As Gunnar Myrdal has stated, "economic problems cannot be studied in isolation but only in their demographic, social and political setting." It is also true that "[Adam] Smith, of course, never dealt with economic problems as purely 'economic',' nor did Karl Marx in his study of capitalism.

In this context, my primary objective is to analyze generally the progress of economic development in South Korea in recent years, and to relate the findings to Korea's process of modernization: (1) the nature and scope of the economic development; (2) the extent of the economic benefits allowed the various socio-political strata; (3) the stability created or retarded by that "economic progress"; and (4) the strength and weakness of the present political regime in South Korea which was to a great extent instrumental in bringing about such a development.

Korea's Economic Recovery and Development

Since 1953, the end of the Korean War, the South Korean economy has progressed through three distinct stages of development: (1) 1954-1957, the stage of reconstruction; (2) 1958-1961, the stage of stabilization; and (3) 1962 to present, the stage of rapid development. In the first stage, the primary attempt was made to rehabilitate the war-torn economy with massive American aid which amounted to some $4,000 million over two decades. Although occasionally successful in erasing the physical scars of the War, the general economy was marred by governmental corruption, general incompetence and soaring inflation. Primary industries (agriculture, fishery, etc.) still employed most of the labor force (some 65%) with extremely poor productivity, while the secondary and the tertiary industries occupied a minute role in the overall economic picture. Even with poor production, farm products constituted about 40% of the GNP in 1956-7.1

The agricultural sector was still struggling with the legacy of Japan's colonial policy in which a vast portion of the population was deliberately re-
stricted to agricultural pursuits, with minimum productivity. This meant that there was an excessive use of manpower on over-fragmented plots, which were difficult to modernize through technical application. Further, poor management in various areas of farming during this period perpetuated the low productivity and stagnation: (1) poor irrigation and dam projects; (2) poor use of fertilizer, its distribution and pricing; (3) virtual absence of improved seeds, etc.; (4) poor insecticides; (5) lack of diversification in agricultural and related areas of production; and (6) virtual lack of improved cultivation techniques. The result was extremely low farm income, the absence of purchasing power, which was exacerbated due to low farm product prices, higher industrial product costs, and rising inflation.

Virtually the same kind of problems existed in the fishing industry. The absence of refrigeration and canning facilities, improved nets, modernized fishing vessels and other appliances, and traditional fishing techniques kept down the productivity of the potentially rich fishing industry. As a result, the fish catches recorded poor performance: 340,000 tons (in 1956 compared to the 295,000 tons of the 1945-6 period) and a mere 403,000 tons in 1957, which dropped to a lower level in 1958.2

During the same period, 1954-7, the secondary and the tertiary industries made no progress whatever. In addition to dependence on foreign capital, which was scarce, no technical improvement was sought due largely to the government’s lack of promotional policy and the general political atmosphere. The machine industry did not exist; textile and other craft industries suffered; electric power was in constant shortage, and there was no improvement in transportation facilities.

In the second stage of development, 1958-61, the Seoul government made substantial efforts to control inflation by high tax policy, reduced capital spending, a tight money policy, and a balanced budget. These measures produced a degree of stabilization for the first time since the Korean War, and reduced the increase in wholesale prices from the annual rate of 42% to 5%. However, this “stabilization” was accompanied by a measurable slowdown in economic growth as the growth rate declined from 6% to 4% per annum.8

In this period, the same kind of problems retarded the primary, secondary and the tertiary sectors of the economy as in the previous period. In fact, the economic picture darkened as Syngman Rhee’s downfall came closer and the political conditions deteriorated.

First Five Year Plan, 1962-1966: With the military coup and the establishment of the Park government in 1961-2, South Korea embarked on an ambitious program of economic “take-off” through an “unbalanced growth approach.” A number of vitally important factors aided in achieving the projected level of growth. Initially, economic conditions for growth were by no

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2Ibid., p. 27. See also pp. 21-28, 234-243.
means favorable. Agriculture, in addition to its usual problems, suffered from natural disasters. For capital investment in the First Five Year Plan, the government had earmarked about $2,500 million, for which only about $700 million could be obtained from foreign sources; the rest had to come from domestic sources.\(^4\) It was a difficult task for the inexperienced and still unstable regime in Seoul.

