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ADDRESS BY SINGAPORE PRIME MINISTER GOH CHOK TONG TO THE KOREAN BUSINESS COMMUNITY  
ON TUESDAY, 15 JUNE 1999, AT 1.00 PM IN SEOUL

"Looking Beyond the Financial Crisis"

The last two years have been traumatic for East Asia. The currency  
turmoil has destroyed wealth, many corporations and several banks. It has set back  
the crisis-hit countries by several years.

Asia Recovering

Fortunately, the worst is over. Asian economies are on the road to  
recovery. They are running large current account surpluses and building up foreign  
exchange reserves. Exchange rates have strengthened while interest rates have  
declined.

Korea is recovering well. The won has stabilized. Korea's sovereign  
ratings have been upgraded to investment level. Korea's foreign exchange reserves  
have increased to over US\$60 billion. Your economy grew by a remarkable 4.6% in the  
first quarter of 1999, the best performance among the crisis-hit economies. With  
consumer optimism and investor confidence returning, the Korean economy is expected  
to grow by at least 4% this year. President Kim Dae-Jung's perseverance in  
implementing IMF measures and restructuring the economy, despite the pain and  
political costs, deserves applause.

Thailand and Malaysia too, have made significant progress towards recovery.

Their economies should grow by 1 to 3 per cent this year. So has Indonesia. If its violence-free elections lead to post-election political stability, investor confidence will return and Indonesia will bounce back.

In the case of Singapore, we expect our economy to achieve positive growth this year, possibly reaching 2%. But this is way below our usual 7 to 8 per cent growth per annum before the crisis. Singapore has extensive investment and trade links with our neighbours and the region. The financial crisis had spilled over to our economy.

While full recovery is still some years away, East Asia has to look beyond the crisis, to anticipate problems and build new links and capabilities. This will ensure that the recovery will be sustained and the troubled economies will emerge from the crisis stronger than before.

#### Internal Weaknesses

The Asian economies are still weak. Much work is being done to strengthen them. These include improving corporate governance, strengthening the financial system, and enhancing supervision and regulation of banks and other financial institutions. The recovery must not lull governments into complacency. They should press on with their reforms and economic restructuring.

The large bad debt overhang remains a problem. Major efforts are underway to deal with the bad debt problem. But progress remains generally slow. For instance, the Bank of Thailand recently estimated that non-performing loans of all Thai commercial banks rose to an average of 46 per cent of total lending, as compared to 31 per cent in June 1998.

Another weakness is the sluggish rate of corporate reforms. Compared with the financial reforms, restructuring the corporate sector has proven to be much more difficult. Some of the commercially non-viable practices are deeply entrenched and built along cultural and racial lines. Labour reforms to allow layoffs and corporate downsizing, for example, have met with much resistance. In Korea, the government has had to devote significant resources to improve the social safety net to reduce the transition pain arising from the removal of the lifelong employment system.

#### External Risks

There is also a host of external factors that can still jeopardize the Asian recovery. Analysts are generally concerned about 3 major external risks. They are a sharp slowdown in the US and the EU, slow economic recovery in Japan and the possible devaluation of the Chinese renminbi. Today, these risks are substantially reduced. The US and EU economies are still growing strongly. Japan is showing signs of growth, and China has no immediate reasons to devalue its renminbi. But should any one of these risks become a reality, it will push back Asia's recovery.

The more disturbing risk is the possible re-emergence of protectionism. The boom years before 1997 had convinced almost all East Asian countries that they had to open up their economy, attract investments and generate exports to improve the lives of their people. Now the crisis has shown them the downside of globalization.

While globalization per se has not caused the downfall of the Asian economies, the crisis has inevitably provoked a knee-jerk reaction to reject further pressures to open up, and to reassert control over national markets. I hope these reactions will be short-lived. I believe that there is no going back on globalization. East Asia must keep its markets open and plugged into the rest of the world. The price of disconnecting our countries from the global network is high. It will lead to a significant loss of growth for our economies.

I also worry that the main protectionistic actions may come from the developed countries. Against the backdrop of a larger influx of cheaper goods from Asia and ballooning trade deficits, developed economies face increasing domestic

pressure to close their markets, if not generally, at least selectively.

Already, Korea is one of the countries hardest hit by the recent resurrection of protectionism in developed countries. The US and the EU have imposed or intend to impose retroactively punitive anti-dumping duties on various imports. The Financial Times (of 20 May 99) reported that even as the US enjoys an unprecedented economic boom, a recent poll found 58% of Americans agreeing that foreign trade was "bad for the US economy because cheap imports hurt wages". Only 32 per cent agreed that trade was "good for the US economy". In an election year, such sentiments can translate into policies.

#### Reform is the Only Way

How should East Asia respond to these stresses and external risks? My view is that East Asia must continue to undertake genuine and comprehensive economic and corporate reforms. Doing so would sharpen our competitiveness and strengthen our defences against external shocks in the more globalized international economic environment.

The single most important threat to the future growth of Asia is a slowing down of the pace of reforms, now that recovery is in sight.

In this regard, it is encouraging to see Korea pressing on with its corporate reforms. It has liberalized rules on foreign investment and introduced tax incentives for corporate restructuring. Korea also passed its Bankruptcy Act in February 1998, ahead of Thailand and Indonesia. There has also been a general review of corporate governance standards.

