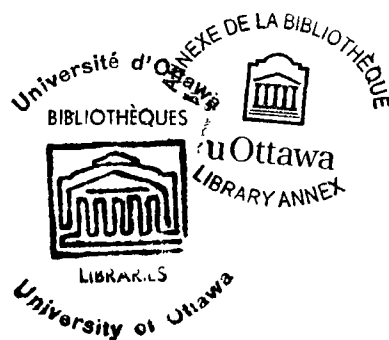


KOREA'S PROBLEMS OF FOREIGN TRADE  
AND INDUSTRIALIZATION

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## TABLE OF CONTENTS

	Page
INTRODUCTION.....	iv
CHAPTER	
I. BASIC ASPECTS OF KOREAN ECONOMY.....	1
1. Heritage.....	3
2. Economic resources.....	8
A. Human resources.....	8
B. Natural resources and related industries..	
a. Agricultural resources and agricul-	
tural industry.....	11
b. Fish resources and fishing industry...	14
c. Mineral resources and mining industry.	16
C. Electric power industry.....	20
D. Manufacturing industry.....	24
II. FOREIGN TRADE IN KOREA.....	28
1. Korea's export potentials.....	28
2. The post-Korean war balance of trade.....	36
A. Balance of payments.....	37
B. Exports versus imports.....	40
C. Trade partners.....	42
3. Foreign economic aid.....	44
4. The role of government.....	53
III. SPECIAL PROBLEMS FOR KOREA'S FOREIGN TRADE.....	63
1. Foreign exchange rate in Korea.....	63
A. Review of changes in exchange rate.....	64
B. Difficulty of maintaining effective	
exchange rate.....	71
C. Necessity of a single realistic exchange	
rate.....	75
D. Foreign exchange control.....	79
2. Foreign market.....	84
IV. BASIC PROBLEMS OF INDUSTRIALIZATION.....	89
1. Capital formation.....	90
2. Technological progress.....	104
3. Economic diversification.....	113
4. Problems of social institutions.....	119
CONCLUSIONS.....	125
BIBLIOGRAPHY.....	128

## LIST OF TABLES

Table	Page
I. Comparative distribution of mines in North and South Korea.....	18
II. Electric power generated by plants.....	22
III. Percentage composition of value added in manufacturing industry.....	26
IV. Exports and imports values of Korea since 1953.....	29
V. Value of exports by principal commodities and/or by commodity groups.....	32
VI. Balance of payments.....	39
VII. Composition of imports.....	41
VIII. Value of exports and imports by principal countries.....	43
IX. Foreign aid received and non-aid imports of merchandise compared with gross national product.....	46
X. Summary of foreign economic aid and relief goods received as of 1959 (military aid included).....	47
XI. Project, non-project and technical assistances provided by ICA and UNKRA aids during 1958.....	49-50
XII. Selected exchange rates, 1955.....	67
XIII. Exchange rates for selected imports.....	68-69
XIV. Gross domestic capital formation of Korea in selected years.....	94
XV. Industrial origin of gross domestic product.	96
XVI. Labor force and its percentage of the total by major industries.....	115

## INTRODUCTION

The problems confronting the economic development of Korea are most comprehensive and fundamental in nature. Hence, no particular type of economic policy can be singled out as being remedial to the underdeveloped economy of Korea.

Functionally, however, the economic development is closely linked with the operation of foreign trade. The process of economic development necessitates increasing imports of capital as well as some consumption goods required by domestic industries, and these imports must be met by equally increasing exports.

In a developed economy, either expanding exports or sufficient domestic capital formation provides the ordinary means by which necessary imports are financed. For the underdeveloped Korean economy, neither of these means is available. Foreign economic aid to Korea since 1945, totaling almost one and a half billion dollars, has relieved the country of the otherwise impossible task of meeting tremendous capital requirements domestically.

Korea's exports in the past have accounted for but a fragmentary proportion of her total import requirements, the rest having been financed by foreign aid. In the use of foreign economic aid, priorities were accorded to the

## INTRODUCTION

v

development of basic industries and facilities such as electric power plants, fertilizer plants, and transport facilities.

The enormous amount of foreign aid has helped Korea not only reconstruct her war-torn economy but also set out on the road of further economic development. On the other hand, however, the foreign aid had the inadvertent effect of mitigating the urgency of expanding export industry of Korea, and, consequently, little has been done to readjust her industrial structure in favor of an expanded export industry. Therefore, entirely new efforts are needed in the country to develop the export industry in order to facilitate industrialization and realize a self-supporting economy.

This thesis, while concentrating on the treatment of foreign trade problems since the end of Korean war, covers a wide range of problems facing the Korean economy. A brief survey of the basic features of the Korean economy, together with a summary description of key industries in the country, is made in Chapter I. The export capacity and trend of foreign trade of Korea since 1953 - the year economic progress of the country started on a peace-time basis - are examined in Chapter II. Also studied in this Chapter are the roles of government and foreign economic aid that are

## INTRODUCTION

vi

inseparable from the foreign trade and economic development of Korea.

The problems concerning foreign exchange rate and foreign market deserve a special consideration in relation to Korea's foreign trade. The difficulty of maintaining an effective official exchange rate has far-reaching repercussions on the stability of the internal economy as well as on foreign trade itself. The feasibility of increasing exports through the expansion of foreign markets has been largely neglected both by the government and private foreign traders. These two major problems are discussed in Chapter III.

The future magnitude of Korea's foreign trade depends on the extent to which Korea succeeds in industrializing her economy. However, there are basic economic and social problems that stand in the way of industrialization. The final Chapter is devoted to the treatment of these problems.

## CHAPTER I

## BASIC ASPECTS OF KOREAN ECONOMY

The Republic of Korea<sup>1</sup> is territorially limited to the southern part of the armistice line as a result of the recent war in the country. Previously the territory had been divided by the 38th parallel of latitude after the end of World War II. In the area of about 38,000 square miles, Korea has a population of nearly 22 million, and the density of population is about 600 per square mile, the highest in the Far East. Geographically the land is mostly mountainous, and the cultivable area is only one fourth of the land while about 70 per cent of the population is directly dependent on agriculture for livelihood.

Both topographical and demographic aspects of Korea are thus not conducive to the future development of Korean economy which is characterized by various features of the underdeveloped economy such as low industrial productivity, low per capita income,<sup>2</sup> lack of domestic capital, and technical backwardness.

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<sup>1</sup> Throughout this thesis the term will be referred to simply as Korea or South Korea.

<sup>2</sup> Per capita income of Korea in 1958 was \$113. See Ninth Annual Report, Bank of Korea, Seoul, Korea, Dec. 1958, p. 44.

## BASIC ASPECTS OF KOREAN ECONOMY

2

However, there are some areas in which the Korean economy offers hope for the achievement of self-supporting standard: an appreciable amount and variety of natural resources, the potential increase in agricultural products with improved method of production, including some basic facilities such as reclamation and irrigation, and a comparably wide scope of literacy which is favorable for the absorption of modern technical know-how.

The measures that would have to be effected to develop the Korean economy to the stage of self-support are manifold and complex, and the degree and extent of the economic development are necessarily reflected in the trend of Korea's foreign trade. Still in her early stage of economic development, Korea is in great need of importing manufactured goods and some key raw materials required for the operation and expansion of the manufacturing industries. Essential though it is for a sound economy to finance imports by adequate exports, this is yet a distant possibility for the Korean economy.

The Korean imports in recent years have been four to five times that of her exports, mainly financed by foreign economic aid. Along with this serious imbalance of trade, the ratio of Korea's foreign trade amount to her gross national income gives an example of the weakness of Korean economy. In 1958, for instance, the amount of exports

## BASIC ASPECTS OF KOREAN ECONOMY

3

accounted for only 3.5 per cent of gross national income.<sup>3</sup> Such a small portion of exports in the country whose economic development depends upon ever greater amount of imports reflects the poverty of the Korean economy.

## 1. HERITAGE

Korea has emerged as a modern nation after more than three decades of Japanese occupation which came to an end when Japan lost World War II. During the occupation Japan had undertaken extensive modernization and industrialization of the Korean economy in such a pattern as to supplement her own political and economic ends. Therefore, though the Korean economy had been considerably developed by Japan, the economic structure of Korea at the end of the last war was not necessarily suited for the ultimate requirements of the independent economy of Korea. Moreover, what would have been a net economic benefit was largely damaged as a result of the withdrawal of Japanese technicians and management in the absence of the Korean counterpart to replace them and an extensive dismantling of industrial installations. As a consequence, the emancipation of Korea was immediately followed by the standstill of every economic activity coupled with general disorder of the Korean society.

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<sup>3</sup> Economic Survey, Seoul, Ministry of Reconstruction, 1959, p. 139.

## BASIC ASPECTS OF KOREAN ECONOMY

4

The situation was further aggravated by the partition of Korea by the 38th parallel of latitude which has eventually led to the establishment of separate regimes in north and south. With the partition, the traditionally complementary nature of predominantly industrial North Korea and overwhelmingly agricultural South Korea has been severed. Deprived of the majority of mineral resources and heavy industries of the northern part of the territory, Korea had to start an all out effort to make her economy self-sufficient within her limited area.

Until the formal independence of the Republic of Korea in August of 1948, the Korean economy was under the control of United States military government, and it was marked by a relative stability during this period. The slow progress toward further stabilization and development of the Korean economy suffered a vital set-back when North Korea cut off electric transmission to South Korea immediately before the independence. Since the South depended on North Korea for almost 90 per cent of its electric power, the severance of electricity rendered South Korea a country with practically no power.

In the face of these succeeding waves of adversity, Korea miraculously managed to survive economically by virtue of various governmental policies. These were primarily aimed at offsetting the economic handicaps incident to the

## BASIC ASPECTS OF KOREAN ECONOMY

5

separation of the territory and, as a result, economic activities reached the level of the pre-World War period by 1949.

The Korean economy scarcely reached its relative stability when the country was plunged into a disastrous war in June, 1950. The three years of warfare which swept the capital of the country twice have subjected the Korean economy to total destruction. The war brought about most demoralizing effects on the Korean economy, such as the uncontrollable spiral of inflation, depletion of domestic capital, rampant speculation, and the great influx of refugees from North Korea.

Upon the cessation of war, which left the division of the territory unsolved, Korea set out on the most strenuous task of reconstructing from scratch the war-battered economy. At the same time she was forced to maintain a large defense budget because of the political tension between the two conflicting regions. The economic and military commitments, although they are both vital for the survival of the country, are obviously not compatible, and, moreover, are beyond Korea's capacity to meet simultaneously. Only the vast amount of foreign economic aid extended by the United Nations and the United States during and after the Korean war has made it possible for the Korean economy to escape a complete collapse.

## BASIC ASPECTS OF KOREAN ECONOMY

6

The amount of foreign economic aid that Korea has received since 1945 is about 2.5 billion dollars, including military aid. In spite of this colossal amount of foreign economic aid, evidence of the physical achievements has been disproportionately small though the damage of the war has admittedly been a single great factor absorbing a substantial portion of the aid. The inefficient use of the aid fund by the government, the necessity of maintaining a large army, and the defective economic structure manifested in a chronic inflation have altogether accounted for the meagre fruition of economic aid.

Efforts are being made by the present government to cut the size of the army, liquidate the detrimental practice of political favoritism, and, above all, to put an end to the political appropriation of government fund including those accrued from foreign economic aid. There is high hope that the economic policies pursued by the new regime will be more practical, realistic, and conscientious for the cause of economic development. Already a change in the present foreign exchange rate to a more realistic one has been promised by the new government. This, when carried out, will imply the change of present rate of 650 hwan to one U.S. dollar to nearly 1,000 hwan or more to one U.S. dollar which is regarded as the realistic rate.

In the field of foreign trade, the alignment of

## BASIC ASPECTS OF KOREAN ECONOMY

7

domestic currency with dollar currency, by the adoption of a new foreign exchange rate, is expected to give an incentive to increasing exports. The establishment of the foreign exchange stabilization fund would be essential for this purpose, possibly with foreign loan. It is also expected that the volume of trade between Korea and Japan will be considerably increased as a result of the new attitude taken by the new government. Already there has been an exchange of trade missions between the two countries, and there is a general sign of thaw in the relationship. In spite of the persistent political and psychological strain between the two countries, the majority of Korea's foreign trade transactions has been effected with Japan. The fact that Japan has highly developed manufacturing industries, while the Korean industries are primarily in agriculture and mining, makes the two countries natural trade partners. Furthermore, both countries are situated geographically close each other, and this offers both countries a natural advantage for easy transportation. It must be, however, acknowledged that the pattern of foreign trade between Korea and Japan would be carried out on an entirely different basis from the one that had existed in the former days of occupation.

## BASIC ASPECTS OF KOREAN ECONOMY

8

## 2. ECONOMIC RESOURCES

A. Human Resources

Korea's human resources are characterized by overpopulation and technical backwardness. The rate of population increase of Korea is one of the highest in the world with 2 per cent per year, and the density of the population is double that of India or equal to that of Japan.<sup>4</sup> There has been an abnormal rise in the population of Korea since the end of World War II. Between 1945 and 1950, the population of Korea increased by 25 per cent to over 20 million.<sup>5</sup> There were two and a half million North Korean refugees and repatriates from Japan and other areas of South East Asia, and an additional one and a half million North Koreans fled to South Korea during the Korean war. Considering the present state of industrialization and small proportion of arable land, the population problem in Korea is indeed more serious than in any other country.

It is estimated that, out of an 8 million labor force, 6 million are engaged in agriculture, contributing 40 per

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<sup>4</sup> An Economic Programme for Korean Reconstruction, New York, United Nations Korean Reconstruction Agency (UNKRA), Feb. 1954, p. 24.

<sup>5</sup> The population of Korea as of the end of 1958 is 22.5 million. See United Nations Statistical Yearbook-1959, p. 31.

## BASIC ASPECTS OF KOREAN ECONOMY

9

cent of the total national product in value. The proportion of labor force employed in manufacturing and construction industries is 1.6 per cent of the labor force. Yet these industries account for 14 per cent of the total national product.<sup>6</sup> The per capita income in Korea in 1949 was \$86 which is higher than any other country in Asia enjoyed in calendar year of 1949 except Japan.

The technical backwardness of the labor force in Korea is inherent in the fact that more than 70 per cent of the total labor force is engaged in agriculture where the mode of production still remains relatively primitive. The small average acreage of farmers, topographical characteristics of the land, and the labor intensive method of agriculture have altogether worked against the mechanization of Korean agriculture. In non-agricultural areas also the lack of skills and managements is very conspicuous.

Under Japanese occupation the Korean laborers had no opportunity to acquire higher knowledge of skills or occupy responsible positions in management. The Korean government, conscious of this technical bottle-neck, has launched various schemes aimed at filling these technical and managerial gaps, such as the encouragement of technical education rather than the liberal education (which had been traditionally favored by the majority of the people), and the dispatch of trainees

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<sup>6</sup> An Economic Programme for Korean Reconstruction, op. cit., p. 24.

## BASIC ASPECTS OF KOREAN ECONOMY

10

to advanced countries for study.

Though lacking in training or experience, the Koreans possess, relatively, a great reservoir of talent and ability compared with many other newly born countries by virtue of a unique tradition of culture and a greater degree of access to modern society as well as civilization. Therefore, they are relatively well prepared to absorb modern technical know-how intellectually. This alone is a favorable asset for Korea's economic development.

B. Natural Resources and Related Industries

With the territorial partition which came with the liberation, economically complementary northern and southern halves of the country were turned into non-trading zones of occupation.

North Korea is endowed with abundant mineral wealth, hydro-electric potential, and coal; South Korea has important potentials such as tungsten and graphite. In exchange for fuel, power, fertilizers, lumber, metals, and some food from North Korea, South Korea had provided rice, barley, and many diversified manufactured goods. North Korea is more mountainous and has a much lower population density. At the time of partition, the population of South Korea was 16 million in the area of 37,000 square miles and the popula-

## BASIC ASPECTS OF KOREAN ECONOMY

11

tion of North Korea was a little over 9 million in the area of 48,000 square miles.

While the majority of heavy industries were concentrated in North Korea, South Korea had a considerable diversity of industrial products, providing as much as three quarters of total production in the light industries.

The Korean war inflicted a heavy damage to the productive plants in South Korea. It is estimated that there were substantial damages to 43 per cent of all industrial facilities, 41 per cent of power plants, and 50 per cent of coal mining facilities of South Korea. Also, extensive damage was done to civilian housing, public utilities, and all types of vessels and vehicles. The total amount of the damage was estimated to be about \$1.8 billion, which is equivalent to the entire value of South Korean output during the fiscal year of 1949.<sup>7</sup>

a. Agricultural Resources and Agricultural Industry

The potential scale of agricultural production in Korea is limited by the small arable area, the primitive method of production, and by over intensive use of human as well as natural resources.

