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Korea's Experience with the Development of Trade and Industry

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Korea's Experience with the Development of Trade and Industry

Lessons for Latin America

Report of a seminar cosponsored by the Korea Development Institute and the Economic Development Institute of The World Bank

Silvio de Franco
in collaboration with
Alberto Eguren
and
David Baughman

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Foreword

In November 1986 the EDI and the Korea Development Institute (KDI) co-sponsored a seminar on "Korea's Experience in Trade and Industry Development: Its Relevance for Latin America" in Seoul, Republic of Korea, for senior-level officials from Latin America. The seminar sought to provide policymakers from that region an opportunity to study Korea's phenomenal success in trade and industry development during the postwar period and to focus on the lessons from the Korean experience that are relevant for Latin American policymakers in their current context. The seminar curriculum deliberately focused on long-run strategic policy and institutional issues, since it was felt that this approach would be more relevant to the chosen audience.

This seminar was conceived out of initial EDI-KDI contacts in early 1986. It was felt that a better understanding of the Korean strategy could be instructive for a Latin American audience. The EDI, in collaboration with the KDI, designed the seminar curriculum, drawing on the KDI's resources and experience. The EDI took the lead in participant selection. The World Bank was able to provide resource persons with specialized cross-country research experience, which effectively fitted the seminar design. The KDI commissioned several illuminating papers and enlisted lecturers drawn from a pool of Korea's leading corporate officials, senior-level policymakers, and academics. The KDI also provided excellent facilities and administrative arrangements and arranged for several instructive field visits to leading industrial firms.

The seminar was organized and co-directed by Alberto Eguren, senior training officer in EDI's National Economic Management Division, and Whang In-Joung, KDI's vice president for international cooperation and director of its International Development Exchange Program (IDEP). Other resource persons in attendance were Fred Jaspersen, now principal economist for adjustment policies in the Country Economic Department of the World Bank, Vittorio Corbo, now division chief of the Country Operations Department in the Latin America and Caribbean Region of the World Bank, and Silvio de Franco, academic director and professor, Instituto Centroamericano de Administración de Empresas (INCAE). All of them made valuable contributions, particularly in highlighting the lessons of the Korean experience for Latin America. Participants included public and private sector officials from eight Latin American countries: Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, and Peru (see Annex C).

The seminar also received considerable cofinancing from the UNDP and its Special Unit for Technical Cooperation among Developing Countries (TCDC). This, along with EDI-KDI financial cooperation, highlights the EDI's continuing efforts to pursue linkages with multilateral and developing country institutions in conducting policy seminars. Also, by bringing Latin American officials to Korea to study that country's development policies, the International Development Exchange Program (IDEP) of the KDI continues its ongoing effort to facilitate South-South cooperation and exchange.

Overall, the seminar met with an encouraging response from participants, which was confirmed by their end-of-seminar written evaluations. In particular, there was a general feeling that the event

had not only fulfilled their initial expectations and objectives but also had been beneficial in terms of the needs and practices of their countries. The participants also felt that the seminar helped them to understand better the formulation of policy frameworks, and most concluded that they would be able to apply some of the Korean lessons to their own country situations.

The following report encapsulates the proceedings from the seminar on the basis of the presentations and discussions and the complementary reading material. It attempts to reflect the views of most participants, although it does not purport to represent an overall consensus; it does not—indeed could not—pretend to be comprehensive. The main text of the report was prepared by Silvio de Franco in collaboration with Alberto Eguren and David Baughman.

Part I presents the history of Korea's economic development policies since1953. It highlights, from both a short-run and a long-run perspective, the key policy prescriptions that enabled the Korean economy to perform so well for most of the past 25 years. Part II goes on to analyze the key institutional aspects and processes within the Korean bureaucracy and society that have been crucial for Korea's development strategy and concludes by proposing some lessons for Latin America. These lessons are drawn mostly from presentations by the participants themselves but also from general reflections that emerged out of discussions throughout the course of the seminar.

Christopher R. Willoughby
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Executive Summary

For a majority of Latin American countries, the 1980s have been fraught with economic crisis and politically difficult adjustments. Korea, on the other hand, successfully adjusted to the 1979 oil shock and managed to skirt the depressed international economy of the early 1980s and achieve high growth rates up to the present. An important element of this adjustment can be found in Korea's policy framework and orientation and institutional arrangements. An historical perspective on Korea's development since the mid-1950s was presented to participants in order to define the socio- and geopolitical context within which the present system of policy evolved so as to understand better its foundations.

Important aspects of the Korean experience brought to light in the seminar include:

- Assigning a leading role to exports in economic policy, by eliminating anti-export biases and by providing incentives for high initial profits to export industries. Also, relatively low inflation, the maintenance of stable macro prices (e.g., real exchange rate), and the use of a diverse set of policy instruments were important for export promotion.
- Establishing a coordinated investment policy, by maintaining realistic interest rates and providing a stable macro climate to encourage investors. Further, although government ownership and use of price controls was limited, many discretionary policies were followed to guide and encourage export industries.
- Backing policies with an efficient bureaucracy and setting up administrative structures that were consistent with Korea's outward-oriented policies. This meant developing a highly coordinated and somewhat concentrated policymaking apparatus which included putting the Budget and Planning Bureaus under an Economic Planning Board which was directed by the Deputy Prime Minister. The export strategy also received political backing from the highest levels of government, and was communicated clearly and in a high-profile manner.
- Providing appropriate incentives for the bureaucracy, entrepreneurs, and labor. Private sector careers often await Korean civil servants after retirement, which takes place relatively early. This, along with the relative prestige associated with government service, provides incentive to pursue such service. Similarly, entrepreneurs involved in export industries were—and still are—routinely acclaimed in public and generally supported by the government. This has added a social incentive to the already extensive economic incentives. Finally, labor, although without genuinely independent unions, was provided with good benefits and witnessed steadily increasing real wages and employment as Korean industry and export markets expanded.

Although Korea's experience is generally associated with "outward-oriented" or "export-led" growth, the historical review made clear that initially during the 1950s, Korea had followed import-

substitution policies and that it was only in the mid-1960s that the export drive began. The flexibility in the economy displayed in the 1979-80 adjustments, and in the resumption of GDP and export growth since then, was greatly increased after the start of Korea's outward orientation in the 1960s.

One interesting parallel was drawn between Korea's situation following the end of the Korean War and the present situation faced by most Latin American countries. A general conclusion emerged that Korea in the 1950s and early 1960s was confronted with very few options regarding development strategy, given its low resource level and unstable sociopolitical and geopolitical environment. This, of course, contributed greatly to its choice of an outward-oriented strategy. The debt crisis today in Latin America limits the strategic choices available to governments in much the same way as in Korea, if for different reasons. The external and internal constraints placed on modern Latin American economies are different, but nonetheless, the sense of urgency is compelling the governments of the region to assess the outward orientation in a more favorable light, if not actually to launch the required policy reforms. In contrast to the situation faced by Korea at the early stages of its reform process however, the Latin American countries today face a much more difficult international economic environment.

PART I

Brief History to 1953

Korea was for more than 13 centuries a unified and ethnically homogeneous country. Largely isolated from the West until the country "opened up" in 1876, Koreans had become aware of the Western World earlier, mainly through Chinese sources. The area now called the Republic of Korea is poor in natural resources; only 30 percent of the land area is arable. Throughout the 19th century the country remained very underdeveloped. However, by the turn of the century Korea had developed a rather complex and advanced agricultural system judged by standards of that time. In terms of commerce and financial systems, though, the country lagged significantly behind China and Japan.