As the regime was consolidated and a semblance of stability emerged, two new factors proved of considerable importance—Japan and the Vietnam war. First, the resumption of diplomatic ties with Japan in 1965 enabled Korea to receive a massive input of Japanese capital as well as goods and services. The initial funds thus provided were used in building the basic requirements of economic growth such as shipbuilding, various types of plants and irrigation projects. By the 1965 Korea-Japan agreement, Japan provided Korea with $300 million—$300 million in grants, $200 million in governmental loans, and additional private commercial loans of $300 million. The use of the above funds was made in the areas of agriculture, fisheries, raw material purchase and acquisition, development of small and medium industries, railway and shipping industries and other construction areas.

The increased American military spending in Vietnam also enabled South Korea to supply large amounts of foodstuffs, cement, lorry tires, spare parts, barbed wires, iron and zinc sheeting, etc. to South Vietnam’s war efforts. In the 1965-7 period—the transition period between the First and the Second Five Year Plan (1967-71)—Saigon bought with American aid $45 million worth of construction materials and military equipment in Korea. Saigon also requested Seoul’s assistance in various public works projects, and as a result numerous Korean firms were engaged in road-building, dredging ports and handling other such projects in Vietnam.

In this period, Korea had gained in transfers and profits some $100 million in convertible currency—or approximately a third of its national budgetary needs. In terms of exports, derived from the same sources in Vietnam, the figure stood at $120 million in 1967—a sum comparable to almost 20% of the nation’s receipts from exports and various services.

Although some of the factors underlying Korean economic recovery may have been somewhat unsound, the general trend of development was remarkable during the First Five Year Plan period. Within three years, the nation’s exports recorded the unprecedented increase of an average 44% per annum (in 1966, a spectacular 70%). The GNP marked an average annual increase of 7.6% and the per capita national income rose by an average 4.6% per annum. Mining and manufacturing sectors which were given high priority showed 15.3% annual increase, while agriculture, fisheries and direct social capital was respectively 4.8%, and 7.1% for the service industries.\(^5\) In addition, the electric power shortage was to a great extent overcome. By 1965, the Pusan thermal power plants project was completed, doubling the 1960

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\(^5\)Ibid.
capacity to 769,000 kilowatts, and the Ulsan industrial complex projects were well on the way to completion.⁶

*Second Five Year Plan, 1967-1971:* With the satisfactory results of the First Plan, the Second Five Year Plan was inaugurated in 1967, the primary objective of which was set to be the attainment of "a completely independent structure for the nation's economy by 1980."⁷ The government planned to establish under this plan "the economic foundations for modernization—equilibrium in the international balance of payments, complete domestic procurement of funds for investment, and full employment."⁸ The areas of priorities were: (1) self-sufficiency in food production, reforestation, and the development of the fishing industry; (2) establishment of chemical, iron-steel, and machine tool industries in order to ensure higher level industrial production; (3) attainment of $700 million or more of exports; (4) increased employment and population control measures; and (5) the increase in people's income especially the farm income through agricultural modernization and diversification.

**The Economic Record**

The results of the ambitious Second Plan were a growth rate that in 1967, despite the low performance of the agricultural sector, registered an 8.9% rate that exceeded the target of 7%. It was 13.3% in 1968; 15.9% in 1969.⁹ In 1970, due to external and internal factors of major changes, and to the government's concern for an overheated economy, the rate of increase came down to 9.7%—the first "poor" record below 10% since 1966. The main economic reason for this decrease was the disastrous agricultural harvest, which required the importation of two million tons of foreign grains. This latter factor is extremely important as it shows the government's continuing inability to improve the lagging agricultural sector despite the Second Plan's

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⁶Since 1968 (after a difficult construction period of four years and eight months), the Ulsan Chemical complex has been a controversial subject of discussion both in Korea and in Japan. Finally, in 1973, this project will be completed and the Seoul regime predicts $600 million in exports from Ulsan manufactures alone. *Dong-A Ilbo*, November 1, 1972.

