Economics, peace and laughter revisited – or learning from the Asian 21st century

Mohamed A. Ramady

Department of Finance and Economics,
King Fahd University of Petroleum and Minerals,
PO Box 5075,
Dhahran 31261, Saudi Arabia
Fax: +966 3 860 1605
E-mail: ramadyma@kfupm.edu.sa

Abstract: The 21st century will witness fundamental economic transformation amongst nations. By 2050, three of the largest five economies will be Asian – China, USA, India and Japan. How they interact will be crucial for the world’s economic and political stability. Asian societies are succeeding today because they have discovered and adapted good governance, free market economics, science and technology, pragmatism, meritocracy, a culture of peace, rule of law and education. There is no reason why their successes cannot be replicated elsewhere in key regions of the world. Failure to interact with new geopolitical economic centres will ensure that future generations are effectively disenfranchised from sharing in economic growth. The presentation applies Galbraithian macro-economic and socio-political reasoning, arguing that it is the crucial relationship between such forces that, in final analysis, either promotes or hinders economic well-being.

Keywords: Asia; conflict resolution; development; economics and business; Galbraith; governance; peace.


Biographical note: Ramady obtained his PhD and BA in Economics from the University of Leicester, UK, and a Postgraduation in Economic Development, University of Glasgow. He is a Fellow of the Chartered Institute of Bankers, UK and a Council Member of BRISMES – British Middle East Studies Association, UK. Currently, he is a Visiting Associate Professor, Finance and Economics. He specialises on regional and Saudi Economy, as well as Islamic finance and banking, globalisation and WTO. He has Lectured widely on the Gulf and has authored a book on the Kingdom called: ‘The Saudi Arabian economy: policies, achievements and challenges’. He has over 25 years of non-academic senior level professional experience in the field of international banking, finance and investment with leading financial institutions in Europe and the Middle East.
1 The setting

Gandhi reminded us that: “The Earth has enough for everyone’s needs, but not for some people’s greed” (Ishii, 2001). How true today, as we face the challenges of the 21st century whether in feeding a growing population or in managing the excesses of corporate greed that has brought the world’s financial system to the edge of meltdown. A rules-based system is desperately needed. Globalisation has many advantages, but it has also elevated Wall Street to be an admired source of value. As a result, things that should have high worth such as nature, culture and mankind’s common future are being devalued and destroyed. The rules of globalisation are undermining the rules of justice and sustainability, of compassion and of sharing. Global peace is at stake as the divide between the haves and have-nots increases.

2 Economics and economists: where are we going wrong?

Economics is a wonderful social science. Economists can, and do, shape the direction of society’s economic welfare in fundamental ways. However, the academic profession has to be aware of some of the many charges that are levied against economists. I refer to the late Professor John Kenneth Galbraith’s incisive observations, which are still valid today.

First, the ideas and terminology of economics are complex, sometimes artificial and exceedingly confusing to the layman. According to Galbraith, an accomplished economist practitioner can often get the words parameter, stochastic and aggregate into a single sentence (Galbraith, 1971).

Second, economists are bad writers – it is said that proficiency in obscure and difficult language may even enhance one’s professional standing.

Third and more seriously, that esoteric concepts and obscure language are symptoms of a deeper disorder. Far from seeking communication with the world at large, the tendency of economics is to divorce itself from these and construct an unreal universe of its own.

How are these manifested then in our profession?

Again, according to Galbraith, the time has come to consider the complex language and difficult mathematics of the current contributions to eminent economics journals (Galbraith, 1971). The question is no longer one of language, but that such articles are obviously beyond the reach of intelligent laymen, and quite possibly out of touch with reality. It could be that this is the ambition of some scholars, to construct a world of their own choosing and exclusive understanding. If this were to take root, economists stand the risk of being classed into different insiders and outsiders’ club members. The differentiation between those who belong from those who do not, is complemented by a well-graded prestige system of peer review.