The main influence on Korean culture flowed from China, with its traditional Confucian emphasis on classical education as the key to social mobility and access to government positions. The Confucian heritage also stressed the virtue of obedience and an acceptance of the established hierarchy. Unlike China and Japan, access to government positions in Korea was restricted to the aristocracy via standard examinations. However, the availability of a written phonetic alphabet since the 15th century has facilitated the diffusion of knowledge to broad segments of the population.

Japanese occupation of Korea, which lasted 36 years from 1910 until the end of World War II, greatly influenced the future development of the country. Even today, Japan is regarded as a model to be imitated. Japanese colonization brought both exploitation and modernization. The Japanese generally organized the economy around their own needs, but in so doing they trained manpower (albeit in an ad hoc fashion) which proved useful later on in Korea's development.

At the end of World War II, Korea presented a panorama of backwardness and desolation: the traditional agrarian economy which engaged two-thirds of the labor force remained; and the small industrial base, built up under the Japanese, had been destroyed. Not long after this, there was the devastation of the Korean War, an overflow of refugees from the north when the War ended, and rampant hyperinflation, all of which created serious economic and social problems for the government.

Syngman Rhee, the president of the Republic of Korea at that time, depended to a large extent on economic aid for stabilization. However, whereas foreign aid was welcome, foreign loans were considered an encroachment on national sovereignty. The basic tasks to be accomplished in Rhee's view were based on a doctrine which encompassed "anti-communism", "anti-Japan", and "patriotism". These ideas, in conjunction with the realities of the country, led to the first set of economic policies of modern Korea.

Review of Macroeconomic Policies (1953-1980)

Whereas Korea is now well-known around the world as a paradigm of "outward-oriented policies," the reality is much more complex. Even if it is true that the main orientation of Korea's policies has been outward, it has not been a pure outward approach to development, since policies and orientations have changed over time. By now it is customary to divide Korea's development policies into different stages. In each stage a different element of policy has been more dominant than others.

Import Substitution and Stabilization (1953-1963)

Given the precarious situation in the country and Rhee's ideology, it is not surprising that the main policy goal at the end of the Korean War was stabilization. This was pursued by way of import substitution of non-durable consumer and intermediate goods through the imposition of high tariffs and restrictive quotas. Because of an overvalued currency, exports during this period were only about 1 percent of GNP.

Growth of GNP in this period was only 3.7 percent per year (per capita 0.7 percent) and was mainly based on reconstruction projects funded by foreign aid, primarily from the US. Although growth performance was relatively poor, this period was critical for rebuilding the human capital base of the country and for ridding the economy of hyperinflation. Confucian values place great emphasis on education which, in conjunction with increased educational facilities, resulted in an explosion in the number of students: between 1945-1960 enrollment in higher education increased by a factor of twelve.

Land reform was a major event during the unfolding of the 1950s, and was a very important factor in Korea's transformation from a low income agrarian society to an industrial one. Land reform created a larger base for consumption than was the case *ex ante*, which served to mobilize demand, and at the same time helped to stabilize the political situation. These two aspects occurred through the establishment of limits on the ownership of farmland in the economy, which was the major thrust of the Land Reform Act of 1949. The percentage of tenant farmers in the rural sector fell dramatically as a result, from 42 percent of farm households in 1947 to only 5 percent in 1964. Alternatively, the percentage of full owners rose from 16.5 percent in 1947 to approximately 72 percent in 1964.

Export-Oriented Drive (1964-1971)

Contrary to most Latin American countries in the 1950s and 1960s, Korea did not attempt to "deepen" the import substitution process. It was soon realized in Korea that the internal market was not large enough to provide for sustained growth, and that the capital requirements for going beyond the production of consumer goods and into the production of capital goods substitutes were not available.

The essence of the new strategy was to exploit Korea's comparative advantage in labor-intensive manufactures for export by employing the abundant supply of cheap manpower. The new strategy did not mean an abrupt end to internal consumption industries, but it was made clear that as a general rule they could not expect further protection from the government in order to foster growth of the internal market.

Whereas the general guiding role of the government was crucial in the implementation of the new strategy (this is discussed in more detail in the section devoted to institutional issues below), it must be added that without the strong personal commitment of President Park to the new policy, it is doubtful that the new strategy could have been carried through as extensively and effectively as it actually was. One of the first actions taken by Park's administration was to readjust the local currency by way of a 100 percent nominal devaluation in 1964 and to adopt a unified floating exchange rate. The government also raised the interest rate in 1965 from 15 percent to 30 percent (for one year, fixed deposits), which eventually resulted in a spectacular rise in domestic savings—from 1962 to 1971, the domestic savings rate increased from 3.2 percent to 15.5 percent. To increase public savings and to eliminate a chronic budgetary deficit, the tax administration system was reformed. This gave the National Tax Administration considerably more muscle and resulted in increased public revenue.

All of these measures to adjust macro prices and to minimize price distortions were coupled with direct incentives for exports. These included: short-term export financing; tariff rebates on inputs imported for export production; direct export subsidies; tax exemptions; reduced rates on public utilities for exporters; and accelerated depreciation allowances for export firms. To further this new strategy, the government fostered new export companies through eased financial regulations, offshore procurement loans, import-export credits and foreign exchange loans. In this last regard, the government went so far as to act as underwriter of foreign capital risks in certain situations.

Thus the message was very clear for entrepreneurs that they would receive government backing as part of the development strategy. The results of this major shift in incentives were spectacular: average GNP growth per year for the period 1962-71 was 9.5 percent (6.9 percent per capita); the primary sector's share of GNP decreased from 37 percent to 27 percent, reflecting the structural changes taking place in the economy; and commodity exports grew at an annual average rate of 40.0% as they expanded from US$55 million in 1962 to $1,070 million by 1971. On top of these changes, the share of manufactured products in exports increased from 27 percent to 86 percent over those years. A large percentage of financing for investment and growth came from foreign sources; foreign savings as a percentage of GNP ranged from 8 percent to over 10 percent in the 1960s and 1970s. Table 1 encapsulates some of the most prominent economic statistics, from the immediate post-Korean War period in the 1950s, to the end of the 1970s.

This strategy worked well in the case of Korea for a simple reason. As stated earlier, exports were based on labor-intensive products that increased employment opportunities at the bottom of the income scale. As a consequence, a substantial improvement in income distribution took place over this period and the share of income of the lowest 40 percent of urban households increased from 14.1 percent in 1965 to 18.9 percent in 1970.

Before leaving this stage, it is necessary to mention several facts that bolstered the export-oriented policies.

- The country was endowed with a well-educated and disciplined population.

- The announcement that US aid was going to be drastically reduced prompted policy makers to search for a new way out.

- Antagonistic feelings toward the Democratic People's Republic of Korea led the Republic of Korea to believe strongly that they had to grow both economically and militarily to ensure their security.

- World commerce was booming in an inflation-free environment and Korea seized the opportunity. It should be noted that the same opportunities in trade were also available in Latin America, but with the exception of some facets of Brazil's and Colombia's policies, the majority of Latin American countries deepened import substitution industrialization in this period.