⁷For the overall analysis of the Second Five Year Plan, see *ibid.*, March 23, 1972. President Park's economic goals for 1980 are set to achieve the export volume of $10 billion per annum and the per capita income of $1000. To do this, South Korean exports will have to show an annual increase of no less than 25% from now up to 1980 and the GNP growth rate will have to be a miraculous 16% average increase annually—a feat of major proportion in an age of world-wide economic turmoil. See *ibid.*, November 7, 1972.

⁹Unemployment is actually increasing rather than decreasing. Even by official statistics, the unemployment rate in Seoul, for instance, was 10.9% in 1971 and in 1972 it was 12.9%—an uncomfortable jump of 2% per annum. The rate of unemployed college and university graduates remained extraordinarily high at 65% in September 1972. See *Dong-A Ilbo*, May 9, August 1, and September 29, 1972. (These data were released before the suppression of all newspapers in Korea after the so-called October Revival.)

⁹As of this point, the growth rate was the highest among the principal Asian nations: Japan—12.6%; Republic of China (Taiwan)—10.3%; Republic of the Philippines—6.3%; Thailand—6%; India—3%. However, after 1969, the rate has steadily decreased. See Samuel Kim, "Korea Acts to Temper Growth," *New York Times*, January 19, 1970.
ambitious goal of food self-sufficiency. Naturally, under the new Third Five Year Plan, the prospect for the future in this category is even more uncertain.

The total production in 1968, in terms of current market prices, exceeded $5,000 million, which compared with the previous year was a nominal increase of 26%—reduced to 13.3% when the inflation rate of that year is taken into consideration. By 1970, the GNP rose to $6,900 million—a remarkable growth when you consider that the GNP stood at a mere $2,000 million in 1961. While the average rate of growth during the First Plan period was 8.3%, the average rate of the Second Plan period was 12% per annum. In terms of per capita national income, $94 in 1960 jumped to $223 by 1970. The rate of growth in the manufacturing industry in 1969 was 22.3%, while that of 1970 was 17.6%. Nonetheless, in 1970, wholesale prices increased by 9.1% and consumer prices by 12.7%—a rather steep inflationary trend.

Export performance before the formulation of the First Five Year Plan had been extremely bad. This resulted in difficulties in securing import funds and Korea had to rely on American aid. Since the inception of the First Plan, however, exports increased by an annual average of 44% over the low level of $30 million before the plan. This has meant a 35 fold increase in South Korea's commodity exports since 1959. The export totals for 1967 was $350 million, 1968 $540 million, 1969 $700 million, and by 1970 it rose to more than $1,000 million. Seoul's ambitious goal for 1976 was set at $3,000 million—a target it might find almost impossible to reach. Of the amount thus recorded in 1970, 79% was in manufactured goods—a phenomenal increase from around 10% prior to 1963.

By the end of the Second Plan period, through the spectacular performance in exports, roughly $1,000 million in foreign exchange was obtained. However, it is very important to note that nearly half of this figure had come from the Vietnam involvement, including increased receipts from transportation as well as technical assistance remittances. Needless to say, the prospect of its continuation is nil. Largely through the above receipts, the foreign exchange holdings by 1970-1 rose to about the $500 million mark. Nevertheless, the future prospect is precarious due to the serious trade imbalance (trade deficit by October 1971 was $1,153 million). The export-import gap is still widening by more than a one-to-five ratio, and the level of foreign debt-service ratio is aggravating (the outstanding foreign debt was put at nearly $2,500 million).10