Unfortunately, current peer ranking seems to assign the lowest position to an economist, who deals with everyday policy – and I rank myself in this lowly category – as such a person is immediately caught up in a variety of political and moral judgments. His achievements are not rated by fellow economists, but by outsiders, the greatest sin. The consequence is that at the higher prestige levels, economics divorces itself fully from practical questions and from influences of other fields of scholarships, with the exception of mathematics and statistics. Questions of practical application are excluded, as also the influence of other disciplines. As Galbraith again put it bluntly, “it is no criticism of this
work that it is unrelated to the real world. Such divorce is its most strongly intended feature …” (Galbraith, 1971, p.40).

There can be no question that a prolonged commitment to mathematical exercises in economics could be damaging, as it leads to the atrophy of judgment and intuition which are indispensable for real solutions. The natural sciences are not subject to underlying intuitional or behavioural changes. Thus, economics seems more scientific if it is deemed to have a similar immutability. The first step to bring intuitional changes within the framework of economic analysis are tentative, or oral, rather than mathematical, and hence lacking the elegance of a methodological innovation. However, methodological changes sometimes rarely do have implications for public policy, or if they do, they are likely to be minor. It is adaptations to social, political and institutional changes by contrast, that have large and radical policy implications.

It is through such a methodology that I will now discuss issues that will transcend economic relationships and our lives in the next decades. One of these is the alleviation of poverty and promoting economic growth in a sustainable manner. Galbraith puts it elegantly: “For those who are poor, nothing is as important as their poverty, and nothing is as necessary as its mitigation” (Galbraith, 1971, p.3).

In recent years, economists have prided themselves on the progress that they have made in defining the concepts of economic growth and in developing the theory that explains it, as well as the policies that promote it. One is inclined to believe that we are becoming more scientific about the whole business, although there is some tendency to identify scientific precision with mechanical elegance, rather than reality. This is especially so, as long as underdeveloped countries are treated as one class and one theory is assumed to cover all countries. Nothing can be further from the truth, especially if we do not delve deeper into what makes certain countries and regions grow faster than others. To this end, Asia, particularly the transformation that is enveloping China and India, stands out and points the way for others to emulate (Spence, 1991; Evans, 1997; Marti, 2002). The 21st Century will witness the most fundamental economic transformation amongst nations, not seen since the era of western industrialisation. By 2050, three of the largest five economies will be Asian in this order – China, USA, India and Japan. How they interact will be crucial for the world’s economic and political stability, as such huge power shifts are often accompanied by tensions and rivalries (Gorbachev, 1998). Asian societies are not succeeding today, because of a rediscovery of some hidden or forgotten strengths of ancient civilisation.

They have become successful because they have discovered and adapted some fundamental ‘pillars’ of perceived western wisdom that has underpinned western economic and social progress over the past 250 years (Wong, 1998). These are: free market economies, science and technology, pragmatism, meritocracy, culture of peace, rule of law and science-based education.

The surprise is not that China and India are rising so fast today, but that they discovered these western pillars so late. There is no reason why their successes cannot be replicated elsewhere, especially in crucial economic and political regions of the world such as the Middle East and the wider Muslim world. Failure to do so will ensure that the world could face future problems.
3 Rediscovering economics, peace and (some) laughter – the new Asia

Why some Asian countries succeeding and other emerging economies do not? The older I get, the more I realise that big truths can sometimes be very simple. We can spend many hours unravelling complex technicalities. In the end, we will come up with the same simple answer that the little child came up in the famous Aesop fable: only he had the courage to say the Emperor had no clothes.

Similarly, although seemingly complex, the emerging economic giants of the 21st century – China and India – have rediscovered and adopted some simple truths to unleash their potential. And yet, there are other giants in Asia like Bangladesh, which seem to have still an automatic association with poverty. In the oil rich Middle East, a virtuous cycle of economic development, away from oil, has still not materialised. While globalisation has been criticised by many as being unfair to poorer countries, it brings one distinct benefit – it eradicates distances and vividly brings home, through media, what other nations have achieved.