Table 1: Key Economic Indicators of the Korean Economy (1953-1979/80)

	Annual Changes (%)		
	1953-62	**1962-71**	**1971-79**
GNP	3.7	9.5	9.6
GNP/capita	0.7	6.9	7.8
Exports	n.a.	39.1	39.2
Imports	n.a.	21.3	30.7

	(% GNP)			
	1962-66	**1967-71**	**1972-75**	**1976-80**
Investment Rate	**16.6**	**26.3**	**26.4**	**30.4**
Total Savings	**15.6**	**25.2**	**27.2**	**30.4**
Domestic Savings	6.9	14.8	18.6	25.8
Foreign Savings [a]	8.7	10.4	8.6	4.6
Statistical Discrepancy	1.0	1.1	0.8	0.0

Sources: S. Sang-mok, "The Evolution of the Korean Economy: A Historical Perspective" (KDI, 1986), and A. Choong-Yong, "Foreign Investment and Trade Promotion Schemes: Some Comparisons between Korea and Latin America" (KDI, 1986). Both included as Seminar Readings.

a. Total Savings - Domestic Savings.

Heavy Industrialization Policy (1972-1979)

Success often breeds problems. In the case of Korea, at the beginning of the 1970s problems arose as the government grew overconfident of its own planning ability. Instead of limiting its role primarily to the management of the macro prices and to the administration of the complex incentives system of the 1960s, the government initiated a strategy of heavy industrialization. This strategy demanded direct intervention through "picking the winners", by favoring some industries and firms via special facilities and incentives for investment.

There were several reasons behind the adoption of this new policy. First, the announcement of a US troop reduction in Korea was perceived as creating the need for a greater industrial base for military purposes. Second, it was believed that a Japanese pattern of industrialization had to be

followed in order to prepare the country for further exports. This was also consistent with the Korean desire, instilled since the Japanese occupation, to "catch up with the neighbors". Third, large scale investment projects were regarded as natural counterbalances to the oil shock of 1973/74.

The government took the decision to channel funds preferentially to conglomerates, which would develop heavy industries; ship building, steel, non-ferrous metals, machinery, petrochemicals, and automobiles were the top priorities on the government's agenda. This increased the competition for resources and constrained the amount of funding available for export industries. Tolerance of monopolies in some industries, availability of funds at lower interest rates, high protective barriers, and incentives for research and development expenditures were all part of the new package policy.

These policies were adopted at about the same time as the 1973 oil-shock, which led to some nascent imbalances. An expansionary path was followed in spite of a growing deficit in the current account which was being financed by external borrowing. In terms of macro indicators, the results were impressive: GNP grew an average of 9.6 percent per annum between 1971-79 (7.8 percent per capita); the export to GNP ratio rose from 11.7 percent to 31.9 percent over the same period; and industries moved toward production of goods with higher value added.

In spite of these indicators, the economy was being overheated, manifested in relatively high inflation (21.8 percent), and a 23.2 percent appreciation in the real exchange rate between 1973-79. There was also excessive government intervention in the subsidization of negative real interest rates.

By the mid-1970s, the consequences of all these factors began to be felt. The Korean economy began to lose its international competitiveness in labor intensive industries, and the heavy industries were still too young to be able to play a major role in the world market. The ability to compete was also affected by the appreciation of the real effective exchange rate. The heavy industry policy, coupled with inflation, was also a source of a deterioration in income distribution. Moreover, under the specter of inflation, an overvalued exchange rate, and low real interest rates, many economic actors found it more profitable to enter into speculative ventures (in real estate mainly) than to undertake productive investments. Even as Korea was still growing and exporting, the economy was becoming increasingly more vulnerable: external debt increased from US$4,300 million in 1973 to US$20,000 million in 1979. However, even as this represents a growth of some 372 percent, the debt/GNP ratio barely grew at all—from 31.6 percent in 1973 to 32.9 percent in 1979.

By the end of the decade, Korea was at a crossroads. Economic growth had been achieved through expansionary aggregate demand policies and a heavy influx of foreign loans. At the same time though, the economy had become more vulnerable to external shocks and was losing its international competitiveness in labor intensive industries. The growth of the export sector suffered a sharp reduction as well.

Government's early responses to this deterioration were in the form of more direct control and intervention since politically it was hard to carry out a wholesale change of strategy. However, attempts to curb inflation through price controls produced shortages and fueled the black market, and the whole idea of export promotion was in danger of losing its appeal.

Stabilization and Liberalization since 1980

The assassination of President Park in October 1979, plus the impact of the second oil shock, world recession, and a crop failure, provoked the first negative growth rate (-5.2 percent) in two

decades and high inflation (the CPI reached 34 percent from December 1979 to December 1980). Starting in 1979, the Koreans had adopted a self-imposed stabilization program. The program called for a postponement of large investments in heavy industry, control of monetary expansion, eradication of subsidies, and a cut in current government expenditures. In 1980 a large devaluation was undertaken to improve the real exchange rate. This was the initial step toward implementation of structural adjustments, which were aimed at price stability, balanced growth, and liberalization.

Aggregate demand control and price stability were pursued primarily through restrictive monetary policies and government austerity. Moreover, stabilization relied heavily on a restrained incomes policy to accelerate economic growth. This policy was implemented by issuing wage increase guidelines, for which the government provided an example for the private sector through low raises for government employees. As a result, and helped by a resumption of high growth and a fall in the inflation rate itself, nominal wage increases fell from 23.4 percent in 1980 to 9.2 percent in 1985. In addition to wage restraint, subsidies to farmers were steadily reduced. Downward adjustments in interest rates, in accordance with the slowdown of inflation, were also a part of the policy. The results of this package were quickly reflected in a significant reduction in the inflation rate to 7 percent in 1982, and further to the 2-3 percent range thereafter.

Liberalization policies to some extent reflected a recognition that the economy had become too complex to be managed through discretionary and very costly government interventions and that market forces had to play a larger role in allocating resources. To this end, the new program included the elimination of subsidized loans to preferred industries, de-nationalization of major commercial banks, efforts to eliminate cartel arrangements and price fixing, and a floating exchange rate regime. Along with these measures, import liberalization was introduced by lowering tariff rates in an effort to force more efficient domestic production through the introduction of foreign competition.

Other policies for more balanced growth are still on the way: investment tax credits and monetary policies are working to foster export activities and to achieve a better balance between small- and large-scale firms. To this end, financial incentives are offered for R&D (research and development) to encourage expansion of small- and medium-sized firms.

The combination of all these policies paid high dividends, as reflected in a 6.7 percent growth rate for 1981, in spite of the world recession at that time. The subsequent years were also good growth years: 5.4 percent in 1982; 11.9 percent in 1983; 8.4 percent in 1984; and 5.1 percent in 1985. The growth rates for 1986 and 1987 are estimated to have been much higher at over 11 percent for both years. The more recent results were attained through a combination of sound economic policies and favorable conditions at the international level. Whereas in 1980 and 1981 the external shocks had a negative impact, the strong recovery of the US economy from 1983 onward and the fall in oil prices were a windfall for Korea. Korea's competitiveness also improved with the recent appreciation of the Japanese yen and major European currencies, and the trend toward lower interest rates have undoubtedly abetted the performance of the economy.

Summary of Key Policy Elements

What lessons can be drawn from the Korean experience for the design of macro policies? In spite of some variations in tone and emphasis since the early 1960s, the basic strategy of Korea has been consistently in favor of export promotion. As the above discussion has made apparent, several components have been crucial to the performance of the economy.

Elimination of Anti-Export Biases and Export Promotion. Since the early 1960s trade policy has included, at the minimum, measures to eliminate anti-export biases. Most significantly, this has included maintaining a competitive exchange rate. At the beginning of this process, short-term subsidized government financing for export activity and tariff rebates for imports used in producing exports were implemented to promote exports. More recently, the policy of import liberalization has been another facet of the strategy to promote exports. By gradually opening the domestic economy to imported industrial inputs, both the domestic market producer and the export manufacturer are being forced to improve efficiency.