10Jean Egan, "South Korea: Time to Face Facts," *Far Eastern Economic Review*, January 15, 1972, p. 49. See also, *ibid.*, June 17, 1972, pp. 57-58. Despite the ambitious goals of the Second Five Year Plan (i.e., "Complete domestic procurement of funds for investment"), Seoul's reliance on foreign loans has skyrocketed and shows no sign of abatement. Amidst the rising discussion of major revision of the Third Five Year Plan, the Seoul regime has been demanding some $2500 million in loans of all kinds from Japan. As of February 1973, Korea's foreign debt was put at $2.7 billion and the payable debt for 1973 alone amounts to $470 million. At this rate of increasing reliance on Japan, South Korea's basic economic structure faces almost complete takeover by Japan before the end of this decade. See *Dong-A Ilbo*, August 2, 18, 19, 29, September 4, 5, 20, 1972, March 5, 1973. See also *Mainichi Daily News*, September 19, 27, 1972.
Much emphasis is placed on various machine industries such as automobile, munitions and electronics. However, in all these areas, foreign investment is far exceeding the domestic contribution. Furthermore, emphasis on technology and research and development is almost non-existent.

By the end of the decade, the electric power capacity stood at some one million and a half kilowatts—a vast improvement over the past. Multi-purpose dams were built both for electricity and for agricultural development. One notable project that was contemplated for implementation in the 1970s is the ambitious plan for “integrated development of four river basin areas.” This plan, to be completed during the next 11 years costing $1,011 million, would create 12 new multi-purpose dams with a capacity of nearly one million additional kilowatts—plus 8,700 hectares of new cultivable land with a predicted annual rice harvest increase of some 600,000 tons. Its overall prospects, however, are dubious, given the many uncertainties facing South Korea in the 1970s.

The southeastern (Ulsan area) oil refineries are in operation, and are expected to increase the nation’s production in petrochemical products such as plastic and other various chemical goods. Much headway has also been made in cement production—involving some export ability as well, and the production figure stood at five million tons by the end of the 1960s. Iron and steel works were established in Inchon and Pohang, but the latter is still incomplete while the former plant, plagued with low quality production and mismanagement, has had to be salvaged by huge government subsidies. The number of mining enterprises increased from 363 in 1958 to more than 500 by the end of the 1960s and the number of workers engaged in the industry nearly doubled. However, as in other areas, Japan’s involvement in mining is very substantial, and could easily surpass the domestic contribution.

Despite the enormous achievement of the Second Plan, in which the general growth (particularly in industry) in other sectors marked some 34% over-achievement, agriculture and fisheries fell behind the targeted goal by some 10%. In agricultural, indeed, the growth rate was a puny 4% per annum compared to the 20% to 25% industrial growth rate. Consequently, during the Second Plan period rice imports were 3.49 million tons, and in 1971 alone 1.1 million tons of rice had to be imported.11 Needless to say, the initial goal of “self-sufficiency in foodstuffs” had to be scaled down to a less ambitious goal of mere “self-sufficiency in rice” in the Third Plan.

Third Five Year Plan, 1972-1976: The first two economic development plans concentrated on industry, infrastructure, and exports for quick capital buildup, and agriculture was given only secondary priority in the allocation of available resources. The Third Five Year Plan emphasizes instead a balanced growth between agriculture and manufacturing—a significant aspect of the plan not only economically but also politically for the present regime.

The original plan that was announced in February 1971 called for an ambitious achievement: complete economic independence by the end of 1976.

It involved achieving a GNP level of $13.3 billion by 1976—more than an 80% increase over the GNP of 1969 through an average annual growth rate of 8.6% between 1972 and 1976. Per capita national income is to rise to $389 per year, which is very low by Western standard, but still a substantial increase from the $223 of 1970.

The government's projected plan to control population growth has been reasonably successful, the present rate being about 1.8% a year. Should the increase be held under 2% per annum through the plan period, unemployment can be expected to decline from nearly 5.6% to about 4%. More important, it will mean a substantial increase in farm income. Naturally, all this depends on the rate of inflation which is a serious problem and which the government admits is difficult to control.

The most ambitious project of the plan is the one geared to modernized agriculture—including scientific farming techniques (utilization of mechanized farm tools, hybrid and other improved seeds, better breed stock, and education in modern methods of farming) and the development of the four major river basins. The government also plans to encourage the development of cash crops for industrial and/or export use (oil-yielding beans, fruits for canning, modernization of the fishing fleet and equipment) and the combining of small excessively sub-divided paddy-fields into larger tracts, irrigated from a central source.

