in provinces and municipalities, especially those that face the sea and look out to the rest of the world. This happens while politics and policies in national capitals seem to be stuck or moving at a snail's pace.

This is an alternative map of the globe. It is perhaps most visible in the East today. Hong Kong and Singapore are today's Cambay, Calicut, Malacca and Macassar. These days they are connected not only with far-flung markets in the West, but also with the fastest-globalizing parts of China and India: the Chinese coastal provinces with their coastal hubs of Shanghai, Xiamen (the old Amoy) and Guangzhou (the old Canton); and the most advanced Indian states in an arc from Tamil Nadu to Gujarat. It is in these mostly coastal strips that liberalisation of markets, property rights, a burgeoning middle class and other features of commercial society are blossoming most. They form the core of liberty outside the West today; they point the way to its future expansion. This is not quite the Utopian vision of Richard Cobden, who foresaw free trade leading to a world of cosmopolitan, peacefully coexisting municipalities that would replace warring nation-states. But Cobden would still approve enthusiastically.

The mix of liberty and tradition

In "globalizing Asia", technology and markets have unleashed animal spirits, particularly among the hungry, aspiring, hard-working younger generation. Their commitment to education, work and self-improvement is everywhere in view. These are the most uplifting sights in Asia and a marked contrast with much of the West today, particularly Europe. The parts of Asia that are awakening cannot be accused of a lack of individual responsibility, over-dependence on the state, laziness, sloth, decadence and degeneration, all features of the Old Continent, especially galling when one sees them among the young. Tocqueville's dystopia comes to mind: "A people reduced to perpetual childhood … compressed, enervated, extinguished, stupefied, till each nation is reduced to nothing better than a flock of timid and industrious animals, of which government is the shepherd."

But it would be a mistake to view the expansion of liberty outside the West as a relentless march towards atomized individualism. Individualism is breaking out after centuries, indeed millennia, of political and social repression. Economic freedom is its driving force. But rarely is it "atomized". Rather it emerges and expands in the midst of strongly tradition-bound societies. Asia is hugely diverse, of course, with stark differences in social traditions. But I am always struck by the strength of the family unit in much of the continent, and how individual awakening, more often than not, is embedded in families that seem far stronger than they are in the West. It is families and their networks that provide the social glue, the stuff of civil society, in China, India and points in between. To take an extreme example: Hong Kong is probably the most capitalist society on Earth, but it is still a family-based, tradition-bound society.

This should warm the hearts of liberal-conservatives (or conservative-liberals) who, in the spirit of Burke, Tocqueville and even Hayek, wish to see progress based on individual freedom *immanent* in evolving societies that value their traditions and norms, rather than progress through "destroying the old to create the new".

How can liberty expand while preserving valuable traditions in non-Western societies? Can they avoid the atomisation and *anomie*, the dissolving social glue, that one sees in much of the West? To Deepak Lal, yes they can. As he says in his book *Unintended Consequences*, these societies can

modernize instrumentally by importing techniques from the West—including economic freedom—while preserving their "habits of the heart". They can modernize without losing their souls: they do not have to Westernize.

I think this is too neat a distinction: there *is* an overlap between modernization and Westernization. But I hope, with a degree of confidence, that expanding liberty outside the West will not lead to too much Westernization in the form of socially destructive habits.

Conclusion

All over the world, the short-term challenge is to arrest the slide to Big Government, and especially to contain illiberal "crisis interventions" in the wake of the global economic crisis. The medium-term challenge is to get back to unfinished business: liberalization of trade and foreign investment, and domestic structural reforms to expand economic freedom. Non-Western economies still have big pockets of up-front external protectionism. They have even bigger domestic barriers to enterprise. It will be a huge challenge to dismantle these barriers, given that they are defended by entrenched insider elites, usually with the public sector and the organs of the state at their core.

Also, the global economic crisis has brought Keynesian macroeconomics back into fashion, and with it Pigovian welfare economics: microeconomic interventions to fix alleged market failures. A social-engineering mentality—the belief that superior technocratic minds can solve complex social and economic problems with targeted interventions—has been in the ascendant. Welcome to the world of Mr. Bentham, Mr. Keynes, Mr. Stiglitz and Mr. Krugman. That of Mr. Smith, Mr. Hume and Mr. Hayek—the belief that markets are complex organisms; that governments, however expertly staffed, cannot possibly have enough knowledge to "fine tune" macro and microeconomic outcomes with detailed, precise regulations; that governments also "fail" through human fallibility, political pressure and corruption; and, correspondingly, that regulation should err on the side of caution and stick to general rules to allow markets to operate effectively—has been less popular. This is true of the Rest as well as the West.

I have some confidence that the intellectual tide will turn in parts of the West. Indeed it has already begun to turn in the United States (with elements of the Tea Party movement), Canada (the re-election of a Conservative government) and Australia (a resurgent Liberal opposition). But, looking beyond the short-term, I have greater confidence that the expansion of liberty outside the West, especially in Asia, will provide even more headwind. The future of liberty is shifting East; more than ever, it lies outside the West.

Therein lies a challenge for the West. To quote Jan Tumlir, the GATT's long-time in-house philosopher:

Western influence on the world, though still great, is declining. Eventually our societies will be the minor partner in the terrestrial enterprise. What do we want the majority to believe about the liberal idea that animated the West's historical achievement and that we continue to profess, but have, in recent decades, ceased to act upon? What kind of world will it be, if the majority comes to believe that the idea is a sham?