Consistency of Key Macro Prices. One important element of policy that emerges clearly over the years, is the serious attempts made by Korea to achieve a consistent and stable set of macro prices. Regarding the exchange rate, the real rate has been kept fairly constant since the 1960s, despite some periods in which the real effective exchange rate did appreciate overall. Exchange rate management has therefore consistently been a stimulus for exports and economic growth. When high domestic inflation eroded the ability of the exchange rate to facilitate exports, measures were taken to curb the bias through nominal devaluations.

With regard to interest rates, a situation similar to exchange rate management has prevailed. Even though it is true that incentives in the form of preferentially low financial rates have been a part of export policy, it appears to be true also that—except during the period of heavy industrialization—the capital/labor ratio obtained was consistent with factor endowments. More recently there has been a move towards liberalizing interest rates.

Diversity of Policy Instruments. The government's flexibility and pragmatism in the use of different policy instruments has been mentioned several times. It is important to note in this regard however, that no instrument can be singled out as the only factor of success. On the contrary, the government has forged a strong unified policy by maintaining coherence out of a diverse set of policies. A second remark concerns the timing and mixed usage of instruments: when favorable external conditions have been present, for example during the period of declining oil prices and interest rates, the government altered the mix of instruments readily and with success.

High Initial Profits for Exporters. It has been mentioned several times that broad incentive packages were offered to pioneers in export businesses. This system worked well in the sense that it gave credence to the government's repeated proclamations that exports were the business of Korea. Besides, the system was designed so that it allowed high profit rates for export activities—a powerful incentive to break the internal industrial orientation. Key export growth incentives in the 1960s included tax exemptions and credit subsidies. Moreover, the incentive packages remained stable over time, a critical factor when an entrepreneur is trying to access new and often difficult foreign markets. This is perhaps the most important lesson to be drawn from the Korean experience in terms of implementing export-oriented strategies.

Investment financing. Domestic savings were encouraged through realistic interest rates starting in the mid-1960s. This improved the internal allocation of resources and was a powerful incentive to increase domestic savings. However, in the 1970s the increases in domestic savings were not enough to cope with the increases in investment demanded by accelerated, and perhaps premature, heavy industrialization.

In the face of decelerating domestic savings, the only option available to sustain the heavy industrialization effort of the 1970s was to turn to external saving. However, although Korea now has the fourth largest foreign debt in the world, the situation is not comparable with Latin American countries. The recent high growth rates of the economy and exports have afforded Korea a much more favorable debt/export ratio than most Latin American countries. This has enabled the country to tap the international capital markets with few restrictions.

The liberalization policy that the country has undertaken in the last few years embraces the financial sector and is changing the role of the sector from one of a conduit of funds for government- selected projects to a more dynamic intermediary role between savings and investment.

Investment in Human resources. The investment in human resources during the 1950s and in subsequent decades helps explain the demonstrated ability of management to establish and run new plants and factories in Korea over the years. Indeed, the quality and dedication of manpower and management available in Korea is impressive, and is something that is not always present in Latin America.

Government role. The Korean government has played a basic role in guiding investment. This role has exhibited many faces: promoter, saver, and director, but it has seldom moved to replace or overtake the role of the private sector in this area. It can even be said, as one Korean scholar put it, that the Government has been the "script-writer" of Korean development, but the actors have been drawn mostly from the private sector.

Flexible macro policy. To present the conduct of economic policy in Korea as the product of a rational actor who, as in the textbooks, has complete freedom of choice drawn from a menu of options is misleading. Indeed, the material basis for development in terms of natural resources was very poor in the Korean case. However, other forces were felt in Korea (some negative, some positive) which demanded quick and positive reaction and which influenced the direction and tone of Korean development policies.

Positive forces were seized upon as they appeared and negative ones were taken as challenges and transformed into opportunities to achieve adjustment more quickly and further economic growth. On the positive side, Koreans initiated their take-off in very favorable international economic conditions during the 1960s; there was disciplined and hard-working manpower present, and in many ways having Japan as a neighbor proved to be a stimulant for the country. On the negative side, the country has suffered several negative shocks since the end of the Korean War: the falling off of US aid, the withdrawal of American troops and subsequent increased burden of military expenditures, and the oil shocks of 1973-74 and 1979-80, and the subsequent 1980-82 world recession.

In a sense it can be said, *ex-post,* that the Koreans did not have any other option than to follow an export-oriented strategy, given its poor resource endowment and difficult external environment. This does not define success however; there are other examples of countries which have faced similar conditions but in which no development whatsoever has taken place. What is fairly unique in the Korean case however, is the ability to formulate and implement a national development strategy that is consistent with the country's initial conditions and opportunities. Few countries have been able to do this. Again, problems subsist: there has been some sluggishness in the development

of capital markets, and some incentives for heavy industries were actually excessive. Also, the economy probably did not need such a high level of external debt to perform well.

PART II

Industrial Policy

Industrial policy can be seen as the sum of a nation's efforts to guide and shape business activities to foster economic growth. Thus, its concerns are with the long-term structural integrity and growth of a country's industrial base. To some extent industrial policy can be likened to a corporation's long-term strategy, but at the governmental level. Whereas in parts of this paper we have dealt implicitly with elements that belong to industrial policy proper which do not need repeating, there are several other aspects of industrial policy not yet mentioned that are noteworthy.

Technological Policies

The acquisition of technology in Korea has been interesting in terms of technology transfer issues. Technological policy in Korea is twofold: to try to encourage as much as possible the development of "native" technology (which is done more and more through both private and public think tanks, but which initially consisted mainly of mastering imported technology); and to acquire only portions of technology that have not been developed at home. In this way, Koreans have been able to strengthen their bargaining position vis-a-vis multinationals and have forced them to sell pieces of technology at lower prices. This can be contrasted to the situation in many Latin American countries where technology is too often acquired through the setting up of "turnkey" type operations which are basically imported wholesale. This is a much more costly proposition in most cases. An essential component of Korean technological policy has been the fostering of indigenous research centers, which are akin to the policy research think tanks mentioned elsewhere.

External Marketing

An important aspect of external marketing in Korea has been the way government institutions were established and operated in order to promote exports. The Ministry of Industry and Commerce started very early in the 1960s by setting export goals for those agencies involved in trade management. If goals were not met, the Ministry initiated pressures and strengthened incentives both for exporters and civil servants.

Eventually, the need arose for more specialized agencies who would be better able to compete in international trade. The decision taken by the government was to support only those agencies linked with big industries or conglomerates, mainly because bigger firms could achieve economies of scale and greater access to foreign markets, and in addition had the ability to present an image of

seriousness for Korean products in new markets. These agencies received preferential treatment from government, but they were expected to achieve the goals that were set by the government—goals that became increasingly more ambitious over the years.

Along the same line of thought, the development of the *Chonghapsangsa* (trading companies which specialize in exports) was a step further in establishing a presence in world markets. In fact, the country's top 10 *chaebol* manage 50 percent of its exports. These companies through their global reach are able to arrange deals with clients that have tremendous advantages over competitors, including countertrade and swappings.

Incentive Systems

Incentive systems, a key part of any strategy implementation, encompassed in Korea the bureaucracy, entrepreneurs, and labor.

Incentives for the Bureaucracy

For Koreans "learning" was for many centuries synonymous with "ruling class" and hence with "bureaucracy". Even today, being part of the learned bureaucracy to some extent still carries connotations of prestige and distinction that are a reward in and of themselves. As discussed earlier, the prestige attached to the bureaucracy has its roots in traditional Korean culture that, until the last century, reserved all bureaucratic positions for the nobility.

