

ECONOMIC DEVELOPMENT AND FUTURE PROSPECTS OF THE REPUBLIC OF KOREA

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In October of last year I chaired a delegation of US Members of Congress who had served in the Korean War on a return visit to the Republic of Korea. Our mission was to survey the military preparedness and the economic progress of South Korea since that war and to report our findings to the Speaker of the House.

I have described the military situation in Korea elsewhere;* in this essay I should like to discuss briefly the history, the problems, the successes and the future prospects for economic development in the Republic of Korea.

At an in-depth U.S. Embassy briefing for our Congressional delegation by a variety of U.S. officials, Korea was universally characterized since 1965 as an “economic miracle.”

Aside from its own internal discipline and intelligent planning, Korea’s economy was given its impetus by:

1. United States aid;
2. A high rate of Japanese investment; and
3. Purchases of goods by the United States from the Republic of Korea related to the war in Vietnam.

Examples of government policies that have helped Korea’s economic conditions in the long term include such programs as promoting limited birth rates to the purposive maintenance of high prices to Korean farmers for rice as an incentive to increased production. By stabilizing the population and by raising the production of rice, Korea is now close to self-sufficiency in terms of its major food staple.

Although over half of the Republic of Korea’s 34½ million people live in the industrialized cities — with a relatively high standard of living as the

*See “The Military Preparedness of the Republic of Korea” (by John M Murphy) in *Korea in the World Today*, Council on American Affairs, Washington D.C., 1976. See also “The Korean Economy: Rapid Growth and New Problems” (by Robert L. Schuettinger) in the same volume.

smaller Asian nations go — rural residents actually have done as well financially as their urban counterparts. In 1974, the average rural household income actually surpassed the average urban wage-earner household income.

Of immediate concern to the Korean economy, is the fuel crisis and the government has acted forcefully to encourage a reduction in fuel consumption. They have levied a 300% tax on gasoline prices raising it to \$2.00 a gallon, discouraged private automobile ownership by a severe prohibitive tax, and instituted what is considered to be the most important form of energy conservation, which is improved heat control by Korea's industrial establishments.

Nuclear power plants in the Republic of Korea are one answer to independence from foreign fossil-fuel energy. One plant is under construction and should be in operation early in 1976. Another is under contract with Westinghouse and is pending approval by the Export-Import Bank. A third is under contract with the government of Canada and is also pending approval. Korean officials are hopeful of developing several more in the future.

The unemployment rate in Korea is at the 6% to 7% level of an estimated labor force of 11 million persons. This figure, however, includes completely unemployed persons with the definition of employment applying to those persons working as few as 18 hours per week. There are large numbers of these underemployed persons in the labor force which is currently, although temporarily, increasing at a high rate owing to the "baby boom" following the 1950 war.

Deputy Prime Minister Nam Duk Woo told the delegation at a briefing by the Korean Economic Planning Board that Korea was the most severely hit of any country by the oil crisis.

Imports of goods and services are equaled to nearly 45% of Korea's GNP which means that imported inflation has been severe. Korean growth has also depended on industrial exports which amounted to 25% of their GNP. This means that the worldwide recession has made growth much more difficult since 1973.

Deputy Minister Nam indicated import restrictions are being used to alleviate pressure on the government's balance of payments but the basic solution still lies in export expansion. Evidence of economic recoveries in the United States and Japan has given the government hope of a reduced foreign exchange deficit in 1976. The government hopes to move toward price stability in 1976 after inflation of over 40% in wholesale prices in 1974 and 20% in 1975.

The Korean Economic Planning Board has as its goal for 1976 a return to

one digit inflation.

In terms of oil imports, Minister Nam informed the group that the bulk of Korean oil is imported by three foreign investment companies under long term supply contracts. Crude oil is imported from Saudi Arabia, Iran, and Kuwait and refined in South Korea.

The United States has discouraged South Korea from outer continental shelf oil and gas development inasmuch as Japan and North Korea claim jurisdiction over the shelf. South Korea has tried to obtain agreements with Japan to explore the outer continental shelf, however, the United States will not allow South Korea to use its seismic equipment for fear of seizure of sophisticated items by North Korea.