In the end, poor people do not like being poor – they are looking for ways and means to improve themselves, even those who live in slums. What is happening today in China illustrates this. Until Deng Xiaoping visited the USA in 1979 to meet President Carter, the official Chinese propaganda was that the Chinese people were living in a ‘socialist paradise’ while American workers were poor and exploited by rapacious capitalist running dogs (Evans, 1997).

When Deng Xiaoping told Chinese TV to show actual homes of American workers, with cars, refrigerators, washing machines and so on, this was a great shock to the Chinese population. But it was a shock that woke them up and made them determined to catch up. To get his meaning across to a billion Chinese Deng used a simple but brilliant statement “it does not matter whether a cat is black or white; as long as it catches mice, it is a good cat” (Evans, 1997, p.45). Deng wanted to imbue the Chinese people with a sense of pragmatism to replace rigid Maoist doctrines. And it worked (Marti, 2002).

What is it that the economically successful Asia giants have done to try and break out of the poverty cycle? Sometimes one has to change one’s mindset on how we view virtues such as democracy, equitable development and social inclusion. We often tend to wrap a moral cloak of virtue around them, and lecture the rest of the world about them. Most probably however, we might need to add a fourth item: good governance which could be an essential precondition for achieving the other goals. It is essential however, to look at the laudable goals of democracy, development and social inclusion through the eyes of the poorest in any particular society. Take the case of democracy – has the sudden arrival of democracy always benefited the poor classes? Sometimes the record shows that they often end up worse off. The recent examples of Russia, Indonesia and Philippines illustrate this. In Russia, there is little reverence for Gorbachev (Steele, 1994; Brown, 1997). In Indonesia, while the West celebrated the departure of Suharto, the Indonesian economy imploded. In the Philippines, the poorest Filipinos suffered under both the regime of Marcos and the subsequent democratic rule that followed. The real question is how to make the transition in such a way that the poorest do not end paying the price.

Let me reiterate however, that in the long run there is no doubt that all societies have to move towards a democratic rule of some form or another. There is no alternative long-term destination. As Churchill once said: “democracy is the worst form of government, except for the alternative” (Churchill 1956–1958, p.230; James, 1974, Vol. 4, p.65). The
destination is never in doubt, but the route is certainly in question. Some, like India, have
opted for a democratic system from now, while others like China are relatively unmoved,
as the lessons of Russia has not been lost on them. The Chinese leaders have one
collective nightmare: they call it the Gorbachev nightmare (Almond, 2002).

What is puzzling about Western calls to Asia and other societies to make immediate
plunge into democracy, is that Western experience with democracy have been slow
(Ford, 1939; Galbraith, 1968). The USA became independent in 1776. Voting was
restricted to White farmers, who made up a minority of the population. Blacks remained
enslaved until 1863, and got suffrage only in the mid-1960. American women got the
right to vote in 1920 and lovely Switzerland, where we gather today, gave women the
right to vote only in 1971. So is ‘instant democracy’ the answer, no matter where
countries stand on the ladder of economic development? In the final analysis, whatever
the West does, some blame must be placed at the feet of developing countries themselves.
Sometimes the kindest thing that one can do to a struggling state is to tell that state to
take over reasonability for its own fate (Gorbachev, 1998).

Taking over responsibility starts with good governance in developing societies. The
United Nations seems to believe this could help as they are now insisting that good
governance is perhaps the single most important factor in eradicating poverty and
promoting development.

We all seem to know intuitively what constitutes ‘bad governance’, but what is ‘good
governance’, and how have some Asian countries discovered the secret? A lot of
‘ingredients’ go into ‘good governance’ and any one of these ingredients could be the
spark that kindles the others. A simplified list could include: free market economies,
social justice, rule of law, political accountability and a science-based quality – not
quantity – education system. The successful Asian countries have started with one or
another of the above ingredients such as Malaysia’s science-based education and social
justice, while India has opted for free market economy, rule of law and political
accountability.