Salaries in government appear to be lower than those in the private sector. However, since most bureaucrats in policymaking positions retire rather early from government, they are able to join private companies in good positions, which means that lifetime income is not as different for the two groups as may at first seem the case.

There are two other sources of motivation for the bureaucracy. One of them is rooted in the Confucian tradition that emphasizes dedication, obedience, and hard-work as virtues. The other, already mentioned, is a certain amount of leadership zeal and determination demonstrated by senior officials. It is expected that if leadership shows devotion and enthusiasm to a cause, then subordinates will also show the same amount of enthusiasm for the cause.

Incentives for Entrepreneurs

Looking now at entrepreneurs, it would seem that the government may have exaggerated the incentives provided to promote the development of an entrepreneurial class. As we have seen before, several instruments were utilized including: a preferential tax system; preferential credits; administrative encouragement and support; and possibilities of huge profits. However, notwithstanding a certain amount of largesse, it has to be remembered that tremendous inertia had to be overcome. The period of Japanese occupation stifled development of indigenous entrepreneurs for a long time. By 1945 the country was physically and emotionally divided and engaged in war; in 1961 GNP per capita was only US$85 and the situation appeared to be at a dead end. Conditions were marked by inflation and economic uncertainty; speculation and commercial investment were

dominant, and export activities were almost unknown. It can be argued then, that under these unpropitious initial conditions, it was necessary for incentives to be very powerful to nurture the emergence of a new entrepreneurial class.

Incentives for entrepreneurs were of two types; economic and social. We have already mentioned the various economic incentives, but perhaps just as important were the social incentives. Traditionally in Korea, industrial activity occupied a very low position in the social hierarchy, so it was the task of the government to transform the image of those dedicated to industry and export activities in the eyes of the public.

Exporters were publicly honored by the government by way of special ceremonies (a custom still in practice), and export activities were exalted as patriotic endeavors. Legitimacy for entrepreneurs was achieved then by equating the overall ideology of national identity with Korea's chosen development strategy. As for the economic incentives, it is worth repeating that for exporters, consistency of the measures, commitment of the government and particularly sustainment of incentives were the key items which encouraged the private sector to embrace the new strategic direction. In other words, the "rules of the game" were given and maintained. It remained in the entrepreneurs' hands to accept those rules and to assume the challenges of competition in the international arena knowing that the energy of the country was mobilized to support them.

Incentives for Labor

Labor policy has been consistent with both an abundant supply of labor and wage increases tied to productivity changes, so that, with some exceptions, the country was able to use its labor resources to almost full capacity. For workers, the new strategy offered long hours of hard work (an average of 12 hours a day) at wage rates, which at the beginning of the 1960s, were very low. At the same time though, it represented an alternative to strenuous and often unrewarding labor in the countryside. Working in a factory for many workers also became a status symbol compared to those left back in the villages. Working conditions were very difficult, but the income and social differences were noteworthy, at least judging from the reduction of on-farm unemployment from 16.4 percent in 1963 to 6.0 percent in 1982. By 1977-78, the official unemployment rate was reduced to a nominal 3.2 percent.

Life-long employment is not the norm in Korea as in Japan, but identification with the company, especially with the most distinguished ones, is a Korean trait. Like Japanese companies on the other hand, Korea's industries (in particular the largest ones) provide generous benefits, from subsidized housing and medical care, to schools, sport facilities, and even dormitories for workers. However, perhaps the most encouraging outcome of the strategy for workers has been the rise in real wages and the changes in the distribution of income. The real income index for salary and wage earning urban households rose by 122 percent between 1962 and 1978. In the countryside, the real farm household income rose by 208 percent in the same period. Even with the deterioration of income distribution in the late 1970s, Korea's income distribution remains relatively equal by LDC standards. Overall in the last 20 years, wages have increased on average by almost 7 percent per year in real terms, an achievement difficult to find in comparable countries around the world. Other policies towards labor, including education and training and work incentives,

especially at the professional level, have played a major role in productivity gains and also in stopping the brain drain of the early 1960s.

Institutional Aspects

To a certain extent, development possibilities open to any economy are not that difficult to visualize: given the human and natural resource endowments plus internal and external opportunities, and constraints, it would be possible, in principle, to chart the course of an economic strategy in order to achieve a set of development goals. What makes for the dramatic differences among countries in reality result from the institutional and social arrangements involved. Indeed, it is in the policymaking and implementation processes that some of the richest lessons of the Korean development experience can be found.

To launch a different strategy—be it for a company or for a country—is not an easy task: the inertia of past policies and fear of the future have to be overcome. In the case of Korea, the success of its economic strategy cannot be simply ascribed to a "strong" or "repressive" state. The style and extent of government intervention in Korea goes beyond the usual labels of "authoritarianism" or "laissez-faire"; moreover, its role has changed over time.

As explained earlier in this paper, a major concern of the government in the 1950s under President Syngman Rhee was to secure the country against the Democratic People's Republic of Korea. Foreign aid was welcomed but foreign investment was not, since the latter was regarded as involving a loss of national sovereignty. Economic planning was regarded as a communist tool, and government intervention was limited to defense and infrastructure development and to control hyperinflation. After Rhee was forced to step down, following a student uprising, the brief presidency of Yun Po-San ended in 1961 by way of a military coup.

General Park Chung-Hee took power in 1961 as head of the "Supreme Council for National Reconstruction." The need that Park felt for legitimacy was not fulfilled by the 1963 elections as he was elected president by a narrow margin. Regardless, for Park the possibility of developing Korea through export growth, and hence achieve both legitimacy and economic gains for the country, was an opportunity he recognized and seized almost immediately. These ideas were a "leitmotif" throughout his long tenure as President, form 1961 to 1979.

The "Export First" policy developed in the first Korean Plan (1962-66) was fully embraced by Park both as a strategy for political legitimacy and as a need for Korea. But being able to conceive and embrace bold new strategies was not enough, as expected. It was also necessary to ensure that the strategy become embodied in actions that the government and economic actors took. At the same time, it was important to ensure that "politics" as such were compatible with the economic strategy. Moreover, the economic strategy became a reality, as it was able to draw effectively from the dominant values of the society. It is to these aspects that we now turn our attention.

Communication of Development Strategy

Once Park and his advisers adopted the idea of export promotion, it was communicated clearly and forcefully to all of society. Park made his views quite clear in his public speeches: economic

development would be the source of modernization; there was a need for purposeful planning in economic development; and the need for promoting exports was paramount. Furthermore, export activities would be free of all the red-tape associated with the protectionist import regime, and preferential tax treatment and credits would become available to exporters.

Leadership Commitment and Style

Communicating strategy however, is usually not enough to ensure proper compliance, as bureaucracies often fall into rigid, routinized, and procedural-type behavior. President Park played a major role in avoiding this pitfall with a series of institutional reforms.

Among many initiatives, he established the Export Promotion Conference, a joint body of economic ministries, major economic institutions, and leading businessmen, over which he presided every month. In these meetings, daily problems were discussed in a concrete way, and at the next meeting the following month, Park himself was asking for solutions to the issues raised in the previous meeting. The message to businessmen was clear that Park was serious about export activities and the bureaucracy was going to serve them in accomplishing export goals. It was also clear to the bureaucracy that the strategy was not merely a political diversion, and that they were accountable to Park on the status of implementation of his policies from one meeting to another.