Rice is by far the most important crop, followed by

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<sup>7</sup> An Economic Programme for Korean Reconstruction, op. cit., p. 27.

## BASIC ASPECTS OF KOREAN ECONOMY

12

barley. Other agricultural products such as pulses, potatoes, and commercial crops, are planted in the upper fields during the summer, and these fields are again used in the fall for the plantation of barley, naked barley, wheat and rye. Rice, which accounts in value for more than 60 per cent of the total agricultural output, is planted in the paddy fields during the rainy season. The agricultural raw materials which account for 5 per cent of the total agricultural output are mainly composed of cotton, mulberry leaves, tobacco, and ginseng.

The paddy lands and dry fields in Korea are 53 and 47 per cent of the total cultivated area respectively. Half of the rice paddy is fully irrigated, less than a quarter partly irrigated, and the remaining not irrigated at all. Productivity varies from 14 to 40 bushels per acre according to the degree of irrigation. While the over-all productivity is regarded the highest in the world except for Japan, the per acre productivity of the Korean rice paddy could be substantially increased by improving the present imperfect irrigation system.

The agricultural industry of Korea is characterized by the intensive use of farmers who use hand in cultivating the land except for plowing and harrowing when oxen are used. Their farming tools are mostly primitive and crude, and prone to be used over a too extensive period before being

## BASIC ASPECTS OF KOREAN ECONOMY

13

replaced. There is a great shortage in the number of oxen available for farming.

The most pressing problem for Korea is to increase her agricultural products in order to meet increasing demand for food-stuff. In spite of the fact that in the past the production of food-stuff, mainly rice, has been not sufficient enough to satisfy domestic requirement, Korea traditionally depended on rice and other food-stuff for a substantial share in her exports.

If, therefore, the Korean agriculture is to provide enough food-stuff to meet domestic demand and still leave some margin of surplus for exports, a great measure of effort must be taken to improve the productivity in agriculture, and this is chiefly the responsibility of the government. The measures that the government could take in this regard are the provision of an extensive farm program designed to: (a) teach farmers improved and even new techniques in using better types of seed or chemicals to prevent plant disease, (b) extend irrigation and reclamation, and (c) give financial assistance to the agricultural sector.

Both to increase agricultural products and to relieve the acute food shortage, the government could properly exercise its influence in bringing about a change in two important aspects. One is a more diversified use of the upper land for crops other than rice. The use of the upper land

## BASIC ASPECTS OF KOREAN ECONOMY

14

for rice plantation without the benefit of irrigation has resulted in poor harvest whenever there was a drought. The cultivation of such land could be better served if other crops such as potatoes and sweet potatoes were planted in place of rice. The growth of these crops is far less vulnerable to the vagrancy of the weather and yet their production would contribute to easing the food shortage problem considerably. Closely related to the diversified use of the upper land is the change of meal habit of the Korean people who have a traditional predilection for rice as main staple. In other words, the meal habit must be also diversified by consuming more wheat, potatoes, and other crops. The diversification of meal habit in the direction of using increased portion of other grains beside rice is essential not only from the viewpoint of lessening the dependency on the limited production of rice and thereby mitigating the shortage of food supply in the country, but also from the viewpoint of improving the nutrition composition of the people's diet. These two kinds of change would require the government to take a vigorous measure to convince the people of the merit and advantage that could be accrued from such changes.

b. Fish Resources and Fishing Industry

Korea is surrounded by the sea on three sides of the peninsula. Though no scientific research has been made, the

past operations prove that there are abundant fish resources in deep sea of the east and shallow sea of the south and west.

Traditionally fish has been the main source of animal protein for the Korean people's diet, and fishing a source of side revenue for the coast population. Prior to 1942 when the sardine disappeared from Korean waters, fisheries production of Korea ranked sixth in the world, and, apart from meeting domestic demand, was an important export item for Korea. Even today there is a tendency to depend on fish products for a substantial portion of the exports.

Fishing activities of Korea are generally confined to in-shore areas due to the lack of off-shore fishing vessels. Furthermore, most of the vessels engaged in fishing are outmoded. According to the statistics made in 1958, only 8 per cent out of 38,000 fishing vessels were equipped with motor power.<sup>8</sup>

The handling of the catch is highly inefficient and wasteful. There are no effective quality standards; storage facilities are inadequate; there is insufficient salt and ice for processing and storing; there are not enough transport facilities for readily moving the catch away from sea-ports.

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<sup>8</sup> Economic Survey, op. cit., p. 86.

## BASIC ASPECTS OF KOREAN ECONOMY

16

The improvement of the fishing industry and its exports, which ranks next only to mineral products in value, would require a number of measures such as modernization of fishing vessels, establishment of subsidiary industries, particularly ship building and ice manufacturing industries. Under the present circumstances where no significant participation of private capital can be expected, those problems must be met by a large scale of government subsidy and by foreign economic aid which has already played an important part in this regard.

Except for a minor outlet in some European markets, the exports of the Korean fish are limited to Asian countries, mainly Japan, Hong Kong, and Formosa. As in other primary products, the exports of fish to these concentrated markets are confronted by frequent difficulties resulting from the wide fluctuations in demand. When Japan's demand for Korean laver suddenly slumped in 1958, the effect was felt not only in the balance of trade of the country but also in the employment situation. Therefore, if Korea is to maintain her reliance on the fisheries for a major export item, much efforts must be also made in exploiting more foreign markets.

c. Mineral Resources and Mining Industry

There is a wide variety of mineral resources in Korea with more than 200 in kind, and the mining industry is the

## BASIC ASPECTS OF KOREAN ECONOMY

17

most important export potential. With the territorial division in 1945, South Korea was deprived of the access to the far greater mineral resources of North Korea. Table I shows the number of mines existing in North and South Korea at the time of the territorial division.

As shown in Table I the mineral products in South Korea are coal, copper, gold, graphite, and tungsten, and they are all important exports items with the exception of gold.

The deposit of tungsten in Korea is one of the largest in the world, and its export has been the most important source of foreign exchange revenue. When the exports of tungsten reached the peak in 1953, they accounted for about 70 per cent of the total exports value of Korea. The magnitude of the mineral exports for Korea is manifest in the fact that they accounted for the average of 60 per cent of the total exports from 1956 to 1958.<sup>9</sup>

The majority of mines in Korea are owned and operated by the government, though some progress has been made in transferring ownership to private enterprise. As of 1957, about 73 per cent of all mines belonged to the government. The delay in transferring ownership in recent years has been attributed to the lack of managerial ability as well as

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<sup>9</sup> Economic Survey, op. cit., p. 176.

## BASIC ASPECTS OF KOREAN ECONOMY

18

TABLE I  
COMPARATIVE DISTRIBUTION OF MINES  
IN NORTH AND SOUTH KOREA

Minerals	North Korea	South Korea
Alumite	4	2
Chromite	2	-
Coal	67	20
Copper	13	24
Gold	39	40
Graphite	149	35
Iron	19	5
Lead	45	30
Magnite	4	4
Tungsten	20	23
Zinc	15	10

Source: Korea - A Geographical Appreciation,  
Ottawa, Department of Mines and Tech-  
nical Surveys, 1951, p. 18.

## BASIC ASPECTS OF KOREAN ECONOMY

19

financial difficulties of private enterprise. However, in view of the predominant position held by the exports of minerals in the Korean economy, the transfer should not be carried out with undue haste. Transfer of the ownership will be justified only when the productivity of mining industry can be expected to improve as a result of such transfer.

With the exception of coal, most of the mining industries in Korea are for export purposes. This is natural, as in Korea there are no adequate manufacturing industries for using mineral products.

The susceptibility of mineral exports to the change in external demand poses a serious problem to Korea. Because of the large proportion of mineral exports of Korea, a slight fluctuation in external demand is bound to affect her balance of trade more than proportionately through its impact on the mineral exports.

When the price level of mineral products in the world market declined in 1958, the fall in the price was directly reflected in the diminished value of exports of minerals. Tungsten was hardest hit with a drop of 42.5 per cent, and the price of amorphous graphite fell by 39.2 per cent. The net result was either an increase in the volume of exports accompanied by a decrease in export value as in the case of tungsten, or a decrease in the volume of exports with a decreased output as in the case of amorphous graphite.

### C. Electric Power Industry

Before North Korea cut off electric power in 1948, South Korea had depended on the North for more than 90 per cent of total electricity supply. With the cut-off, Korea immediately set out to improve and expand existing electric power plants, and two power generating barges were lent by the United States. A year later Korea was producing about 655 million KWH as compared with 829 KWH million consumed before the cut-off.

This rather remarkable achievement in meeting the power crisis was largely attributed to the more improved utilization of three thermal plants that had previously been used only occasionally as stand-by sources of electricity and to the use of two power barges. Hydro plants were operating at pre-1948 level, contributing one third of the total electricity supply.

In the wake of the Korean war, power industry suffered another set back with severe damage in the entire power generating facilities. However, a vigorous effort on the part of the government assisted by the United Nations to rehabilitate and improve Korea's power industry made it possible to restore the pre-Korean war level by 1952. The improvement and expansion of electric plants since the end of the Korean war has been phenomenal with a steady increase in power generation every year. In 1956, electric power

## BASIC ASPECTS OF KOREAN ECONOMY

21

barges were no longer in service, and, by 1958, the total electric power generated was double that of the pre-1948 level.

Table II shows a marked increase in power supply during the period of 1950 to 1958, but the increase in fact was not so much due to the physical expansion of power plants as to the improvement of already existing power plants.

At present the electric plants in Korea are operating at merely 46 per cent of their potential capacity. The capacity generation of hydroelectric plants is inherently impeded by the dry season while the operation of thermal plants suffers from an unsteady supply of coal. Besides the under-utilization of the electric plants, the inadequate facilities for electric distribution are causing a great waste of electricity every year. Therefore the improvement of existing power plants and distribution system, rather than increasing the number of plants, should be the main concern in developing Korea's power industry.

One important problem facing Korea's power industry concerns the relative advantage and choice of emphasis between hydro and thermal plants. The central problem involves the relative cost of producing a KWH required by the two methods. Though hydro plants necessitate more investment for producing per KWH, they have other important compensating factors. The most important of these is the fact that hydro

## BASIC ASPECTS OF KOREAN ECONOMY

22

TABLE II  
ELECTRIC POWER GENERATED BY PLANTS<sup>10</sup>

In thousand KWH

Year	Hydro	Thermal	Barge	Total
1950	97,026	259,350	64,290	420,666
1951	58,688	87,910	190,032	336,630
1952	233,740	174,418	231,519	639,677
1953	394,536	129,798	211,731	736,065
1954	513,241	102,353	265,502	899,096
1955	478,064	186,765	214,443	879,272
1956	517,019	601,289	-	1,118,308
1957	419,253	903,760	-	1,323,013
1958	614,242	897,431	-	1,511,673

Sources: Korean Economic Charts, op. cit., p. 54.  
Korean Economic Review, op. cit.,  
pp. 126-127.

<sup>10</sup> Korea has 12 electric power plants of which 6 are hydro, including one built in 1957, and the other 6 are thermal, including 3 completed and put into operation in 1956.

## BASIC ASPECTS OF KOREAN ECONOMY

23

does not require fuel. This is a very significant factor for the Korean economy because the increase in fuel requirement means direct increase of coal imports with the scarce foreign exchange resources of Korea. Another relevant consideration is the lower labor cost per KWH in hydro as compared to thermal plants. And also the longer depreciation period for hydro than for thermal plants should be taken into account as a factor reducing the cost.

In this connection, an allowance would have to be made for the relatively high interest rate in capital-scarce country, and for the alternative uses of capital. On the basis of these considerations and of the long-run need for Korea to conserve as much foreign exchange as possible, the general frame of policy on the matter should be to rely as much as possible on hydro and as little as possible on thermal method in so far as this is feasible. There are some important benefits incident to the development of hydro plants such as flood control and increased availability of water for irrigation.

The growth of power industry is a major determinant of the pace of industrial development. While Korea has succeeded in increasing power production considerably, the present level of power generation is not yet adequate for industrial requirements. The United Nations Korean Agency has estimated in its report the need of electricity of Korea

## BASIC ASPECTS OF KOREAN ECONOMY

24

in the fiscal year of 1958-1959 as 1,960 million KWH,<sup>11</sup> but, against this projected need, the actually realized production of electricity during this period was only 1,511 million KWH, or less than 80 per cent of the projected goal.

In spite of the lag in power production, the power consumption in the past few years has shown an increase of 15 per cent per annum, and the consumption rate of electricity is expected to increase furthermore as progress is made to substitute electricity for other forms of energy and, above all, to facilitate industrial expansion.

#### D. Manufacturing Industry

The prevalent pattern of manufacturing industry in Korea is cottage industry in which handicraft is characteristic of the method of production. For a country with scarce capital and no modern technical know-how in general, the existence and development of handicraft and small-scale industries must be accorded a prime consideration. The majority of the small industries operate on the basis of self-ownership, and this is well evidenced in the ratio of wage earning and self-employed laborers which is 37 to 63. The number of laborers employed by average manufacturing firms is only 37. The total number of laborers employed by manu-

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<sup>11</sup> An Economic Programme for Korean Reconstruction, op. cit., p. 363.

## BASIC ASPECTS OF KOREAN ECONOMY

25

facturing industry is about 150,000, or approximately 1.6 per cent of the total labor force in Korea, and they share 13 per cent of the gross national product.<sup>12</sup> This implies that the development of the manufacturing industry will greatly contribute to increasing the national product.

As indicated in Table III, a predominant proportion of the manufacturing industries in Korea is engaged in the production of consumer goods. The persistently great proportion of the consumer goods industries partially reflects the attitude of the government in increasing the production of consumer goods in order to satisfy immediate need and to reduce the imports of those goods.

There have been some achievements in the field of heavy industry with the assistance of foreign economic aid such as the establishment of ship-building, iron smelting and steel industries.

Foreign economic aid has also assisted in setting up fertilizer plants, flat glass plant aside from aiding heavy industry.

The food processing and textile industries are the leading industries in Korea, comprising about half of the entire manufacturing industries. In a number of the under-

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<sup>12</sup> Economic Survey of Asia and Far East, ECAFE, 1959, p. 177.

## BASIC ASPECTS OF KOREAN ECONOMY

26

TABLE III

PERCENTAGE COMPOSITION OF VALUE  
ADDED IN MANUFACTURING INDUSTRY

1955 price = 100

Products	1955	1956	1957	1958
Consumer goods.....	69.3	69.8	70.1	67.4
Foods, beverage, and tobacco.....	27.4	28.6	26.9	26.3
Textiles.....	19.5	20.0	22.3	21.8
Foot wear, and other wearing items.....	6.5	6.5	6.0	5.6
Housing materials.....	2.8	2.6	3.2	3.2
Papers.....	7.2	6.5	6.0	4.6
Leather and rubber products.....	5.9	5.6	5.7	5.9
Producer goods.....	24.2	24.2	24.4	25.3
Chemical products.....	9.3	8.3	8.5	9.0
Ceramic products.....	4.0	4.2	3.8	4.9
Metal products.....	3.9	4.8	5.4	5.1
Machineries.....	7.0	6.9	6.7	6.3
Others.....	6.5	6.0	5.5	7.3
Total.....	100.0	100.0	100.0	100.0

Source: Economic Survey, op. cit., p. 59.

## BASIC ASPECTS OF KOREAN ECONOMY

27

developed countries of Asia, the relative value added in the food and textile industries is so predominant that it offers a reasonable barometer of the state of industrialization.

Therefore, the over-all growth rate of manufacturing industry is largely affected by the growth rate of these two industries. In 1958, a sudden slackening in the growth rate of manufacturing industry was attributed to the fall in the expansion rate of the textile industry from the previous year's 32.8 per cent to 4.4 per cent.<sup>13</sup> In contrast, however, two significant phenomena appeared in the slow down of manufacturing industries: the productivity per unit of equipment and labor showed a rising trend, indicating an increased mechanization of the industry, and the rate of growth for various commodities revealed a marked tendency towards equalization within this sector of the economy, which could be interpreted as an indication of a more balanced growth of the Korean economy in recent years.

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<sup>13</sup> Economic Survey, op. cit., p. 51.

## CHAPTER II

## FOREIGN TRADE IN KOREA

## 1. KOREA'S EXPORT POTENTIALS

Korea's foreign trade assumes a formidable challenge when measured against her limited resources relative to the production requirements, the need to develop a new pattern of foreign trade in modification of the one developed by the Japanese. The most careful management of the resources will be essential to build up a sound export trade as a major step toward the economic development.

