

Look East Policy - The Challenges for Japan in a Globalized World
Ministry of Foreign Affairs of Japan
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I would like to thank the organizers for inviting me to speak at this 20th Anniversary of the Look East Policy. I have chosen to speak on "Look East Policy - The Challenges for Japan in a Globalized World."

2. The people of East-Asia had been Looking East long before Malaysia adopted the Look East Policy. When Japan started modernizing during the Meiji Restoration, East Asians who were then faced with aggressive European and American free traders to open their countries for trade, looked at Japan's handling of this problem.

3. The assumption by China that its culture was superior and the foreigners were barbarians could not be sustained in the face of Western successes in forcing open the country. Elsewhere in the East the Europeans simply occupied the counties in order to gain access to their products. By the middle of the 19th century only Thailand and Japan remained free. China had many ports converted as European trading stations.

4. Japan was able to ward off European and American hegemony by adopting the administrative systems and the commercialization of the economy. Large numbers of Japanese were sent to Europe in order to acquire industrial technology. Very quickly Japan became as much as industrial and commercial power as the Europeans. Any idea that the Europeans had of colonizing or dominating Japan was shattered when in 1905 a modern Japanese Navy defeated the Russians decisively. From then on, Japan was looked up to by East Asians.

5. Attempts were made by East Asians to emulate Japan's modernization. Siam, now Thailand being independent followed in Japan's footsteps. Looking East is therefore not a new thing. The people of East Asia had been Looking East at Japan even when they looked up to the West. Japan's success in modernizing gave them hope. They believed they could become as good as Japan.

6. The success of the Japanese Army in the early days of the Pacific war finally broke the spell cast by the Europeans regarding their invincibility. East Asians were able to see that their European overlords could be defeated. Their yearning for independence gained strength.

7. True, Japan was eventually defeated by superior Western arms, including the atom bomb. But the post-war years saw yet another demonstration of Japan's capability. From almost total destruction, Japan rose to become the second most powerful economy in the world.

8. East Asians cannot help but look more and more eastward, at Japan, as a model for their countries. Malaysia is perhaps less bashful and announced loudly that it intended to look East, to look at Japan mainly for inspiration and guidance.

9. Malaysia identified what we believed to be the factors which contributed towards Japan's success. They are the patriotism, discipline, good work ethics, competent management system and above all the close cooperation between the Government and the private sector. And so we tried to adopt these practices and instill these cultures in our people. And everyone now acknowledges that Malaysia has made better progress than most other developing countries. The fastest pace of Malaysia's progress and development took place in the last two decades coinciding with Malaysia's Look East policy.

10. For a country with a population of just over 20 million, Malaysia's position as the 18th biggest trading nation in the world is something that Malaysians are proud of. More than most countries Malaysia is dependent on foreign trade. Malaysia's trade is almost two times as big as its Gross Domestic Product (GDP). Japan, which is a very big trader, has a trade that is less than 30 percent of its GDP.

11. The extent to which Malaysia is trade dependent is dangerous. We are very open. Foreign goods enter Malaysia freely although some discriminatory import duties are imposed to protect local products. Malaysia, like Japan, believes in trade as a basis for growth. We are more open than Japan though.

12. Until 1997 we were comfortable with the status quo. We were in complete control of our economy and we could formulate tax policies and incentives for investments to benefit from capital flows from outside, while maintaining the competitiveness of the commodities and products we produce. We saw no necessity for a change in our system. Even the economic disparities between the different races in Malaysia were being tackled effectively through our own affirmative action program.

13. Free trade had always been the way cry of the Europeans. In the 19th century they used threats and force of arms to open up the countries of East Asia for trade. They objected strongly when they were not allowed to use opium to pay for the goods of Asian countries. They set up fortified trading stations in many of the countries of East Asia. With superior arms they began to infiltrate the hinterlands to secure their supply of local products. In the end they occupied and colonized many of the counties they were trading with.

14. Japan had its share. The black ships forced Japan to abandon its isolationist policy. The Portuguese established their trading stations in Nagasaki and forthwith began converting the Japanese to Christianity.