President Park also received monthly reports on the economic situation from the Economic Planning Minister (the "Economic Report Session") in which economic performance was closely monitored. Reportedly, the KCIA devoted some of its resources to keep the President informed of the economic situation in different sectors of the economy. Symbolically, Park also showed his commitment; he attended ceremonies for project launchings, industrial site identification, and press conferences. It could even be said that he made "Exports and Growth" the *raison d'etre* of his presidency. This deep involvement of the top leadership in the implementation process can be identified as one of the key distinctive characteristics accounting for Korea's economic success.

The Fitting of Strategy and Bureaucracy

Several steps were taken during the Park regime to assure consistency between the development strategy and the country's bureaucratic structure and processes.

First, President Park regarded the bureaucracy as an instrument to carry out his policies. He personally selected key actors and empowered them so that they were able to implement the policies effectively. An example of his was the appointment of his *aide-de-camp* to revamp the tax collection administration, which proved later to be a very successful reform.

Second, the Economic Planning Board (EPB), which presided over all other economic ministries, was entrusted to the Deputy Prime Minister. The key Ministry of Finance was thus placed under the purview of the EPB. These arrangements made sure that economic plans were not just "wishful thinking", and that both economic planning and budgeting functions were under the same overall direction.

Third, to promote understanding and communication between the Planning Bureau and the Budget Bureau, the interchange of middle level managers between the two agencies was made mandatory. Flow of personnel to and from the EPB and the Ministry of Finance was also promoted. The idea behind these interchanges was to diffuse and stimulate a new bureaucratic culture consistent with the new economic orientation.

Fourth, in the early 70s, a score of new institutions designed to strengthen planning abilities and implementation skills were established, such as the KDI (Korea Development Institute); KIET (Korean Institute for Industrial Economics and Technology); and KEDI (Korean Education Development Institute). These institutions act essentially as think-tanks in which policy ideas and techniques are processed.

Decisionmaking Processes in the Bureaucracy

There are several issues involved in the pattern of policy making and interrelations among economic actors in Korea that are worth studying. Grounded in a Korean authoritarian tradition, several characteristics of the policymaking and implementation processes stand out:

- Policymaking usually adopts a *top-down approach.* Although many ministries, think-tanks, representatives of the private and labor sector are consulted in the formulation of the 5-year plan and annual budget, in the end the process does not seek consensus. Decisions are make rapidly at the top echelons of government, and the general public is far from being involved in the exercise.

- The *executive branch of government dominates* the policy process. The President is involved in all major decisions and he wields a considerable amount of power.

- *Pragmatism* is another characteristic of the process and is reflected in the eclectic and changing combination of policy tools employed by the government to achieve its goals.

- Finally, Koreans are not afraid to apply *ad hoc solutions* to particular companies or individuals, the so-called "particularist" approach.

There are advantages and disadvantages in this kind of process. On the one hand, it favors the "trial and error" approach to policy implementation. No matter what policy is chosen, the Koreans are able to respond quickly to its results by either reinforcing or withdrawing it. This ability presupposes a very well trained, disciplined and motivated bureaucracy. It is perhaps this implementation capacity that has distinguished Korea's government, independent of the authoritarian or democratic form other governments may adopt. Pragmatism and dominance by the executive branch, under highly motivated and competent bureaucrats, also means that new challenges of policymaking can be met with flexibility and speed. Particularization means also that concrete problems can be solved in a short time without excessive red tape.

On the other hand, the approach has its weaknesses. There were occasions, as in the 1970s, when the government grew overconfident and intervened by "picking the winners" in the build up of heavy industry. In doing so, it created imbalances and distortions in the economy and the resultant problems may have contributed to the downfall of President Park. Moreover, the deep involvement of the President and top officers during the heavy industrialization strategy took place only after the removal of Park from the political scene. Sometime, pragmatism and particularization can also bring unintended consequences. The use of many tools can create a very complex tangle of liberalization that is difficult to manage.

Within the last few years, the government has become more aware of the fact that planning should become more of an indicative tool, with less government intervention involved in the process. The economy and its linkages with international markets have become so complex—particularly given the unsettled world economic environment of the 1980s—that the government's direct involvement had to diminish. The current trend is toward more reliance on market forces and on the initiatives of the big corporate conglomerates, which are being made possible by the ongoing liberations program.

The State, Entrepreneurs, and Workers

In addition to legitimizing and institutionalizing the new policies in the bureaucracy, the pattern of institutional development also encompassed the behavior and interactions of two other key actors in the economy: entrepreneurs and workers. In the case of Korea, existing traditional values were stimulants which selectively reinforced the new policy. These stimuli, coupled with a set of incentives and disincentives for each group, were important factors underlying the export-drive policy.

Following the tradition of governmental hierarchy and authority, there was no doubt in the mind of Koreans that the government had legitimate command over entrepreneurs. On the other hand, it cannot be said that the business community did not have any influence on policy—after all, there has been a community of interests between government and the private sector. However, in the past the government seems to have had the upper hand over businessmen through its authoritarian style, which precluded most political activities, and its control of both financial intermediaries and access to foreign capital. Recently though, due to the ongoing liberalization program and the dominant economic and social role that the major conglomerates have acquired, that pattern of authority seems to be reversing.

Again, this kind of relationship has not always worked for the best: in picking the winners during the heavy industrialization period, not only the economy suffered, but the policy *de facto* encouraged the formation of huge conglomerates (or *chaebol*) and business concentrations at the expense of medium-sized and small business. In turn, the management style of these conglomerates reflects the same traditions in structure of authority and seniority. In the so-called "Big Four" conglomerates (Samsung, Hyundai, Lucky-Goldstar, and Daewoo), the pattern is observable in the way that control of the ruling families is generally unchallenged, even if they hold only minority shares. Succession is usually dictated by seniority.

In terms of labor-management relations, one can observe the same pattern of using traditional values plus material incentives. Management is still heavily paternalistic and uncompromising. Many workers are today still hired through friends and relatives, and companies usually provide dormitories and other facilities for workers. Conflict between supervisors and workers is solved through intermediaries on an informal basis, and seniority weighs heavily on promotion and wages.

Whereas strikes are not legally forbidden, fulfilling all the requirements for making one legal makes them almost impossible in fact. Wildcat strikes are outlawed and strongly repressed if they occur. Unions are not legally forbidden either, but the government has the right to certify only one for every company, so that the one chosen automatically has exclusive rights to bargain with the employer. So, it is convenient for the "chosen one" to be on very good terms with government officers who influence the conduct of collective negotiations. In terms of wages unofficial guidelines from the government are followed. Many times, the government participates in the

negotiation process, sometimes at the inducement of management, so that as one scholar said: "Rather than a labor-management relation in Korea, we observe a labor-government relation." According to some critics, the lack of labor unrest is not only the result of traditional values and incentives for workers, but also the result of government discouragement of union organizing. Whether or not this kind of institutional arrangement can go on in the face of a tightening labor market and the increasing sophistication of the labor force is one of the major challenges Korea is currently facing.

Some Preliminary Lessons for Latin America

In attempting to draw lessons for Latin American countries, several myths about Korea's development have to be dismissed and some facts straightened out.

One myth about Korea could be phrased as: "Korea has a monopoly on hard work." There is no doubt that Koreans work hard, but so do many persons in Latin America, who work long hours, especially those in the informal sector and professionals who "moonlight". Another related myth is that the burden of Korean development has rested on the shoulders of the work force. This perception of extreme sacrifice by the labor force in comparison with other countries is warranted; however, indicators of welfare and wage rises show that at the same time the sacrifice was accompanied with substantial rewards, which has not always been the case in Latin America.