The commodity exports since the end of the Korean war have been astonishingly small in proportion to the imports as indicated in Table IV. The widespread gap between the exports and imports has been covered by foreign aid and by the proceeds accrued from the invisible trade of the government. The latter includes the advance of the hwan currency in exchange for the dollars to the United Nations forces, and this has been a major source of foreign exchange for Korea, the amount of which usually exceeding that of the exports.

The main cause for the decreasing trend of exports, as can be noticed in Table IV, is attributed to the

## FOREIGN TRADE IN KOREA

29

TABLE IV  
 EXPORTS AND IMPORTS VALUES OF KOREA SINCE 1953  
 (FOREIGN AID INCLUDED)

In million U.S. dollars

	Imports	Exports
1953	345.0	40.0
1954	342.0	24.0
1955	341.0	18.0
1956	386.0	25.0
1957	442.0	22.0
1958	378.0	16.7
1959	283.0	19.0

Source: United Nations, Statistical Yearbook 1960, pp. 388-389.

## FOREIGN TRADE IN KOREA

30

excessive reliance on mineral exports. The decline of demand for minerals in recent years in world markets has seriously undermined Korea's mineral exports. Accordingly, the total exports of Korea, to which the minerals contribute the largest proportion in value, have considerably declined.

Rice had been traditionally the major export item for Korea. Before the Korean war the exports of rice accounted for more than half of the total exports. In 1951, however, the exports of rice diminished to 8.6 per cent of the total exports. Since the Korean war Korea has been forced to import rice because of the insufficient production of rice and other grains. The rapid increase of population after the Korean war has been another factor exerting further pressure on the demand for food-stuff.

In the absence of a satisfactory irrigation system, only fortunate weather has enabled Korea to enjoy a good harvest of rice and to export some of its amount. For instance, in 1959 the amount of food exports from Korea sharply increased as a result of favorable weather condition during the previous year. On a steady basis, however, there is no prospect of increasing exports of rice unless the production of rice is considerably increased through improved method of production and more extensive irrigation, and at the same time the propensity of rice consumption substantially curved in favor of consuming more of other grains.

## FOREIGN TRADE IN KOREA

31

While the exports of rice present no immediate prospect of increase, the exports of fishery products have gained a growing importance. The large portion of the fishery products that are exported consists of agar-agar, sea-weeds, dried laver, live as well as canned fish. The exports of fishery products in recent years have steadily increased, reaching as much as 20 per cent of the total exports in value during 1958. With the improvement and expansion of the fishery industry it would be possible for Korea to become again a major fish-exporting country.

The minerals are by far the most important export item for Korea. More than half of the total exports from Korea since the end of the Korean war has been consisted of minerals as indicated in Table V.

The item "crude materials" in Table V refers to the mineral ores that are exported without being processed, of which the main components are tungsten, graphite, iron ores, limestone, kaolin and talc. The mining industry in Korea is virtually export-oriented except for iron ores for which there is some demand arising from the operation of Samwha Iron Works and Changhang Smelter. The major outlets for the Korean minerals are found in Japan and the United States. Tungsten is a leading mineral for exports, and its potential deposit is regarded one of the largest in the world. When the production of tungsten reached its peak in 1953

TABLE V  
 VALUE OF EXPORTS BY PRINCIPAL COMMODITIES  
 AND/OR BY COMMODITY GROUPS  
 (Monthly Averages)

In million hwans

	1953	1954	1955	1956	1957	1958	1959
Food.....	52.0	67.0	43.0	58.0	152.0	159.0	251.0
Crude materials except fuels.....	235.0	427.0	566.0	842.0	586.0	590.0	744.0
Chemicals.....	16.0	32.0	47.0	36.0	24.0	1.0	11.0
Manufactured goods.....	18.0	26.0	65.0	108.0	169.0	165.0	161.0

Source: Economic Survey of Asia and the Far East 1960, ECAFE,  
 Bangkok, 1961, p. 151.

## FOREIGN TRADE IN KOREA

33

with 4,985 metric tons, it represented 13 per cent of the world production of tungsten, exceeded only by the United States and Mainland China.<sup>1</sup> A considerable increase in the exports of tungsten, therefore, should be possible by exploiting more markets for the mineral.

So long as the primary products continue to be the major export items, Korea's exports will inevitably be subject to a wide fluctuation at the mercy of foreign demand conditions. Only the expansion of her manufacturing industry, geared to producing more diversified goods suited for exports, would lessen such fluctuation. This would require an extensive study of demand trend in world market for those goods that Korea could expect to be able to produce within a feasible scope of readjustment in the productive structure.

The exports in manufactured goods since the cease-fire in 1953 have shown a slight increase, but the increase can hardly be said to reflect any significant change in the pattern of Korea's export trade which is still heavily leaned on primary products as indicated in Table V. Moreover, the increase has tapered off since 1957 indicating the manufacturing industry in Korea has reached a point wherefrom further increase in the production of manufactured goods for exports is not feasible without overcoming the technical and

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<sup>1</sup> United Nations, Statistical Yearbook 1959, 1960, p. 144.

managerial bottle-necks in the industry. The annual increase in the exports of manufactured goods prior to 1957 is attributed to the repair and reconstruction of the war-damaged manufacturing industry rather than to the corresponding expansion of the manufacturing industry itself.

It has been noted that invisible trade, along with foreign economic aid, plays a great part in maintaining Korea's balance of payments. Such predominant role of invisible trade is peculiar to the case of Korea resulting from the existence of the United Nations forces in the country. As such, it is expected that the amount of receipts from invisible trade will diminish as the forces gradually pull out of the country.

The maximum utilization of available resources for exports calls for measures to improve the production in primary industry on the one hand and to diversify the present export industry as an integral part of industrialization on the other.

The increase of production in the primary industry is to the Korean economy a matter of immediate concern. Not only would this offer an increased margin of primary products available for exports but also an ultimate source of capital formation within the country. Thus seen, the development of the primary industry is clearly a pre-requisite to a sound industrialization of the Korean economy. A quick

## FOREIGN TRADE IN KOREA

35

yield of changes in productivity of the most accessible and naturally productive resources is indeed essential for a period of industrialization.<sup>2</sup>

At the same time, a due process should be taken in the direction of diversifying the export industry. In this regard, an expansion of small-scale industries merits a special consideration in view of technical advantages accompanying its process.<sup>3</sup>

The exports from Korea frequently suffer not only because of their concentration on a few selected products but also of their concentrated markets. Even within the present level of production for exports the actual amount of exports is sure to increase if Korea manages to secure more diversified markets, thereby lessening the vulnerability to the change in foreign demand. In the past Japan and the United States have provided the major markets for the Korean exports, accounting for approximately 50 and 20 per cent respectively.

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<sup>2</sup> W.W. Rostow, The Stages of Economic Growth, London, Cambridge University Press, 1960, p. 54.

<sup>3</sup> More discussion on the small-scale industry will be taken up in the latter part of this Chapter as well as in Section III, Chapter IV.

## FOREIGN TRADE IN KOREA

36

## 2. THE POST-KOREAN WAR BALANCE OF TRADE

The foregoing study reveals three overriding characteristics inherent in the foreign trade of Korea: the small scale of exports as compared with imports, the primary nature of exports, and the predominant proportion of foreign aid in the balance of payments. Added to these are the abnormally high receipts of invisible trade accruing from the government transactions with United Nations forces stationed in Korea.

For the underdeveloped countries the excessive imports over exports are, to a large extent, a result of the efforts to accelerate the pace of economic development. The economic policies geared to this purpose would necessarily exert an upward pressure on imports and downward pressure on exports. However, the above logical inference cannot be applied to the case of Korea, because, in most cases, the increase in imports since the end of the Korean war has been necessitated more by the acute shortage of the consumption goods than by well-planned industrial requirements.

It is very unfortunate that Korea has failed to capitalize fully on the precious resources of foreign aid for achieving any significant degree of industrialization. The goal of long-run increase in the industrial production and of the greater degree of economic independence through industrialization has been sacrificed to the short-run balance of payments.

Basically, the smallness of Korean exports is related to the limited size of export industry. In general the underdeveloped countries suffer from what Professor Hirschman calls a low exportability,<sup>4</sup> that is, low productivity in the export industry, pressure on the marginal supply of exportable goods, inelasticity of foreign demand, and the unfavorable bargaining position in competing with the products of already industrialized countries. Even if Korea attains a reasonable production level in the export industry, it is likely that a rapidly increasing population will exert a formidable pressure on the exportable surplus.

In order to expand her export industry against these various difficulties, Korea will have to import far greater amounts of capital goods than has been the case in the past. There is hope that improvement in the primary industries will make it possible to increase the volume of exports, such as minerals, and to lessen the volume of imports, mainly food-stuffs. This would divert more available resources for importing much-needed capital-goods.

#### A. The Balance of Payments

The peculiar feature of Korea's balance of payments since the end of the Korean war is that, as indicated

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<sup>4</sup> A.O. Hirschman, The Strategy of Economic Development, New Haven, Yale University Press, 1958, p. 170.

## FOREIGN TRADE IN KOREA

38

in Table VI, in spite of the extreme unbalance of trade the vast gap has been, to a very great extent, filled by foreign aid, both public and private, and, to a lesser extent, by the receipts from the government transactions with the United Nations forces. The amount of receipts from the government transactions has usually exceeded that of visible exports while the deficit incurred by the visible as well as invisible trade has been very much offset by foreign aid.<sup>5</sup> Thus Korea's balance of payments leans heavily on foreign aid and, to a lesser extent, on the government transactions.

The underdeveloped countries in the process of economic development are bound to suffer from a persistent imbalance of payments. Invariably they face the continuous need of importing capital goods in excess of their capacity to export for industrialization and also tend to adopt fiscal and monetary policies that are inflationary in nature and, therefore, not conducive to the favorable balance of payments.

The ultimate remedy for the unfavorable balance of payments of Korea must be sought in the expansion and diversification of export industry, and the means for the latter must be derived from within the country. In the absence of a desirable level of domestic capital formation, Korea had

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<sup>5</sup> United Nations, Economic Survey of Asia and the Far East 1960, ECAFE, 1961, p. 156.

TABLE VI  
BALANCE OF PAYMENTS

In million U.S. dollars

	1953	1954	1955	1956	1957	1958	1959
Goods and transportation	-307.8	-219.6	-310.9	-354.8	-420.3	-359.2	-281.2
Investment income	.5	1.3	1.6	1.7	2.5	2.8	3.6
Other services	27.4	31.5	41.1	22.2	30.3	45.1	50.1
Private donations	.1	12.1	16.8	22.8	29.1	26.4	17.2
Official donations	194.2	145.9	240.9	298.1	355.8	322.6	226.7
Official capital:							
Long term capital	-	-	-5.6	-	-	-	-1.6
Short term capital and gold	85.7	29.1	14.4	9.7	6.5	-38.2	-15.2
Net errors and omissions	-.1	-.3	.7	.3	-3.9	.5	.2

Source: United Nations, Statistical Yearbook 1960, 1961, p. 422.

## FOREIGN TRADE IN KOREA

40

to rely largely on the flow of foreign aid to compensate the severe shortage of capital.

B. Exports versus Imports

There has been little diversification of the export industry, no significant efforts on the part of both government and private traders to bring about the expansion of foreign markets. This is reflected in virtually unchanged pattern of Korea's foreign trade since the end of the Korean war as can be noticed in Tables VI and VII.

The exports of Korea have been limited to a negligible scale whereas the imports have been increasing every year, mostly in consumption goods. In other words, the greater ratio of consumption goods in the imports has largely accounted for the unbalance of trade and for a tardy progress in economic development of Korea. Table VII shows that an average of more than 80 per cent of total imports has been either in direct consumption goods or in consumption-oriented goods. The fact that the imports of direct consumption goods are mainly consisted of food-stuff explains the imminent necessity of improving the agricultural sector of the Korean economy. With due implementation of various measures to improve productive method it is yet possible for Korea to provide more agricultural products, thereby reducing the amount of agricultural imports. The improvement of the

TABLE VII  
COMPOSITION OF IMPORTS

In million hwans

	1953	1954	1955	1956	1957	1958	1959	1960 (1, half)
(1) Consumption goods:								
a. Food	9,849	3,318	5,423	5,415	11,059	8,485	17,711	11,741
b. Others	2,543	5,947	11,609	10,472	8,758	9,901	12,802	6,778
(2) Materials chiefly for consumption	7,169	10,661	22,814	11,528	11,124	17,012	108,620	73,355
(3) Materials chiefly for capital goods	1,345	2,665	2,392	1,453	1,975	2,689	23,733	12,719
(4) Capital goods	1,423	5,177	5,971	5,935	4,952	5,477	29,586	15,901
Percentage distribution:								
(1)   a.	44.1	11.9	11.2	15.5	29.2	19.5	9.2	9.7
b.	11.4	24.4	24.1	30.1	23.1	22.7	6.7	5.6
(2)	32.1	38.4	47.3	33.1	29.4	39.0	56.4	60.9
(3)	6.0	9.6	5.0	4.2	5.2	6.2	12.3	10.6
(4)	6.4	18.6	12.4	17.1	13.1	12.6	15.4	13.2

Source: United Nations, Economic Survey of Asia and the Far East  
1960, ECAFE, 1961, p. 147.

agricultural industry is not merely a pre-requisite but also a key to the sound economic development as well as to the more independent trade structure of Korea.

### C. Trade Partners

Korea's foreign trade pattern had been set up during the Japanese occupation to supplement Japan's industrial requirements, and, with the industrial structure little modified, Korea finds Japan the most accessible trade partner. In spite of the frequent disagreements and still existing element of antipathy toward Japan, Korea has maintained a close trade relationship with the former.

Japan is the largest export and second largest import markets for Korea, accounting for about 50 and 15 per cent respectively. Food-stuff and minerals find their natural markets in Japan. Some specific exports items can find their demand exclusively in Japan, for example, Korea's amorphous graphite and agar-agar. On the other hand, Korea imports capital goods from Japan.

The next important trade partner is the United States which provides the largest portion of Korea's imports, and is the second largest outlet for exports. Other important trade partners are mainly in Asia such as Hong Kong, Formosa and Thailand as shown in Table VIII.

TABLE VIII

## VALUE OF EXPORTS AND IMPORTS BY PRINCIPAL COUNTRIES

In thousand U.S. dollars

	1956		1957		1958	
	Exports	Imports	Exports	Imports	Exports	Imports
Formosa	228	2,978	268	1,320	160	1,840
Japan	8,147	9,156	10,820	11,635	9,772	14,207
Hong Kong	1,934	5,097	3,821	2,824	1,274	1,859
Philippines	-	1,244	-	1,828	-	1,215
India	-	108	-	361	-	901
Thailand	-	43	-	3,778	-	951
Malaya	-	855	-	336	-	330
Singapore	32	-	101	-	30	-
United Kingdom	895	2,466	760	1,169	607	1,740
France	1,270	468	759	185	45	327
Italy	299	1,894	264	1,303	135	4,212
West Germany	399	4,459	586	2,624	93	3,356
Norway	-	271	-	39	-	118
Sweden	34	725	138	488	15	592
Belgium	3	1,701	31	367	1,150	691
United States	10,912	20,976	4,119	25,053	2,860	24,343
Netherland	421	787	161	1,097	68	1,424
Canada	-	1,404	-	247	-	303
Africa	-	42	-	9	-	542
Australia	-	187	-	87	-	777
Others	21	3,805	374	2,426	243	4,830

Source: Economic Survey, p. 136.

Note: Based on custom records. The imports include both private and government imports, but exports exclude those by the government.

## FOREIGN TRADE IN KOREA

44

The expansion of foreign markets for Korean exports goods is as important as any other domestic measures geared to promoting her exports. Although there is a limit to the amount of export goods that Korea can supply under existing economic structure, the spread of foreign markets even for a given kind of exports will considerably contribute to increasing the amount of exports and further to mitigating the impact of demand fluctuation for those goods. Table VIII shows that Korea, while importing from more than 20 countries, has exported to only half this number of countries. Therefore, a priority should be given to seeking new export markets in those countries which are currently trading with Korea.

## 3. FOREIGN ECONOMIC AID

An extensive inflow of foreign aid has been to a great measure responsible for the very survival of the Korean economy, and it still represents an important source on which Korea depends for further economic development. No other country in Asia has been more dependent on external aid than Korea has,<sup>6</sup> which is amply reflected in the exceedingly high ratio of the amount of foreign aid to the gross

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<sup>6</sup> United Nations, Statistical Yearbook 1959, p. 428. Since 1945 Korea has received per capita aid of \$61.