15. All these were done in the name of free trade. How it could be called free trade when force of arms were used and partner countries were occupied and colonized is difficult to understand. But today we are again assailed by the same demand for free trade.

16. Some countries are subjected to sanctions, i.e. they were not allowed to trade freely unless they accept the terms and conditions proposed for them. If they have to accept then

can it be said that their trade is free? Trade under terms imposed by the traders surely cannot be free trade.

17. But other countries are also being subjected to all kinds of conditions if they wish to trade. The World Trade Organization (WTO) has been set up in order to ensure rule-based trading. But more than that the administration and practice of business within the country must be made to conform to certain systems set by the powerful countries through the WTO.

18. Tremendous pressure is brought to bear on these countries to conform. Institutions including the media controlled by the rich and the powerful examine and investigate every aspect of a country's administration, including its politics in order to enforce conformity. These institutions publish their findings which often affect adversely the economy and politics of the countries concerned. In this way the countries are forced to conform or more correctly, to obey. Yet no matter how they try to conform they are invariably found wanting. They can do nothing right.

19. The gunboats have disappeared but the economic and political pressures exerted are no less threatening, no less effective. An army of occupation cannot colonize more effectively than the economic and political arm-twisting used by the Western countries.

20. Witness the operation of the free market in currencies. Upon allowing the currencies to be floated, the so-called free traders traded not in goods but in currencies. The currency of a country is treated as a commodity which is not only bought and sold but is speculated in. From speculation the traders graduated to manipulation, selling huge quantities of currencies in order to force down its value and then buying at the depressed prices in order to deliver to their buyers. Short selling has been taken to the ultimate level.

21. It is fine if they trade in physical currency. But no real currency is involved. They sell currency they do not have, huge sums of these currencies, to buyers who are members of their own circle of traders. The buyers in turn sell these fictitious currency to others. When the price of the currencies is depressed enough, they would go through the motion of buying and delivering to their earlier buyers. And they would make huge profits and become hugely rich. Their banks would be holding huge sums of their money, not physically of course, but merely in figures credited to their accounts.

22. The trade in currency is very many times bigger than total world trade. The profits are equally huge. These huge sums must be lent out or the banks would not be able to pay out the interests. And so we hear of huge corporations being bought and sold with unbelievable amounts of money. Still there is a lot of money sloshing around in the vaults of the banks, or so we are told. One hedge fund was able to borrow more than one trillion dollars, something no Government in the world has done. Its operation was so big that when it failed it threatened to destroy the financial standing of a very rich country and the world even.

23. But what is of concern to the small countries is that the free trade in currencies could destroy their economies overnight. Suddenly countries which were doing well, which were

regarded as tiger economies; suddenly they became insolvent. The "international" institutions then moved in to advise and to offer to lend money to pay off foreign debts.

24. The advice they give would only worsen the situation. And if their money is borrowed then economic colonization by them would begin. They would determine not just how the finances of the country should be managed, but they would also insist on imposing their political creed. The money borrowed is not disbursed unless certain "reforms" are carried out. But even if the money is given it is to be used to pay debts to foreign banks. In effect the country is just changing the creditors, becoming borrowers of the international institutions instead of the foreign banks. The burden of debts remains, sometimes permanently.

25. In the meantime every aspect of the administration of the country is put under the control of the international institutions, which in effect means being controlled by the rich countries which control the institutions. It means colonization and nothing less. As before when gunships were used to open up countries for trade, now the international institutions are used to open up countries for the so-called "free trade".

26. Once the countries are opened up the big corporations and banks would move in. Will there be fair competition between the enormous foreign banks and corporations and the tiny local banks and companies? Of course not. The locals will be swallowed up, one way or another.

27. The Government will not be in a position to control the big foreign banks and corporations. In any case they will claim that free trade means no Government interference. They should be allowed to do anything they like in the interest of their profits. The social problems of the country are not their concern.

