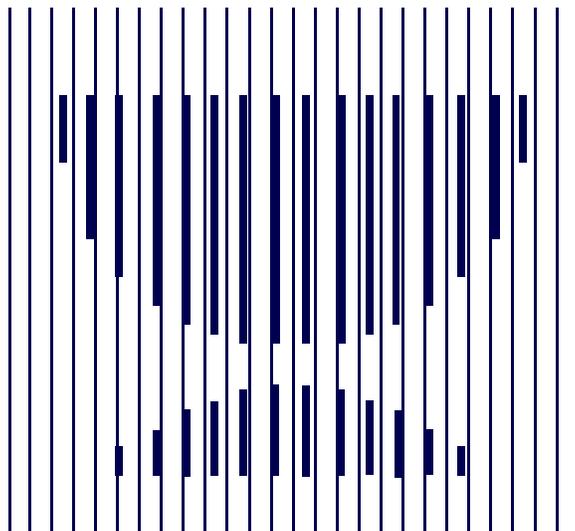




CBO MEMORANDUM

**THE ROLE OF FOREIGN AID
IN DEVELOPMENT:
SOUTH KOREA AND THE PHILIPPINES**

September 1997



CONGRESSIONAL BUDGET OFFICE



CBO

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SECOND AND D STREETS, S.W.
WASHINGTON, D.C. 20515

NOTES

All years referred to in this memorandum are fiscal years unless otherwise noted.

All dollar amounts are expressed in 1997 dollars unless otherwise noted.

Numbers in text and tables may not add to totals because of rounding.

What role does foreign aid play in promoting the economic development and improving the social welfare of countries in Africa, Asia, and Latin America? That question is difficult to answer and has been the subject of much debate among development specialists as well as Members of Congress and the American public.

Drawing on the works of other scholars, this memorandum analyzes the role of foreign aid in the development of South Korea and the Philippines between 1953 and 1993. It is one of three memorandums that are being published as background for *The Role of Foreign Aid in Development*, a Congressional Budget Office (CBO) study published in May 1997. The memorandums are intended to illustrate more fully the themes identified in the main study.

Eric J. Labs of CBO's National Security Division prepared the memorandum under the general supervision of Cindy Williams and R. William Thomas. Richard Fernandez, Kim Kowalewski, and Christopher Williams, of CBO provided valuable comments. Many officials of the Agency for International Development (AID), the World Bank, the Asian Development Bank, and the Organization for Economic Cooperation and Development also provided information. In particular, the author would like to thank Ellen Peterson and Cheryl Warner. The author would also like to thank Nicholas Eberstadt of the American Enterprise Institute and Harvard University, who reviewed an earlier draft of the manuscript. The author and CBO, however, bear full responsibility for the final product.

Sherry Snyder edited the manuscript. Judith Cromwell prepared it for publication.

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SUMMARY

The Congressional Budget Office (CBO) is publishing a series of memorandums that describe the role that foreign aid has played in the development of various countries. The memorandums illustrate the broad themes identified in CBO's May 1997 study *The Role of Foreign Aid in Development*. The countries are studied in pairs: South Korea and the Philippines, Costa Rica and Honduras, and Botswana and Zambia. This memorandum examines the development history of South Korea and the Philippines. Although both countries have received substantial amounts of foreign assistance, South Korea has been relatively more successful in achieving long-term economic and social development.

In 1960, the Philippines was slightly richer than South Korea. The Philippines had a slightly larger per capita gross national product (GNP) and a far larger base of natural resources. By the 1990s, however, Korea's per capita GNP was three times greater than that of the Philippines. In addition, South Korea's social indicators have shown greater improvement.

Many different factors explain the divergence in development between South Korea and the Philippines. Some are unique to the individual countries. But what seemed to matter most was that the political and economic policies of South Korea over the past 30 years were much more favorable to long-term growth and development than those of the Philippines. Foreign aid helped South Korea's development somewhat, but it arguably hindered the Philippines' development by reinforcing the government's political and economic policies.

