

Part I

Keynote Speeches

Keynote Speech

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MUCH OF ASIA today is gripped with grim foreboding. For more than a decade, we were accustomed to expecting tomorrow's sunrise to be brighter than today's. A few months ago, few would have questioned the rationality of that optimism. And it would be wrong to accuse Asians of self-delusion, because their optimism was buttressed by the exuberance of the global capital market.

The current mood of pessimism, caused by a capital flight every bit as irrational as the erstwhile exuberance, is forcing Asia to look into the mirror and search for its soul. It is a rude awakening, and Asia will never be the same again. We have never experienced such a crisis. A whole range of issues is being debated—not just economic or currency issues, but the very notion of governance, both public and private, and the questions of accountability, transparency, monopoly, corruption, and cronyism. Indeed, at no time in our postindependence history has so much been questioned by so many. So pervasive is this questioning, the effects will be far-reaching.

There are those who conveniently blame globalization for our current turmoil. They argue that Asia has to come to terms with that powerful and impersonal economic and technological force. Indeed, there are some in Asia who succumb to that simplistic proposition, and they fall into two camps. One has pulled up the drawbridge and manned the ramparts of nationalism; the other has simply given up.

I believe the truth lies somewhere in between. Globalization is an unstoppable and irreversible phenomenon. Its pace will accelerate, whether

we like it or not. It will not be deterred by anyone's fears or desires. It has a life of its own and is powered by its own dynamic, fueled by economic and technological imperatives.

The challenge of globalization is first and foremost to the mind. It is only with a leap of the imagination can one make sense of globalization, for globalization has swept away the pillars and structures of politics and economics that we inherited from the past. Most of us still think in terms of sovereign nation-states, while in reality borders are breaking down and interdependency has supplanted independence. The accelerated diffusion of personal computers has opened to hundreds of millions a boundless space, a new country opened to everyone, and for which no passports are required for entry.

But the irreversibility of globalization does not mean that its effects will always be benign. For many years, Asians have reaped the munificent harvest of globalization, particularly the free flow of international capital. With bullish, even irrational, expectations, international capital poured into Asia, powering the region's extraordinary economic growth. But it was also from this cup that Asia first tasted the bitter fruit of globalization. High growth over a long period of time imposed stresses and strains on the Asian economic fundamentals. The situation was exploited by international traders to pound upon Asian currencies. Like a golden horde, they unleashed a ferocious assault that no country, developing or industrialized, could have withstood. With the breaking down of national and even time-zone barriers to financial flows, changes in one market tend to be transmitted instantaneously into another, with exaggerated swings in the markets.

It is indeed amazing how perceptions have swung from one extreme position to another in such a short time. Only a year ago, Asian economic policies were extolled as the paragon of virtue and pragmatism. The epitome was the World Bank report entitled *East Asian Economic Miracle*. While the report itself was balanced, the title was hyped up by the media and lulled Asians into complacency. But even the so-called rational market was intoxicated. So powerful was the attraction of that opinion, critical voices were dismissed as the utterances of fools or impractical idealists. Since the currency meltdown, however, it appears that Asian governments, which could do no wrong before, now can do no right.

Such extreme swings of opinion, or perception, will only harm the efforts of those in the region committed to free market policies and the nurturing of civil societies. For there is no question of isolating oneself

from globalization and withdrawing into our national cocoons. Accepting the reality of globalization, however, does not mean we should be passive. On the contrary, it demands a proactive stance. In the sphere of money, we must be even more determined to search for order, stability, and predictability in the market.

For us in Malaysia, globalization has tested time and again the resilience of our financial systems and the capacity of the authorities to deal with shocks. But the present crisis has made patently clear that the pressing issue today is the development of an appropriate international monetary system that can function efficiently in the information economy in which we operate. The challenge ahead is to evolve an international monetary system that will not only accommodate the changes brought about by globalization but also allow our economies to maximize the benefits of this phenomenon.

It needs to be recognized that for any system to be viable, it must be supported by the appropriate financial infrastructure and regulatory system reinforced by appropriate domestic policies. In the present international monetary system we see a diversity of exchange rate arrangements, from pegged exchange rates to more flexible exchange rate arrangements. This diversity means that different nations will be affected in different ways depending on the particular exchange rate arrangement they choose. To argue that tinkering with exchange rate arrangements alone can help Asian economies recover from their present ills is to ignore the broader implications of the crisis. A review of the framework for currency trading, in view of the significant impact of financial flows on the real economy, is but a first step toward a global solution.