"The development of Korea is due to fortuitous improvements in its terms of trade and American aid." In actual fact, both positive and negative external factors have been present in the course of Korea's development. As discussed early on in this paper, the distinctive trait of the Koreans is the ability to manipulate these factors to promote their own goals, formulate plans to deal with these forces, and *implement* these plans. Foreign assistance, whereas it can be a great help, can also become a hindrance when it is wasted, or worse—it could lead to a state of self-complacency that in turn leads to inaction and dependency.

"Korea has doggedly pursued an outward-oriented strategy." While it is true that exports have been a dominant trait in Korea's strategy, it is also true that a variety of policy paths were followed; sometimes parallel, sometimes sequentially. The composition of economic activities in today's Korea is a reflection of the multiple paths followed by the country over the years. Side by side with giant *chaebols* there exist important protected industrial firms as well as a myriad of small shops and businesses which are oriented toward internal markets. Agriculture was not abandoned but fostered, and independent artisans and small stores are now abundant. What is important to note is that following an outward-oriented strategy does not imply a process of starting all over again, but rather the creation of conditions in which exports as well as other activities may grow and prosper. Neither was the outward orientation synonymous with opening up the economy in a sudden burst of liberalization. This is a path that is still on the way to implementation, if at a rather slow pace.

"Korea had the right type of bold and aggressive entrepreneurs that Latin America has lacked." As explained in this paper, the entrepreneurial class emerged as soon as the right incentives and the "rules of the game" were given and enforced. In Latin America, entrepreneurs spend an extraordinary amount of time and energy trying to sort out the obstacles they are confronted with because of murky "rules of the game" within a very difficult political environment. Korean entrepreneurs are not any smarter than their Latin American counterparts, but they do have the luxury of dedicating themselves to the worries of their own business instead of having to deal with a complicated political and legal environment.

"Korea has a monopoly on the right values, and Confucian ethics are unique for promoting development." Korean cultural values can be considered (albeit arbitrarily) as either hindrances or expedients vis-a-vis development. The key seems to be not in the acceptance or rejection of the prevailing system of values, but in the search for social arrangements (in the work place and in social life) compatible with the requirements of both the development strategy and the system of values itself. For instance, Koreans did not try to abolish traditional paternalistic values (which are usually taken as a negative factor in development), but used them to hire workers and solve disputes in less costly ways. Another example is the enlistment of the value of obedience in running the bureaucracy efficiently. The challenge for countries in Latin America then is to be creative enough to use their value systems to achieve such compatibility.

The reader should not have the impression that every "lesson" related to Korea belongs in the realm of myth-destroying. There are also some positive lessons that stand out:

- The ability of Koreans to monitor their environment and respond to outside threats and opportunities is noteworthy. Since the last century, successive threats to Korean nationhood have been met with a variety of responses. This has ingrained a flexibility of response that is worth imitating.

- The ability to generate a consensus (either by coercion or inducements) and to channel people's energy in a path of development have been other characteristics that should be emulated. It is also useful to point out that growth has had, in turn, an impact on politics since it has been a source of stability for the great majority of the population—if not of legitimacy.

- In connection with the outward-oriented strategy, there are some intrinsic advantages that could benefit Latin American countries. The strategy provides a powerful instrument to measure performance since the rest of the world provides the feedback; it forces efficiency, technological progress, and discipline into the various sectors of the economy; and also, it favors true entrepreneurs to the detriment of the "rent seekers".

- In creating a powerful and inter-connected network of interests with the rest of the world, Korea's outward-oriented strategy also created a source of political stability. In fact, every national political actor is conscious of the fact that his acts are bound to have an effect on the well-being of the economy, and no one—except for a few radicals—wants to shoulder the blame for scaring international customers away from Korea. Moreover, the complexity and growth of the economy itself and its increasing linkages with the world tend to sober political passions and make political discussions more rational.

- One very key lesson for Latin America is the way the government has been able to create a climate of credibility and sustainability of the "rules of the game" in its relations with entrepreneurs. This kind of relationship has been either absent or discontinuous in Latin America and has been a major hindrance in fostering growth.

- Korea's labor policy also has exhibited some characteristics worth remembering: the linking of salary raises with increases in productivity, and using a paternalistic management style (given traditional values) have been important in developing the industrial base.

- The creation of think tanks which are independent of the government is also worth noting. Korea's think tanks have been effective "sounding boards" for the policies considered by the government without being unduly involved in internal or external rivalries. These kinds of institutions are often absent from the Latin American policy-making scene.

- Korea's pragmatic mode of problem solving, as opposed to an ideological mode, has been another advantage to the country. Foreign investment and technological acquisitions were rarely treated in an ideological framework, but instead were allowed to fit into the development plans as needed.

- The flexibility and quick response time to external changes demonstrated by Koreans is an ability that carries a high premium in a fast changing world economy. This is partly based on a Korean knack for changing threats into challenges, but it is also related to the country's innumerable links with a very competitive world market.

- Finally, Koreans have also demonstrated an awesome commitment to investment in human capital both by way of the quantity and the quality of education.

The above "lessons" are just a brief summary of what can be positively drawn from the Korean experience. Of course this does not mean that Korea is a paradise; there are still many unsolved problems, many of them a product of economic growth itself. Several problems can be noted that are certainly relevant for Latin America now and in the future. Politically, the system has not evolved apace with the growing sophistication of the economy and society, and it has been essentially authoritarian.[1] Many have recognized a wide gap between the country's economic achievements and remaining political rigidities. There is pressure both internally and externally for some movement in this area. The 1988 Olympic Games will place Korea in the global limelight, and most likely will add to the pressure for changes.

In the area of the economy, the Koreans face many challenges. Korea is still relatively dependent on the U.S. markets for its exports (34 percent), and increasing U.S. protectionism has heightened worries for policymakers and has been a catalyst in the search for new markets. At the same time, the trade deficit with Japan and Korea's continued reliance on the country for certain technologies is another worry for Korean leaders. The changing world market is also presenting problems for Korea's heavy industries (e.g., ship building and overseas construction). At issue is how to restructure these industries and at the same time remove the disadvantages facing small and medium sized industries.

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1. The events of 1987 leading up to the Presidential Election in December may be an important turning point however.

The regional concentration of economic activity in the capital is also a potential problem for the government. Seoul holds 25 percent of the country's population, and also a heavy concentration of schools, enterprises and political power. The government is actively looking at decentralizing activities in an attempt to close the gap between the rural and urban sectors. Lastly, worker-management relations have been heavily paternalistic in nature which may not last forever given the de facto absence of unions from the scene. It is difficult to imagine that these situations will not need adjustment in the near future, given the growing modernization of the country the increasing level of education achieved by the population, and the pressures for opening the political system.[2]

2. The series of labor strikes during the summer of 1987 were an integral part of the demand for political liberalization. As a result, the new constitution, which was adopted unanimously by the National Assembly, now clearly recognizes the labor unions.