The most important period in South Korea's development began after the fall of the regime of Syngman Rhee in 1960. General Park Chung Hee, who took over in a military coup in 1961, instituted a process of economic reform. He devalued the currency, reformed interest rates, imposed tighter fiscal policies, lowered trade barriers, and, especially, put in place a number of incentives to encourage exports. In many ways, South Korea's exports were the central driver of its successful development. The government has maintained a relatively open, market-based economy ever since. In addition, the government has been stable and a competent administrator, with only relatively modest amounts of corruption.

Foreign aid after 1960 contributed to South Korea's successful development. It provided an extra pool of capital that the economy used for saving and investment. The Agency for International Development (AID) provided extensive technical support to the officials and agencies responsible for South Korea's export drive. U.S. military aid helped Korea with its defense needs and thus possibly freed up some resources that could be used for development rather than for the military. Foreign

assistance also helped improve South Korea's health, education, and agriculture sectors.

In contrast, the election of Ferdinand Marcos as the Philippine president in 1966 led the country down a path that was ultimately counterproductive to long-term development. Marcos pursued more inward-oriented economic policies than those pursued by South Korea. Marcos's policies produced aggregate economic growth initially, but in the 1980s the Philippine economy experienced a severe crisis, leading to substantial declines in per capita GNP. Moreover, the average rural or urban worker was far worse off at the end of the Marcos era than at its start. Corruption and self-aggrandizement on the part of Marcos and his family and friends contributed to the economy's problems. Reforms under Marcos's successors—Corazon Aquino and Fidel Ramos—have made some progress in reversing the damage done by the Marcos era, but the Philippines' future, though promising, remains uncertain.

The record of foreign aid to the Philippines is mixed. On the one hand, foreign aid contributed to some of the improvement in the social indicators, particularly those for health and education. On the other hand, to the extent that \$33 billion in foreign assistance (in 1997 dollars) to Marcos perpetuated his hold on power, it undermined the Philippines' long-term development. Much of that money was apparently lost, wasted, or diverted by the Marcos government. However, foreign assistance has apparently helped the Philippines emerge from the problems created during the Marcos era.

INTRODUCTION

This memorandum is one of several to be published by the Congressional Budget Office (CBO) on various developing countries and the role that foreign aid has played in their development. CBO has published a study titled *The Role of Foreign Aid in Development* (May 1997). Through a broad review of the academic and policy literature on development, that study attempts to identify the conditions that seem to foster development and the role that foreign aid plays in that process. It also highlights the general themes gleaned from the literature with illustrations from eight developing countries: South Korea and the Philippines, Costa Rica and Honduras, Botswana and Zambia, and Tunisia and Egypt. This memorandum examines the development history of South Korea and the Philippines. Although both countries have received substantial amounts of foreign assistance, South Korea has been relatively more successful in achieving long-term economic and social development than has the Philippines.

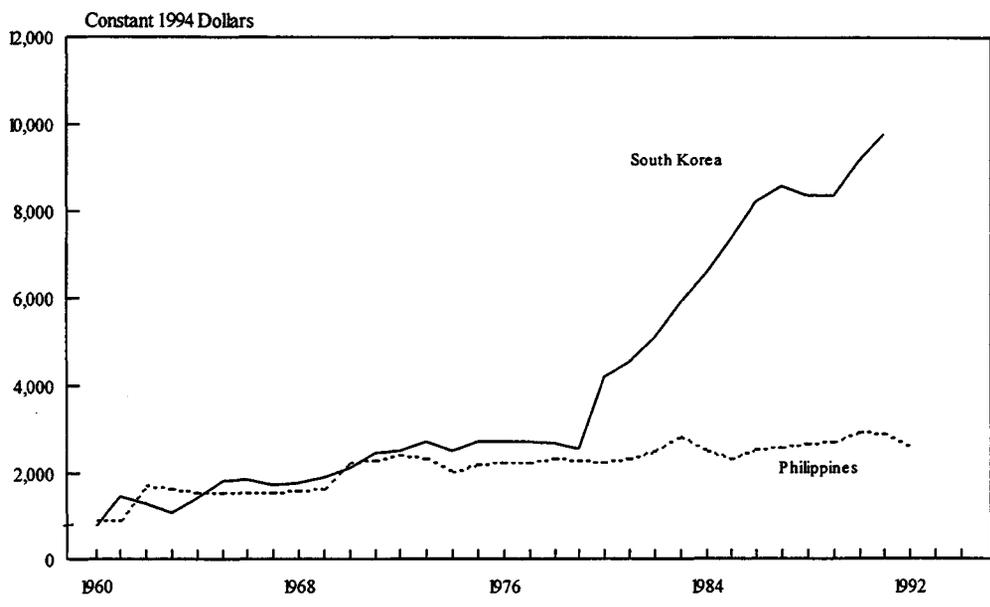
South Korea and the Philippines have two very different development histories. In 1960, the Philippines was the richer country. If one had polled development experts to ask which country was more likely to achieve the higher rate of growth over the next 30 years, most would probably have named the Philippines. In reality, few other developing countries have matched South Korea's rate of growth and overall success in development since the end of World War II, whereas the Philippines has grown much more slowly.