The market has always insisted on greater transparency on the part of the government operations. We certainly agree on the importance of sound and transparent policies and governance to cope with the challenges of globalization. However, the market must also recognize the need to improve understanding and transparency of the operations of financial markets to ensure the efficient function of financial markets. This would provide a greater understanding of the dynamics of the market. Such an effort to have greater transparency would, however, need to be implemented on a global basis. In this regard, the role of the international financial institutions is crucial in an internationally acceptable framework to promote order in the world currency markets.

Unless we have the resolve to tame the disruptive forces that ride on globalization and search for new order in the global marketplace, we can

expect turbulence of greater intensity in the future, its vortex shifting from one region to another, precipitating the entire global economy into systemic crisis.

Let us not be naive about the rhetoric of globalization. The ardent advocates of globalization are not always altruistic. Quite often, they have specific agendas hidden under the sleeves of their designer suits. They extol the virtues of globalization when it serves their interests, while remaining protectionist at home. The rhetoric of globalization has become a smoke screen in trade disputes, increasingly invoked as leverage in the World Trade Organization to open up markets to services.

We are all for liberalization. But what we are against is having liberalization at the expense of our economic and social objectives. We also have our own political constituency. We shoulder the trust of our people, from the poorest farmers to the wealthiest businessmen, to protect their legitimate interests. We are no less eager to promote competition and efficiency, because our country and our people will benefit from them. But we must also promote indigenous entrepreneurship, widen opportunities for our own people to do business, fairly distribute wealth, and eradicate poverty. If liberalization is instituted gradually and taking due cognizance of these legitimate social objectives, much of the present resistance would disappear.

Likewise, in the name of globalization we should not marginalize or abandon smaller and poor countries. Globalization can only acquire its true meaning if it could disperse wealth and prosperity to the remotest corners of the globe.

The current rather low rating of the government caused us to forget the genuine contribution and success of the Asian governments in the recent decades. For three decades, they have promoted peace and stability at home and in the region, without which economic development would not have been possible. They have instituted pragmatic and progrowth economic policies. Central was the emphasis on investment in human capital through education and training. Growth was balanced with distribution, and the upshot was that hundreds of millions were released from grinding poverty and enjoyed more humane living conditions. They encouraged foreign investments and promoted business confidence.

But what needs to be emphasized is that Asia can not stop here. While the new generation is no less aggressive in pursuing economic objectives, they do not measure success in terms of economic prosperity only. They view the social, political, and economic spectrum in its entirety. Growth

is desirable, but so is social justice. While hundreds of millions have escaped poverty, they also witness the spread of urban poverty and the widening of income disparity. We should also question the excesses in the economic system as well as the abuses of power, cronyism, and corruption.

We have to recognize that the remedies to our present ills are bitter and painful. But we need to remind our friends and experts in the multilateral agencies that their prescriptions should not lead to social disruptions.

But the current debate within Asia has extended beyond economics to include the issues of governance and civil society. If anything at all can be learnt from this crisis it is the absolute necessity for reform. Why must Asians be apologetic or defensive to the charge of corruption and the lack of transparency? Corruption and cronyism exist everywhere. Asians are not the only ones afflicted with these diseases. And our struggle to eliminate them must not be seen as efforts to placate others. They are based on moral convictions, that corruption and cronyism are moral diseases to the great peril of society if we tolerate them.

Certainly, Asians require cohesiveness to address these issues collectively. There is indeed a greater willingness to cooperate with regard to regional surveillance and macroeconomic coordination. Being the biggest economy in the region, Japan is expected to demonstrate a more effective leadership role. For Japan to do that, it may need to reform itself economically, politically, and administratively. The fact that Japan enjoys huge trade surpluses with the region means that it has to open up its market to Asia and not just to others.

Very early this century, Okakura Kakuzo wrote, "We await the flashing sword of the lightning which shall cleave the darkness. For the terrible hush must be broken, and the raindrops of a new vigor must refresh the earth before new flowers can spring up to cover it with their bloom. But it must be from Asia herself, along the ancient roadways of the race, that the great voice shall be heard. Victory from within, or a mighty death without."

Asia needs the political resolve and moral leadership to commit ourselves to effect change. We have to purge excesses from our societies, whether in the sphere of economics or politics. I am confident Asians have the resilience and discipline. If only we have the political resolve and the moral leadership.