## FOREIGN TRADE IN KOREA

45

national product during the years since the Korean war as shown in Table IX.

The total amount of foreign aid that Korea has received between 1945 and 1958 is 2,468 million dollars as shown in Table X. Of this amount 1,373.4 million dollars were for economic or relief aid and the remaining for military aid.<sup>7</sup> The GARIOA and CRIK aids were extended for relief purposes at the end of World War II and at the end of the Korean war respectively, their combined amount representing 40 per cent of the total foreign aid and 72 per cent of non-military aid that Korea has received since 1945. This makes the ratio of foreign aid that has been devoted to the economic purpose only 20 per cent of the entire amount of foreign aid.

The economic aid extended by ECA and SEC, mostly in the form of consumption goods, was primarily for the purpose of bringing the Korean economy to stability through supplementing the government deficit or through supplying such goods that were in acute demand, mainly fertilizers and food-stuff. In view of the fact that these goods represent important price indicators in the Korean economy, the aid under these programs has considerably mitigated the price inflation. At the same time, the

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<sup>7</sup> Ibid., p. 428.

## FOREIGN TRADE IN KOREA

46

TABLE IX

FOREIGN AID RECEIVED AND NON-AID IMPORTS  
OF MERCHANDISE COMPARED  
WITH GROSS NATIONAL PRODUCT

In billion hwans

	GNP (A)	IMPORTS (B)	AID ARRIVALS (C)	B/A	C/A
1955	947.3	48.2	118.4	5.1	12.6
1956	1,217.2	35.4	163.4	2.9	13.2
1957	1,618.9	37.9	191.4	2.3	11.9
1958	1,670.5	43.6	160.6	2.6	9.6

Source: Economic Survey, op. cit., p. 156.

Note: Hwan amount of aid arrivals  
is converted at the official  
rate of 500 hwan to one U.S.  
dollar.

## FOREIGN TRADE IN KOREA

47

TABLE X

SUMMARY OF FOREIGN ECONOMIC AID AND RELIEF GOODS  
RECEIVED AS OF 1959 (MILITARY AID INC'D)

	Amount	Percentage
GARIOA <sup>8</sup>	502.0	20.4
ECA, SEC	109.2	4.4
CRİK	457.4	18.5
UNKRA	119.4	4.9
ICA	1,153.8	46.8
P.L.480	126.4	5.2
Total	2,468.2	100.0

Source: Economic Survey, op. cit., p. 154.

<sup>8</sup> The abbreviations are for the followings:

GARIOA - Government Appropriation for Relief in Occupied Area  
 ECA - Economic Cooperation Administration  
 SEC - Supplies, Economic Cooperation  
 CRİK - Civil Relief in Korea  
 ICA - International Cooperation Administration  
 P.L.480- The United States Public Law 480

## FOREIGN TRADE IN KOREA

48

operation of the government budget was greatly benefited by the transfer of a substantial amount of the aid into the government account. In the fiscal years of 1949 and 1950, nearly half of the ECA aid was allotted for meeting the government deficit.<sup>9</sup>

Through 1956 the purchase of American agricultural surplus has been effected pursuant to the United States Public Law 480. Under the agreement between the two countries the Korean government has appropriated 90 per cent of the receipts accruing from the sale of the agricultural products for strictly military purpose. As it is, the main purpose of this aid was to help the Korean government undertake an increased share of Korea's defence expenditure. Though military in its aim, this tied-grant from the United States has had the effect of relieving the Korean economy of the pressure of acute food shortage.

The most concrete contributions in reconstructing and developing the Korean economy were to be made by the aids under UNKRA (1950-1958) and ICA (1953- ) programs as shown in detail in Table XI. Except the aid received under P.L. 480, the ICA aid is the only economic aid now being received by Korea. As can be observed in Table XI, a greater emphasis was placed by these aids on the improvement and

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<sup>9</sup> Annual Economic Review, op. cit., p. 207.

## FOREIGN TRADE IN KOREA

49

TABLE XI

PROJECT, NON-PROJECT AND TECHNICAL ASSISTANCES  
PROVIDED BY ICA AND UNKRA AIDS DURING 1958

In thousand dollars				
<b>A. Project Assistance</b>				
1. ICA				
	Amount		Percentage	
Agriculture and natural resources	3,859		6.5	
Industry and mining	21,377		36.2	
Transportation	20,139		34.4	
Health and sanitation	3,698		6.0	
Education	1,739		3.0	
Public administration	1,055		1.8	
Social welfare	4,797		8.1	
Miscellaneous	2,187		3.8	
<b>Total</b>	<b>58,850</b>		<b>100.0</b>	
2. UNKRA				
	Goods	Services	Sum	Percentage
Fisheries	18.8	11.2	30.0	-
Industry	155.9	723.6	879.5	16.6
Power	-	.8	.8	-
Mining	2,134.2	180.6	2,314.8	44.2
Education	24.7	20.2	44.9	.9
Health and sanitation	1,645.6	339.0	1,984.6	38.3
<b>Total</b>	<b>3,979.2</b>	<b>1,273.8</b>	<b>5,253.0</b>	<b>100.0</b>

Continued

## FOREIGN TRADE IN KOREA

50

TABLE XI (Continued)

## B. Non-project Assistance

	Amount	Percentage
ICA		
Agricultural commodities and fertilizers	90,522	45.0
Fuels	35,396	17.4
Raw materials and semi- finished products	56,828	28.2
Machineries and vehicles	13,497	6.4
Others	5,498	2.5
Total	201,739	100.0
UNKRA		
Construction materials	382.5	16.0
Tires, tubes	497.4	19.6
Linen fibres	364.5	15.4
Others	1,152.1	49.0
Total	2,396.5	100.0

## C. Technical Assistance

	Amount	Percentage
ICA		
Agriculture and natural resources	689	13.6
Industry and mining	1,011	20.0
Transportation	90	1.8
Health and sanitation	87	1.7
Education	1,435	28.4
Public administration	380	7.5
Others	1,364	27.0
Total	5,056	100.0

Source: Economic Survey, op. cit., pp. 160-164.

## FOREIGN TRADE IN KOREA

51

establishment of the wide range of basic industries, small-scale industries, basic utilities and on various social projects.

The economic aids received through these programs can be separated into three categories: project, non-project and technical aids. As of the end of 1958, out of 1,399.6 million dollars provided by UNKRA, ICA and P.L. 480, 30 per cent was for project aid, 69 per cent for non-project aid, and one per cent for technical aid. In the absence of significant domestic capital formation the economic aids by UNKRA and ICA have provided Korea the most capital resources with which to facilitate a wide scope of industrial as well as social investments.

Some tangible achievements of these aids are realized in the completion of the only smelter capable of refining all mineral ores currently produced in the country, of a fertilizer plant plus another one under construction, of a cement plant, and of a flat glass plant. All those industries represent the most essential sector of the Korean economy whose products hitherto had to be imported, and so their production will greatly reduce the degree of the dependency of the Korean economy on further economic aid from outside.

The foreign economic aids have also provided the Korean economy the unique source of financing its vast

## FOREIGN TRADE IN KOREA

52

requirements for the imports while the exports of goods and services of the country have accounted for but an insignificant portion in paying for the imports. The magnitude of foreign economic aid is best reflected in the balance of payments during the post-Korean war period when the amount of foreign aids has been four to five times that of the exports, thereby covering the great gap in Korea's balance of payments. In 1958, for instance, a deficit of 308,407 thousand dollars in goods and services was covered by the excess receipts of 345,785 thousand dollars by foreign aid, and this resulted in a surplus of 37,378 thousand dollars in the current account.<sup>10</sup>

The actual utilization of the aid fund has been conducted through close consultation between the Korean government and the representatives of aid authority, though the former has usually reserved the right regarding the final allocation of the aid fund. Unfortunately, however, the maximum effective utilization of the aid resources has not been always assured because of the inefficiency in management and sometimes because of political involvement. The unnecessary waste of the aid fund and a delay in the completion of project have been not uncommon as was the case with the construction of a fertilizer plant at Chung-ju.

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<sup>10</sup> Korean Economic Charts, Bank of Korea, 1959, p.48.

## FOREIGN TRADE IN KOREA

53

In an effort to eliminate these undesirable elements the Korean government introduced in 1958 a law designed to control foreign aid resources, providing a special committee to evaluate the merit of project for which an aid has been allocated.

An efficient management of the foreign aid resources as well as the elimination of detrimental political influence will be a determinant of the direction and extent of the economic development. The future trend of foreign aid is hinged on the international and internal policies that will be pursued by the aiding country. It will be utterly illusory for Korea to entertain the undue hope for a prolonged inflow of the foreign aid as a sole basis of her economic development.

#### 4. THE ROLE OF GOVERNMENT

The prospect of industrialization in the under-developed countries is directly limited by the scale of imports of capital goods. Neither the level of domestic capital formation nor the scale of exports are adequate in those countries to meet such requirements on their own. This fact offers the basic reason for the need of foreign economic aid or foreign capital investment.

The present state of exports of Korea, mainly consisting of primary products, is far from adequate in meeting

## FOREIGN TRADE IN KOREA

54

her import requirements. The only conceivable solution would be, aside from improving the productivity of export industry currently responsible for the major exports, to diversify the export industry through further industrialization.

The various underdeveloped features of the Korean economy are such as to require a powerful role of the government to pave the way for industrialization. Professor Viner has made an apt summary of the necessity for government action in the underdeveloped countries:

In some countries the masses of people are too poor, too ignorant, and too bound by old patterns of behavior, and if there is to be any progress, it must be initiated, and, for a time at least, largely conducted from above.<sup>11</sup>

In general terms, the aim of the governments of the underdeveloped countries is to telescope, so far as is possible, all the economic achievements of the industrially advanced countries within the shortest future without the benefit of socio-economic and technological advantages that these countries had enjoyed in the course of their evolutionary development. It must be noted that even in these industrially advanced countries the first step toward industrialization had been assisted and even initiated by the governments at

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<sup>11</sup> Jacob Viner, America's Aims and the Progress of Underdeveloped Countries, Chicago, University of Chicago Press, 1952, p. 199.

various times between 1775 and 1850.<sup>12</sup> In the underdeveloped countries for whom the word industrialization has more than a sheer economic connotation, the necessity of such assisting and initiating role of the government is necessarily greater than had been the case with the industrially advanced countries. In the underdeveloped countries economic development is regarded not only as an attempt to raise living standards for the broad masses of people but further as a political drive, closely associated with the cravings after economic and political independence, and, as such, the term is widely identified with the pursuit of a government plan or program.<sup>13</sup>

The improvement of the export industry geared to increasing and diversifying its products should be the responsibility of the government in the underdeveloped country where the export promotion makes for a corner-stone of a comprehensive program for the economic development. The emphasis and direction of the measures to be undertaken by the government, however, must take into consideration the present stage of economic development with respect to the export potentiality.

For Korea the predominant proportion of the primary industry and its absolute part in her exports constitute the

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<sup>12</sup> H.G. Aubrey, Deliberate Industrialization, in "Social Research", Vol.16, No.2, June 1949, pp. 158-182.

<sup>13</sup> G. Myrdal, An International Economy, New York, Harper and Brothers, 1956, p. 201.

basis of such consideration. The primary pattern of the Korean exports and the limited potential of supply have not only limited the magnitude of exports but also invariably rendered it highly sensitive to the change of world market demand for which the primary products have less than unitary elasticity. The problem for the Korean export industry is therefore not exclusively that of diversifying the industry but of improving the productivity in the primary industry on which Korea is bound to depend for a substantial proportion of exports for a considerable time. Agriculture, mining and fishing are the three most important industries for exports, and, with the exception of the mining industry, their products are also needed for domestic consumption.

A successful improvement of the productivity in these primary industries is imperative if Korea is to survive the paradox of attempting to increase the exports of these primary products in the face of the extremely high ratio of their consumption. Without the concrete and comprehensive government assistance, such as financial allowance, technical assistance or public investment in basic utilities, such improvement cannot be expected to materialize.

The expansion of Korea's exports is exigent on the diversification of export industry.<sup>14</sup> The diversification

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<sup>14</sup> The problem of diversification will be separately dealt with in Chapter IV.

## FOREIGN TRADE IN KOREA

57

would ultimately contribute to evening out the wide fluctuations in the exports of a few major primary products while at the same time increasing overall volume of the exports.

The process of diversification involves a change in the traditional life of the masses of people. The rural economy of Korea is characterized by the village economy. Each village represents a nest of living through generations for the villagers who are imbued with the peculiar pattern of life as well as conception of value which are altogether not conducive to economic incentive.<sup>15</sup>

A drastic change must be brought into this type of economic structure as a precondition of the economic development. More social mobility, local integration and equality of opportunity are essential for a break-through in the traditional pattern of the rural economy. This would require a conscious policy by the government such as the provision of a greater scale of farm extension program and adult education.

Another aspect that merits consideration in this connection is the establishment of small-scale industry with the assistance of the government, which already has been

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<sup>15</sup> An illustrative comment on the traditional conception of value prevalent in Asian countries can be found in Processes and Problems of Industrialization in Underdeveloped Countries, United Nations, 1955, pp. 18-19.

## FOREIGN TRADE IN KOREA

58

done by, and remains an important policy of, the Korean government. While requiring relatively little capital and less specialized skills, the development of small-scale industry has the effect of distributing industry over a wide area. And also the establishment of small industry can be directed toward the production of products for exports. A good example of this is the exports of bristle from Korea in 1958. Whereas the exports of other primary products in that year declined either in volume or in value, the export of bristle increased in both.<sup>16</sup>

Until such time as substantial industrialization is achieved, the exports of Korea will continue to be, in the main, primary products, and so long as this pattern of exports prevails, it will be impossible to avoid the vulnerability of fluctuating demand in world markets. Admittedly, there are a few selected products (such as tungsten, graphite, or bristle) the exports of which have contributed to the earning of much-coveted foreign exchange, and these exports have certainly served to withhold some credit figure in the balance of payments of Korea. But an excessive preoccupation with these few industries, while temporarily helping the Korean economy acquire some foreign exchange, will render Korean exports even more vulnerable to external

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<sup>16</sup> Economic Survey, op. cit., p. 133.

demand, and, in the long run, will be detrimental to the Korean economy as a whole because of the unbalancing effect that it may cause in the growth of Korean economy.

Under the present economic situation in Korea, to hope for a maintenance of the balance of payments without outside aid is out of the question. It would be more realistic, and better for Korea's long-run program for a self-supporting economy, to put the emphasis on improvement and expansion of domestic industries while there is still some foreign economic aid that can be used for this purpose. This seems to offer the only sustaining hope for eventual industrialization and economic independence of Korea.

In order to facilitate reaching the desired goal of industrialization and of increased export potentiality by various government measures and directions, it is essential that domestic industries be given adequate protection during their prenatal stage. The policy of protectionism in Korea is needed most acutely for the ultimate solution of balancing the primary and manufacturing industries and for laying the ground-work for industrialization. In some form or other, the policy of protectionism is adopted everywhere in this nationalistic world, but the underdeveloped countries have special reasons for adopting industrial protection:<sup>17</sup> the

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<sup>17</sup> G. Myrdal, International Economy, op. cit., pp.276-277.

## FOREIGN TRADE IN KOREA

60

difficulties of finding demand for new supply, the existence of surplus labor, the large rewards of industrial investment in creating external economies, and finally, the lop-sided internal price structure disfavoring manufacturing industry.

In Korea foreign trade comes under the control of the government. The Trade Law which came into force at the end of 1957 explicitly adopts the policy of protection in principle: exports are to be allowed so long as they do not jeopardize the conservation of domestic natural resources, and imports are to be limited to such goods as industrial equipment, raw materials or other items which are necessary for the development or protection of domestic industries, or for the development of export industries, or for the growth of the national economy. The Law also provides for government subsidies to the export industries, through a tax allowance or special foreign exchange privilege. Besides the Trade Law there are in force strict foreign exchange control regulations, which include, for example, a special tax and compulsory deposit of foreign exchange with the central bank in accordance with the policy of centralizing all foreign exchange holdings within the country.

Thus the Korean export industries are well covered by an umbrella of protective measures. In particular, the policy of centralizing foreign exchange holdings in the central bank is designed to derive the maximum utilization from

## FOREIGN TRADE IN KOREA

61

the scarce foreign exchange reserve by allocating the foreign exchange exclusively for essential purposes that are conducive to the growth of export industries.