South Korea is the smaller country. In 1996, it had a population of 45 million, occupying 98,000 square kilometers of land. The Philippines had 75 million people living on an archipelago of nearly 300,000 square kilometers. The Philippines has a larger and more diverse base of natural resources. South Korea has a temperate climate; the Philippines' is tropical.

Furthermore, although both countries have relatively homogeneous ethnic populations, South Korea has more religious diversity. Nearly 96 percent of the Philippines is Malay, and South Korea is almost completely Korean. Most Filipinos are Christian, but South Koreans are divided fairly equally between Christians and Buddhists.

The development histories of both countries also point to significant differences. In 1960, the Philippines was still the richer of the two; its per capita gross national product (GNP), measured in 1994 dollars, was \$911 compared with \$800 for South Korea. By 1992, not only had that situation reversed, but the chasm between the two was enormous. South Korea's per capita GNP was three times greater than that of the Philippines (see Figure 1).

FIGURE 1. GROSS NATIONAL PRODUCT PER CAPITA FOR SOUTH KOREA AND THE PHILIPPINES, 1960-1994



SOURCE: Congressional Budget Office based on data from the World Bank and the University of Pennsylvania.

South Korea has made greater progress than the Philippines in other areas over the past 30 years. South Korea's infant mortality and fertility rates have fallen faster than those in the Philippines (see Table 1). Only a small fraction of either country's population has been illiterate since the late 1960s, although South Korea has had slightly higher literacy rates.

A variety of factors contributed to the separate paths that South Korea and the Philippines have taken. As would be true in any case, unique cultural and societal influence played a role. But the political and economic management of each country probably mattered as well. South Korea, for the most part, pursued outward-oriented economic policies and experienced only moderate corruption; the Philippines pursued inward-oriented economic policies, accompanied by massive corruption. Both countries received large quantities of U.S. and other international assistance. Depending on when and how it was given, foreign aid seemed to have a positive or negative effect in each case.

SOUTH KOREA'S HISTORICAL LEGACIES

South Korea is perhaps the preeminent development success story of the post-World War II era. In 40 years, it moved from being a war-torn, agrarian economy to a modern industrialized economy. Many cultural, political, and economic factors contributed to that outcome. Although most of the story revolves around political and economic management between 1953 and 1973, ignoring the legacies of Confucianism, the Japanese occupation, and the Korean War would distort the picture of South Korea's development.

Historically, Korea has been a stable and centralized society. It began its political existence as a unified, independent state around the 7th century A.D. and remained that way until Japan made it a colony in 1910. Since being freed from Japanese rule in 1945, Korea has been divided politically between the communist North and the capitalist South.

For centuries, Korea's outside contacts were mostly with China. As a result, the state philosophy of Korea became Confucianism. Two important legacies of that cultural influence were a "great emphasis on education and on a deference within the family, within the community, and within the society that tends to favor individual discipline and social stability."¹ Education was the route to prestige and employment

1. Edward S. Mason and others, *The Economic and Social Modernization of the Republic of Korea* (Cambridge: Harvard University Press, 1980), p. 446.

TABLE 1. SOCIAL INDICATORS FOR SOUTH KOREA AND THE PHILIPPINES, 1967 and 1992

Indicator	1967		1992	
	South Korea	Philippines	South Korea	Philippines
Infant Mortality Rate ^a	58	72	11	44
Literacy ^b	88 ^c	83 ^c	96 ^d	90 ^d
Fertility Rate ^e	4.5	6.0	1.7	3.9
Calorie Consumption ^f	2,547	1,802	3,285	2,255

SOURCE: Congressional Budget Office based on data from the World Bank and the Agency for International Development.