Keynote Speech

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IT IS MY HONOR to be invited to speak to this formidable group of representatives of think tanks from all over the world. I think this is a very appropriate time to discuss the themes of globalization, governance, and civil society. Indeed, issues related to the governance of our society have become a cause of major concern to those who are in responsible positions in Japanese politics. Certainly, there is enough reason for us to worry about the future direction of Japan's governance when public opinion polls show that support for the politicians and the bureaucrats in Japan has come down to an all-time low. I believe I can make a modest contribution to the deliberations of this conference by honestly and forthrightly sharing with you my personal perspective on the themes of governance and civil society, to which I have given a great deal of thought.

First of all, I have to admit that Japan's governance in the past quarter of a century has been dominated largely by the bureaucracy. I am inclined to attribute this to two factors. One is that Japan used to have a single overriding goal—to catch up with the West—and when there is a clear consensus on the national goal the bureaucrats can function extremely well. This facilitated bureaucratic governance. Another factor is the influence of Confucianism on the culture of Japan, a cultural element also in many other Asian countries. In this cultural tradition, the bureaucrats were men of letters and regarded as wiser than other men, and the public therefore was willing to follow them faithfully. Perhaps our Asian friends

may understand this better than those from other regions, but it was considered to be normal for the politicians, namely, the elected representatives of the state, not to challenge the bureaucrats. Such a tendency persisted even after Japan had gone through the modernization process successfully. Our competent bureaucrats defined the national interest and were its sole guardians; as such, they monopolized resource allocation. That system worked well while Japan was pursuing catch-up development, and was seen to be working well until recently.

As I just mentioned, Japanese politicians during the years of modernization and industrialization were docile and went along with the bureaucrats. During the thirty-eight years of the Liberal Democratic Party's (LDP's) monopoly on rule, our politicians worked very closely with the bureaucracy. Some argue that Japanese politics was under the control of the bureaucracy during this period. This may be so. On the other hand, some of us felt that the bureaucracy was an exclusive think tank of the ruling party. My senior colleagues and political mentors may disagree, but politics during that period seemed more simple. It was a "politics of promises." The sustained high economic growth enabled us to fulfill many of the promises, and therefore the system worked very well. But it started encountering difficulty once we caught up economically with other countries. I personally became aware of the shift of the wind when my relationships with my constituents started to change. I found myself discussing different policy choices with them. I had to tell them that if they chose this policy option, then they could not have the other option. It became a kind of negotiation. We were getting into the era of "politics of choice."

Difficulties in the bureaucratic system started at around the same time. When the budget became constant, bureaucratic turf battles intensified. The bureaucrats were blamed for putting the interests of their own agencies above those of the nation. They began to be demoralized, and some say that their loss of direction contributed to a decline in ethics and thus lay behind the recent scandals involving high-ranking bureaucrats. Also, there was a rise in cases that can be considered to be bureaucratic policy failures. Growing doubts about the bureaucracy-led system began to inspire debate about whether the governance of our social system should be changed.

Obviously, we politicians felt that we should be much more intensely involved in policy making, rather than simply allow the process to be dominated by the bureaucracy. When the LDP lost its majority and became an opposition party for a brief period, we realized that we did not own the

bureaucracy. We watched in dismay as "our" bureaucrats willingly helped the new government of our political rivals. This experience undermined the old relationship between the LDP and the bureaucracy, which could never again be the same even after we returned to power.

Despite our hope as politicians to become more involved in the policy-making process, it is obvious that we are not by ourselves equipped to be an effective countervailing force against the formidable bureaucratic machinery. For one, the bureaucracy traditionally has a monopoly on information related to policy issues at hand. Second, Japan's bureaucracy consists of a cadre of the best and brightest of our nation, each dedicated to an area of expertise. Third, despite some changes bureaucratic power is still reinforced by the prevalence of conformist attitudes in Japan among politicians, the media, and the general public. Japanese society has failed to cultivate individualistic minds, with the result that most people still feel comfortable with a bureaucratic-dominated social system. For example, if a car accident takes place because of a faulty part, an American is likely to take the automaker to court under the Product Liability Law. In contrast, in the same case a Japanese is likely to blame the Ministry of International Trade and Industry (MITI) for its failure to oversee the automakers more carefully. As a result, MITI establishes more stringent regulations to control the automobile corporations.