A detailed prepared economic briefing was presented to the delegation which confirmed the U.S. Embassy's assessment of spectacular social and economic achievements by the Republic of Korea. Consider the following highlights:

****With a small land mass and meager natural resources, South Korea achieved one of the world's highest economic growth rates during the 1960's and into the 1970's. Ninety percent of its population is literate and its intellectual and cultural progress appears to have no bounds.**

****Economically, Korea's gross national product increased from \$2.3 billion in 1962 to \$16.8 billion in 1974.**

****Industrially, in areas such as shipbuilding, fertilizer production, iron and steel production, cement production, and even automobile production, increased output has multiplied in spectacular fashion.**

****South Korea's dramatic expansion of trade is exemplified by the fact that exports increased at an average rate of 44.4 percent per year since 1962.**

****In export structure and world markets, the amount of manufactured goods exported increased from 27 percent in 1962 to 90 percent in 1974.**

****There have been equally significant successes in investment and savings, the attraction of foreign capital, in agricultural development, and the modernization and expansion of highways, rail transportation, Korean Flag freight vessels, power generation and communications facilities.**

The following is a resume of the briefing given the delegation by the Economic Planning Board on October 27, 1975:

LAND AND POPULATION

The total land area of the Korean peninsula is 220,800 square kilometers. The area south of the De-Militarized Zone is 98,500 square kilometers. The country is largely mountainous: 67 percent of its land is forest and rugged terrains and 23 percent is the arable land in low-lands and river

valleys. The population of the Republic of Korea is 33,459,000 as of 1974. This gives a population density of about 340 persons per square kilometer.

Korea, with the limited land area and natural resources, maintains a large pool of well-trained skilled labor.

Manpower resources, and an aspiration for national modernization and industrialization, have served as the mainspring of attaining one of the world's highest economic growth rates throughout the 1960's.

MAJOR ECONOMIC INDICATORS IN 1974

Surveying very briefly some major economic indicators of the Korean economy in 1974, *the Gross National Product was equivalent to \$16.8 billion* and per capita GNP amounted to \$501. Commodity exports reached \$4,515 million, commodity imports were \$6,468 million, and foreign exchange holdings as of the end of 1974 were \$1,049 million.

The industrial structure having been steadily improved, the agricultural, forestry and fishery sector accounted for 25.3 percent of the GNP in 1974, the mining and manufacturing sector for 29.0 percent, and the social overhead capital and other services sector for 45.7 percent.

In terms of the industrial distribution of employment, 50.4 percent of the total labor force was employed in the agricultural, forestry and fishery sector, 17.0 percent in the mining and manufacturing sector, and the remaining 32.6 percent in the social overhead capital and other services sector.

1962-1974 ECONOMIC ACHIEVEMENTS AT A GLANCE

During the past 13 years from 1962 to 1974, the Korean economy has made a remarkable development in all sectors with an ever-growing manufacturing sector and sharply increased exports.

Rapid economic growth during the past decade was characterized by (1) sustained high rate of growth, (2) structural improvement of industry, (3) increased investments and domestic savings, (4) export expansion (5) dynamic implementation of agricultural development programs and (6) expanded infrastructure. The Korean economy has thereby successfully completed major tasks for take-off and has set a stage for advancement into the next stage of higher development.

GNP AND GROWTH RATE

During the period of 1962 through 1974, the Korean economy has marked an annual average growth rate of 9.5 percent in real terms. During the First Five-Year Plan period of 1962 to 66, the country's annual rate of economic growth registered 7.8 percent. The growth rate was accelerated during the Second Five-Year Plan period with a high of 10.5 percent. The first three years under the current Third Five-Year Plan recorded an annual

average rate of 10.7 percent.

As a result of sustained high growth, the Gross National Product increased to \$16.8 billion in 1974 from \$2.3 billion in 1962, and per capita GNP rose from \$87 to \$501.