#### Singapore's Approach

Let me now briefly talk about Singapore's response to the financial crisis and how we are looking beyond the crisis. Singapore has reduced its business costs through a S\$10.5 billion (US\$6 billion) cost-cutting package in taxes, fees and rental. In addition, total wage costs were reduced by about 15%, achieved through a 10 percentage point cut in employer's contribution to the Central Provident Fund, our national compulsory savings scheme, and a 5% reduction in take-home pay.

Taking such a decision seemed easy but it was not. We spent more than 6 months discussing the options with trade unions and management. Fortunately, there exists trust and a strong spirit of co-operation between the unions, management and government. Such trust has been built up over a period of 30 years. Hence, union leaders helped persuade workers to endure the short-term pain for long-term gain.

Beyond the short-term measures to ride out the economic storm, Singapore has also planned ahead, developing new capabilities for a knowledge-based economy and further liberalizing the financial sector. For example, we are taking steps to exploit the potential of e-commerce. Besides wiring up every home, office and school to a broadband network called Singapore One, Singapore has also put in place the legal and regulatory structure to facilitate the growth of e-commerce. Many promising local Internet companies have emerged.

As a small city-state, Singapore understands too well the importance for Asian countries to continue strengthening intra-regional linkages. Singapore plays an active part to develop such ties. In ASEAN, tariffs for the ASEAN Free Trade Area will be reduced to 5% on most items by 2003. Singapore is also a firm supporter of Asia building links with others outside the region, particularly with the US and Europe. A weakening of these ties would mean fewer sources of investments and growth. It would also mean a less integrated global trading system. Worse, if the US loses interest and disengages itself from the region, there will be serious security and strategic consequences. The delicate balance in the Korean Peninsula, for instance, will be upset. Singapore has thus actively worked to support important international organisations such as the WTO, APEC, ASEM and ASEAN. Singapore is now working with like-minded countries to start an East Asia-Latin

America Forum. It will host a meeting of senior officials in Singapore in September this year.

#### Korea-Singapore Cooperation

Singapore is glad to have the support and active participation of Korea in these global and regional initiatives. Like Singapore, Korea has also benefited from membership in the GATT and its successor, the WTO. Both of us feel strongly about engaging China and institutionalizing its participation in the world economy through the WTO. We see this as important for ensuring the growth and stability of the region. Both of us are also keen to see the launch of a comprehensive New Round of trade talks at the Seattle WTO Ministerial Conference, as a major step forward for strengthening the multilateral trading system and expanding the benefits of globalization.

Singapore and Korea are also dedicated members of APEC, committed to trade liberalization and wider economic co-operation in the Asia Pacific region. Both countries are keen to promote a freer flow of trade and investments across the Pacific through APEC. Singapore supports Korea's initiatives within the APEC forum, for example, the APEC Foreign Direct Investment Mart, which is a constructive effort to help encourage FDIs to return to the region after the economic crisis.

President Kim Dae-Jung's proposal for an East Asian Vision Group is an important initiative. Singapore and Korea must work together to get East Asian countries to develop a more integrated regional economy. The other regions have made great strides in integrating their economies. NAFTA and MERCUSOR are two prime examples. When the Free Trade Area of the Americas is realized by 2005, East Asia will be put at a considerable disadvantage in competing against the Latin American countries. There is also the other huge regional bloc - the EU. The proposed East Asian Vision Group should study how East Asian countries can co-operate and advance their mutual interests in this respect.

Our business communities have also been working together for years. Singapore has invested heavily in Korea. Singapore's total investments in 1998 amounted to more than US\$1 billion. Likewise, many Korean companies are engaged in a range of activities in Singapore, spanning banking, finance, airlines, shipping, construction and manufacturing. Samsung, LG Electronics, Hyundai, Ssangyong and Sunkyong have all set up regional headquarters in Singapore and established footholds in Southeast Asia.

Korea is Singapore's 10th largest trading partner. Korean construction companies have teamed up with Singapore firms and secured a total of more than US\$1 billion worth of contracts from 1996 to 1998.

The opening up of the Korean economy has created much interest among the Singapore business community. Singapore firms have teamed up with Korean entities to secure joint projects to develop infrastructure. As Korean banks reform and put things right, Singapore banks have also started loans and participated in banking activities in Korea.

As the economic recovery gathers momentum, there are new opportunities for companies from both countries to jointly invest in the region. In terms of the sectors for co-operation, there is scope to expand beyond the traditional focus of construction and infrastructure development. Complementarities could be found in science and technology.

#### Conclusion

Let me close by emphasizing that Asia's future will be different from what we had predicted in the pre-crisis days. The work before us is complex and profound, but each country will have a hand in shaping its future, so long as it does not withdraw from the global economic system. Institutional changes will take time and careful design, and will be influenced by the unique social and political

circumstances of each nation as well as the challenges of the global economy.

The key task before us is to undertake structural and corporate reforms even while recovery takes place.

The euphoria of the early 1990s has dissipated. But as we look beyond the financial crisis and build up new relationships and capabilities, we can be confident that with the ongoing institutional reconstruction, a stronger base will be laid for the next wave of Asian success. We are not simply seeking to return to the successful conditions in the past. We are creating new conditions for higher quality growth.

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