

**SPEECH BY PRIME MINISTER LEE KUAN YEW AT
THE LUNCH HOSTED BY THE FOUR MAJOR KOREAN
BUSINESS ASSOCIATIONS IN SEOUL ON 27 JUN 86**

Mr Chung Soo-Chang, President of the Korean
Chamber of Commerce and Industry

Mr Chung Ju Yung, Chairman of the Federation
of Korean Industries

Mr Nam Duck Woo, Chairman of the Korean
Traders Association

Mr Ryu Ki Jung, President of the Korean
Federation of Small Businesses

Gentlemen

I am honoured to be the guest of four major Korean Business Associations and for the opportunity to address you. My subject is the responsibilities of the newly industrialising countries in the international trading system.

In the last 30 years, the Republic of Korea, Taiwan, Hong Kong and Singapore have become significant participants in the international trading system. Between 1974 and 1984, these four NICs achieved growth rates of between 7-8 per cent. In 1985 all four slowed down. But the recent sharp decline in oil prices will help to reverse this trend. Korea and Taiwan project GNP growth rates of over 8 per cent in 1986 while Hong Kong is expected to achieve 4.5 per cent growth. Only Singapore is likely to have negative growth of -1.5 per cent.

According to a GATT study on international trade in 1985 and current prospects, published in March 1986, the four Asian NICs were among the top 20 exporters in world merchandise trade in 1984. They were also among the top 20 importers. The Asian NICs demonstrate that the most dynamic exporters are also the largest importers.

National Archives of Singapore

Among the Asian NICs, there are important differences, in particular, the size of our respective domestic markets, our R & D capabilities and our technological bases. However there are also marked similarities in our economies. All depend on the export of manufactured goods to the same markets in the industrial countries. All face similar trade problems such as anti-dumping measures and countervailing duties. There are advantages in joint

consultation and coordination between us to keep major export markets open. And we all want the new round of MTN (Multilateral Trade Negotiations) to keep international trading system free and open.

The US is the leading trading partner of all four NICs. In the past decade, US trade deficits with all four have increased exponentially, from US\$70 million in 1975 to US\$3.4 billion in 1980, and to US\$21.6 billion in 1985.

This rapidly growing trade imbalance has made all the Asian NICs targets for criticism from the US Administration, Congress, and industry.

The size and importance of the US market to all four makes this protectionist trend in the United States a serious threat. Protectionist bills proliferate in Congress. Pressures will eventually build up for cutbacks in NICs' access to the US GSP scheme.

The Asian NICs have been among the top beneficiaries of this scheme. In 1985, Taiwan obtained 24.2 per cent of US GSP tariff benefits, the Republic of Korea 12.4 per cent, Hong Kong 9.1 per cent, and Singapore only 5.1 per cent. Although Singapore's benefit is small in comparison with Taiwan or Korea,

nevertheless such benefits are of major importance to our trade with the United States.

During the early 1980s, all the four NICs felt the competition from up-and-coming developing countries with their low labour costs. All decided to upgrade by mechanising, automating, computerising. All are also looking for higher technology.

Korea has been the most successful in penetrating markets which traditionally belonged to the Japanese. Korean industries will take off unless protectionism puts a damper on them and on the other NICs.

The mood in the United States and the European Community is against tolerating Japan, or any new Japan, i.e. any country which promotes exports and limits imports. It is in our interest to demonstrate that the NICs are committed to the expansion of trade, to more free and fair trade among countries, whether in the developed or developing countries.

If we follow Japan's example of concentrating on exports without purchasing the goods and services produced by our major trading partners, we will increase protectionist pressures. Sending a buying mission to America to

reduce the imbalance is useful as an aspirin tablet; an immediate, if temporary, pain reliever, and one-off in its effect. It does not correct underlying causes. If we are to continue to benefit from a free and fair trade system, we must open our markets and act in accordance with the rules we expect of the industrial countries.

Not to do so is to have US Congressmen seek votes by passing ever more bizarre protectionist legislation. The pressures on Congressmen to demonstrate their patriotism by defending US producers against imports will abate, when they are countered by other American industrialists who have a growing stake in exports to the markets of the trade surplus countries: Japan, Taiwan, and Korea in that order.

The US deficit against Hong Kong in 1985 of US\$6.5 billion is bigger than the US\$4.3 billion against Korea. However, American threats of retaliation against Hong Kong are milder than those levelled against Taiwan and Korea because Hong Kong has much fewer trade barriers. Indeed, American legislators in the Senate have stressed that retaliation against Hong Kong would be “punishing them for good policies”.

You, Korea's entrepreneurs and industrialists, have transformed Korea from an agricultural into a newly industrial society. But you can continue to succeed only if the system of free and fair trade prevails. Like the older industrial societies, Korea cannot produce everything she needs. You may produce goods from chopsticks to motorcars, but because of your climate you cannot produce enough bananas and pineapples. If free market principles prevailed, my Thai and Philippine partners in ASEAN should be able to find a market in Korea for their bananas and pineapples, fresh and canned. Yet, your market is not easily open to them at present because of tariff (50 per cent for tinned pineapples) and non-tariff restrictions which protect high cost domestic producers of alternatives to bananas and pineapples. It is in our interests to maintain the system under which we have all thrived through the import of capital and technology and the export of their products. Therefore it is good sense to open up our own markets and submit our producers to the same discipline of competitive imports, now that we have grown enough to compete.

