



Foreign and Commonwealth Office

London SW1A 2AH

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N Wicks Esq CBE  
No 10

*Dear Nigel,*

THE NEWLY INDUSTRIALISING ECONOMIES (NIEs)

1. You asked me to let you have a short note on recent international discussion of the NIEs, and especially the four Asian "dragons" (Korea, Taiwan, Singapore and Hong Kong), as part of our preparations for the Toronto Summit.

2. There are four main issues:-

(a) the NIEs' GNP and share of world trade are growing. Two of them - Korea and Taiwan - not only run large current account surpluses with the help of undervalued currencies, but maintain trade and investment barriers against industrialised countries. (The brief for Toronto will give some figures.) The US has argued in the past that all four NIEs should liberalise their economies and allow their currencies to appreciate against the dollar. We agree that Korea and Taiwan should do so. Their policies are inciting protectionist pressures. But we see no reason to penalise free-trading Hong Kong and Singapore (see also (d) below).

(b) our trade objectives (integration) can be pursued in the GATT negotiations (though Taiwan is not formally party to these). But precisely because the NIEs are increasingly important players (with other ASEAN countries not far behind), we need to give them some sense of responsibility for the management of the world economy, and that goes beyond GATT. At the recent OECD Council, Ministers agreed to open informal discussion with the four "dragons" around the central theme of structural adjustment of their economies. We support this because multilateral pressure is more effective than bilateral, because we want the OECD to remain relevant, and because we want to avoid the building up of a Japanese-led "Pacific OECD" (which despite disclaimers may be the long term Japanese aim) In any such discussions the NIEs will have their own requests to make (for example, on VRAs and our barriers to their textile exports), and we should be ready to discuss these while pressing hard for our own shopping list of macroeconomic and trade reforms.

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(c) we shall need to be careful about OECD contacts with Taiwan (because of both Chinese and Hong Kong sensitivities). Other OECD members are alert to this problem; the Japanese have proposed an informal seminar, with no formal government-to-government links; something on those lines may prove acceptable.

(d) we must also defend Hong Kong's interests. The Treasury Secretary, Mr Baker, wants the Hong Kong dollar revalued against the US dollar. But the fixed link is important for maintaining confidence in the Hong Kong economy; and in any case Hong Kong's overall trade (as distinct from its trade with the US) is in rough balance. It is wrong to tar Hong Kong with the Korea/Taiwan brush. The Chancellor has made the point to Mr Baker on several occasions: but the Americans revert to it.

/ 3. I attach the relevant extracts from the OECD communique and ~~the revised draft~~ of the Canadian thematic paper for Toronto. The Americans may want more aggressive language. We agree with them about the need to bring pressure to bear on Korea and Taiwan (not Hong Kong, for the reasons given above). But, like other OECD members, we distinguish between public statements and private pressure. Our first task is to entice these suspicious NIEs into discussion with the OECD. We also want recognition (as at the OECD Ministerial) that each of these four countries - and by extension other NIEs, in ASEAN or elsewhere - has different economic policies and poses different threats or opportunities.

4. In the long run, the object of the exercise is to detach these countries from the increasingly divided G77; to persuade them to become open trading, liberal economies like our own; and so to reinforce the attractiveness of western solutions against the stagnant state economies of the Soviet bloc. Commercially, we want the chance to trade and invest more in the most dynamic region of the world economy.

Yours ever,

Rodric

R Q Braithwaite

cc. Sir G Littler, HMT

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appropriate answer to their differing problems. All parties involved must therefore continue efforts, on a case by case basis, to deal efficiently with debt problems and new financing needs, including a broad "menu" of market-oriented options for commercial bank debt. Such approaches should take due account of the adjustment efforts of the developing countries concerned. To support these directions for the debt strategy, it is important that the IMF, the World Bank and other international financial institutions be equipped with adequate facilities and resources. In this regard, Ministers welcome the recent agreement on a General Capital Increase for the World Bank and the ongoing adaptation of the IMF's policies and instruments aimed at strengthening its central role in the debt strategy. They also welcome the efforts made in the Paris Club.

17. The important contribution that international direct investment, too, can make to adjustment and growth is now gaining wider recognition in developing countries. However, significant obstacles to the flow of direct investment remain and should be addressed by both host and home countries, and through cooperative action. The welcome new activities of the Multilateral Investment Guarantee Agency and the International Finance Corporation will help stimulate international investment in developing countries.

18. For the poorer developing countries the IDA replenishment, World Bank co-financing arrangements with bilateral donors and the Enhanced Structural Adjustment Facility of the IMF will help alleviate their situation. Improved terms for consolidating the debt of the poorest developing countries notably in Sub-Saharan Africa are also making a contribution. Nevertheless, debt burdens continue to mount. Proposals to ease these burdens for the poorest countries undertaking structural adjustment efforts therefore merit careful consideration, including, where possible, interest rate reduction in official reschedulings or alternative measures having a similar impact. Improved official development assistance, in quality and in quantity, is essential.

#### Relations with Newly Industrialising Economies

19. Important actors in the world economy are emerging from among the newly industrialising economies. This is a welcome development. It provides these economies with the opportunity to play an increased role in the cooperative effort to manage the open world economy and confers upon them a greater responsibility in the international adjustment process commensurate with their capacity. Discussions involving these actors -- recognising mutual interests and taking into account the diversity of the economies concerned -- could contribute to better understanding and the convergence of views on policy cooperation for the continued growth and development of the world economy.

#### Trade

20. The world trade picture shows a number of contrasts. Trade is growing robustly. However, protectionist pressures and trade tensions remain strong. While OECD Governments have generally

EXTRACT FROM CANADIAN THEMATIC PAPER

NEWLY INDUSTRIALIZING ECONOMIES

26. Certain newly-industrializing economies (NIEs) in the Asia-Pacific region have become increasingly important in world trade. Although these economies differ in many important respects, they are all characterized by dynamic, export-led growth which has allowed them to treble their share of world trade since 1960. Other outward-oriented Asian countries are also beginning to emerge as rapidly-growing exporters of manufactures. Intra-regional investment and trade are creating greater interdependence among the economies of the region.

27. With increased economic importance come greater international responsibilities and a strong mutual interest in enhanced cooperation. There is a need for improved constructive dialogue between the industrialized countries and the Asian NIEs, as well as the other outward-oriented countries in the region. The dialogue should centre on cooperative efforts in the near term to achieve the international adjustment necessary for sustained, balanced growth of the world economy. The development of informal processes which would facilitate multilateral discussions of issues of mutual concern such as macroeconomic, trade and structural adjustment policies should be encouraged.