Annex A

Seminar Schedule

Seoul, Korea
November 24 - December 2, 1986

Monday, Nov. 24

Morning

Opening Session
Welcoming Remarks by Dr. Park Yung Chul, President, KDI

Program Introduction by Mr. Alberto Eguren, Senior Training Officer, EDI, and Dr. Whang In-Chung, Director of IDEP, KDI

Session I
"Overview of Economic Development of Korea"
(Dr. Suh Sang-Mok, Vice-President, KDI)

Afternoon

Session II
"Economic Management for Structural Adjustment"
(Mr. Kang Kyung-Shik, Member of National Assembly, Former Minister of Finance)

Evening

Welcoming Reception Hosted by Dr. Park Yung Chul, President, KDI

Tuesday, Nov. 25

Morning

Session III
"Macroeconomic Adjustment in Korea since the late 1970s in International Perspective"
(Dr. Vittorio Corbo, Senior Economic Adviser, World Bank)

Afternoon

Session IV
"Role of Trade in Economic Development"
(Dr. Hong Wontack, Professor of Economics, Seoul National University)

Evening *Preparatory Session I*
Working Group Discussions

Introductory Remarks by Messrs. Alberto Eguren (EDI), and Vittorio Corbo (World Bank)

Wednesday, Nov. 26

Morning *Session V*
"Foreign Investment and Trade Promotion Schemes"
(Dr. Ahn Choong-Yong, Professor of Economics, Chungang University)

Afternoon *Session VI*
"Science and Technology Policies and Manpower Development"
(Dr. Kim Linsu, Professor of Management, Korea University)
Visit to Korea Advanced Institute of Science and Technology (KAIST)

Thursday, Nov. 27

Morning *Session VII*
"Links Between the Public and Private Sector: Role of Government"
(Dr. Whang In-Joung, Director of IDEP, KDI)

Afternoon *Session VIII*
"Local Companies and Multinationals: Role of Private Sector"
(Dr. Kim Duk-Choong, Professor of Economics, Sogang University, and Former Co-Chairman of Daewoo Group)

Friday, Nov. 28

Morning *Roving Seminar I*
"The Promotion of the Electronics Industry"
(Dr. Yu Seong-Jae, Professor of Business Administration, Chungang University, and Former Executive Managing Director of Samsung Electronics Co., Ltd.)

Afternoon Visit Samsung Electronics Co., Ltd. in Suwon

Visit Daewoo Heavy Industries Co., Ltd. in Inchon

Roving Seminar II
"Managing Development of Heavy and Chemical Industries"
(Dr. Kang Youngkook, Executive Managing Director, Daewoo Heavy Industries Co., Ltd.)

Saturday, Nov. 29

Morning *Roving Seminar III*
"Accumulation of Technical Knowhow in the Textile Industry"
(Dr. Ahn Young-Ok, President, Korea Technology Advancement Corporation and Former Vice-President of Cheil Synthetic Textiles Co., Ltd.)

Afternoon Visit Dainong Co., Ltd. (Textiles) and Hankuk Chinaware Co. in Chongju

Visit Songnisan National Park

Evening Dinner Hosted by Dr. Whang In-Joung, Director of IDEP, KDI at Songnisan

Sunday, Nov. 30

Morning *Sightseeing at Popju Temple*

Afternoon *Lunch and Sightseeing at Folk Village in Yongin*

Monday, Dec. 1

Morning *Session IX*
"Social Welfare Aspects of Structural Adjustment"
(Dr. Yeon Ha-Cheong, Senior Fellow, KDI)

Afternoon *Session X*
"Labor and Industrial Relations in Korea"
(Dr. Kim Soo-kon, Vice-Rector, The Graduate Institute of Peace Studies, Kyunghee University)

"Relevence of Korea's Experience for Latin American Development"
(Dr. Fred Jaspersen, Senior Economist, World Bank)

Evening	*Preparatory Session II* Working Group Discussions

Tuesday, Dec. 2

Morning	*Working Group Presentations on Seminar Conclusions* "Macroeconomic Policies" "Trade and Industrial Policies" "Institutional Arrangements"
	Wrap-Up Session Dr. Silvio de Franco, Academic Director and Professor, INCAE
Afternoon	Luncheon Hosted by the Ministry of Foreign Affairs
	Seminar Evaluation
Evening	Farewell Dinner Hosted by Mr. Alberto Eguren, Seminar Co-Director, EDI

Annex B

List of Reading Materials[3]

Sessions	*Authors*	*Titles*
Session I	Suh Sang-Mok	Evolution of the Korean Economy: An Historical Perspective
Session II	Whang In-Joung	Korea's Economic Management for Structural Adjustment in the 1980s
Session III	V. Corbo, S.W. Nam	Recent Macroeconomic Evolution of the Republic of Korea: An Overview (World Bank)
	V. Corbo, S.W. Nam	Controlling Inflation (World Bank, KDI)
	R. Dornbusch, Y.C. Park	The External Balance of Korea (World Bank, KDI)
	F. Iqbal	Korea Debt Accumulation, Use and Management Strategies (World Bank)
Session IV	Hong Wontack	Role of Trade in Economic Growth
	M. Bederman	"Reflexiones sobre la Experiencia Coreana" *Comercio Exterior*. v.36 n.8, Mexico, agosto de 1986.
	C. Hyun Nam	"Política Comercial y Desarrollo Económico en Corea" *Comercio Exterior*. v.36 n.1 Mexico, enero de 1986.

3. Unless noted, the papers listed were commissioned by the KDI for this seminar.

Session V	Ahn Choong-yong	Foreign Investment and Trade Promotion Schemes: Some Comparisons between Korea and Latin American Countries
Session VI	Kim Linsu	Science and Technology Policies for Industrial Development
	Kim, Westphal, and Dahlman	Reflections on the Republic of Korea's Acquisition of Technological Capability (World Bank)
Session VII	Whang In-Joung	Role of Government and Extent of Planning in Economic Developement of Korea: 1961-1982
Session VIII	Kim Duk-Choong	Role of Entrepreneurs in Korea's Economic Development
Session IX	Yeon Ha-Cheong	Social Welfare and Its Policy Issues in Korea
Session X	Kim Soo-kon	Labor and Industrial Relations in Korea
Roving Seminar I	Yu Seong-Jae	The Experience of Korea's Electronics Industry
Roving Seminar II	Kang Youngkook	Managing Development of Heavy and Chemical Industries in Korea
Roving Seminar III	Ahn Young-Ok	Accumulation of Technical Knowhow in the Textile Industry
Concluding Session	V. Corbo	Problems, Development Theory and Strategies of Latin America (World Bank)
	V. Corbo	Financial Liberalization Risks: Lessons from the Southern Cone (World Bank)
	V. Corbo J. de Melo	Lessons from the Southern Cone Policy Reform (World Bank)
	Whang In-Joung	Korean Economy Towards the Year 2000

Annex C

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Annex D

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World Bank Publications of Related Interest

A System for Evaluating the Performance of Government-Invested Enterprises in Korea.
Y. C. Park. World Bank Discussion Paper 3.

Korea: Managing the Industrial Transition.
A World Bank Country Study. Two volumes.

Korea's Competitive Edge: Managing the Entry into World Markets.
Yung Whee Rhee, Bruce Ross-Larson, and Garry Pursell.
The Johns Hopkins University Press.

Why the Emperor's New Clothes Are Not Made in Colombia:
A Case Study in Latin American and East Asian Manufactured Exports.
David Morawetz. Oxford University Press.

Industrialization and Growth: A Comparative Study.
Hollis Chenery, Sherman Robinson, and Moshe Syrquin. Oxford University Press.

World Development Report 1987. Industrialization and Foreign Trade.
Oxford University Press. In English, Arabic, Chinese, French, German, Japanese, Portuguese, and Spanish.

Exports of Developing Countries: How Direction Affects Performance.
Oli Havrylyshyn, editor. A World Bank Symposium.

De Franco, Eguren, and Baughman

Korea's Experience with the Development of Trade and Industry

The World Bank

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