- a. Deaths of infants under one year per 1,000 live births.
- b. Percentage of literate people in the population over the age of 15.
- c. Value is for 1970; value for 1967 is unavailable.
- d. Value is for 1990; value for 1992 is unavailable.
- e. Births per woman.
- f. Per capita per day.

in the government bureaucracy, and many people in Korean society achieved literacy. The labor force became industrious and productive.

Another important legacy of Korea's long history is that it is one of the most ethnically homogenous nations in the world. This lack of social segmentation was beneficial: there were no ethnic impediments to development, no groups were disenfranchised, and no ethnic scores had to be settled. Education could be focused and the population mobilized with relative ease. In addition, no linguistic barriers existed to impede education or development.²

In some ways, the Japanese occupation of Korea between 1910 and 1945 may have aided Korea's later development. Japan's contributions included building infrastructure such as railroads, creating a modern monetary system, and establishing an agricultural extension service. It also built a manufacturing base in Korea to support the economic needs of Japan. The Japanese, however, dominated ownership, management, and the technical aspects of the manufacturing base, which ultimately limited the transfer of knowledge to Korea. But the Koreans who did learn something about those processes—both in Korea and as expatriates in Japan—brought their experience in a growing, export-driven economy to the postwar development process.³

The Japanese, also influenced by Confucianism, continued and strengthened the emphasis on education in Korean society. The Japanese considered an educated Korean population to be a prerequisite for their integration into the Japanese Empire. At the highest rungs of the educational ladder, a small number of students were educated, but compared with the experience of other countries ruled by different colonial powers, the number was still high.

Yet in other ways, Japan's occupation impeded Korea's development. When the Japanese left in 1945, much of the institutional and manufacturing apparatus was either changed or made unusable because trained and experienced personnel were no longer there to run it. The bitter experience of Japanese colonial rule soured political and economic relations with Japan into the 1960s. For example, during their occupation, the Japanese excluded Koreans from political activity and government. When the Koreans finally had to govern their own country, they were not sure how to do it. That contributed to the political instability of the 1940s and 1950s. As one

2. David I. Steinberg, *Foreign Aid and the Development of the Republic of Korea: The Effectiveness of Concessional Assistance*, AID Special Study No. 42 (Agency for International Development, October 1985), pp. 9-10.

3. Mason and others, *Economic and Social Modernization of Korea*, pp. 77-79.

report puts it, “at a crucial point in Korean history, Koreans had been deprived of the opportunity to develop effective political institutions of their own.”⁴

The Korean War greatly harmed the development enterprise and destroyed a large part of the industrial base. It helped make what was supposed to be a temporary political division in 1945 permanent. But as a result, the energy sources and remaining heavy industry were concentrated in the North, and the light industry and agriculture resided mostly in the South. The fear of another attack by the North caused South Korea to devote enormous resources to its defense, maintaining one of the largest armies in the world. Military influence permeated Korean society, which contributed to the coup of 1961 and the repressive nature of most South Korean governments since 1953.⁵

INFLUENCE OF GOVERNANCE ON SOUTH KOREA’S DEVELOPMENT

During the past 40 years, South Korea’s governance—from a developmental perspective—has been better than that of most countries. Although sometimes suffering from internal corruption, the South Korean government has shown the political will to carry out land reform and institute economic and social policies that promote development.

The Structure of Government

South Korea’s government from 1953 to 1988 was mostly stable but largely authoritarian. Syngman Rhee ruled South Korea with an iron fist in the 1950s.⁶ All power flowed to and from his hands. Rhee was determined to unify the peninsula. Consequently, he was reluctant to invest in industries and activities, such as power generation and fertilizer, that existed in the North, because that would duplicate resources that he assumed he would eventually control once the country was reunited. Rhee was driven from power in 1960 by a student-led revolution.⁷

4. Ibid., p. 451.

5. Ibid., pp. 86-93.

6. Following convention, CBO puts the family name first for Korean names. The only exceptions are Syngman Rhee, who is best known in the United States with the family name last, and authors of books who are Korean and have placed their family name last.

