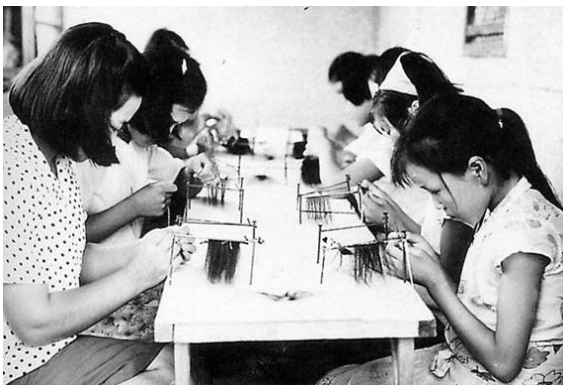


KOREAN ECONOMIC MIRCLE FROM A HISTORICAL PERSPECTIVE

South Korea is one of the world's greatest economic success stories. The study of recent economic growth in Korea has been very important as it represents an exceptional case of late development and being one of the few non-western, ex-colonial countries that have achieved successful economic development since World War II. Korea achieved outstanding performance in its economy despite unfavorable initial conditions for development. Since Korea launched its first five-year development plan in 1962, Korea experienced an unprecedented economic growth rate until it became a member country of the OECD. In 2012 Korea became the 15th largest economy in the world. Per capita income presently exceeds \$23,000. Korea is the 6th largest exporter, 10th largest importer and the 31st freest economy in the world. It is also the largest ship building nation in the world and the 5th largest automobile manufacturer. The key to this success was the adoption of an outward-looking development strategy based on export promotion, given the country's insufficient natural endowments, its limited domestic market, and its abundant, well-educated, industrious workforce. Taking the historical perspective, this article has briefly examines the country's development policies so cold outward looking industrial policy in 1960s and 70s and their consequences in development.



From 1962 to 1979, South Korea experienced a remarkable economic transformation from being poverty-ridden to becoming a newly industrializing country which was achieved through the adoption of an export-oriented, industry-led strategy. This happens to be the foundation for the remarkable economic success in the country.

After the Korean War in 1953, Korea adopted an import substitution development strategy to revive its economy. During the period of 1954-60, the Korean economy pursued a rather protectionist trade regime and import substitution strategy restricting imports by high tariffs and import licensing systems. While the import substitution policy demonstrated its ability to generate some growth of output and employment in the manufacturing sector, the furthering of this policy in a wide variety of areas caused inefficiency in the economy. Prices of the manufacturing goods were pushed higher than the international level, Korean products became in competitive in the world

market, and the shift towards the manufacture of consumer durables and capital goods needed large credit, but Korea had not enough foreign exchange because of reduced exports. However until early 1960s; Korea remained among the poorest countries in the world.

At the time when General Park came into office in 1961, the Korean economy was suffering from huge debts and stagnant growth, and the government began to consider a change in its growth model. Korea switched to the outward looking export oriented industrialization and growth strategy in 1962 while continuing some protectionist policies to a lesser extent. Under this strategy, the government undertook a sequence of export promotion measures such as exchange rate reform which contributed greatly to the increase in foreign exchange, financial sector reforms which included banking sector reforms, interest rate reforms, preferential credit policies that were enacted with a view to allocate fund resources to preferred sectors, ensuring the export targeted sectors had enough capital to expand. Preferential tax policies were also an integral part of the industrial In the 1960s, tax policies largely focused on resource mobilization for economic development through export promotion policies.

The Park government's efforts to improve Korea's infrastructure is regarded as an important indirect policy support for export promotion. The government invested heavily in infrastructure such as modernizing ports, building power plants enhancing communication facilities to facilitate the large-sized industrial reform. Human capital requirement for the up coming vast development was identified at the onset and various industrial focused educational institutions were established.

In addition , there were many other direct and indirect incentives and facilities provided by the government for the EP strategy. One main initiative during this period was the government established Republic of Korea's Trade Promotion Corporation (KOTRA) in 1962 to help the business community in exploring foreign markets for its export products. To review major issues in planning based on private sector preference and needs, the government issued a policy directive of establishing several policy research institutes. The first of them was the Korean Development Institute (KDI) founded in 1971 and thereafter many others were established. Another important initiative taken by the government was the establishment of trading agencies to promote business in a Japanese approach. Since the newly established manufacturing firms did not have the expertise on the marketing activities, president Park encouraged the big business groups to establish trading companies to undertake foreign business activities

In 1973, largely due to a rapid increase in wage rates, increased global competition in traditional exports, adverse changes in the global economy and internal security reasons, Korean government directed its general export promotion strategy towards the heavy and chemical industrial strategy (HCI). Under the HCI strategy, the government took the initiative in industry specific import substitution while reinforcing existing export incentive programs to few selected HCIs. As a

consequence of this strategy, Korea created a comparative advantage in more capital intensive industries especially physical and human capital formation in 1970s.

This policy along with the contribution of some other favorable factors as mentioned earlier, proved to have been extremely successful in that strong export performance helped Korea to overcome the constraints of its relatively narrow domestic market. In fact, the Korean economy posted successive high growth rates after the implementation of the outward looking policy in 1963 and then entered into a long period of sustained high growth and rapid industrialization.

The success of the policy is conspicuous in that all the economic indicators including export ratio of Korea's industrial sector has increased since the onset. Since 1961, the Korean economy has moved upward to join in newly industrialized economies in only a single generation. Its per capita GNP has increased to \$10,000 in 1995 from less than \$80 in the early 1960s, and it became a member of the OECD in December 1996. Moreover, the Korean economy experienced 40 years of enormous structural transformation which compressed 200 years of industrialization of many other advanced countries.



As an overall conclusion, it is clear that Korean success stories did not generally occur spontaneously, as an inevitable result of the interaction between supply and demand in free markets. Instead, the export promotional industrial policy along with the infant industry protection policy under the strong leadership of the Park government played an important role in building a stable economic foundation in Korea.

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