On purpose we have missed one item out: democratic rule. If democratic rule is a
necessary condition for good governance, how does one deal with China? And yet one
has to give China the benefit of good governance in transforming the lives of millions of
its citizens. The response of the Chinese authorities to the massive earthquakes and floods
that hit the country is truly admirable and could have only been assisted by good
governance. In a Western frame of mind, authoritarian rule is always bad. But Asian
experiences suggests otherwise as the two Koreas illustrate. Kim II Sung ruled North
Korea and Park Chung Hee ruled South Korea. Both were authoritarian. Kim II Sung
produced a tragedy. Park Chung developed a modern economic miracle which eventually
became a more open democratic system. The difference between the two Koreas was
simple: the Northern leader delivered ‘bad governance’ while the South delivered ‘good
governance’.

India is a shining example of how to bring about a virtuous cycle of democracy and
development and is a model for many multi-ethnic countries (Waltz and Ritchie, 2000).
India’s political system allows for changes in governments to take place smoothly and
without instability, and for entry and exit of political figures without shaking society. But
the spread of the same virtuous cycle of democracy and development is difficult as
evidenced in India’s immediate neighbourhoods of Nepal, Bangladesh and Burma.
4 A crucial difference: East Asian elites

As discussed, neither democratic nor authoritarian political systems are critical variables. The same applies in the oil rich Middle East and wider Muslim world (Henry and Springborg, 2001). The critical difference between economic success and stagnation seems to point to the nature of the elites leading and managing successful states. Essentially, they have been productive instead of parasitic elites. Cases of both abound. Successful ones in the Middle East are few – the Maktoums of Dubai are an exception (Issawi, 1995).

Successful elites share one common characteristic – they remain focused on uplifting their nations and society well-being while in office. Some have not been free of corruption while doing this (with the possible exception of Singapore), but they continue to focus their energies on society transformations, than on preserving special privileged status. How do the East Asia elites compare with other elites in the developing world, particularly those from Latin America?

Latin American elites began the post-second world war era with far greater promise than did East Asia. The presence of European elites in some Latin American societies – such as Argentina, with its German, Italian, Spanish and British stock – gave good reason to believe that these elites would learn and transmit the best practices of European societies into Latin America. Those elites started off with good intentions to change, but bad governance in the form of dictatorships changed the direction of their economic development and suppressed their involvement. Brazil today, is a good example of good governance, free market economies and the rule of law is helping the country to grow at a pace that also takes into account the poorer sections of society. The Brazilian ruling elites are focused.

By the end of the 20th century, Singapore, Taiwan, South Korea Malaysia and Japan had emerged as symbols of what East Asian states could do with little natural resources. Why was this? Culture and the willingness to learn Western best practices, adapt and apply them could be a distinguishing feature of East Asian elites (China Institute of International Studies, 2006). In theory, these elites might have been afraid of losing their cultural identity in trying to copy the West. In practice, they retained their deep cultural confidence; that they could learn from the West and not lose their souls. This is in stark contrast with Middle East and Muslim countries where a fierce debate is going on concerning Western adaptation and loss of culture and soul (Owen and Serket, 1998; Henry and Springborg, 2001).

However enlightened an elite, no state can be lifted without extraordinary leadership. Again history has demonstrated this with the Meiji reformers in Japan, Deng Xiaoping in China, Park Chung for Korea, Chiang Ching for Taiwan, Lee Kwan Yew in Singapore, Ataturk in Turkey, Mahathir in Malaysia, the Maktoums in Dubai and today, King Abdullah in Saudi Arabia. All seemed to have inherited a ‘healthy virus’ of learning from others, without slavish copying. Instead of trying one set of formulas or learning only from one society, they were all happy to mix and match best practices learned from a variety of sources. They all saw the inherent strength of countries that adopted a science-based education system, a benign free market economic system, a respect for the rule of law and above all, a culture of peace.