7. Steinberg, *Foreign Aid and the Development of Korea*, p. 22.

After a brief flowering of democracy, a military coup led by General Park Chung Hee took power in 1961. The coup was actually met with relief among many segments of Korean society. It put an end to the disorder and civil strife that had marked Korean politics since the last days of the Rhee regime. The Park government tried to institute a technocratic government that focused primarily on promoting economic and social development. A new constitution was drawn up in 1963. Under that document, the executive was extremely powerful and the legislature was weak. The trappings of democracy were few. In terms of growth and development, however, the Park government was a successful administration. South Korea's economy took off under Park's leadership.

The governmental structure Park created gave him a number of advantages. First, the military strongly backed the government. Many former officers staffed government ministries and public enterprises. Second, the government was able to implement policy changes that were in the national interest with almost no opposition. Those changes included periodic devaluations, which are often unpopular in developing countries. During the oil crisis of 1973, the government introduced conservation measures—quadrupling the price of gasoline—with little opposition. Third, government policy kept organized labor weak, and strikes were unknown. “Consequently, South Korea has avoided the pressure from organized labor that in many Third World countries has maintained urban wages at artificially high levels, has led to the overstaffing of public enterprises, and has frequently seriously disrupted production.”⁸

In recent years, South Korea has evolved toward a more democratic system. After 19 years in power, President Park was assassinated in 1979; his ultimate replacement was another general, Chung Doo Hwan. As South Korea grew richer in the 1980s, the Korean people increasingly demanded more democracy. Roh Tae Woo, another army officer, replaced Chung in 1987. He recognized the growing strength of the democratic movement and merged his party organization with several other parties. Under that new organization, Kim Young Sam was elected president in 1992.

Corruption

Corruption under both Rhee and Park was significant, although hard data on its extent do not exist. Still, corruption in the 1950s was more detrimental than that in later years because of the economic policies pursued by the Rhee government.

8. Mason and others, *Economic and Social Modernization of Korea*, p. 487.

Corruption under Rhee took the form of payoffs from foreign aid funds and bank loans. "Inflation, an overvalued exchange rate, low interest rates, and elaborate government controls formed an environment in which such corruption operated profitably for those involved but to the detriment of sound investments or national economic development."⁹

In contrast, corruption under Park took the form of payoffs from private investment. But the payoffs took place in an economic environment more favorable to growth. Thus, the private capital—"despite payoffs and the like—fed an investment boom that followed reasonably accurate market indicators of real benefits and costs for the country."¹⁰ Investments approved by the government, even though payoffs were extracted from them, had been tested and approved through feasibility studies and were generally consistent with Korea's economic plan.¹¹

Education

The government's emphasis on education throughout the postwar period greatly aided the country's economic transformation. In 1945, almost 87 percent of the population was illiterate. That is no longer true, largely because the government has provided six years of free and compulsory education. By 1970, illiteracy had been reduced to 12 percent.

Moreover, enrollment at the secondary level now compares well with that in the advanced industrial countries. But the government cannot claim credit for that improvement. The average family usually must pay out of their own pocket to continue their children's education beyond the primary level. The willingness of the Korean people to make that sacrifice is especially evident in national education expenditures. The government spends about 3.5 percent of GDP on education. Private spending, however, has brought the total spending on education to 9 percent of GNP.¹² According to one study, increased education per worker accounted for

9. David C. Cole and Princeton N. Lyman, *Korean Development: The Interplay of Politics and Economics* (Cambridge: Harvard University Press, 1971), p. 252.