The series of efforts to promote the export industries has been greatly hampered by the unstable internal economy which is plagued by a chronic inflation. The increasing trend of inflation in Korea has made it impossible to maintain a stable rate of foreign exchange, and this in turn has cast an unfavorable influence on Korea's foreign trade. The foreign exchange rate had to be frequently revised in order to keep it in line with the rising trend of inflation. Despite the frequent revisions, the official rate of foreign exchange has in effect constantly reflected an overvaluation of the domestic currency, thus inaptly leading to the rise of speculative foreign exchange transactions in the black-market and to the perpetuation of the unfavorable terms of trade.

The inflation in Korea is deep-rooted in the defective structure of the economy which is characterized by an imperfect price mechanism - particularly in the agricultural products, a rampant practice of speculation, and, finally, grossly inadequate fiscal and monetary structure.<sup>18</sup>

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<sup>18</sup> For elucidative remarks on Korea's fiscal and monetary structure, see "Little-Understood Aspects of Korea's Monetary and Fiscal Systems" in The American Economic Review, Vol. XLVII, No. 3, June 1957, pp. 336-349.

## FOREIGN TRADE IN KOREA

62

Therefore, the stabilization of the internal economy must be, above all, the primary aim of the government in order to provide a sound basis for implementing the economic programs for the export industries and for the industrialization that Korea so craves to achieve.

## CHAPTER III

## SPECIAL PROBLEMS FOR KOREA'S FOREIGN TRADE

## 1. FOREIGN EXCHANGE RATE IN KOREA

Korea faces a great need to preserve and to acquire as much foreign exchange as possible in order to facilitate economic stabilization and development. In view of this fact the Korean government has introduced a stringent foreign exchange control<sup>1</sup> system.

A successful implementation of the control, however, has been seriously impaired by the unrealistic official exchange rate based on the overvaluation of the hwan currency. As a result, the official exchange rate has been frequently depreciated in the face of progressive devaluation of the hwan currency. A complex of multiple exchange rates had been officially adopted until August 1955, when this was replaced by the single exchange rate. Between the period of October 1950 and August 1958, the official exchange rate was depreciated as often as five times, from 25 hwan to 650 hwan for one U.S. dollar.<sup>2</sup> This fact alone is sufficient to

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<sup>1</sup> The Act Establishing the Bank of Korea, enacted in May 1950, lays the primary purpose of the exchange control as being "to administer international monetary reserves in the interest of achieving and maintaining an orderly pattern of international trade and exchange relationship."

<sup>2</sup> Korean Economic Charts, Bank of Korea, 1958, p.66.

## SPECIAL PROBLEMS FOR KOREA'S FOREIGN TRADE 64

indicate the violent vicissitudes to which the Korean economy has been subjected as well as the serious problem of inflation in Korea.

A. Review of Changes in Exchange Rate

In August 1955, Korea adopted for the first time a single official exchange rate of 500 hwan to one U.S. dollar. This change was preceded by more complicated transitions of exchange rate. As in some Latin American countries, a system of multiple exchange rates was being used in Korea with the intention of preserving maximum foreign exchange reserves, of maintaining the balance of payments, and of protecting domestic industries. But the official exchange rate remained fixed, which became more and more disparate from the open market rate with growing inflation.

Apart from the official exchange rate, there existed an illicit but well organized open exchange market where foreign currency notes, cheques and other payment orders, smuggled gold, and MPC (United States Military Payment Certificate) were transacted among unauthorized individuals. The MPC was valid only for the United Nations personnel in Korea and Japan, its use being restricted to the army installations. However, the MPC offered a profitable means of transaction for Koreans, and, as such, had great demand. First of all, the MPC enabled the purchase of various goods from the

United Nations installations for sale in the black market with sizable margin of profit, and, secondly, it was smuggled to Japan to be exchanged either for dollar currency or for merchandise. As the official exchange rate and open market exchange rate, including that of MPC, were almost the same in Japan, the smuggling made possible a windfall profit in spite of the discount of 25 per cent to which the purchase of MPC was subject as against the dollar notes.

The many different kinds of foreign exchange accounts existing before the revision of the exchange rate in 1955 reflect the complicated nature of multiple exchange rates. There were three major foreign exchange accounts with one of them further subdivided: (a) Export Account: for deposit of all exchange proceeds from either exports or from related services; (b) General Account: for use for foreigners enjoying diplomatic privilege; (c) Special Account: for exchange proceeds from sources other than exports.<sup>3</sup>

Among the three different exchange accounts, the export account, the only one transferable among registered account holders, was subdivided into three categories, each with a differently applicable exchange rate: the first one for the export earnings from Japan, the second one for the export earnings from countries other than Japan, and the

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<sup>3</sup> Annual Economic Report, Bank of Korea, 1955, pp. 92-93.

## SPECIAL PROBLEMS FOR KOREA'S FOREIGN TRADE

66

last one for the export earnings from Japan under "preferential treatment". The last type of exchange account was set up as a device to encourage exports to Japan by exempting 5 to 15 per cent of exchange earnings from the foreign exchange control regulations and permitting the use of that portion for the importation of any type of commodity. This well-intentioned device was often abused and even became a tool of concealed grafts, thus rendering the original purpose of providing an export incentive practically meaningless. Table XII reveals an example of the discriminatory application of foreign exchange rates on the export trade with Japan.

The multiplicity of foreign exchange rates in Korea was best illustrated in import licences whereby specific types of commodities were subject to a quarterly quota restriction, particularly for the procurement of commodities provided by ICA aids. The ICA-provided commodities were sold to the public through competitive bidding for each type of commodity, and there were in all 30 to 40 different kinds of exchange rate depending on the degree of restriction to which a particular type of commodity was subject. Table XIII reveals the different exchange rates that were applied on various imported commodities.

The government owns the greatest portion of foreign exchange reserves in Korea, and sells them at irregular

## SPECIAL PROBLEMS FOR KOREA'S FOREIGN TRADE

67

TABLE XII

SELECTED EXCHANGE RATES  
1955

To one U.S. dollar

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Official rate.....	180
Military conversion rate.....	489
Exports rates:	
Preferential (valid for Japan).....	1,391
Preferential (invalid for Japan).....	1,370
Exports (valid for Japan).....	796
Exports (invalid for Japan).....	586
Open market rate:	
Gold.....	855
Dollar notes.....	753
MPC.....	571

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Source: Annual Report for Fiscal Year 1955,  
Office of Economic Coordinator,  
1955, p. 190.

## SPECIAL PROBLEMS FOR KOREA'S FOREIGN TRADE

68

TABLE XIII

## EXCHANGE RATES FOR SELECTED IMPORTS

Effective date  
17 June 1953Commodity

## Foodstuffs:

Wheat flour )	
Millet )	
Pressed-barley )	176
Soy bean )	

## Yarns:

Rayon yarn.....	184
Cotton yarn.....	174
Staple fibre yarn.....	192
Worsted yarn.....	128

## Medicines:

Oil penicillin)	
Streptomycin )	200
Salversen )	
Bicarbonate soda.....	204

## Miscellaneous:

Beef tallow.....	207
Caustic soda.....	198
Ammonium sulphate.....	212
Auto tires and tubes.....	140
Truck.....	160
Galvanized iron sheet.....	203
Window glass.....	198
Cement.....	180
Dyes.....	189
Blasting power for mining use.....	130
Gypsum.....	130
Raw salt.....	220
Iron material.....	130
Glycerine.....	180
Synthetic resin.....	220

Continued...

## SPECIAL PROBLEMS FOR KOREA'S FOREIGN TRADE

69

TABLE XIII

## EXCHANGE RATES FOR SELECTED IMPORTS (Cont'd)

Effective date  
17 June 1953Commodity

## Miscellaneous:

Production equipment and accessories.....	100
Typing machine for Korean characters.....	100
Water pumping machines and motors.....	100
Iron materials )	
Steel ).....	100
Laboratory tools )	
Farm tools )	
Livestock ).....	100
Silkworm )	
Pulp )	
Wool )	
Abestos )	
Gypsum )	
Dynamite ).....	130
Chloride calcium )	
Pencil material )	
Clay )	
Percussion cap )	
Cement.....	130
Medicines )	
Production material )	
Farming material ).....	160
Venner )	
Raw sugar.....	160
Raw rubber.....	207

Source: United Nations, An Economic Programme for Korean Reconstruction, March 1954, pp. 51-52.

intervals to importers as loans, repayable in local currency at multiple rates which are higher than the official exchange rate, the magnitude of the difference depending upon the type of commodity approved for imports.

In August 1955, the official exchange rate was revised from 180 hwan to one U.S. dollar to the single rate of 500 hwan to one U.S. dollar, and the new exchange rate was to be applied to all transactions. In fact, however, the new official exchange rate was nothing but a belated reflection of an already devaluated domestic currency. Released from the complicated system of multiple exchange rates, the foreign exchange structure of Korea took a seemingly simplified pattern. Nevertheless, the newly-depreciated official exchange rate has failed to reflect a sound exchange relationship, and, as a result, open market transactions of foreign exchange continued with a marked disparity.

In an attempt to sustain the new exchange rate and to effect a selective policy with regard to exports and imports, the government enacted a foreign exchange special tax law simultaneously with the depreciation. Under this law 150 hwan per one U.S. dollar was to be levied as tax on all foreign exchange earnings from exports and imports. The central government, municipal governments, foreign diplomatic missions, and private enterprises that earn foreign exchange from their transactions with the United Nations forces in

Korea are immune from the application of foreign exchange tax law.

The significance of the foreign exchange tax law is that the official exchange rate has been depreciated to 650 hwan instead of 500 for one U.S. dollar, and that, by providing certain exceptions, the government has maintained an element of the former system of multiple exchange rates. This has become more pronounced in the bidding system for foreign exchange allocation which is made on the basis of the highest bidding. Thus the new official exchange rate in fact gave rise to a higher range of multiple exchange rates.

#### B. Difficulty of Maintaining Effective Exchange Rate

The monetary instability in Korea has been an underlying factor in the difficulty of maintaining an effective official exchange rate. The government has failed to come up with a well planned economic policy to bring monetary instability under control. There has been a tendency for the government to deliberately ignore the disparity between the official and open market exchange rates. Underlying this attitude are two motives: to prevent the further internal inflation that would result from frequent depreciations, and to maximize the use of foreign aid by applying an overvaluated official exchange rate. This policy had an adverse

effect on the foreign exchange structure (because it has dissociated internal price level from external price level) and on the terms of trade. Furthermore, the multiplicity of the exchange rate, as reflected in various rates effected in foreign exchange allocation, has complicated the calculations of foreign trade. The adherence to the artificial exchange rate and to makeshift exchange policies has only served to magnify the divergence between the official and open market exchange rates, and consequently made the ultimate depreciation of official exchange rate even more difficult to manipulate.

At the time of depreciation in 1955, there was an agreement between the governments of Korea and the United States to the effect that the newly established exchange rate would be subject to a review by both sides should the wholesale price index of consumer goods rise more than 25 per cent over the one existing at the time of depreciation. The wholesale price index is undoubtedly an important criterion in evaluating the proper rate of foreign exchange, particularly in Korea where the wholesale price index of consumer goods exerts a great influence on the monetary stability.

In theory, however, the wholesale price index of consumer goods as such has nothing to do with the realistic rate of foreign exchange. The price market, particularly for agricultural products, is not functioning as in the

industrial countries, and the index reflects vastly diverse prices of various commodities. Therefore, the decision on exchange rate on the basis of merely wholesale price index of consumer goods is not likely to bring about any significant effects on the terms of trade of Korean exports unless it encompasses an appreciable proportion of the export goods.

The determinants of exchange rate involve more than merely the wholesale price index of consumer goods. Ohlin goes even so far as to deny the significance of the wholesale price index as a determinant of exchange rate, but considers the price of individual commodity which goes into the international trade as relevant in determining a proper rate of foreign exchange.<sup>4</sup> The exchange rate is the price of a domestic currency determined by various factors such as internal and external elasticities of demand for exports and imports, interest rate, condition of effective demand, and foreign repercussion effects.<sup>5</sup> However, the paucity of exports and the defective economic structure make it impossible for Korea to base its foreign exchange rate on these factors.

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<sup>4</sup> Bertil Ohlin, Interregional and International Trade, Cambridge, Harvard University Press, 1933, p. 456.

<sup>5</sup> The effects of interest and effective demand on the rate of foreign exchange are particularly stressed by Joan Robinson in her Essay in the Theory of Employment, Oxford, Basil Blackwell, 1947, p. 150.

Also see J.E. Meade's The Balance of Payments, Oxford University Press, 1956, pp. 168-169.

## SPECIAL PROBLEMS FOR KOREA'S FOREIGN TRADE

74

It will be a long time before Korea achieves an adequate level of industrialization, and the economic policies, geared to this purpose, will exert a great inflationary pressure on the Korean economy. The pressure is most likely to be felt in the problem of maintaining the official exchange rate in an effective manner. In spite of the various handicaps the Korean economy is subject to, there are some areas in which more rigorous government efforts could contribute towards stabilizing the exchange rate. They include effective price control over the prices of imported goods, more stringent implementation of the foreign exchange control regulations, and prohibition of black market foreign exchange transactions. For these measures to be effective, they must be supported by appropriate fiscal and monetary measures and, most important of all, by honest and efficient administration.

The exchange rate problem thus is crucial to the stabilization of the Korean economy, and therefore to further development. The official exchange rate must be fixed at a level which reflects both the value of the hwan currency and the relative prices of the exports and imports of Korea. It is through these prices that the internal price level is functionally related to the external price level, and hence they are relevant as a basis for setting the proper exchange rate.

### C. Necessity of a Single Realistic Exchange Rate

As a member of the International Monetary Fund Korea is obligated to maintain a single official exchange rate. As has been stated earlier, the official exchange rate of Korea has consistently departed from the realistic rate in the open market. In practice, however, it would be impossible to change the official exchange rate at every downward turn of the value of the hwan currency.

The artificial character of the exchange rate in Korea can hardly be eliminated until Korea achieves sufficient economic stability and a sound price structure. A proper price structure is fundamental to the establishment of an effective relationship between the exchange rate and price level.

It has been mentioned that, under an imperfect price structure, the wholesale price level is the sole criterion in the determination of the official exchange rate in Korea. In fact the wholesale price level in Korea largely reflects the price level of rice, rather than that of general commodities. The changes in the individual prices, particularly those of export and import goods, could be relevant even though the wholesale price level should happen to remain constant. The fact undermining the efficacy of the wholesale price level in connection with the determination of the

## SPECIAL PROBLEMS FOR KOREA'S FOREIGN TRADE

76

exchange rate is that the agricultural products representing the largest component of the national product are not sufficiently commercialized as to be fully integrated with the price structure of Korea.

It has been pointed out already that it is impossible to establish a kind of exchange rate that would duly reflect the forces of various relevant economic factors, and that the wholesale price level per se has no bearing on the proper rate of foreign exchange. However, a certain yard-stick must be sought for approximation, and the wholesale price index is the most convenient yard-stick for Korea. The wholesale price level, when so taken, must be pertinent to the prices of internationally traded goods. This implies the necessity of controlling the prices of goods for exports from and imports to Korea in such a manner as to keep the internal price level in alignment with the external price level for these goods.

Therefore, a proper exchange rate must be one which can function properly under the conditions described above. From the point of view of protecting domestic industries and maintaining a favorable balance of payments, such exchange rate must be able to make the importation of goods less profitable than the cost of domestic production of these goods. This would entail other related policies designed to exert a direct influence on the balance of payments such as

tariff and import licence.<sup>6</sup>

The price adjustment policy in this regard has a particular importance. In view of the variety of goods that are exported from and imported to Korea, the establishment of a single realistic exchange rate necessitates certain adjustments in the prices of different goods. Both upward and downward adjustments of several price levels will be involved. In setting the official exchange rate, it would be preferable to err on the side of undervaluation rather than overvaluation of the hwan currency. The maintenance of the system of multiple exchange rates in the past has been in fact a tacit recognition of the failure of the overvalued official exchange rate. The artificially overvalued official exchange rate has proved to be too complicated, burdensome, liable to misuse, and adverse in its effects on the terms of trade.

A realistic single exchange rate, if adopted by the government, would induce a considerable inflationary pressure which would be further aggravated by the psychological impact of the resultant depreciation. Therefore, it is essential that the depreciation be accompanied by tight fiscal and monetary policies, and by a foreign exchange stabiliza-

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<sup>6</sup> Report of the Foreign Currency Commission, Jerusalem, July, 1953, p. 15.

## SPECIAL PROBLEMS FOR KOREA'S FOREIGN TRADE 78

tion policy (provided there are sufficient foreign exchange reserves available). Should these policies be effectively implemented, the psychological effects of the depreciation would prove to be immaterial. After all, the depreciation would be tantamount to formalizing the "fait accompli" of the lagging official exchange rate behind the open market rate.