The historical irony is that while the European Union has grown to be the super club of nations that it is now, there are renewed signs of friction and tension with Russia, while conflict between European Union members is now a thing of the past. Asian
countries, especially China and India have taken this lesson to heart, and have decided to opt for a pragmatic foreign policy centred on a culture of peace with their neighbours. Their relationships with each other, Vietnam, Japan and Korea illustrate this remarkable transformation. Today, the massed armies that had separated India and China or China and Vietnam have been reduced or gone, when in recent history bloody frontier wars had been fought. Pragmatism and a culture of peace were recognised to be a key element to foster these countries’ economic transformation. The ASEAN block cements them further in pragmatic economic relationships despite political system differences, just like the European Union. It provides a model for other developing country blocs such as GCC and even the organisation of Islamic conference countries.

5 Sustainable and attainable peace

Peace as a way of solving problems is both a fascinating and crucial concept for all of us. We are clearly not on a path of solving problems right now in the world, but on a path of increasing risk and instability (Ferguson, 2007). By all objective measures, we also seem to be on the path of increased hatred and the so-called ‘clash of civilisation’ as well. First, we need to examine our attitude towards peace itself. As John Kennedy said,

“Too many of us think peace is impossible, too many think it is unreal, but that is a dangerous, defeatist belief. It leads to conclusion that war is inevitable, that mankind is doomed. But we need not accept that view – our problems are man-made, therefore, they can be solved by man, and man can be as big as he wants” (Schlesinger, 2002, p.57).

Our planet today is crowded to an unprecedented degree. The planet seems bursting at the seams in human terms, economic terms and ecological terms. We are living more and more in an interconnected world that is creating unprecedented pressures on humans and the ecology. We will need to solve these problems if we are to find peace. The hopes of shared prosperity and peace could instead become a nightmare of shared insecurity. Our greatest threat to the planet remains the threat of massive war, drawn into it by stealth and blunders. This is what happened in World War I which literally came out of nowhere and we are still debating today why it happened. Now with ongoing wars in Iraq and Afghanistan, threats on Iran, Syria and North Korea, conflict in Georgia, ever growing anti-Chinese sentiments – all raise the stakes of a similar disaster by stealth or mistakes.

Global cooperation is difficult for many reasons. In an interconnected world, the collapse of any single part of the world – such as Afghanistan or Iraq – has implications for the entire world. The risk lies in an accident in which cooperation breaks down and both sides get caught in a trap in which conflict becomes a self-fulfilling prophecy. Such self-fulfilling conflicts may indeed occur in the years ahead, especially if Americans and Europeans become afraid of the rise of Asia’s economic, political and military powers, as well as the changing demographics of the Middle East and of their own societies. The USA will not be the world’s sole economic superpower. It will be eclipsed in total economic size by China within a generation, though not in per capita income. By mid-century, the population of the Middle East and North Africa will be around one-third larger than Europe’s population. By comparison, in 1950, Western Europe’s population was nearly four times that of the Middle East and North Africa.
In the meantime, the Muslim population in Europe will rise, to perhaps one-third of the major cities, because of in-migration and higher fertility rates. This will be a cause for alarm and a rise in anti-immigration policies. There could be exceptions. The reaction of the UK following the July 2005 London bombings highlights this. The calm appeal by all UK leaders for mutual respect and for attention to the shared fate of the country’s various ethnic communities was admirable. This maturity reflected the traditions and wisdom of hundreds of years of open society, tolerance and democratic self-rule in Britain. This attitude is the way to peace. To his credit, President Sarkozy has set up the Euro-Med relationship, by bringing in the countries of the Mediterranean basin and key European countries into closer economic and political dialogue to avoid misunderstandings and conflicts by mistake or by stealth.

6 How can economists help?

Our era is unique in terms of both the human pressures on the environment as well as human success for broad-based improvements in our well-being. However, what we are doing on the planet in terms of physical systems is unsustainable. The developing countries – at the foremost China, India and Brazil – say they too would like their place in the sun. They want to reduce the gap between them and the developed world in terms of wealth, comfort, safety and life expectancy.

