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ADDRESS BY PRIME MINISTER MR LEE KUAN YEW AT THE OPENING OF THE CONFERENCE ON "GLOBAL STRATEGIES: THE SINGAPORE PARTNERSHIP" AT RAFFLES CITY CONVENTION CENTRE ON 24 OCTOBER 1988

The Emergence of the Asian NIC's and Its Implications

Past Growth Rates Along Not Reliable Indicator

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One of the most significant international developments in the last 20 years has been the rise of Japan and the Asian NIC's. Their share of the world GNP has more than doubled, from six per cent in 1965 to an estimated 15 per cent in 1987. Their share of world exports has nearly trebled, from six per cent to 17 per cent. If they maintain these growth rates, by the end of this century, their combined GNP could exceed that of Western Europe and approach that of the US. Will they be able to do this?

Growth rates alone are not a reliable indicator of long term trends. In the 1970s, Brazil and Argentina in Latin America were expected to become industrialised economies judging from their strong growth rates. By the 1980s, growth rates in Brazil had fallen to two per cent and that in Argentina had turned negative. These countries were heavily in debt, and no longer seen as on the verge of take-off.

On the other hand, in 1979, Ezra Vogel made a bold statement when he gave his book the title: "Japan As Number One: Lessons For America". He also said that Japan would remain extraordinarily competitive in world markets for a long time. Vogel based his prediction not on economic statistics, but on strong fundamentals, namely, the culture of the people plus their social and organisational systems. Vogel's prediction has held up.

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Key Factors: Culture And Education of People

What are the key factors that made the Japanese the first of the East Asian people to catch up with the industrialised West?

The Japanese have the right attributes for high group performance. They are hardworking, business oriented, highly competitive and pragmatic. But the other East Asians, Koreans, Chinese, Vietnamese, are not inferior in these qualities, as their histories bear out. They share many characteristics derived from a common cultural base, Chinese in origin. Some observers have attributed this emphasis on hardwork and thrift to the "Confucian ethic". These basic characteristics have also been substantially influenced by their historical experience. Japan, South Korea, Taiwan, Singapore and Hong Kong have risen like phoenixes out of the destruction of World War II. Their economies were all ruined by war. Taiwan and Hong Kong were built up by pioneers in new territories. All these peoples had to strive hard for survival and recovery. They are peoples who were toughened by hardship. The habits of hardwork, thrift and group solidarity propelled these countries beyond fighting for survival on to creating wealth through producing for export.

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The history of these countries has also resulted in strong social cohesion within their societies. They have learnt the valuable lesson that to make the greatest progress in the shortest possible time, it is necessary for a people to move in unison. And this implies the need for individuals to make sacrifices for the good of the country and its progress. The individual gets satisfaction from the expectation that he will ultimately reap the benefits of group success -

something which has been amply demonstrated in practice. Some western social scientists have called such East Asian countries "communitarian" societies.

For example: in 1985, Singapore was experiencing its worst recession since independence. After 10 years of near double digit growth, Singapore had negative growth of 1.6 per cent in 1985. The Government persuaded the unions and workers to take a cut in wages and hold wages in restraint for two years. The Government explained to workers and unions that Singapore needed to restore its international competitiveness, otherwise we would not be able to avoid retrenchments or to generate sustained growth. The workers accepted the need for sacrifice. Their sacrifice was the strongest factor in getting the Singapore economy to recover from a negative GDP growth rate in 1985 to a growth rate of nine per cent in 1987.

Can Confucianist Societies Keep It Up?

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During the last 40 years since World War II, the group-orientated values of the East, combined with a free enterprise system, have resulted in high performance. The question is: Is it true only for the "catch-up" period when innovation and creativity are not yet the key factor for growth because there is so much innovation to adopt from the West?

Let me rephrase the question: Can the East Asian economies be major economic players in the 21st century? If the rules are not changed, the present economic trends strongly point to this. In 1987, the combined share of the four NIC's in world trade was eight per cent, more than four times 1960s, and about three-quarters that of Japan's. Their combined trade surplus (US$32 billion) in 1987 was 37 per cent that of Japan's (US$87 billion). From 1981 to 1987, the four NIC's plus Japan grew at an average rate of 4.3 per cent, compared to 1.8 per cent for EC and 2.7 per cent for US. The GNP of the five is US$2.913 billion, or 69 per cent of the EC's and 65 per cent of the US's. On these trends, by the year 2003 the five would have caught up with Europe, and by 2015 with the US.