A realistic single exchange rate would have some advantageous effects upon the Korean economy and foreign trade as well. Such an exchange rate, selectively applied by the governments, (a) would greatly facilitate the expansion of exports by channelling the limited resources into exports industry, (b) would help narrow the enormous gap between exports and imports by encouraging exports and discouraging imports of non-essential or domestically substitutable products, (c) would help rationalize the internal price and cost structure with regard to the products exported from and imported into Korea. Those possible effects depend, to a great measure, on other supplementary measures such as import tax and licence and export subsidy.

The artificial disparity between the official and open market exchange rates has frequently caused an impasse between the Korean government and aid authority, i.e., the former wanted to maximize the receipts of foreign exchange resources accruing from the aid, while the latter wanted to

minimize the dollar cost of aid projects. The end result was intermittent delays in the completion of projects as well as the discrepancy between the estimated and actually incurred costs. It also caused frequent difficulties with the United Nations Command regarding a mutually acceptable exchange rate in selling the hwan currency to the latter. Since the Korean government customarily issued the hwan currency to the United Nations Command pending the settlement in each case, the amount of hwan currency thus issued has necessarily represented a net increment to the already circulating money, leading to further turn of inflation.

#### D. Foreign Exchange Control

The pressing necessity of conserving as many foreign exchange resources as possible to facilitate economic development, and the limited earning capacity of exports, are the two basic reasons for the adoption of a stringent foreign exchange control system in Korea.

The foreign exchange control system has been often used in Korea as a means of stabilizing the internal economy. More often than not, the government-owned foreign exchange reserves were used for the purpose of absorbing the excessive circulation of hwan currency. For instance, immediately following the 1955 depreciation the government announced the release of 60 million dollars as a major measure to fight

inflation between the period of August 1955 and the same month of the following year. This demonstrates the emphasis on internal economic stabilization to which the operation of foreign exchange policy has been directed.

The most outstanding feature of Korea's foreign exchange control is the centralization of all foreign exchange earnings and the strict control over the use of foreign exchange. All nationals acquiring foreign exchange through commercial activities are required to declare and deposit the amount with the central bank at the official exchange rate of 500 hwan to one U.S. dollar. A foreign exchange special tax of 150 hwan for each dollar is imposed on the foreign exchange thus deposited with the central bank. However, the foreign exchange earned from the transactions with the United Nations forces are exempt from this special tax.

The three different foreign exchange accounts existing prior to the 1955 depreciation have been simplified into import and general accounts. Import accounts are used for foreign exchange accrued from foreign trade, from transactions with the United Nations forces, and from the sale of gold to the central bank. Their uses are restricted to payments for imports or other related costs such as freight, port charges, marine insurances, and to transfers among import accounts. General accounts are for foreign exchange accrued from sources other than commercial activities, that

## SPECIAL PROBLEMS FOR KOREA'S FOREIGN TRADE 81

is, foreign exchange registered by foreigners upon their entry to Korea, remittances from abroad, or from foreign organizations such as airline and shipping companies. General accounts are used only for surrendering foreign exchange to the central bank, for sending remittances abroad, and for making transfers to import accounts.

The foreign exchange reserves of the government are periodically auctioned to the importers. Bidding priority is accorded to those with a proved record in export activities, those engaged in export industry (the prospective profitability of which has been duly recognized by the government) and to those importing essential goods as defined by the foreign exchange control regulations.

The government-owned foreign exchange is sold on the basis of open and competitive bidding, subject to the priorities mentioned. Advance announcements are made by the central bank, based on the amount of available foreign exchange and the list of commodities eligible for the imports. The actual allocation of foreign exchange is made to those making the highest bids, the minimum of which must be 650 hwan to one U.S. dollar.

As pointed out earlier, this system of foreign exchange auction has virtually made the new single official rate irrelevant as a realistic rate. The prevalence of the black market in foreign exchange is a clear indication of such irrelevancy.

In an effort to stabilize the internal economy and to maintain a revised official exchange rate, the Korean government has announced recently the intention of establishing a foreign exchange stabilization fund with foreign loan. The new official exchange rate, if and when enacted, is likely to reflect a drastic depreciation of the current rate. A successful operation of the fund, once established, will depend on the size of fund resources but much more important will be the manner in which the government effects other related measures to check inflation. The problem for Korea is not merely one of controlling domestic inflation and preserving the limited foreign exchange, but the much more difficult one of integrating these practices.<sup>7</sup>

The past record of foreign exchange control in Korea has failed to live up to the explicit purpose of maintaining an orderly pattern of international trade and foreign exchange relationships.

Foreign exchange control itself is not sufficient to bring about a desirable pattern of foreign trade without the assistance of other measures. Exports from Korea are highly susceptible to the vagrancy of world demand conditions while imports tend to be highly inelastic. With the limited foreign exchange resources, the control necessarily takes the

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<sup>7</sup> Seymour E. Harris, International and Interregional Economics, Toronto, McGraw Hill, 1957, p. 289.

form of minute rationing of imports. Regardless of how selectively the control may be effected, the overall effect is likely to curtail the volume of imports including those of essential capital goods. In the past the major proportion of Korea's imports has been consumption goods. Indeed, this alone has been responsible for the inability to import production and other essential materials and for restricting economic development. Unless Korea builds substitute industries while at the same time improving the productivity of the primary industries, the import pressure will more than offset any gains that exports may achieve.

The maintenance of an artificial exchange rate by the government has been inimical to the sound growth of exports. It has made the price of exportable goods unnecessarily high in terms of dollars with the result that the government has faced the increasing burden for an export subsidy which, in turn, has exerted a great pressure on the fiscal responsibility of government.

So far as the purpose of maintaining a proper exchange relationship is concerned, the government has in fact followed a policy of self-contradiction and distortion by persistently adhering to the artificially overvaluated exchange rate.

## 2. FOREIGN MARKET

The necessity of expanding foreign markets for Korean exports has been briefly mentioned in Chapter II. Though Korean exports are limited to a few primary products, there is a possibility of increasing the volume of exports should more foreign markets be exploited even for the given number of primary products. This is well reflected in the fact that exports of Korean tungsten began to increase in volume when the government introduced a more liberal policy toward the exports of tungsten in 1957.<sup>8</sup> As a result of this policy, all private miners were enabled to seek a wider foreign market for exporting their tungsten.<sup>9</sup>

Being an exporting country of a few selected numbers of primary products, Korea finds herself in a weak position for bargaining and influencing the demand of world market. Therefore, it is necessary for Korea to adapt her economic structure to the changing conditions of world demand.

The government itself must assume a large responsibility in the expansion of foreign markets. Internally, the government, as a leading centre of economic development, must review Korea's export structure for a readjustment based

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<sup>8</sup> Annual Economic Report, Bank of Korea, 1957, p.57.

<sup>9</sup> Ibid., p. 58.

on the requirements of demand trend of world market and must continually adjust and shift resources to the most advantageous uses.

A government policy for expanding foreign markets would necessitate an extensive and penetrating study of the ramifications of world market demand for Korean exports, and in undergoing certain readjustment of the export industry on the basis of findings, it must take into consideration such relevant factors as Korea's natural resources, available capital, technical aspect.

In the past, little has been done in this regard by the Korean government. The only source of information on world market movements has been acquired through branches of the Bank of Korea<sup>10</sup> or other foreign agency. In this regard, it is urgent to dispatch commercial attachés to Korean embassies in the countries which either have or are likely to have trade relations with Korea.

For Korea, however, the foreign market research is likely to be complicated and burdensome because of the dynamic nature of international trade, and the work may be undermined by the lack of sufficient number of competent staffs or enterprising exporters. Whether any appreciable progress could be made or not in the expansion of foreign markets

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<sup>10</sup> The Bank of Korea maintains its branches in Japan, Hong Kong and in the United States.

largely depends on the conscious and efficient policy of the Korean government as well as on the attitude of exporters.

The largest trade partner for Korea has been Japan.<sup>11</sup> The main products that Korea exports to Japan are iron ore, graphite, laver, live fish, and seaweed. Korea in turn imports mostly manufactured products from Japan. The overwhelming reliance on Japan for both exports and imports is likely to continue in the light of various trade advantages existing between the two countries.

The large amount of trade with the United States has been rather exceptional in that most of the imports from the latter are in the form of economic aid while Korea's exports to the United States are in strategic materials such as tungsten. Exports to the United States have sharply declined since 1957 when an export contract with the latter country for Korean tungsten expired.

Besides Japan and the United States, Hong Kong provides a steady market for Korean exports of textiles and ginseng. The main import items from Hong Kong are raw textiles, and various consumer goods which are largely luxurious in nature such as watches and perfumes.

Korean exports to European countries (chiefly the United Kingdom, France, Belgium and Italy) are rather sporadic, consisting of laver, bristle and a variety of handi-

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<sup>11</sup> See Table VIII, p. 43.

craft products such as artificial pearl and brass work.

It is rather peculiar that Korea has been neglecting the possibilities of enlarging her exports to South East Asian countries which are geographically much closer to Korea than most of the countries to which Korea's exports are being directed. This is due to the fact Korea has been preoccupied with her relations with the United States and Japan both in economic and political affairs. Therefore, it is necessary that these areas be given more attention for the expansion of markets for Korean exports.

In this connection, the establishment of regional markets among the Asian and South East Asian countries merits special attention. Most of the countries in the region are engaged in the export of primary products except for Japan and Hong Kong. The argument for such regional markets is that, even though the underdeveloped countries of the region have a limited export market individually, they would be able to increase their exports to one another should certain agreements be made among the countries on foreign trade relations. Moreover, such arrangements may even make possible the use of more efficient production techniques, and enlarge the scope for possible industrialization in the region with minimum need of protection.<sup>12</sup> For example, it

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<sup>12</sup> Five small central American countries (Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua) signed a

## SPECIAL PROBLEMS FOR KOREA'S FOREIGN TRADE

88

is conceivable to reach an agreement among the countries whereby a certain major industry could be geared to serve a particular area of the regional markets as a whole.

The Korean exports will have much to benefit from such regional markets. In the absence of this type of organized market, Korea will have to make every effort to exploit the possibility of establishing a bilateral trade relationship with individual country in the region while, at the same time, making a greater effort to build up a system of production that adjusts as rapidly and completely as possible to the opportunity of foreign markets.

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multilateral free trade and economic integration treaty in June 1958, and further agreed to coordinate their manufacturing industries. Economic Development and Planning in Asia and Far East, United Nations, 1958, p. 30.

## CHAPTER IV

## BASIC PROBLEMS OF INDUSTRIALIZATION

The development of the Korean economy depends on the growth of domestic industry and foreign trade. Whereas expansion of exports will make it possible for Korea to meet increasing import requirements for industrial growth, Korea's capacity to export under the present stage of economic development is not adequate to play this key role. This is evident in the fact that Korea's import requirements have been largely financed by foreign aid.<sup>1</sup>

Thus domestic industry in Korea has not yet grown sufficiently to provide substantial amounts in excess of domestic requirements for exports. Indeed, the sustaining growth of domestic industry, or export industry for this matter, is contingent upon the process of industrialization. Therefore, it can be said that Korea's foreign trade is a function of various factors working in coordination towards further industrialization.

Foreign economic aid, though still indispensable for keeping the Korean economy viable, will not continue

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<sup>1</sup> In 1958, foreign aid covered as much as 77 per cent of the total import requirements of Korea. See Economic Survey, p. 139.

indefinitely, and so Korea must take every possible effort to harness her economy within her own means. There exists a vast area where more determined efforts are required both by the government and the general public for a speedy industrialization.

The outstanding problems in this regard are: to overcome capital shortage through domestic capital formation; to improve and propagate technology; to foster a more diversified economy; to bring about a drastic change in the social as well as economic atmosphere in a manner most conducive to the economic development.

All these problems are by nature interrelated and supplementary to one another. Each of these problems represents a formidable challenge to Korea who has a short history as a modern nation. The success in coping with these problems is crucial to the future viability of the Korean economy as well as its scope of industrialization.

### 1. CAPITAL FORMATION

Adequate capital formation is the most essential pre-requisite for economic development, yet most underdeveloped countries suffer from the vicious circle of poverty in which the capital formation is rendered more and more difficult. The low income level in these countries is not conducive to savings, insufficient savings inhibit invest-

ment, and the lack of investment in turn causes further shrinkage of national income.

However, factors militating against capital formation in underdeveloped countries are by no means restricted to economic sphere. Non-economic factors often contribute to aggravating the circular sequence of poverty.

People in these countries have not developed the habit of saving. Instead they are prone to hoarding surplus income, monetary or in kind, into unproductive forms of wealth. Entrepreneurship is not well established either in practice or in reputation. The family system peculiar to these countries in general is productive of a self-sufficient group economy which favors a development of commercial activities rather than industrial activities.

The problem of capital formation concerns not only the technical aspects of the matter itself but also the manner in which all complementary factors, economic as well as non-economic, are coordinated favorably for the purpose of capital formation. Therefore, the capital formation is not only a function of economic development, but, to a great measure, that of social, educational, and even political development of underdeveloped countries.

The crude survey of various factors unfavorable for capital formation made so far is valid in the case of Korea. The high rate of population increase and the limited natural

## BASIC PROBLEMS OF INDUSTRIALIZATION

92

resources are the main block to domestic capital formation in Korea. The colossal figure of unemployment and underemployment, which is roughly estimated in the vicinity of two million,<sup>2</sup> is the greatest waste of human resources which can be alternatively used for domestic capital formation.<sup>3</sup>

The rate of population growth of Korea is estimated at 2 per cent per annum, and so it follows that just to maintain the existing low level of real income, national income of Korea must increase at the rate of approximately 2 per cent cumulatively per annum. The income coefficient of investment in Korea is regarded about 2 per cent. With this coefficient, then, an increase in real income by 2 per cent per annum would require the rate of investment to be at least 10 per cent of national income. This of course is a minimum condition for maintaining a status quo of the Korean economy. In order to realize a reasonable growth rate of the Korean

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<sup>2</sup> Economic Survey, 1959, p. 42.

<sup>3</sup> The importance of human resources as capital assets is stressed by Simon Kuznets in his following remarks: "The major capital stock of an industrial country is not its physical equipment: it is the body of knowledge amassed from tested findings and the capacity and training of the population to use this knowledge effectively". Towards a Theory of Economic Growth, a paper read at bicentenary celebration of Columbia University, New York, 1954, cited by the United Nations "Process of Industrialization in Underdeveloped Countries", New York, 1955, p. 5.

## BASIC PROBLEMS OF INDUSTRIALIZATION

93

economy of 5 per cent per annum, it is regarded as indispensable that the rate of investment be at least 15 per cent of national income.

According to recent statistics of the United Nations, the domestic capital formation of Korea in 1958 was 12 per cent of the gross national income, as shown in Table XIV. The growth of domestic capital formation since the end of the Korean war has shown a marked rate, but the rate of capital formation reached in recent years is not sufficient to meet a minimum requirement for the desired pace of industrialization.

Within the relatively low growth rate of domestic capital formation, however, the pattern of investment in Korea has shown an encouraging sign of the economic development. In 1954 investment in the primary and secondary industries, as a proportion of domestic fixed capital formation, was 9.8 and 16.0 per cent respectively while investment in the tertiary industry was 74.2 per cent. In 1958 the fixed capital formation in primary and secondary industries rose to 15.4 per cent and 20.9 per cent respectively as against a fall to 63.7 per cent from 74.2 per cent in tertiary industry. This can be taken as an indication of increased pace of both industrialization and improvement in agricultural production. The great portion of the investment in tertiary industry went to various infra-structural invest-

## BASIC PROBLEMS OF INDUSTRIALIZATION

94

TABLE XIV  
GROSS DOMESTIC CAPITAL FORMATION  
OF KOREA IN SELECTED YEARS

In 1000 million hwans

	1953	1956	1957	1958
Total value	27.7	129.8	199.5	206.7
Percentage of G.N.P.	7	11	12	12
Dwellings	22	19	13	16
Non-residential bdgs.	28	18	22	27
Other constructions	23	36	38	33
Transport equipments	6	10	13	9
Machinery	14	17	14	15
Increase in stocks*	17.2	-35.2	48.8	12.6

Source: United Nations, Statistical Yearbook-1959, p. 459.

\* Stocks of main commodities only.

ments such as electricity, water supply, sanitation, transportation and communication.<sup>4</sup>

The encouraging trend in the change of investment composition as indicated previously alludes to the fact that the Korean economy is reasonably capable of absorbing capital inflow whether it springs from domestic source or foreign aid. Therefore, the problem for Korean economy is how to increase domestic capital for its sound growth.