As a development economist, I see this in terms of ongoing globalisation and an age of economic convergence between nations. The convergence is in terms of market system, institution building, processes and adaptation of advanced technologies. The world economy – barring a sharp recession – is now growing approximately at 4–5% per annum – that is 3–4% of approximately per capita income, and 1% of global population increases. This means that we are on a collision course of massive increase of activity in economically emerging regions of the world and to which few western economists have access. This also means that we are asking our planet’s limited resources to somehow absorb a manifold increase in economic activity, on top of an already existing degree of environmental stress. The old economic assumptions of ceteris paribus will no longer hold. We must incorporate these new geopolitical, environmental and economic issues into our models, if we are to make realistic pronouncements and be taken seriously as a profession. What can we do as professional economists, through illustrious gatherings such as this?

The questions faced could make uncomfortable reading:

1. Do we have to end economic growth?
2. Do we end the hope of the developing countries not to have their place in the sun?
3. Do we need sharp cutbacks in the living conditions of today’s rich world?

Fossil fuel and how we use it could play a central role to alleviate some of these issues, which also brings the crucial importance of the energy rich Middle East region into play.

First – fuel and energy efficiency, with more economic output per unit of fossil input.

Second – substitution of non-fossil fuel for fossil fuel so that carbon dioxide emissions can be reduced. This though has raised the spectre of a new economic terminology agflation – agriculture inflation.
Third – learning to use our existing fossil fuels safely, especially for coal burning power stations in India and China, capturing carbon dioxide and safely storing it in safe geological reservoirs in the earth. Sustainable energy systems are the key to meet these unprecedented energy challenges that will require a great degree of cooperation, foresight and planning.

Those of us who are energy economists have an important role to play here. Leaving matters in government hands or ministries will not solve problems, for ministries generally are like stove pipes – narrowly defined. That is often true for academia as well, especially if we persist in shunning cross disciplinary approaches and novel thinking, whether they are problems of poverty, climate change, energy alternatives or income redistribution.

Our association can and should be involved in multi-lateral initiatives such as the Millennium Ecosystem Assessment, the UN Millennium Project and the Inter Governmental Panel on Climate Change. The power of scientific research and economic assessment is forcing the world’s businesses and politicians to take note. Together, we have the power to hold governments to account.

7 The Middle East and the wider Muslim world

Before concluding, I would like to address a few points on this part of the world that holds so much promise for progress, adapt and change like China and India have done, or to sink into further cycles of poverty, violence and frustration. Everyone has a stake in how these regions fare. President Bush graced the Gulf with a visit in January 2008. Without the slightest hint of irony, he had this to say:

“A great new era is unfolding before us. This new era is founded on the equality of all people before God. This new era is being built with the understanding that power is a trust that must be exercised with the consent of the governed – and deliver equal justice under the law. And this new era offers hope for the millions across the Middle East who yearn for a future of peace and progress and opportunity” (White House, 13 January, 2008).

One thing I can personally say about the American people is that they are pragmatic. We now note that, while Americans largely supported the Iraq war before the war commenced, Americans now see it does not work. Pragmatism is our best hope, just as China and India have adopted pragmatic policies to reach where they are today (Asian Economic Policy Review, 2006). The USA has produced great leaders in an open society that is still very open. It has produced leaders who spoke of charity for all, malice towards none and who said that the only thing we have to fear is ‘fear itself’. They also told us to look inward to make peace with the enemy (Sorenson, 1965; Dallek, 2003).

For most of the world, there is no greater symbol of America than the Statute of Liberty. It was designed by a man who travelled widely in the Middle East – and who had originally envisioned his woman bearing a torch as standing over the Suez Canal. Ultimately, of course, it was erected in New York Harbor, where it has been an inspiration to generations of immigrants. One of these immigrants was an Arab poet-writer named Ameen Rihani. Gazing at her lamp held high, he wondered whether her sister might be erected in the lands of his Arab forefathers. Here is how he put it: ‘When will you turn your face toward the East, oh Liberty?’ A future of liberty, based on
economic justice, peace and laughter stands before us if we can change our mindset and not be hijacked by fear and a vulgarism of ‘us’ vs. ‘them’ attitude.

Acknowledgements

The author would like to express his appreciation for the support provided by King Fahd University of Petroleum and Minerals in the preparation of this article.

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