IMPROVED INDUSTRIAL STRUCTURE

Along with the quantitative expansion of GNP, there has been a significant shift in industrial structure. The percentage share of mining and manufacturing sector in GNP steadily increased from 16.5 percent in 1962 to 29.0 percent in 1974, while the agricultural, forestry and fishery sectors declined from 36.6 to 25.3 percent and social overhead capital from 46.9 percent to 45.7 percent.

Manufacturing sector development was also accompanied by the development of heavy and chemical industries. The percentage share of the heavy and chemical industry in the manufacturing sector increased from 31.4 percent in 1962 to 45.8 percent in 1974.

The manufacturing sector development resulted in sharply increased production of manufactured goods. Compared to 1962, the 1974 output of shipbuilding increased 116 times to 582 thousand gross tons; fertilizer production increased 21 times to 777 thousand metric tons; iron and steel production 23 times to 3.2 million tons in 1974 from 142 thousand metric tons in 1962; cement production increased 12 times from 790 thousand metric tons to 9.8 million tons; and automobile production from none to 30 thousand units.

EXPANDED TRADE

Another factor which contributed to Korea's economic performance is drastic export growth. Commodity exports increased by an average rate of 44.4 percent each year since 1962, reaching \$4,515 million in 1974 against \$55 million in 1962. Foreign exchange earnings including receipts from invisible trade totaled \$5,353 million in 1974.

In order to meet the requirement for sustained high economic growth and expanded export, the country also imported commodities in 1974 valued at \$6,468 million compared with \$390 million in 1962. External payments including invisible trade totaled \$7,615 million in 1974.

EXPORT STRUCTURE AND MARKETS

In parallel with industrialization, the share of manufactured goods in total exports increased from 27 percent in 1962 to 90 percent in 1974.

With expanded exports volume, Korean export markets have been steadily diversified to 119 countries in 1974.

INVESTMENT AND SAVINGS

Rapid economic growth has been made possible by active investment activities. For the last 13 years, the ratio of investment to GNP has been steadily increased, marking 31.4 percent in 1974 against 13.0 percent in 1962.

The increase in the ratio of domestic savings to GNP was notable in particular. It increased from only 2.1 percent in 1962 to 17.8 percent in 1974, with domestic savings sharing greater portion in total capital formation.

INTRODUCTION OF FOREIGN CAPITAL

The continued inflow of foreign capital has greatly helped Korea's rapid economic growth. Beginning in the second half of the 1960's, the inducement of foreign capital was in full swing. The annual flow of long-term loans and direct investments increased from \$237 million in 1967 to \$1,057 million in 1974.

As of the end of 1974, the cumulative total of \$5,388 million in foreign capital has been introduced into Korea. The amount includes \$2,984 million in commercial loans, \$1,884 million in public loans and \$520 million in direct foreign investments.

AGRICULTURAL DEVELOPMENT

Along with industrial progress, the Government has taken important measures aimed at modernization of agriculture.

The efforts are reflected in the average rural household income which increased to 675 thousand won in 1974 from 68 thousand won in 1962. The average rural household income, which has steadily increased, surpassed the average urban-earner household income in 1974.

Programs for the development of agriculture have included water resources development, farm land rearrangement, increased supply of fertilizer, introduction of high-yielding seed varieties and high price policy for farm products.

Between 1962 and 1974, the area of rearranged paddy fields expanded 7.1 times, making 43 percent of total paddy fields rearranged as of the end of 1974.

The number of electrified rural households increased 4.4 times, with 59 percent of rural households electrified.

The area of irrigated paddy fields expanded 1.7 times to 85 percent of the total.

As a result of these efforts, rice production increased 1.5 times to 4.5 million metric tons, barley 1.2 times to 1.7 million metric tons, soybean 2.1 times to 320 thousand metric tons.

EXPANSION OF INFRASTRUCTURE

To facilitate production of physical output, investments in infrastructure have been expanded in the past decade.

Compared to 1962, the road network increased 1.6 times by 1974, and the national road pavement ratio improved from 14.5 percent in 1962 to 37.1 percent in 1974.

The most obvious is the construction of express highways of 1,013 kilometers, bringing the entire country within a one-day travel zone.