NIC Growth Will Slow Down

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But will these trends continue? Up to recently, they were able to export relatively freely to US and Europe. These two markets enabled them to increase their GNP rapidly. Today, both the US and European markets are less open. The trends are towards more restrictions. So the five will have to depend more on other markets and on their own domestic markets. But there are no markets as large as the US and Europe. Consequently, growth will slow down.

The way trade relations develop between these East Asian countries and the West (US and Europe), will signal to other developing countries, especially those already close behind the NIC's, like Thailand and Malaysia, what their prospects are.

I view this problem from the perspective of a NIC most heavily dependent on world trade. Singapore's total trade is three times her GDP. Logically, there is no reason why the rules of free and fair trade that have given the world such unparalleled prosperity since World War II should not be upheld. Indeed they can be more rigorously enforced to ensure freer and fairer trade. Problems of restructuring and adjustments have arisen for the West (America and Europe). They cannot be wished away by the protectionism. Protectionism will only aggravate the problem, for it enables obsolescent industries to survive, at the expense of domestic consumers. But worse, it delays the restructuring of the economy. It is far better and healthier for the economy to meet these problems head-on, especially if there can be consultation and some coordination between the trade surplus and trade deficit countries.

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Restricting Trade Is Turning Backs To Prosperous Peaceful World

To restrict markets means that the West is questioning an international system which has amply demonstrated its value over a period of 40 years to all countries which participated in it. It was the West that settled the rules for the peaceful, free and fair exchange of goods and services and thus brought about a stable world order since 1945. Unfortunately, in the 1980s, the trend is to move away from unfettered trade towards protected and managed trade in agricultural products, manufactured goods, and in services. New non-tariff barriers include not only quotas and administrative barriers, but also orderly marketing arrangements and voluntary export restraints. These non-tariff barriers are damaging to international trade. They are imposed unilaterally on specific trading partners, and contradict the basic principle of GATT that all countries be treated equally and be given the same access to the market of a GATT member. The real costs are hidden because they do their harm silently, and are harder to remove.

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Domestically, the temptation to restrict markets is great and the danger of protectionism is real. Europe in 1992 has more potential to be self-sufficient. The US is already a huge economy and can also attempt to live within itself. Over the last four years, hundreds of protectionist trade bills have been submitted to the US Congress because of the trade deficits with Japan and the NIC's. fortunately, the Reagan Administration stood against protectionist measures and

tried to preserve free trade. But it has found it difficult to resist pressure from labour unions and Congress and, in many instances, also from hard-pressed US industry, to pass such bills. The President has now signed the Trade Bill. If the next US administration is not convinced of the value of free trade, the future is bleak.

Can Protectionism Save Weak Or Obsolete Industries?

What are the implications of restricting exports from the five to the markets of Europe and America? This will not only protect weak and uncompetitive industries in the West, but will also encourage the soft attitudes and habits of their entrepreneurs and unions, as well as divisive social systems, which have been the underlying causes of their present economic weakness. They have not responded to competition and the challenge of change because of rigidities. A long period of prosperity had enabled their governments to support generous social security benefits. These social security or welfare benefits have dulled or blunted market pressures on workers and employers to respond quickly to market changes. Entrepreneurs and unions in the West need to change their attitudes and take fast remedial action. For example, when in October 1957, the Soviets launched Sputnik into space, it spurred the US to a determined and sustained effort in basic research and technology which result in their putting the

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first man on the moon. And the US has since maintained its lead in space technology. This positive response to challenge shows that the Americans, with their tremendous resources plus creative minds, can meet a challenge when they set their minds to it.

Free Trade Or Back To Trading Blocs Or Empires

But the most serious consequence of more restrictions to trade will be more conflicts and eventually a return to wars to settle economic problems, access to raw materials and markets. Before GATT and the open international trading system, the only way a country could achieve greater economic power was by conquering more territories. This gave them a larger population to help extract more resources from the conquered territories. When one political and economic entity comprises different climates, different resources, plus peoples with different skills, there can be more diversity of goods and services to create greater wealth than small separate states can attain.