The South Korean government will deserve truly major historical credit if indeed it manages to implement this impressive economic plan by the end of 1976. However, it is well to point out that the economic and political conditions in Asia and in the world have so drastically changed since the 1960s that a repeat performance of the past two plans is hard to imagine. Furthermore, many of the discrepancies created by the first two plans will have to be handled for the sake of political stability if nothing else.

In overall appraisal, South Korea's economic growth in recent years has been impressive, to say the least. However, this record was not without deeply disturbing problems: (1) the depressingly low per capita national income and the alarmingly widening gap between the rich few and the poor masses; (2) the serious gap between the relatively well-to-do urban elements and the neglected farming population; (3) the disorganized and unrealistic growth in industry, mostly geared to excessive reliance on export industries based on imported raw materials; (4) the rapidly increasing trade imbalance and deficits; (5) the huge and unmanageable foreign debt, and the misuse of these funds in non-productive areas for speculative purposes; (6) the poor management of various funds and the unprecedented corruption on all levels of government; (7) uncontrolled inflation; and (8) the government's repressive policy and the dangerous political atmosphere.

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12Dong-A Ilbo, December 20, 1972.
13Ibid., October 14, 1972.
Rich and Poor Gap: One of the most serious problems in recent years—especially after the mid-1960s—is the rapidly widening gap between the rich and the poor whose income is threatened by uncontrolled inflation, ill-managed taxation, and a host of other problems, despite the nominal “rise” in their income as shown in largely meaningless national statistics. The present discrepancy is without doubt far more pronounced than under the two regimes that preceded the military takeover. In addition, while it was generally true prior to 1961 that the “rich” took enormous care not to overtly “demonstrate” their wealth, the same is not true today, creating a yet undetermined psychological problem of vast demoralization in the nation. Undoubtedly, this could in time create not only politically embarrassing problems for the present government but more specifically produce conditions of political opposition far more revolutionary in nature than ever before in Korea’s modern history.

Consequently, the entire life style seems to have undergone a massive change in the last decade alongside the rapid economic growth—bringing forth a new kind of mass psychology somewhat akin to the Dickensian world and the Spencerian philosophy of the post-Industrial Revolution in Europe. Even in the urban areas where the changes in modernization were felt strongest, this new life-style is enormously difficult to accept, being so alien to the ingrained tradition of propriety and “low profile” conduct. In light of the above, the long-range political problem would be how effectively the present government will try to represent itself as the guardian of all the people, while in fact it seems, as far as the masses are concerned, to be so closely allied with the privileged few wealthy people whose social and political influence so demonstrably reflects their “property.”

Urban and Rural Gap: There is the more basic problem of the ill-adjusted distribution of wealth between the urban and the rural areas. The present gap between the cities and the countryside is still increasing; average income of most of the farming areas are some 40% to 50% below the level of Seoul and other cities.

Besides the chronic retardation of agricultural development, some historical perspective has to be established to explain this potentially explosive phenomenon. First, it is well to remember the very basic nature of Syngman Rhee’s political regime. Rhee’s political management of power was done through a political party system not based on grassroots membership but on elite circles in the cities. This meant that most of the developmental economic programs were city-oriented, leaving the countryside virtually untouched.

This chronic rural problem was not corrected after the military take-over in the early 1960s. The end result is that farm income has declined proportionately to a dangerously low point. The absence of incentives in farming had further cut down the agricultural program of self-sufficiency—leading to growing dependence on imported grains to fill the gap. This process had
built itself into a vicious circle. Moreover, the unchecked inflation\(^\text{14}\) during the period of the most rapid growth in the economy meant a proportionally greater decrease in farm income and even less purchasing power.

