

## South Korea by Charles R. Frank, Jr., Kwang Suk Kim and Larry Westphal

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**South Korea**, by Charles R. Frank, Jr., Kwang Suk Kim and Larry Westphal, National Bureau of Economic Research, New York, 1975. Pp. xxii, 264, \$15.00.

This is Volume VII of a series of studies on Foreign Trade Regimes and Economic Development under the direction of Jagdish N. Bhagwati of the Massachusetts Institute of Technology and Anne O. Krueger of the University of Minnesota. The directors of these studies provided an analytical framework for dealing with exchange control and liberalization to be utilized by the authors of the separate studies in the formulation of certain generalizations and conclusions on the role of exchange control and liberalization in promoting economic development. This formulation is still to be undertaken.

The analytical framework presumes a chronological progression from systems in which quantitative restrictions on international transactions are imposed through progressive liberalization of trading and payments regimes, with consideration of the effects of changes in policies and practices on exports and imports and the growth of national income. This framework fits the Korean experience fairly well, and the authors tailor their discussion rather closely to the historical changes presumed in the model. The period from 1945 to 1953 was one in which South Korea staggered under the impact of war devastation, partition, and the struggle between North and South. The period from 1953 to 1960 was one of slow recovery in which export earnings were minimal, and imports, largely financed by foreign aid, were subject to strict and detailed controls. Liberalization of trade and payments began in 1961, was given a large impetus in the reforms of 1964 and 1965, and was further developed in the period 1967 to 1973. The authors discuss in successive chapters the trade, foreign exchange and fiscal policies pursued in each of these periods and evaluate their effects on exports, imports and economic growth.

The discussion of trade and payments regimes is technical and, although highly competent and professional, is unlikely to appeal to the general reader. The development of policies and practices before the beginning of liberalization was particularly complex and confused and it is difficult to establish relationships between the month to month variations in exchange rates, import restrictions and other policy variables and their consequences for

economic development. It is much easier to follow economic relationships and the course of events from the early 1960s to date.

South Korea was the beneficiary of very large amounts of foreign assistance, particularly from the United States. Indeed the total contribution in economic assistance from the United States to date, when the assistance program has practically ceased, has been in excess of \$6 billion. Prior to 1960 this assistance was almost exclusively in the form of grants, and since 1960 it has been available on strongly concessional terms. It would be interesting to know what contribution this assistance has made to the economic development of South Korea, but the authors do not provide much help on this point. During the period of greatest assistance flows, the period before 1963, the rate of growth of national income was moderate although export earnings began to rise sharply beginning in 1958. But the very large assistance flows, averaging around 10 percent of Korean G.N.P. and accounting for 75 percent of total investment must, in addition to maintaining a higher level of consumption have helped significantly in laying the physical and human resource base for later rapid growth.

Another factor, which the authors tend to underemphasize, is the effect on Korean growth of the normalization of relations with Japan in 1965. They do point out (p. 106) that the Normalization Agreement increased foreign capital inflows. Korea received from the Japanese Government \$300 million in grants and \$200 million in public loans. In addition, the Japanese Government made available \$300 million in commercial loans. However, the Normalization Agreement did more than that. It laid the basis for expanding trade relations between Korea and Japan in which Korean firms and joint ventures, with technical and financial assistance from Japan, became the suppliers of parts and subassemblies for the rapidly growing Japanese export market. By 1973 nearly 40 percent of Korean exports went to Japan, a situation that was satisfying in terms of export growth but, perhaps, not as satisfying in terms of the degree of trade dependence it entailed.

The failure to deal adequately with these matters can probably be attributed to the fact that they lie somewhat outside the central concern of the study. The effect of these policies was real, and this study undertakes by far the most systematic and persuasive analysis of these relationships that has yet appeared. It

is persuasive partly because the authors are moderate in their claims. The policies followed by the South Korean Government were sensible and productive, but it is not the view of this study, as it has been of some other Korean studies, that it is possible for any other less developed country, by following the same policies, to achieve the same results.