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However, since the end of World War II, a peaceful, non-expansionist way to economic growth has been possible. Germany and Japan, nations that went to war for living space and markets, have restored their wealth and well-being without threatening ant other people or capturing their territory. An open and fair

trading environment under GATT and a stable system of currency exchange led to an enormous growth in international trade. Trade has generated economic prosperity for all. International banking and financial services expanded as rapidly to facilitate this trade and to finance investments.

The fruits of this prosperity have been enjoyed by all the countries that participated in the system. The US GNP grew by over six per cent annum from US$286 billion in 1950 to US$992 billion by 1970. Western Europe sustained a similar high level of growth. Japan did even better.

The Soviet Union and Eastern Europe went on their own in Comecon, outside this system. By contrast, they have stagnated and have been left far behind. China, too, paid a heavy price for adopting the Soviet model. They have all now recognized that their economic autarky, plus an inefficient system of central planning which ignores market forces, have brought stagnation and denied their peoples enough foods and basic consumer items. Their peoples are disappointed with the meagre results and hard lives after decades of endless sacrifices.

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China decided to open its doors to trade and investments in 1978. The USSR has also changed its position under Gorbachev's "perestroika".

It would be a tragedy if America and Western Europe were now to retreat into protectionism, at their moment of triumph. Even a mildly protectionist America and Western Europe which restrict imports will set back world peace and stability. China will be thwarted in her hopes to grow through international trade and investments. Without a stake in stability and growth, she may again revert to the role of spoiler and destabiliser, an exporter of troubles through exporting arms and revolution. Japan, the NIC's, and ASEAN will have to search in vain for alternative markets. The bigger countries like China and Japan may go back to the old method of seeking strength and growth through territorial expansion.

If nations cannot seek the better life through peaceful competition, then the stronger nations will revert to the pre-World War II pattern of coalescing in bigger groupings for their well-being. The world will again be divided into competing economic blocs, when each big and strong industrial nation had an empire or an exclusive sphere of influence for its economic well-being. This means a less stable world in which military power will decide the order of things.

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War And Peace

Indeed, it is no exaggeration to say that the peace of the world depends on America and Europe solving their problems without abandoning the system they settled on after World War II. Then wars can be avoided. If they can recapture the vision that led them to the course they have charted for the world since World War II, then the existing world order can and will be maintained.

That Japan and the NIC's will grow wealthier under the present system does not mean decline for America and Europe. It only means temporary dislocation of some industries that need to be restructured. Innovation and creativity are still important factors in economic leadership. In aerospace, biotechnology, telecommunications and information technology, the West has a commanding lead. They can discover and open up new areas for growth, areas which will earn higher returns because the goods and services they will market will be original and will yield the highest returns, as new creations and inventions always do.

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But for this to happen, the older and less competitive industries must be given up. Then the resources released, workers' talent and capital can go into new growth industries. Restructuring is painful for those caught up in obsolete industries. But given the political will, their people's capacity to respond to economic change is not in doubt.

On the other hand, Japan, the NIC's and ASEAN have been beneficiaries of the free trading system. They have a responsibility to uphold the system and help adjustments in the world economy. They should abide by the rules that have brought them such great benefits. They have to open up their markets. They have to let the market decide their exchange rates.

Those like Singapore who have played by the rules have found that this is not a zero-sum game. All will benefit from improving the present system.

It is for this reason that I support the proposal for a dialogue between the OECD countries and the East Asian countries. Singapore is ready to participate. Other developing countries on the threshold of rapid transformation can also be included.

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The Toronto Economic Summit Communique suggested a dialogue with the Asian NIC's "on such policy areas as macroeconomic, currency, structural and trade imbalance to achieve the international adjustment necessary for sustained, balanced growth of the world economy". Such a dialogue must not be simply to put pressure on the NIC's to restrict exports, upvalue their currencies, or slow their growth policies. To be constructive, it must aim to expand trade

and by coordination of policies, ease the problems of restructuring and adjustments.

To recap: First, the problem of trade imbalances is multilateral in nature and any solution must work multilaterally, not just bilaterally.

Second, to distort or disregard the principle of free and fair trade is to risk destabilisation of the existing world order.

Third, any dialogue between the OECD countries and the NIC's must seek solutions based on opening, not restricting markets, and increasing, not diminishing exports.

Singapore has always been a strong and consistent supporter and practitioner of free and fair trade. As a result, we have prospered.

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