28. During the colonial days there was no concern for the social problems of the colonies. To facilitate exploitation of the wealth of the colonies, huge numbers of foreign workers from other colonies were brought in. The demography was changed. When the colonies became independent they were saddled with the problem of multi-racial and multi-religious population, whose economic development were different. Calmly and coolly the ex-colonist would condemn the newly independent countries for not being fair to the foreigners they had brought in. They easily forget that they were not fair to these people before.

29. The foreign corporation will do the same. They would want free entry of their employees from wherever. They would claim that the locals are incompetent or there are not enough of them. There would be other things that they would do in the interest of more profits which would ignore the problems that the countries will face, problems, when caused by their own people being unemployed or employed in lower pay jobs while foreigners lord it over them, earning handsome pay.

30. We are all for globalization. But globalization should not be in the interest of the rich free traders only. It should take into consideration the interest of the countries as well. It should not create social and political problems for the host country. Unfortunately at the

moment the interest of the small countries are not being given due consideration by the WTO and other forum.

31. Japan has been having a bad time for more than a decade now. The people who are looking East are not getting any guidance from Japan. It seems that Japan is somehow unable to pull itself out of the economic quagmire that it is in.

32. Many people have advised Japan on what it should do. And Japan had tried many of the ways suggested without any results.

33. As a foreigner from a small country, it is not for me to tell Japan what it should do in order to again become a model for us. But with apologies, I would like to put in my penny worth of comments.

34. No one can dispute that Japan achieved a miracle when it rebuilt itself after the war. How did it do it? It did it by not being advised by other people. It did it in its own way. The only advice it accepted was to produce high quality goods, goods of world standards, so as to be accepted by the world markets. The rest was entirely Japanese.

35. Japan had always favored big corporations. The zaibatsu were dismantled by the victors but the broken pieces grew into new zaibatsu's. Matsushita, Toshiba, Mitsui, Mitsubishi, Hitachi etc, all grew again to become huge corporations. New ones like Sony also became big.

36. These Japanese corporations had their own banks. Perhaps they borrowed more money than the banks had. But when the American banks lent hundreds of billions of dollars to the hedge funds like LTCM did they actually have the money. We doubt these banks have the huge sums that they lent for the acquisition of the huge corporations by other corporations. We doubt they can pay back, certainly not from the profits. To pay back they have to boost the share prices and sell them. We doubt they can pay back now with the share prices so depressed. United Airlines, Sabena, Swissair are good illustrations.

37. So it was not unusual for the banks to lend more money than they had for the expansion of Japanese companies. In any case the stock market was bullish and the value of the Japanese companies was high. The banks felt secure because the collaterals they held were adequate, and they were lending to companies which were worth more and more all the time because their shares were appreciating to astronomical heights. The companies were certainly better propositions than the hedge funds whose value is not known, and as we have seen can suddenly be worth nothing. The Japanese companies could have gone on expanding. But Japan decided to Westernize its business practices.

38. Japan has been censured for the close cooperation between the government and the corporations. Japan incorporated was regarded as some kind of cronyism involving the government and the private sector. Malaysia sees nothing wrong in the close collaboration between government and the private sector. The government should help the private sector to succeed because a large chunk of the profits made by the private sector belongs to the government. In helping the private sector the government is actually helping itself. This happens in the West also. When LTCM failed, the government moved in to bail it out. We in

Malaysia believe that it is right for the government to help the private sector, not to cheat of course, but to overcome bureaucratic bottlenecks which often result in unnecessary losses by the businesses.

39. Japanese businesses believe in life-time employment. It is a social obligation that relieves the government and therefore the public from having to bear the burden of unemployment and old-age care. In the West the first thing that businesses do when faced with downturns is to lay-off workers. The workers then go to the government to collect unemployment benefits. In some countries the benefits are so good that workers prefer not to work. The unemployment rates in Europe and America are usually high, and this is a burden on the working public.

40. The Japanese have a different culture. When they are laid off they have such a feeling of shame that they refuse to go back to their families. They prefer to put up plastic huts in the cities and eke out a miserable living there. It is shameful that in a wealthy country there should be so many poor people. The Japanese corporations should go back to life-time employment.