The growth of Korean G.N.P., and particularly of exports, since 1963 has been remarkable by any test. The growth of real G.N.P. from 1962 through 1973 was close to 10 percent per annum, and the annual growth in real terms of exports was close to 40 percent. There are very few countries in the less developed world — or in the developed world for that matter — that could match this record. During this period domestic savings increased from 4.2 percent of G.N.P. in 1964 to around 17 percent in 1973. Also during this period, because the growth rate of exports usually exceeded the growth rate of imports, there was a substantial improvement in the balance of trade. Inevitably there has been some unevenness in this growth rate. Growth of G.N.P. fell to 7 percent in 1972 from 9.2 percent in 1971 but then more than recovered to a remarkable 16.5 percent in 1973. The growth of exports in 1973 reached the almost unbelievable figure of 90 percent. Growth again declined sharply in 1974 and 1975 to around 7 percent per annum but, again in 1976, the increase both of G.N.P. and exports seems to be approaching the trend rate established since 1963.

Although the authors do not give a great deal of attention to the distributional aspects of development, they do point out that rapid industrialization has led to a persistent decline in unemployment despite a very considerable movement from farms to cities. And, on the basis of less than satisfactory data, they conclude that:

In Korea where vast pools of the unemployed and the underemployed are unknown, the working class, both urban and rural, which form the great bulk of the population, lives on an income that is nearly uniform. If data on income distribution were available they would probably show that even the conspicuous wealth of a few entrepreneurs in Seoul is not enough to reverse the apparent pattern. (p. 225).

However, the conclusion seems to this reviewer to be too strong. There is little doubt that, compared to other less developed coun-

tries, economic growth has not been at the expense of a seriously widening disparity of incomes.

Whatever one thinks of the political situation in Korea, economic development has been a remarkable success story. This study focuses on the role of economic policy as an explanatory variable. But, as noted above, the authors do not think the same policies could necessarily produce the same results in other countries. In the concluding chapter they touch on a number of other factors that may or may not be duplicated elsewhere.

The Korean culture places a very high value on education, and South Korea's literacy rate is one of the highest in the world.

South Korea underwent a comprehensive land reform, first under the U.S. Military Government when Japanese landowners were expropriated and later under a Korean Government when large-scale Korean holdings were distributed. "This meant that no large numbers of landless laborers streamed into the cities in response to slight differences in urban and rural wage rates" (p. 242).

South Korean has, for various reasons, an extremely industrious and docile labor force. Under the Japanese, labor organizations were suppressed, and this suppression has continued. For this and other reasons, wage rates have kept in line with other prices except in periods of acute labor shortage.

Foreign capital and foreign technology have been readily available, first from assistance programs and later from institutional and commercial lenders.

Political stability under a powerful leadership committed to economic development made possible policies leading to increased domestic savings, exchange devaluation and control of wage rates that would be difficult or impossible under more democratic regimes.

The authors do not attempt to evaluate the relative importance of these or other factors. Nor do they attempt to determine whether the advantages of economic growth are worth the political repression that has accompanied this growth in South Korea. In any case who can answer this question and how? They conclude their stimulating and useful analysis with the following paragraph (p. 243):

Unfortunately, South Korea's economic gains have been accompanied by a great deal of political repression. Labor unions have been very much discouraged, and there exist

many cases of employer abuse of unskilled workers, reminiscent of nineteenth century sweat shops in Western nations. The South Korean experience does illustrate, however, the effectiveness of price-oriented economic policies in initiating and sustaining rapid economic growth. The poor performance in the area of human rights and in labor policy is tempered by a favorable performance in terms of income distribution and the existence of many benevolently paternalistic employers. The relevance of the Korean experience to other less developed countries, however, is questionable at best because it was probably the combination of political, historical, and cultural circumstances found only in South Korea that made these policies succeed. In other circumstances they might not work.

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