During the period of 1962 to 1974, railroad network expanded 1.2 times and 334 kilometers of railroad lines were electrified.

In line with the expanded transportation requirement, the nation's cargo handling capacity increased 2.8 times to 28 million metric tons a year, together with the expansion of Korean flag freight vessels 12.5 times to 2.2 million gross tons.

Power generation capacity expanded 12.3 times to 4.5 million kilowatts in 1974.

Communication facilities have been steadily expanded, meeting the requirement of economic development. Local telephone lines expanded 5.6 times during the period of 1962 to 1974, and long-distance telephone lines 12.6 times.

PROBLEMS AND TASKS

In spite of the very successful records of development of the Korean economy in the past decade, Korea is not without any problems. The problems and difficulties became greater in recent years. The Korean economy in 1974 was subject to the same difficulties as the world economy was experiencing.

They have had to face business slow-down, increased unemployment, inflation, and a deteriorating balance of payments. Although they do not lose sight of their potential in the fog of current difficulties, the problems they have recently experienced require them to have a better equilibrium among growth, stability and international balance of payments.

INTERIM ASSESSMENT OF THE THIRD FIVE-YEAR ECONOMIC DEVELOPMENT PLAN (1972-1974)

Despite the strains and difficulties imposed by the unfavorable developments of the world's economy, the Korean economy in 1974, which demonstrated a flexible and resilient capacity, registered a real growth of 8.6 percent, and it seems likely that major goals of the Third Five-Year Development Plan will be in large measure achieved by the target year of 1976.

The annual average economic growth rate during 1972-1974 was 10.7 percent, exceeding the 1972 to 1976 average annual growth target of 8.6

percent of the Third Five-Year Plan.

Korea's commodity exports exceeded \$4,500 million in 1974, or 129 percent of the amount set for 1976, while imports, valued at \$6,468 million in 1974, at the same time, surpassed the 1976 estimate.

In line with the efforts to attain self-sufficiency in staple food grains, rice production in 1974 reached 4.5 million metric tons or 91.5 percent of the 1976 target, and power generating capacity in 1974 reached 4.5 million kilowatts or 7.5 percent of the target.

Expansion of the nation's heavy and chemical industries has also made steady progress. To cite an example, Korea's shipbuilding capacity reached 1.1 million gross tons by the end of 1974, or 34.6 percent of the 1.3 million gross tons targeted for 1976.

KOREAN ECONOMY IN 1975

In spite of the fact that international economic recovery has been slower than hoped, South Korea still expects to have 6.5 percent real growth in 1975.

GNP in 1975 is projected to increase to \$18.6 billion, and per capita GNP to \$547. The sluggish economic activities on the part of Korea's trading partners have continued to be constraints upon Korea's export performance, and commodity exports in 1975 are projected to amount to about \$5.5 billion, only 15 percent higher than the 1974 level of 4.5 billion.

In spite of the government's various import saving efforts and measures, the sluggish exports will result in about 1.9 billion dollars current account deficits in the balance of payments, some improvement over 1974, but still very large.

BALANCE OF PAYMENTS

Korea's balance of payments, which has shown chronic deficits in its current account, has, however, demonstrated a steady and continuous improvement in its structure over the past decade. The current account deficit, measured as percentage to the current receipts, was 52 percent in 1962. This ratio came down steadily over the decade to only 7 percent in 1973, when 300 million dollars' deficit was recorded in the current account. A generally accepted expectation was a balanced current account in the next few years.

The Korean economy having suddenly been hit by the international raw material crisis and world-wide inflation, the current account deficit in 1974 increased sharply to \$2 billion, or 32 percent of the current receipts. The Korean officials we talked to, however, are firm in their belief that this is not a structural problem, but a temporary phenomenon.

With Korean exports growing faster than imports, together with the

measures of the government to save imports, the current account gap is expected to be closed in the early 1980's.

FOURTH FIVE-YEAR DEVELOPMENT PLAN

In spite of challenges and problems which were initiated in 1974 and 1975, South Korea plans to strengthen, consolidate, and refine its responses to the new situations and circumstances.