41. It is said that one of the reasons for Japan not being able to recover is because the Japanese public refuses to spend money. Even when the savings earn them nothing, even if their currency would depreciate they would still not spend. I find this difficult to believe. In Malaysia we increased the GDP by paying bonus to government servants and controlling the prices, especially near festive seasons and the people flocked to shopping complexes. The Japanese people cannot be so different that they would keep their money if prices are reduced and there is a possibility that the Yen would be devalued radically.

42. We understand the desire of the Japanese to Westernize its system. But when systems are suddenly changed, even if it is for the better, there will be severe disruptions. It is far better to stick to the system which worked. And the Japanese system had worked very well for the Japanese. It enabled Japan to recover rapidly from the destruction wrought by the war and it made Japan the second most powerful economy in the world. It may not be the Western way but it cannot be all wrong if it can achieve so much. If you must change, then change slowly to avoid too much disruptions.

43. Asians are looking East at Japan. Yes we can learn from your mistake, but we would rather learn from your success. The Japanese people as a whole must wake up and appreciate that the disaster that you face now is of your own making. Just as your post-war recovery was through your own way, you can recover now by your own way.

44. Changing government every two years is not the best way of managing a recovery. It is not even the best way in managing a normal situation. A government needs time to understand the problem, to plan and to execute the plan. In two years no planning can be done, certainly the plans cannot be properly executed, the mistakes corrected and success achieved.

45. I am not trying to advise you. But these are critical times. Globalization needs to be handled properly. So far there is little input from the East Asian Countries. If there is, the

world does not take heed. The East Asians are not working together. They need to work together and they need leadership.

46. And the challenge for Japan is to take on the leadership role. Japan has the size, the wealth and world class technologies. Military might is still important but today's war is more economic than military. Japan has shown how it could resurrect itself after the most devastating war ever. It was a feat that reflects the character of the Japanese people. Prosperity has no doubt sapped some of this character, but not completely.

47. East Asia and indeed the world need Japan, its dynamism and its single minded dedication. Today's world is in shambles. The abuses of the free trading system, the unlimited greed of a considerable number of speculators, the fumbling and incompetence in the handling of problems has resulted in the world losing its way.

48. We live in an age of fear, we are afraid of terrorists and being frightened, we react blindly. We try to fight terrorists as if we are fighting a conventional war. We erect barriers around us, we invent new security measures, we break our own codes of behavior, we do not respect borders, we assassinate and kidnap, we detain our enemies without trial and put them to death. We are getting more and more angry and in our anger we have become irrational. We are back in the stone age when might is right.

49. We need to do business. We have all these great technologies which promise to enrich the world but we are not able to exploit them. We urge our people not to travel, not to fly, not to go to this country and that country. What is the good of free trade if we cannot travel the world to do business. How long can we sustain the travel advisories? History has shown that terrorism never dies, at least not until the causes of terrorism are eliminated. The exploitation of the workers and the serfs lead to bombings and assassinations. Suppression of the colonial people resulted in terror attacks and random killings. The French, Russian revolution and the struggles for independence had more than their quota of terrorism. Only when the causes were remedied was terrorism stopped. People struggling for their rights cannot be expected to be rational, to follow the conventions of war.

50. The capitalist countries escaped the horrors of revolutions before because very quickly they moved to accommodate, to curb their own excesses, to grant the workers their rights.

51. Today, it is not a class struggle. It is nevertheless the struggle of the oppressed against their oppressors. More oppression is not going to stop the struggle. Terrorists are not representatives of countries which can be defeated and the war ended. Terrorists can be anywhere, even in our own backyard. It took but one person to hold a whole city in a state of terror. An army threatening a city can be attacked and defeated. But one man cannot be attacked in the same way. Yes, eventually he was captured. But like suicide bombers, there can be others.

52. The world has truly lost its way. The anger of the terrorist is there and will remain there. But we can control our anger, we can be rational. Only rationality can win us the battle against the terrorists.

53. Japan is not the target. It need not be filled with anger. It can help bring the world back to its senses. It can help revive the world's economy. It can do many things if it decides not to follow but to lead. This then is the challenge for Japan in a globalized world, to lead and not to be lead.

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