The difficulty of domestic capital formation of Korea is largely related to the great proportion of labor force in primary industries. While comprising about 70 per cent of total labor force, its products account for only 40 per cent of gross national product as indicated in Table XV.

The above fact suggests that the agricultural labor force in Korea enjoys an income far less than average level, and, therefore, is not in a position to contribute to capital formation. The difficulty of domestic capital formation in Korea is also explained by the extremely high Engel's <sup>low</sup> ~~co-~~ <sup>efficient</sup> of the Korean people who spend as much as 50 per cent of their income on food-stuff.<sup>5</sup> The coefficient is even higher for agricultural populace.

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<sup>4</sup> Economic Survey, 1958, pp. 33-34.

<sup>5</sup> United Nations, Statistical Yearbook-1959, p. 457.

## BASIC PROBLEMS OF INDUSTRIALIZATION

96

TABLE XV  
INDUSTRIAL ORIGIN OF GROSS DOMESTIC PRODUCT

	In 1000 million hwan			
	1953	1956	1957	1958
<u>Total value</u> .....	367.5	1,137.4	1,508.1	1,543.7
<u>Percentage distribution:</u>				
Agriculture, fish, and forestry.....	48	46	43	41
Mining.....	1	1	1	1
Manufacturing industries	7	9	8	9
Constructions.....	3	4	4	4
Transport and communica- tion.....	3	3	5	5
Trade and commerce.....	15	15	14	13
Public administration and defence.....	7	6	8	8
Others.....	16	16	17	19

Source: United Nations, Statistical Yearbook-1959, p. 452.

## BASIC PROBLEMS OF INDUSTRIALIZATION

97

Substantial numbers of the agricultural population of Korea represent actual underemployment in that their marginal productivity is either negative or zero, and that their withdrawal from the agricultural industry would not affect the absolute scale of agricultural production. This surplus agricultural labor force could be used in substitution for capital. Their contribution to the capital formation could be by participation in various public and social overhead projects.<sup>6</sup>

The primary form of domestic capital in Korea is land. Transfer of land capital into industrial capital has been characteristic of industrialization of advanced countries. The Korean government was fully conscious of the urgent necessity of undertaking land reform in order to bring about capitalization of land as well as improvement in agricultural productivity by distributing land to farmers directly.

Under the Land Reform Act of August, 1949, farm land held by landlords in excess of 3 chongbo<sup>7</sup> was purchased by

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<sup>6</sup> The use of surplus agricultural labor force for capital formation is expounded by Arthur Lewis in his Economic Development with Unlimited Supplies of Labor, Manchester School, May, 1954, p. 16. To quote: "Roads, viaducts, irrigation channels and buildings can be created by human labor with hardly any capital.---Even in industrial countries constructional activity, which lends itself to hand labor, is not difficult to think of labor creating capital without using any but the simplest tools."

<sup>7</sup> "Chongbo" is a measure of land in Korea equivalent to 2.451 acres.

the government and sold to farm tenants. The landlords received land bonds in payment, the face value of which was shown in estimated five years' outputs in kind from the land sold. Annual payments were to be made in annual output converted into its monetary value. The spreading of payments over a one-year period had the effect of causing the recipients to spend it for consumption rather than saving, or investing them in any productive form.

In order to prevent the dissipation of money and to encourage investment in industry, the Korean government enacted a bill in June, 1951, enabling ex-landlords to purchase former Japanese properties owned by the government. It was also legislated that 80 per cent of all receipts of land payment from the land sold to tenants on a five-year basis would be used for agricultural development.

In spite of ambitious land reform and related measures, the government failed to achieve the desired goal of increasing Korea's capital formation. The failure of the land reform can be ascribed to its adverse effects on both tenants and former landlords.

The tenants found that the required annual repayment to the government of 30 per cent of gross products from the purchased land was much too heavy, while the former landlords, deprived of their regular source of income, found the piecemeal instalments from the government barely enough for

## BASIC PROBLEMS OF INDUSTRIALIZATION

99

maintaining their previous level of living, much less saving for investment or other productive purpose. Thus the Korean government completely failed to take advantage of the reform to turn land capital into industrial capital.

Domestic capital formation by means of voluntary savings must be sought in the industrial labor force. The industrial sector and related fields, though accounting for a small portion of national product or of employment, are more important than any other sector of the Korean economy. Their income level is generally high compared with that of the rural population, and it is possible to count on them for a substantial amount of savings in aggregate. However, there are various factors working against even this source of capital formation. Apart from the unfavorable atmosphere for saving (as stated at the beginning of this section) the cost of living in the urban area where most of these people reside is conspicuously high; the demonstration effect exerts a strong influence on their consumption pattern, particularly on the rich people who tend to lavish a great portion of their surplus income instead of saving.

The absence of investment inducement, well organized security market, and the chronic trend of inflation are altogether inconducive to attracting whatever portion of available capital source there is into productive use. Most of private capitals are lent to investors and traders at a

prohibitive rate of interest, sometimes as high as 10 per cent per month. The low bank interest rates, of which the highest is a 12 month-period time-deposit carrying 12 per cent per annum,<sup>8</sup> are the further cause encouraging such money-lending outside the banking system.

In an attempt to attract idle capital resources, the commercial banks have come out in the past with vigorous savings campaigns such as the establishment of special deposits yielding a relatively high interest rate, and lottery prizes<sup>9</sup> with deposits at the ordinary bank rate. This deliberate policy, envisaged to take advantage of the speculative attitude of people, had, however, a limited result.

One noteworthy feature of the private money market contributing to investments in Korea is the existence of "Kye"<sup>10</sup> having the literal meaning of "contract". This has existed in Korea for more than a century and played the role of a semi-banking institution. This is a system of financing whereby a certain number of people pay instalments at fixed periods and obtain loan according to the priorities as deter-

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<sup>8</sup> Annual Economic Report, Bank of Korea, 1958, p. 57.

<sup>9</sup> United Nations, Mobilization of Domestic Capital: Report and Documents of the Second Working Party of Experts, 1953, pp. 97-98.

<sup>10</sup> The Kye also facilitates meeting a heavy expenditure that cannot be financed by small income groups, and is called differently according to the specific purpose for which it has been established, e.g., festivity-Kye, marriage-Kye and funeral-Kye.

mined by lottery. Economically, the Kye is very important in that it constitutes the common source of capital needed for investment or trade. It is true that, as far as loans are concerned, the Kye, rather than banks, are equivalent of western commercial banks.<sup>11</sup>

It has been made clear that, aside from the lack of material resources that can be mobilized into capital, the Korean economy does not offer a favorable institutional atmosphere for potential capital formation. The relatively high rate of capital formation in recent years has owed much to foreign aid. Therefore, it is necessary for the government and banking institutions to adopt various measures most contributory to the capital formation within the country.

(1) The banking policy must be so framed as to bring about the maximum institutionalization of private capital. This calls for, in the main, a more effective policy on interest rate, letting the legal limit on the interest rate more flexible in accordance with the current monetary situation. At the same time, its credit policy must be integrated with the government fiscal policy in the direction of preventing inflation from cumulative deterioration, thereby stabilizing the value of the hwan currency.

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<sup>11</sup> C.D. Campbell and G. Tullock, "Some Little-Understood Aspects of Korea's Monetary and Fiscal Systems", in The American Economic Review, Vol. XLVII, No.3, June 1957, p. 345.

(2) An atmosphere favorable for inducing floating capital must be created in the form of a workable security markets. For this, it is essential that the operation of private industry be modernized, that is, the industry must enforce an effective system of dividend announcement and of evaluating the operation of investment.

It is desirable that the government take special measures providing certain types of tax relief such as greater depreciation allowance for the industry according to its ability to earn. Should these measures be taken, the creation of ordinary security markets will be possible as a medium between idle capital and productive investment.

(3) In the face of extensive need for public investment the government must resort to a deficit policy. Such a policy ought to take into account other important factors such as taxable capacity, amount of foreign aid, effects upon economic stabilization as a result of such policy, and the alternate demand for capital. Excessive investment through the deficit policy may have the adverse effect of causing inflation, thereby offsetting whatever gains that otherwise would be achieved. Where the government resorts to inflationary policy, it should be accompanied by an improvement in the administrative mechanism to check effectively the inflationary trend by such means as a strict control over expenditure.

(4) Taxation is the only reliable means at the disposal of government to bring about any appreciable domestic capital formation. The percentage of tax revenue to the gross national product during the last few years has been 10 per cent in average.<sup>12</sup> However, taxation as a means of capital formation in Korea is not always effective because of inadequate tax system, arbitrary methods of assessment and collection, and the graduated rather than proportional taxation which tends to foster further polarization of rich and poor groups.<sup>13</sup>

The difficulty in taxation is aggravated by the fact that few tax payers maintain acceptable accounting records and file tax returns, and that tax officials have often succumbed to the temptation of according special tax treatment in return for gifts. This reflects the corruption of the administration but also the vastly inadequate salary system for government employees which forces the majority of them to seek side-income to supplement their meagre compensation.

Improvement in the framework of the tax system could

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<sup>12</sup> Economic Survey, p. 115.

<sup>13</sup> Under the present tax laws the Korean populace are classified into five grades according to their estimated income and property. Since this grading system fails to take into account the wide range of differences of income and property within each grade, the economic effect of such system is necessarily to make the rich richer and the poor poorer.

contribute considerably to government revenue. The income from land tax, which represents the greatest portion of government revenue, could be increased should the government set the price of agricultural products it accepts as tax-in-kind in accordance with the going market price instead of underpricing as at present.

While pursuing more strict enforcement of the tax on a reasonable basis of assessment, the government must concern itself with its possible dis-incentive effect on industrial activities lest, in an attempt to roast a pig, it burn down the house.

In the long-run, capital formation in Korea hinges on the improvement of agricultural industry, which embraces the major part of the labor force. Increase in substantial measure of the real income of the agricultural population provides the only conceivable answer to the problem of domestic capital formation pending further industrialization of the Korean economy.

## 2. TECHNOLOGICAL PROGRESS

Lack of technical know-how and a shortage of skilled labor are the two main limitations of Korea's human resources. Improvement of productive techniques is urgent both in agricultural and manufacturing industries.

The process of industrialization would necessarily result in a gradual conversion of the labor force from agricultural to manufacturing, without at the same time reducing the net product of agricultural industry. This presupposes an increase in agricultural productivity at the same rate as the agricultural labor force is drawn away into manufacturing industry. Therefore, the problem of technological progress is that of improving agricultural productivity and simultaneously of educating the labor force in manufacturing industry to a new and high level of skills.

(1) The real importance of technological progress in agricultural industry in Korea is evident in the fact that the agricultural population, while composing an absolute majority of the population, is contributing far less proportionately to the national product. A great increase in agricultural production through improved techniques is basic to the process of industrialization of the Korean economy because not only would this facilitate a smooth transfer of agricultural labor force into manufacturing industry but also would lay a sound foundation for domestic capital formation with the increase in real income of the agricultural population.

Improvement in agricultural technique is more than merely a technical problem of using a new method of production. It is a problem of effectively integrating a number

of factors ancillary to the use of such method. The traditional pattern of production must be broken down through educational programs such as vocational training and active propaganda policy by the government. The government must be able to provide needed technical and financial assistance for farmers while at the same time taking part in various basic projects such as irrigation and reclamation with the assistance of locally mobilized labor forces.

Technological progress in the agricultural sector of the Korean economy depends, to a great measure, on the extent to which these basic facilities are developed. This requires a tremendous amount of capital which must be accommodated largely by the government. In this regard, the Agricultural Bank was established in 1956 with the specific purpose of providing farm loans at low interest rate. In consideration of the need for agricultural funds and the meagre size of loans that could be obtained by average farmers, rediscount rate on the fund of the Agricultural Bank was set at 0.015 per cent per day.<sup>14</sup> However, the operation of the Bank did not bring about the desired goal of improving agricultural conditions as a whole. This is largely attributed to the extremely poor financial position of average farmers in meeting the basic requirements for loan and, in some

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<sup>14</sup> Annual Economic Report, Bank of Korea, 1956, p. 89.

occasions, to the unwillingness on their part to borrow. The latter can be explained by the fact that banking habits of the agricultural population have not been developed in Korea. A more effective form of financing agricultural industry would be through the establishment of credit cooperatives on a communal basis, which would have the effect of atomizing the provision of loans to meet the needs of small farmers.

The initiative in adopting new agricultural techniques must be taken also by the government and its subsidiary agencies related to agriculture. The average farmer who has a generally low level of literacy cannot be expected to take initiative in introducing improved methods of production. The new techniques essential for the improvement of Korea's agricultural industry are the use of better seeds, fertilizers, insecticides and rotation in the use of land. This series of proposed methods is not too difficult to adopt provided the government gives more extensive financial assistance to farmers and the Agricultural Bank modifies the present system of extending farm loans in such a way as to benefit small farmers.

The prospect of increasing agricultural production by new methods as illustrated above has been favorably viewed and testified by the study of the United Nations. One of its reports on the survey in Asian and African countries<sup>15</sup> has

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<sup>15</sup> United Nations, Measures for Economic Development of Under-developed Countries, May 1951, p. 29.

summarized that it should be possible to increase the yield of many agricultural crops by 50 per cent within two decades or even less by the use of fertilizer, insecticides, better seeds and better crop rotation. This has been endorsed by an experiment in India in which the wheat yield was doubled by a simple improvement in method.<sup>16</sup>

(2) The technological bottle-neck poses the most serious problem when measured against the present and future requirements for industrialization of the Korean economy. With the liberation Korea inherited a vast gap in technical know-how.<sup>17</sup> This technical gap has been, however, narrowed appreciably as a result of the vigorous efforts made by the government in training needed technicians and skilled labor.

Industrialization is an overall process of economic movement rather than a sectional development of the economy.

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<sup>16</sup> A United States aid mission in India gave an example of achievement of how wheat yield has been doubled by use of progressively improved methods of production as follows:

- i) Wheat yield initially averaged 13 bushels per acre.
- ii) With introduction of an improved variety of seeds, the yield increased 43 per cent or 19 bushels per acre.
- iii) The use of native legumes in rotation boosted the total increase to 63 per cent or 21 bushels per acre.
- iv) With the use of compost, the average increase was raised to 100 per cent or 26 bushels per acre.

The United States Foreign Operation Administration, Monthly Report, Jan. 1954, pp. 85-86.

<sup>17</sup> In pre-liberation Korea, there were 15,155 engineers of whom 3,324 were Koreans, and 1,242 Korean technicians. UNKRA, An Economic Programme for Korean Reconstruction, 1954, p. 432.

The technological progress as such would have to encompass the whole economic sphere. The essential problem is how to elevate the technological level of the labor force on an overall basis. In this respect, the Korean economy faces a real challenge of meeting the wide range of problems. A United Nations report elucidates the difficulty confronting the underdeveloped countries for technological progress as follows:

The main difficulty lies at the succeeding levels in the factory hierarchy: foremen, plant supervisors, technicians and skilled mechanics, designers, research workers, experts in raw materials, maintenance engineers, production and programme engineers, works managers and all the various executive and administrative decision-making personnel normally responsible for organizing and maintaining the smooth flow of production.<sup>18</sup>

The training of these immensely diversified technicians and skilled workers must be the main core of a long-run program for industrialization of the Korean economy.

For immediate and practical purposes, however, the program for technological progress of Korea must take into account its current situation pertinent to the problem. In other words, technological progress in Korea must be geared to contribute to absorbing the extremely high unemployment and under-employment.

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<sup>18</sup> United Nations, Processes and Problems of Industrialization in Under-developed Countries, 1955, p. 41.

The generally low level of technical know-how can not be turned into a highly specialized one overnight. This is the basic argument in favor of fostering small-scale industries in Korea that would require relatively unskilled labor while absorbing a considerable number of the labor force. It is also possible that, with little training, a substantial number of the labor force can be employed in various ancillary fields of such manufacturing industries as bagging, quarrying limestone.<sup>19</sup>

Major responsibilities for meeting the general shortage of technicians and skilled labor rest on the government, which should undertake a large program to provide education for needed personnel both inside and outside the country.

A domestic program for technical assistance would be very costly on a per capita basis. The United Nations report made a tentative estimate that 2000 man-years of technical assistance within Korea would be required before the country would reach a reasonable level of industrialization.<sup>20</sup>

On-the-job training and vocational training have a high place in the education of unskilled labor force. Expansion of technical high schools and colleges to meet the

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<sup>19</sup> J. Tinberger, "Choice of Technology in Industrial Planning", in Industrialization and Productivity, Bulletin No. 1. United Nations, New York, April 1958, pp. 24-30.