In fact, despite the official claim that the targets of the Second Five Year Plan had been reached or even surpassed, the agricultural sector came no where near being successful. While there was a four-fold or more increase in per capita income from 1962 to 1970, farm income is still only 50% to 60% that of the urbanites. Massive crop failures due to flood and drought had caused severe food shortages during 1967 and 1968. This meant that the ambitious plans of the Second Five Year development program to achieve foodstuffs self-sufficiency had to be reduced to a simple sufficiency in rice alone. However, even in this category, the production of rice aimed for by 1976 (some 4,790,000 tons) would be able to meet only the 1969 level of population.\(^\text{15}\)

Furthermore, Seoul’s 1972 budget did not reflect the agricultural projects so ambitiously described in the Third Five Year Plan. Although, the budget figure for 1972 represented some 24% increase over the 1971 budget with an additional increase of 19.8% in domestic taxes, the increased portion was not earmarked for agricultural improvement and other vitally needed economic, social areas. On the contrary, there were reductions in expenditures for education, fertilizer production, various agricultural improvement projects, housing, urban planning, health and welfare.

There are more serious points to consider. First, in general, agriculture’s 4% annual growth rate contrasts starkly with the industrial growth rate of 20% to 25%. Even after the Third Plan, Seoul has announced that the rate of growth in agriculture in 1972 would be a mere 4.5%—barring other unexpected disasters. The government initially insisted that agricultural production increased by 2% in 1970, but a later assessment showed that production actually declined to 0.8%. Also while in 1971 it was estimated that arable land had increased by 12% since 1961, but again later statistics showed that it had actually shrunk by 9% between 1967 and 1970.\(^\text{16}\) Moreover, largely due to agricultural retardation, an increasing number of migrant farmers are entering the urban labor market pushing up the unemployment in the cities and reducing the farm labor force by almost 9%. This latter point is significant as mechanization and other improved methods of cultivation are still not implemented. The national unemployment rate was estimated to be between 4.4% and 4.8%. But because of rural migration, the urban areas’ unemployment rate is running higher, especially in Seoul.

\(^\text{14}\)For instance, the inflation rate in 1963-1964 was 30% to 40% per annum. In addition, the “low rice price” policy aggravated the farm income and the living standard in the countryside was adversely affected. This was so because of the disproportionately high rate of growth in urban areas income owing to the manufacturing sector’s performance. By 1972-1973, the most serious problem is still the rocketing inflation, which put South Korea second only to South Vietnam. In 1972 alone, for instance, and even by official statistics, the inflation hovers at around the 15% level.

\(^\text{15}\)Jean Egan, op. cit., p. 50.

\(^\text{16}\)Dong-A Ilbo, March 6, 1972.
If the present trend continues and the estimated 250,000 to a half million people migrate into the cities every year, and if the economic corrective measures are consistently neglected, this phenomenon (plus the rising unemployment of the nation’s university graduates) could easily produce for the government a very explosive and dangerous political situation.

If the nation’s export sector is increasingly shut out from international markets (Japan and the U.S.) in the 1970s due to increasing competition and protectionist policies, it will have to realign its emphasis on domestic market possibilities. However, two factors severely hinder its successful adjustment: (1) the low farm income, and (2) most of the manufacturing industries have been geared to export to the highly developed countries and their products would not find a ready market in domestic rural areas.

This failure of the present regime to solve the rural problem has to be highlighted against its initial commitments to the rural population, and in particular the miserable performance of the Second Five Year Plan cannot be easily explained away. While the basic decision to go “industrial” rather than “agricultural” was sound in terms of immediate results (which were undoubtedly impressive), the retardation of agricultural growth held high long-term political risk factors. In this context, the “New Village Movement” and the $10 billion export goal for 1980 seem contradictory.

In the early 1960s before the Five Year Plans were formulated, most of the political and electoral successes of the present regime were based on rural political support, notably in the southeast and southwest central regions. But having long been committed to urban-oriented development in industrialization, a valid political question is whether the policy of channelling all or most of the available capital funds to cities can indeed succeed in “bribing” the more volatile urbanites and create a new political base for the regime. To be sure, the rising intellectual unrest, and the periodic student demonstrations meant that, for the short term expediency, the regime had little choice but to emphasize the urban economy, for the moment neglecting the promises on farm debt relief, interest rate, and other agricultural reforms.

