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Foreign and Commonwealth Office

London SW1A 2AH

7 June 1988

N Wicks Esq CBE  
No 10

*Dear Nigel,*

1. At our pre-Sherpas' meeting last week, you asked us to send you a 2-3 page background note on the Newly Industrialising Economies, in a form that you could show to the Prime Minister to bring her up-to-date on recent developments. I enclose this in draft, because you are the best judge of what the Prime Minister needs to know, and how to present it.
2. The main points we want to get over are that a lot of work is going on about how best to persuade Korea and Taiwan (in particular) to adopt more open economic policies, and to integrate themselves more closely with the world economy. We also want to put down a marker that there is no point in tough Toronto communicate language (as the US might want) if the countries we want to talk to decide they do not want to talk to us, or if this encourages the Americans to think they can bash Hong Kong. But we want to reassure the Prime Minister that we are all in favour of strong private pressure on the countries concerned. I think it also worth reminding her of the wider political importance of the OECD exercise, as per our fourth paragraph.

*Yours ever,  
Rodric*

R Q Braithwaite

Att

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DSR 11 (Revised Sept 85)

DRAFT: minute/letter/teleletter/despach/note

TYPE: Draft/Final 1 +

FROM:

Reference

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TO:

Copies to:

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N Wicks Esq CBE

Sir G Littler

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SUBJECT:

PRIVACY MARKING

THE NEWLY INDUSTRIALISING ECONOMIES (NIEs)

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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.

CAVEAT .....

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).

Enclosures flag(s) .....



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(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 draw them more closely into responsibility for the conduct 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.

(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



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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.



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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.

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