<sup>20</sup> UNKRA, An Economic Programme for Korean Reconstruction, 1954, p. 435.

specific technological needs will be helpful. In spite of considerable number of graduates from the existing schools and colleges,<sup>21</sup> their contribution to improving the general aspect of technology has been insignificant because of the lack of a close relation between the kind of education they obtained and the actual needs of industries.

Some benefit can be expected from the training of thousands of able-bodied soldiers in the armed forces in mechanical skills that may be useful later in civilian life. Though it is not feasible to effect a fully coordinated program for technical training that may suit both military and civilian needs, experience of mechanical works in the armed forces will definitely provide these soldiers with basic aptitudes which may be favorable for the absorption of technical know-how that would be later required by industries.

While a program to educate the necessary number of technicians within the country is bound to be a long-range one, the immediate need for their services calls for a program by which it can be achieved within a relatively short period of time. This turns the attention to utilizing the human resources already in possession of some technical know-how. This involves in the main the program of sending

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<sup>21</sup> There are 6,665 technical and agricultural college students and 85,623 technical, agricultural, fishery and vocational high school students. Economic Survey, p. 192.

Koreans abroad for further training. Already hundreds of Koreans have been sent to advanced countries under ICA and other international technical aid program. However, the type of training they have obtained abroad does not always suit the actual needs of domestic industry. In this regard, it would be more practical to send many of these trainees to Japan where the language barrier is generally less inhibitive than in North America or Europe, and where many technical problems are similar to those in which the Korean economy needs much improvement.

The problem of technological progress, while depending on importing technical know-how from foreign countries, must be tackled domestically.

The Korean government has duly taken necessary steps by establishing various research centres in order to facilitate technological progress. The key research centres established by the government for this purpose are as follows:<sup>22</sup>

National Industries Research Centre - Equipped with laboratories, it examines the qualities of products and conducts a training course for scientists who work in factories.

Geology Research Institute - Engages in studying and determining the most effective utilization of land for agricultural as well as industrial purposes.

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<sup>22</sup> Economic Survey, 1959, p. 43.

## BASIC PROBLEMS OF INDUSTRIALIZATION

113

Technical Management Team - Manages technical assistance imported under the foreign aid program while performing pre-engineering studies for construction of industrial facilities.

Korean Productivity Centre - Studies methods of increasing productivity and of improving management, and also provides regular lectures to teach entrepreneurs methods for improving productivity and management.

## 3. ECONOMIC DIVERSIFICATION

Economic diversification is a process of economic development, and as such the fruit of diversification is bound to benefit the economy as a whole rather than to the particular sector of the economy in which diversification takes place. Naturally, diversification is closely associated with the balanced growth of the economy and also with the minimization of the unfavorable influence of foreign demand for export goods.

For economic diversification it is of paramount importance to undertake a comprehensive resource survey in order to determine more precisely the characteristics of a more diversified (and at the same time actually or potentially more profitable) line of industrial development. Technological research for adoption of and training in new skills in manufacturing and agricultural industries is essential for economic diversification.

The level of technical know-how in the underdeveloped countries is generally very low, and where certain technology is relatively developed, it tends to be confined to a few selected industries which account for major exports. The tendency to depend on the few industries for major exports will magnify the concentration of technology while technological progress in the remaining sectors of economy remains stagnant.

The degree of economic diversification may be measured either by the comparative contribution of different industries to the national product, or by the distribution of the labor force among different industries.

In Korea, more than 40 per cent of the national product is derived from agricultural, fish and forestry industries, and about 10 per cent from the manufacturing industry. The distribution of employment by industries reflects a sharp contrast in the relationship between the share of the national product produced and the proportion of the total labor force employed by each industry. This can be revealed by comparing Table XVI and Table XV.

The pattern of both economic structure and employment is heavily biased in favor of primary industry. Therefore, the diversification in Korea ought to be effected within primary industry at the outset.

As pointed out in Chapter I, the potential production of main staple in Korea is subject to physical limitation

TABLE XVI

LABOR FORCE AND ITS PERCENTAGE OF THE TOTAL  
BY MAJOR INDUSTRIES

In thousands of persons

Major industries	1956		1957		1958	
	Labor force	Percentage	Labor force	Percentage	Labor force	Percentage
Agriculture, fish and forestry.....	6,131	78.3	6,050	74.7	6,229	73.8
Mining.....	25	0.3	27	0.3	24	0.3
Manufacturing.....	125	1.6	132	1.5	125	1.5
Construction.....	56	0.7	59	0.7	59	0.7
Commerce and trade.....	495	6.3	482	6.0	530	6.2
Transportation and communication.....	59	0.7	59	0.7	74	0.9
Administration and defense..	389	5.0	425	5.3	401	4.8
Service and others.....	547	7.0	866	10.7	998	11.8
Total employed.....	7,827	100.0	8,101	100.0	8,440	100.0

Source: Economic Survey, 1959, p. 153.

although the employment of improved methods of production could overcome such limitation to certain extent. The present tendency to concentrate on the production of a few staples such as rice, wheat or barley points to the necessity of readjusting the agricultural pattern to the production of more diversified crops such as potatoes, beans and other commercial crops. It has been mentioned that the use of upperland for rice plantation often results in poor harvest because of its complete dependence on weather. Such upperland can be more economically used by substituting other crops requiring less watering.

The improvement of productive methods in agriculture is expected to produce even more under-employment than now exists which, in the absence of adequate labor absorptive capacity in the manufacturing industry, will cause a serious problem to the Korean economy.

It is in this regard that the encouragement of small-scale industries bears a far reaching importance in Korea. The expansion of small-scale industries will directly contribute to the diversification of Korean economy. A small-scale industry has the following advantages:<sup>23</sup>

- a) it is easy to administer,

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<sup>23</sup> "The problem would be to develop a new type of industry - radically different both from the present cottage and handicraft industries and from the present large-scale factory industries - which for the same amount of capital

## BASIC PROBLEMS OF INDUSTRIALIZATION

117

- b) it has a geographical effect of spreading over wider areas,
- c) it is able<sup>to</sup> avoid the heavy cost arising from agglomeration of a large labor force,
- d) it has better proximity to local markets,
- e) it is suitable to meet particular types of domestic demand,
- f) it can be extended to meet more diversified export requirements.

There is also a technical advantage in that it requires in general relatively unskilled labor and that the required assistance by the government can be easily extended.

The existing small-scale industries in Korea are mainly engaged in the production of consumer goods, and some rudimentary producer goods such as farm tools, spare parts, and building materials. The productive techniques for these products are necessarily less specialized than those in manufacturing industry. However, the skills acquired in the small-scale industries would provide the basis for a gradual absorption of higher level of productive techniques.

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investment can at the same time produce more than the former and provide more employment than the latter. The solution of the problem of underdevelopment depends largely on the possibility of achieving this". Report of the Director General of the International Labor Organization Asian Region Conference - Tokyo, Geneva, 1953, p. 40.

The process of industrialization is necessarily accompanied by a growing tendency toward urbanization. In Korea the urban areas, being the centre of culture, finance and major economic activities, provide a favorable condition for establishing small-scale industries. However, the tendency of urbanization in Korea would impose a limitation on the geographical effect of small-scale industries.

Finally, the economic diversification must be considered in its specific relation to foreign trade of Korea. Two desirable effects of diversification on foreign trade are stabilization and expansion of exports. It has been stated earlier that the diversification of export markets would contribute to the stability of exports, but, in the final analysis, this would depend on whether or not the major trading countries are subject to simultaneous fluctuations in their import demands. This fact again adds to the necessity of diversifying both productive techniques and commodity patterns.

In parallel with increasing exports of primary products from Korea, a greater effort is needed to develop processing and semi-processing facilities for raw materials. The exports of fish and minerals deserve special attention in this regard. If the present practice of exporting live fish and raw minerals is modified to exporting canned fish and processed minerals, the value of Korean exports will increase considerably.

None the less, the contribution to exports by the development of processing and semi-processing industries may not be valuable because of the fact that the value of their products tends to fluctuate with the price of processed goods of other advanced countries.

Economic diversification is a central feature of industrialization, and, while this can be pursued in terms of economic measures, various social and institutional factors that are deeply rooted in the life of Korean people constitute an obstructive force against the diversification.

#### 4. PROBLEMS OF SOCIAL INSTITUTIONS

Fundamentally, the problem of economic development for the underdeveloped countries involves the break-down of their deeply entrenched social institutions which engender a series of unfavorable behavior patterns of people in the economic activities.<sup>24</sup> Without effective changes in these social institutions, it is not feasible to realize any economic progress and thereby raise the standard of living.

It is indeed through the evolution of social institutions that a long-term economic development is facilitated. However, in order to cope with the acute need for a rapid

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<sup>24</sup> For a comparative study of economically relevant "behavior patterns" between advanced and underdeveloped countries, see Talcott Parsons' The Social System, Glencoe, Ill., 1951, pp. 58-67.

## BASIC PROBLEMS OF INDUSTRIALIZATION

120

economic development, the underdeveloped countries must bring about the changes in their social institutions through more than an evolutionary manner. The need for a drastic change in the social institutions of underdeveloped countries is well pointed out by the famous historian Arnold Toynbee in the following way:

....(primitive population) had not yet begun to face the fact that possibilities of economic betterment could be realized only at the price of an economic, social, and, above all, a psychological revolution.<sup>25</sup>

Economic development will not occur unless the atmosphere is favorable for it,<sup>26</sup> but this does not necessarily emerge from the operation of the economic system itself. Rather, various social customs, religious observances, political preferences and judgments are the factors that predominantly influence the direction and extent of economic development.

These non-economic factors hinder desirable changes in social institutions. In underdeveloped countries any change tends to be regarded as the beginning of an upheaval that may threaten the accustomed fabric of society. Truly, the eventual effect of change in existing social institutions

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<sup>25</sup> Arnold Toynbee, A Study of History, Vol. 2 Abridgement by D.C. Somervell, Oxford University Press, 1957, p.183.

<sup>26</sup> United Nations, Measures for the Economic Development of Underdeveloped Countries, 1951, p. 13.

would be to turn society upside down.<sup>27</sup> The underdeveloped countries nevertheless must prepare themselves for the readjustment, however painful, of society in a way conducive to the economic development.

The present pattern of social institutions in Korea is the historical product of feudalistic society which prevailed for centuries under the old system of dynastic reign. The social life and value system in Korea are greatly influenced by both Buddhistic and Confucian philosophies that have traditionally formed the milieu of spiritual life for the Korean people.

Some characteristics of these philosophies are: contempt of any conscious act for material acquisition, resignation, saintliness and veneration for power. Where certain material gains are made, it is usually through ascriptive<sup>28</sup> rather than purposeful activities in the economic sense. This is manifest in the old land tenure system in which the people were dichotomized into rich and poor, the former living on the toil of the latter.

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<sup>27</sup> Maurice Zinkin, Development for Free Asia, London, 1956, pp. 4-6.

<sup>28</sup> In a feudalistic society there is a common lack of reliance on achievement as a norm for acquiring economic goods, i.e., kinship relation or socially inherited rather than achieved status determines the pattern of production and distribution of goods. For further discussion on this aspect, see Bert F. Hoselitz' Sociological Approach of Economic Growth, Glencoe, Ill., The Free Press, 1960, pp.31-32.

## BASIC PROBLEMS OF INDUSTRIALIZATION

122

This peculiar value conception of material gains has necessarily applied to the attitude of the people towards occupations, e.g., all commercial activities are regarded inferior or less respectable than those not directly associated with money-making. This partially explains why many students in Korea still tend to prefer pursuing esoteric studies which have no bearing on day-to-day living. Under this kind of value system and its consequent effects on the attitude of the people, it is difficult to expect the emergence of modern entrepreneurship and development of technical know-how.

The problem of social institutions in Korea is inseparable from the family system. The problem is mostly related to the overwhelming proportion of the agricultural population. The rural society of Korea is characterized by a large family system in which members of the family tend to depend on the head of the family for living. Therefore, the head of the family, as a master of a self-supporting economic unit, has to bear far-reaching responsibility to provide means of subsistence for his members. Under this family system, the majority of the agricultural population find themselves living at a subsistence level with little margin for marketable surplus. This is the basic reason for the difficulty of domestic capital formation in Korea.

Also attributed to this family system is the personal

rather than impersonal relationship predominant in the economic activities of the agricultural population. The personal character of economic relationships in the agricultural area constitutes the basic hindrance to the development of monetary economy for which de-personalization of the economic relationships is a pre-requisite.

The recent trend of urbanization in Korea has a far-reaching implication on the change in social institutions. Urbanization involves many complications in its process such as a transformation of occupations, homes, habits, interests, and ideas.<sup>29</sup>

Urbanization will tend to increase the need to adapt to a monetary as distinguished from subsistence economy, and, moreover, modify the family system itself by exposing families to the consequent changes in the economic function of the family. In the urban environments not only is the economic function drastically altered, but the character of interpersonal relations among its members is modified in favor of de-personalization. This will facilitate the movement "from status to contract" which is characteristic of a progressive society.

The change in the present social institutions in

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<sup>29</sup> United Nations, Urbanization in Asia and the Far East, Ed. by P. M. Hausner, Calcutta, 1957, Chap. X, p. 251.

Korea in a way most conducive to the modernization of economic structure is a most time-consuming task because it involves a change in the cultural tradition itself. Undue haste with the change might cause a distortion of economic and social structures. The development of a sound rural economy as well as effective urbanization will help bring about the desired change with minimum distortion. Both would require extensive measures on the part of government such as the expansion of public investment, financial and technical aids to all spheres of the economy, use of mass media for educational purposes, and the encouragement of community program. These are the factors necessary - if not sufficient - for the change in social institutions. The decisive factor here is the transformation of the psychology of the people in such a way as to make them increasingly receptive and reactive to the series of measures enumerated above, and further to be more adaptive to the changing economic and social environments.

## CONCLUSIONS

The growth of exports is deeply connected with the process of industrialization. A number of limiting factors on the industrialization in Korea has been studied throughout this thesis, specifically in Chapters I and IV. While the difficulties attendant to the problem of industrialization in Korea are attributable to the weak basis of economic structure as well as meagre resources, other difficulties arising from the peculiar social structure are no less obstructive to the problem.

The expansion of exports as well as the economic development of Korea depends, to a great measure, on economic policy and action of the government. The fact that the Korean government is solely responsible for the final allocation of foreign economic aid makes its role even more important. In the past, there has been a deplorable lack of comprehensive policy of the government toward promoting and coordinating foreign trade and industrial development, while the use of foreign economic aid has been often subject to mismanagement. The Korean war and the wide-spread misadministration are the main factors largely responsible for depriving the country's economic policy of substance or, where there was any substance, of efficacy and consistency.

## CONCLUSIONS

126

As has been seen, the Korean government exercises a strict control over the use of foreign exchanges and imports in an attempt to maintain an orderly foreign trade pattern and foreign exchange relationships, but the effects of such control would go down the drain unless it is effectively supplemented by other relevant measures aimed at the growth of exports and the economy as a whole. As a practical measure in this connection, the establishment of a government organization such as India's State Trade Corporation is desirable to coordinate Korea's export capacity and foreign demand situation, and further study the feasibility of re-adjusting the export industry within the framework of an overall program for economic development.

In order to realize a rapid economic growth, the economic policy of Korea must be subject to some degree of central planning, taking full advantage of the political system in which central government has an absolute jurisdiction over national affairs. A reasonable degree of economic planning is not only compatible with the preservation of essential principles of democracy, but is also indispensable for an effective mobilization of the limited domestic resources. In a country like Korea where there is no deep-rooted economic tradition, the operation of the invisible hand amounts to the operation of the blind hand.

Recently, the government in Korea has set out on a

## CONCLUSIONS

127

long-range program for economic development based on a sweeping reorganization of the administrative structure to improve government services in economic fields, drastic tax reform to spur private industries, introduction of legislation to attract foreign private capital, and wide-scale campaign for savings promotion. How successful will this series of ambitious programs prove to be hinges on the manner in which these programs are integrated, on the stability of internal economy, on the efficiency and honesty of government officials, and, finally, on the immediate prospect of foreign economic aid and/or foreign loans which constitute the pivotal part of these programs.

Finally, the political implication of the whole problems ought to be fully contemplated. That Korea's ultimate goal is to attain a self-supporting economy and higher level of industrialization hardly needs emphasis. However, the economic programs as such are far from being sufficient to rear the future viability of an independent economy of Korea unless they are backed by the political stability. The revolution that swept the country twice in as many years has only served to stressing the paramount necessity of achieving the system of stable government without which Korea's economic policies, however molded, are destined to fall short of their goal.

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