10. Ibid.

11. Ibid.

12. Lawrence J. Lau, ed., *Models of Development: A Comparative Study of Economic Growth in South Korea and Taiwan* (San Francisco: ICS Press, 1990), pp. 131-132.

nearly 5 percent of South Korea's growth between 1963 and 1982, a rate higher than Japan's over a comparable period.¹³

Land Reform

Another major reform that the government directed was the redistribution of land that Korean landlords held at the end of World War II. Although most of that process took place between 1945 and 1953, it played an important role in Korea's development history. Lands owned by departing Japanese and large estates were broken up and distributed among small tenant farmers by the U.S. military government. But the newly elected Korean government in 1949 imposed land reform on Korean landlords on terms that one study described as "expropriation."¹⁴ In 1945, 48 percent of families owned land. After land reform was completed, that figure rose to above 90 percent. That change had two important effects. It aided the equalization and distribution of wealth; South Korea's later growth was characterized by a high degree of equity. In addition, class tensions were largely diffused, eliminating a potential source of political instability. Moreover, agricultural production did not suffer in the process. Between 1954 and 1975, "the trend rate of growth of agricultural value added was about 3.5 percent per annum."¹⁵

Economic Leadership

Perhaps the most important role of South Korea's government has been its leadership in directing economic growth and development. In the 1950s under Syngman Rhee, the government pursued policies that in retrospect proved counterproductive. After Rhee's overthrow, however, the Park government adopted economic policies that were conducive to development. The South Korean government largely initiated, directed, and organized development by setting goals, establishing priorities, and backing them up with resources. Large, highly profitable private companies were clearly subordinate to the government, in part because the government controlled domestic credit as well as the right to borrow abroad.¹⁶ It relied heavily on an outward-looking, export-oriented economic strategy, but not exclusively. In certain

13. Kim Kwang-suk and Park Joon-kyung, *Sources of Economic Growth in Korea: 1963-1982* (Seoul: Korea Development Institute, 1985), p. 169.

14. Mason and others, *Economic and Social Modernization of Korea*, p. 10.

15. *Ibid.*, pp. 10-11.

16. *Ibid.*, p. 486.

sectors, such as rice production and heavy and defense-related industries, the government maintained a predominantly import-substitution strategy.

A good example of the government's leadership in the economy was its management of public enterprises. Under Park, those organizations were efficiently run and contributed to government resources, partly because of the sheer determination of the political leadership to generate growth and to reform anything that might be a drag on the economy. "In Korea, there have been numerous cases of divestiture, most notably in the 1967-1969 period. And if a Korean public enterprise considered important for development shows signs of becoming moribund, it is likely to be vigorously kicked back into life by drastic changes in management and operating procedures."¹⁷ For example, the government asked a private firm to manage Korean Air Lines when it was not profitable as a public endeavor.

INFLUENCE OF DOMESTIC ECONOMIC POLICIES ON SOUTH KOREA'S DEVELOPMENT

The end of the Korean War left the South Korean economy in a devastated condition. The economy's infrastructure was severely damaged. Inflation was high, and the predominantly agrarian economy was constricted by an elaborate system of exchange controls and multiple exchange rates. The primary sector—agriculture, mining, and natural resources—accounted for 50 percent of GNP, and manufacturing represented a little more than 5 percent. Investment accounted for 12 percent of GNP, and the domestic saving rate was less than 7 percent. Foreign savings, mostly foreign aid, represented about 5 percent of GNP.

After the end of the Korean War, the first priority of the Rhee government was economic reconstruction, undertaken largely with foreign assistance.¹⁸ The government kept interest rates low to accelerate investment, believing that domestic saving was not very responsive to changes in interest rates. Industrial policy followed an inward-looking, import-substitution strategy. High tariffs and quotas were used to protect domestic industry. The exchange rate was kept overvalued throughout the 1950s.¹⁹ Promoting exports was a low priority. Exports in 1954 accounted for less than 1 percent of GNP. By 1962, they were still only 2 percent of

17. Ibid., p. 275.

18. Susan M. Collins and Won-Am Park, "External Debt and Macroeconomic Performance in South Korea," in Jeffrey D. Sachs and Susan M. Collins, *Developing Country Debt and Economic Performance*, vol. 3, *Country Studies—Indonesia, Korea, Philippines, Turkey* (Chicago: University of Chicago Press, 1989), p. 166.