As influential members of the Korean business community you can convince your people and your Government that it is in Korea's interest to open her markets, to the developed countries as well as the developing countries. Your attitudes will shape the scope and pace of your Government's policies of

liberalisation. You must resist the temptations of the infant industry argument and a closed market or you may unwittingly help to bring down the system.

For it is unwise to assume that the period of expansion in trade from 1945 to 1985 was the usual or natural order of things. Such periods in history are the golden age when a dominant world power was secure in its economic and military supremacy, and could maintain the balance of power in the world against any attempt by other powers to alter it by force. The dominant power encourages free trade between countries to increase general prosperity and to make the status quo more tenable. Inevitably, with the passage of time, the dominant power loses its capacity to maintain the existing order, as when the terms of trade turned adverse against that power, or when she loses her economic or technological dominance. Then it also will have less capability to maintain the world balance of power. Finally, it retreats from free trade principles.

National Archives of Singapore

This was the case with Britain, the last world power that preceded America. Throughout the second half of the last century, the British were the dominant military and industrial power. They encouraged free trade. They started to decline from the beginning of this century. They lost their economic and military dominance after the First World War 1914-1918. Britain was no longer strong enough economically to mobilise capital to help countries in

financial trouble. America who had become the strongest financial power was not ready to assume the leadership. So the world drifted into the Great Depression in the 1920s and 30s. The British retreated behind imperial preference i.e. they built a tariff wall around the British empire and preserved the markets of their empire for their manufacturers in a “Sterling bloc”.

In the 1970s, the Japanese sponsored an OECD study on the consequences of a breakdown of the present regime of trade under GATT, and currency exchanges under the IMF. In 1979, they published their report. One likely outcome they depicted was a world divided into three trading blocs - the dollar bloc of North and South America; the yen bloc for Japan, East Asia, Southeast Asia, Australasia and Oceania; and the euro bloc of Western Europe, the Mediterranean and Africa. The present world market, as we know it, will be much diminished and truncated when it breaks up into three blocs.

National Archives of Singapore

We cannot always assume that America, under pressure of both adverse terms of trade and continuing negative balance of trade, will not tire of the burden of holding up the present financial and trading system. The cheaper US dollar, the restructuring of the American industry and different budget policies will reduce the balance of trade deficits and budget deficits. But they are unlikely to restore the dominance of American industry which previously gave

America such overwhelming trade surpluses, both in visible and in invisible trade. Together with her investments abroad, America enjoyed balance of payments surpluses for all the years after 1945 until the 1980s. That golden age may not return.

Western Europe and Japan have caught up industrially and technologically with America. Although America is leading in many fields of research, including space and computers, the gap between her technology and that of Europe and Japan is no longer that wide. Therefore it is in our own self-interest to show the industrial countries that we are prepared to join them in maintaining a system of free and fair trade. Today no single country is so pre-eminent that it can alone dominate the economy of the world and uphold the system. But together the industrialised and the newly industrialising countries will be able to maintain this system to benefit all who abide by its rules. After the early period of “infant industry protectionism” industrialising countries must be prepared to open their own markets. The alternative is so unpleasant as not to bear contemplation. A breakdown of the present system will cause so drastic a drop in standards of living worldwide that great disorder must result and this will alter the world irrevocably.

If the free and fair international trading system that has worked to the advantage of all countries, including the NICs, is to endure, more and more countries, both developed and developing, must endeavour to keep their markets open and refrain from imposing protectionist measures which will limit free trade.

As a major trading country, you have a vested interest in a world order governed by the principle of comparative advantage and division of labour. You can have this only if your own markets are as open to the goods and services of the developed countries, as their markets are open to your goods and services.

National Archives of Singapore

US TRADE BALANCE WITH THE FOUR NICs (US\$ million)

Country	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
South Korea	300	-500	-600	-1,000	200	300	400	-300	-1,800	-4,000	-4,300
Taiwan	-170	-1,200	-1,700	-2,600	-2,300	-2,100	-3,400	-4,100	-6,600	-11,100	-10,000
Hong Kong	-800	-1,400	-1,800	-1,900	-2,000	-2,600	-3,400	-3,600	-4,500	-5,800	-6,500
Singapore	600	200	0	100	500	1,000	700	1,000	200	-400	-800
Total	-70	-2,900	-4,100	-5,400	-3,600	-3,400	-5,700	-7,000	-10,700	-21,300	-21,600

Source : IMF, Direction of Trade Statistics, various years.

South Korea - Monthly Statistical Bulletin, Apr 1986

Hong Kong - Hong Kong Monthly Digest of Statistics, Mar 1986

Taiwan - Monthly Statistics of Exports & Imports, ROC, Jan 1986