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Talking through the smokescreen of Southeast Asia's troubles

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THROUGH the debate raging in global financial circles over the smoke and haze that has literally and metaphorically clouded Southeast Asian currency and capital markets, Australia has kept its head down.

Canberra has had its own preoccupations. Prime Minister John Howard suffered through the motions at the 16-nation South Pacific Forum in the Cook Islands, ill at ease on two counts.

The embarrassing leakage of an internal briefing document in July tarring Pacific islander leaders in disparaging terms had had Howard on the defensive from the start.

Known ahead, too, was that Australia was not going to see eye to eye on global limits to greenhouse gas emissions with islander nations threatened with submersion by possible rising of sea water levels.

In the event, Australian political and economic might prevailed. The forum ended without agreement on a unified position on greenhouse gas. The compromise stand was for individual member nations to take their own position to the global climate conference in December in Kyoto.

Awaiting Howard in Canberra was an impending domestic row over ministerial travel claims that would lead to him last week sacking three Ministers and his two most senior bureaucratic staff, one of them his most trusted friend and adviser.

Through all the internal strife, Peter Costello, the Treasurer - and leadership aspirant - was in Hong Kong attending the meeting of national leaders and central bankers with the World Bank and the International Monetary Fund, picking Australia's way through the minefield laid by the economic turmoil in Southeast Asia.

The ramifications for Australia of an economic reversal in Asia are far-reaching. Costello's understated stance in Hong Kong was calculated; when elephants do battle, ants are well advised to steer clear.

The World Bank/IMF meeting is cryptic reminder to Australia of the dilemma presented by its history and geography. This is the challenge in the council Australia craves in Asia.

The reconciliation of contending values is what lies ahead should Australia eventually, as it hopes, finds a seat on the side of Asia at the Asia-Europe Asem dialogue.

In Hong Kong, the position of Ian Macfarlane, governor of the central Reserve Bank of Australia, on financial liberalisation is set by the economic orthodoxy informed by the institutions and conventions of a liberal West.

Costello can ill-afford the luxury of such simple equations. He is in full agreement with Macfarlane; no question. But Costello knows, too, that Australia would not be served by a mono-dimensional view of the debate raging over Southeast Asia.

Thus his focus in Hong Kong, confined to platitudes for the restoration of confidence in global financial arrangements.

The economic commentators, bankers, market analysts, players and screen jockeys - fingers poised over electronic keyboards and panic buttons in the stock exchange, and currency and bond markets - feel no such restraint.

Nor should they. It is the nature of capital markets after all. The economic rationalist argument remains that market forces provide a check and balance on the efficient allocation of global resources.

That's a view on which many, even within Southeast Asia, see a silver lining in the region's financial woes. It's a "wake-up call", as Abdul Razak Baginda, director of the Malaysian Research and Strategic Centre in Kuala Lumpur, put it at a seminar on Asean in Melbourne.

Beyond the economic realm, there are dimensions to politics, culture and social implications that surfaced in Hong Kong. Indeed, these dimensions carried over from the Post-Ministerial Conference of the Association of Southeast Asian Nations in Kuala Lumpur in July, set the tone for Hong Kong.

The broader debate riveted attention in the popular Press, hanging on to every word of Prime Minister Datuk Seri Dr Mahathir Mohamad and his bete noire, the US financier and currency trader George Soros.

The market purist is dubious about any hint of a mix of economics and politics. In economic terms, their view is that the contentions of Dr Mahathir don't stack up.

The market reaction is cold and calculated. The ringgit drops in value yet again. Market capitalisation in the Kuala Lumpur Stock Exchange turns sour once more.

Yet modern economic theory has not developed in isolation. Not for the 18th century father of modern economics Adam Smith, who based his theory on moral philosophy. Nor for the socialist reaction that followed, personified in Karl Marx.

The nexus between economics, and politics and the social dimensions of human organisation, underpin the contentions of the two protagonists who have become the focus in the currency debate: Dr Mahathir and Soros.

Indeed, it is the social dimension of Soros - manifest in his Soros foundation's network spread over 31 countries on three continents - that led Dr Mahathir to question Soros's motives.

In the comprehensive perspectives with which Dr Mahathir and Soros view social organisation, there is more in common between them than either would care to draw attention to.

There are those who would have us believe that the schism in Hong Kong is inter-civilisational. Yet there is no conflict in the shared conviction that capitalism has some way to go before it can lay claim to offering the ideal in balanced development.

As much of the focus on Soros's lecture to bankers in Hong Kong was on his reaction to Dr Mahathir's address at the same forum, he affirmed the underlying accord between them.

As Soros put it, he was "at loggerheads with the laissez-faire ideology which contends that free markets are self-sustaining". His view is that market forces cannot be left to correct their own mistakes, "because they are liable to overreact and to behave in an indiscriminate fashion".

This goes to the heart of a treatise Soros penned in the American journal *The Atlantic Monthly* elaborating on the virtues of the open society advanced by Soros's intellectual guru, the Austrian philosopher Karl Popper.

Soros wrote in that February issue of *The Atlantic Monthly*: "Although I have made a fortune in the financial markets, I now fear that the untrammelled intensification of laissez-faire capitalism and the spread of market values into all areas of life is endangering our open and democratic society.

"The main enemy of the open society, I believe, is no longer the communist but the capitalist threat."

The exchange between Dr Mahathir and Soros in Hong Kong encapsulates elements couched in more or less diplomatic language at the formal meetings. However respective sentiment is expressed, the underlying discernment is that there is no conflict between the different schools in

their vision of the end goal - good governance. The disagreement is in the means towards that end.

In the economic realm, the financial markets will be encouraged that the nations of Southeast Asia are prepared to listen. The Southeast Asian nations have come to an agreement for a dialogue with the US to discuss the creation of a regional currency stability fund.

The preparedness to talk is an affirmation of Southeast Asian commitment to financial modernisation, and the continued opening of financial and capital markets.

The hope in Asia is that international capital will give reciprocal hearing to appeals for a comprehensive approach to social development. In Canberra, the relief is in the contending parties remaining engaged.

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