The Fourth Five-Year Development Plan for 1977 through 1981, on which the government has already commenced work, pursuing the basic development goals of growth, equity and efficiency, will aim at the consolidation of a more self-supporting economic structure, devote further resources and efforts to the achievement of equitable social and welfare development, and intensify technological innovation and socio-economic efficiency.

Although many of the Plan's sectoral targets require further refinements, these basic goals are a summation of fundamental national requirements.

OVERALL PRELIMINARY INDICATORS

Although it is difficult at present to make a precise projection for coming years, the general outlook is for better growth performance, stabilized price movement, and an improved balance of payments.

During the Fourth Plan Period, a very provisionally projected annual average growth rate is 9 percent. Population growth rate in 1981 is to be lowered to the annual rate of 1.3 or 1.5 percent. Greater proportions of investments, which are projected to be maintained at 28 to 30 percent of GNP, are going to be financed by increased domestic private and public savings.

With commodity exports and imports of around \$12 billion at 1974 prices, the trade gap is projected to be closed in 1981, resulting in some surplus in the overall current account transactions.

Korean economic officials told us, in summation, that "In spite of the present difficulty of predictability and the lack of an overall favorable world economic climate, we will plot the most optimum course to our fixed point, that is, our national development. Toward this course which is not always easy, we need your cooperation and understanding."

SUMMARY AND CONCLUSIONS:

I have concluded, and my colleagues on the delegation agreed with me during our meeting with President Park, that the following conditions in relation to South Korea can and will be met by the United States of America:

**The United States is not leaving and will not leave the Republic of

Korea under existing conditions;

- **The United States must bring the Republic of Korea Army to parity with the North Korean Armed Forces in terms of sophisticated weapons and weapons systems;
- **When parity is reached, the United States will carefully watch and react appropriately to any further escalation of arms in the North, either internally or from outside sources;
- **Finally, only by keeping the Second Division north of the Han River will we keep Kim Il Sung north of the DMZ.

While the recent world recession has not left the Korean economy untouched, on the whole, the Korean people have made truly remarkable economic progress against great odds and, on balance, the delegation is satisfied in the knowledge that 25 years ago they contributed to saving a country and a people that was well worth saving, and they are now firmly convinced that the United States must fulfill its commitment to the Republic of Korea to whatever limit is needed to sustain that nation.

ITALY AT THE CROSSROADS!

Nerin E. Gun

Unless a political miracle occurs, the forthcoming Italian elections for a legislature will change the fate of Europe. The June solstice is expected to bring with it a new style "Front Populaire." The theory of "European dominos" could become a reality, possibly with no point of return. A Communist electoral victory would change the structure and the spirit of NATO. No matter what assurances the Italian communists are giving, and no matter what American diplomats are hoping: one can hardly imagine the U.S. 6th fleet moored in a harbour covered with red flags, or a communist Prime Minister declaring war on the Soviet Union! Such a victory would offer a serious perhaps deadly challenge to the European community. It would be strange for communists to accept directives from the Europe "of the ten" – until now opposed by the Soviet Union and its satellites – and strange for Europe to tolerate a communist-dominated government as a partner.

A communist victory would also force a turning point for American foreign policy; it would certainly end the cycle started with the Truman Doctrine, the Marshall Plan and the Berlin airlift.

The United States of America has been described as the "Godfather" of Italian democracy. If we ignore the facile excuse that the U.S. should "no longer be the gendarme of Europe," then the U.S. has a very special stake in the fate of Italian democracy.

Americans must abandon the illusion that a take-over by the Italian communist party would in some way serve the cause of democracy, even to the extent of inducing some countries behind the Iron Curtain to try a more liberal system of administration. The Italian elections are free only in appearance for the country has lived during the last two years in a climate of violence. People have been terrorized – and few realize how easily the Italian middle class is scared – by strikes, sabotage and desertions promoted and encouraged by the communist-dominated labor unions. These have ruined the economy of the land, encouraging a loss of confidence in democracy and more votes in favor of the communists. Once in power, will the communists – as they claim – really accept democratic principles, or would they