19. Mason and others, *Economic and Social Modernization of Korea*, p. 95.

GNP. The government was most concerned with reconstruction and price stabilization.²⁰ Largely as a result of the reconstruction effort, the economy grew, but high inflation was the price.²¹

Policy Reform and Market Liberalization

By the late 1950s, Rhee's government began to recognize that the United States would not provide high levels of foreign assistance indefinitely and that policy reforms were necessary. The first step the government took was to tighten monetary and fiscal policies to bring inflation under control. Between 1953 and 1957, inflation averaged 31 percent a year, as measured by the implicit price deflator for GNP. After the tightening, the rate of inflation fell to 3.7 percent between 1957 and 1960.²²

The new Park government made economic growth its first priority. Park changed the industrialization strategy to outward-looking, export-led growth. Perhaps the most important aspect of that effort was a large devaluation of the exchange rate.²³ The government also put in place a number of incentives—such as subsidies, access to subsidized credit, and rights to import goods duty-free—to promote exports. The government assured exporters that it would not allow the domestic rate of inflation to harm the real rate of return on their exports.²⁴ The government also reformed the national currency, the budget, and tax collections. It adopted the First Five-Year Economic Development Plan (1962-1966). The plan called for an ambitious growth rate—7.1 percent annually—adjusted for inflation.

In the mid-1960s, the Park government continued with reforms designed to promote exports and economic growth. The exchange rate was devalued again in May 1964, and in March 1965 the government adopted a floating exchange rate system. Interest rates on bank deposits and loans were doubled to increase private saving and to discourage wasteful credit. In 1967, the government introduced measures to liberalize imports and lower tariffs. The government did not pay much

20. Collins and Park, "External Debt and Macroeconomic Performance in South Korea," p. 166.

21. Ibid., pp. 168-169.

22. Ibid., p. 169.

23. Mason and others, *Economic and Social Modernization of Korea*, p. 96.

24. Anne O. Krueger and Vernon W. Ruttan, "Assistance to Korea," in Anne O. Krueger, Constantine Michalopoulos, and Vernon W. Ruttan, eds., *Aid and Development* (Baltimore: Johns Hopkins University Press, 1989), p. 229.

attention to agriculture, however, although it did force farmers to accept a policy of low grain prices.

The First Five-Year Plan was succeeded by the Second (1967-1971), Third (1972-1976), and Fourth (1977-1981). In each case, the overall strategy was essentially the same: promote economic development through export-led growth. Specific policies were modified as necessary to ensure that South Korea's growth remained on track. In 1969, for example, the government began offering farmers prices for their grain products that were high enough to ensure a respectable return. The intent of that policy was to improve the environment of the farm village and increase agricultural production and income.²⁵

The South Korean economy was transformed between 1962 and 1982. The primary sector of the economy fell from 45 percent of GNP to 19 percent (see Table 2). Manufacturing, on the other hand, grew from 9 percent of GNP to 34 percent.²⁶ Economic growth paralleled the rise of manufacturing in the economy. Between 1963 and 1976, GNP grew by 10.3 percent a year. Per capita growth was equally impressive at 7.2 percent a year. Those developments were largely financed by the dramatic rise in domestic saving that government policies had promoted. Domestic saving represented only 3.3 percent of GNP in 1962—half the rate of 1954. By 1982, however, the saving rate exceeded 21 percent of GNP.

Exports grew dramatically in quantity and variety. In 1962, exports accounted for only 2 percent of GNP. That percentage climbed to 16.4 percent in 1972 and to nearly 32 percent in 1982. The change in the number of countries to which Korea exported was particularly astonishing. In 1954, Korea exported to 5 countries. By 1976, it was exporting to 175 countries. According to one study, the expansion of exports accounted for 31.8 percent of the growth in Korea's industrial output between 1963 and 1975. Import substitution claimed only 3.7 percent. In contrast, over the 1955-1963 period, when Korea was still dominated by Rhee's policies, the expansion of exports accounted for 9.2 percent of growth in industrial output and import substitution for 16.5 percent.²⁷

Still, the development process between 1962 and 1982 was not completely smooth. The oil shocks in the 1970s created some bumps in the road with which the government had to contend. The government-directed industrialization also created

25. Mason and others, *Economic and Social Modernization of Korea*, pp. 96-97. See also Collins and Park, "External Debt and Macroeconomic Performance in South Korea," pp. 184-185.

26. Kim and Park, *Sources of Economic Growth in Korea*, p. 9.

27. Mason and others, *Economic and Social Modernization of Korea*, pp. 152-153.