Despite the high level of responsibility ceded to it, the Japanese bureaucracy over the past ten years has failed to come up with creative ideas to open up new frontiers. Earlier, even though some of the new visions such as the Income-Doubling Plan and Rebuilding Japan's Archipelago were attributed to individual prime ministers, namely, Ikeda Hayato and Tanaka Kakuei, respectively, those visions were really the products of competent bureaucrats. Now, however, we do not see such grand visions coming from the bureaucracy. Moreover, the bureaucracy has failed to respond to the economic downturn in the 1990s, and in fact basically tried only to cover up the problem. Nor has the bureaucracy provided an answer as to how to sustain Japan's social security system in the context of a rapidly graying population.

Thus, there has been a growing sense in Japan that if we continue to rely exclusively on the bureaucracy, we can not come up with creative and effective policies for the new century. I am not taking a position advocating the complete rejection of Japan's bureaucracy, which mostly has served the country well over the years. Indeed, it is unfair to ask the bureaucracy, which after all is responsible only for implementing and administering

policy, to make policy choices. This is the role of the elected legislators, who represent the will of the people.

Of course, we still need the bureaucracy to help us think through various policy implications. But other critical elements in this regard are the civil society organizations, including independent policy research institutions, nonprofit organizations (NPOs), and private philanthropies. Of course, no one believes that think tanks will suddenly emerge in Japan, like in the United States, and start providing politicians with sufficient policy analysis and policy ideas enabling us to compete effectively with the bureaucrats. However, there are some signs that the bureaucratic dominance in policy decision-making is being challenged in recent months. One is the possible passage of the Freedom of Information Act during the current Diet session. A fierce debate is now raging over the extent of public access to information monopolized thus far by bureaucrats. Without greater transparency of government activities, there is no way that think tanks can compete with the bureaucracy in providing realistic policy recommendations. Also, certain signs indicate that the bureaucratic dominance over politicians and the media may be eroding, although the continuation of this trend requires more hard-nosed politicians and journalists willing to break with Confucian tradition and stand up to bureaucrats. In my view, the recent forced resignation of the highest-ranking official in the Ministry of Finance may be a watershed event in the power balance between politicians and bureaucrats.

As the power balance between bureaucrats on the one hand and politicians, the media, and the general public on the other will continue to shift, the think tanks and their networks can start working with politicians and bureaucrats to generate policy debate in our society, which will then be a broader basis for political decision-making. What we need are alternative voices addressing complex issues in our pluralistic society.

Nongovernmental organizations (NGOs) and NPOs are new phenomena in our society and are only now beginning to win acceptance. For many years in a more black-and-white world, the LDP was negative about NGOs. In fact, the word "nongovernmental" was taken largely to mean "antigovernmental." In recent years, these NGOs and NPOs have started playing crucial social roles in many fields, such as home care for the elderly, environmental protection, support for foreign residents, and the internationalization of communities. It is a natural progression from such activities to a policy decision-making role.

The LDP's coalition partners, the Social Democratic Party and the New Party Sakigake, have helped promote the cause of NGOs and NPOs, and we have joined forces to pass the NPO bill, which will substantially ease the incorporation process of independent organizations. The bill, which passed the House of Representatives last June, is likely to receive ratification from the House of Councillors shortly. With the enactment of this new legislation, a substantial contribution will be made to the full-fledged development of civil society in Japan.

Although NGOs and NPOs are quite new, a tradition of public service exists in Japan. In rural communities, citizens often relied on the good advice of wise men, and socially deprived people were supported by the more fortunate within the community. This system broke down during the fifty years of postwar high growth as Japan became more urbanized. Now we are witnessing a revival of the spirit of self-help and mutual support in our communities and a concomitant move away from dependence on government. I am impressed with the work of many NGOs and NPOs, which in my own constituency are often led by young, energetic women. They are sensitive to the needs of people and are more conscious of the necessity for change.

Elements of civil society, such as think tanks, can consider and analyze policy issues, help structure and promote public debate, and present alternative courses of action to politicians, who, as elected representatives of the people, should make the choices. But, these choices need to be realistic, based on good analysis and constructive debate.

Obviously, Japanese NGOs and NPOs, in addition to think tanks, are still at an early stage of development. Similar development is occurring in other countries of Asia and elsewhere, making it useful to compare notes across national borders. Solidarity and cooperation among civil society organizations around the world will enhance the governance of individual societies as well as that of the international community. I wish you well in your efforts to lead the way as you engage in deliberations during this conference. I believe you are making an immense contribution to domestic as well as international governance as we move toward the new century.