However, should the tendency to neglect rural areas continue—it is possible that the present regime will lose its traditional rural support base while failing to establish a new base in the cities in its place. Even if it is possible to create a new power base in the cities, with the rural area unchanged, it will be a strange political setup at best with little chance of long-term political stability.

Thus confronted with an acute dilemma, together with the subterranean domestic opposition and rapidly changing international order wherein external security guarantees are in steep decline, the present regime could easily degenerate into an even more repressive political entity whose myopic political judgment and tactics could ultimately backfire with extremely disastrous results.

The high rate of turnover and the retirement among the high echelon mil-
itary officers employed in key posts in the last decade may have created a solid phalanx of military support for the present regime at the top level. However, the political loyalty and dependability of the middle and lower echelon officers—of junior and middle senior ranks—may not be as dependable. As long as the urban based economic growth at the expense of the rural segment is not reversed and compensatory development achieved in the farming regions, there could emerge a serious political challenge from among the officers whose social and economic backgrounds are rooted in agriculture. Their background, keenly felt affinity with the neglected farm population—plus the difficulty of living in the city on their meager pay, the urban demoralization felt within the context of the widening gap between the rich and the poor, and uncontrolled high-living—may propel these military elements into the political arena with a "socialistic" commitment. Indeed, when one takes into account the fact that the increasing number of entrants into service academies come from the rural rather than urban areas (in contrast to the late 1950s and early 1960s), the future officer corps' potential political commitment may not be so easily discounted. In fact, the politicization of the military could possibly lead to a military radicalism in Korea somewhat similar to the Japanese experiences of the late 1920s and 1930s—involving such political philosophies as the "Showa Restoration" and "New Japanism."

Trade Imbalance and Foreign Debts: Although Korea's export records in recent years seem impressive, there are a number of chronic problems which could easily nullify all the gains and bring forth a major crisis—economic as well as political. First, well over 40% of Korea's exports have been in goods highly vulnerable to market fluctuations and rising competition both in quantity and in quality from other Asian nations. In general, textile merchandise had done the best in its gross increase in exports; some 11% of the total 1970 exports amounting to $89 million were in general clothing items, while wigs and hairpieces accounted for 12% ($101 million) and another 17% was registered in garments, yarns and synthetic and cotton fabrics. But these are the items which could easily lose markets due to the quota system, and other restrictive measures taken by the importing nations.

Secondly, South Korea's market search has been exceedingly myopic, and has not explored a wide range of markets but concentrated on two, the U.S. and Japan, which could severely curtail trade with South Korea and cripple its economy. The U.S. share of Korean exports was some 47%, and Japan 23%, while a miniscule $82 million out of $1,000 million went to all other Asian nations and only $76 million to European nations. South Korea also buys 60-70% of its imports from the U.S. and Japan, of which Japan's share alone amounts to some 50%. The results have been staggering. In 1971 imports amounted to $2013 million against $1191 million exports—a deficit of $822 million which had to be met by utilization of foreign exchange holdings and borrowing abroad. The government hoped that this imbalance might be corrected by a low import growth rate, but by the end of 1971 there had

17Jean Egan, op. cit., p. 49.
been more than a 29.8% increase—some 19.8% above the expected 10% rise.\footnote{The export-import picture is still worsening. In 1972, imports stood at $2537 million, while in 1973, despite Seoul's continuing efforts to curtail imports, the government had to set the ceiling at $3073 million—an increase of 21.4% over 1972. \textit{Dong-A Ilbo}, January 19, 1973. Past official figures having failed to stand the test of the final outcome, the above could well be an underestimation.}

This widening trade gap had seriously affected the balance of payments problem. Foreign exchange and gold reserves fell 6% by June 1971 to $551 million, and by October 1971 it fell even further. The foreign debt-service ratio declined in 1971 from 32.2% (1970) to 29%, and is expected to fall to 16% in 1972, to 12% in 1976. The result would be that the ensuing years' loan payments would be increasingly higher—a task beyond the capacity of the present Korean economy. With the outstanding debts at more than $2,500 million, besides the yearly payment of $200 million there will be rapid increase in interest as well. Even if the government's plan to increase exports to the $3,000 million level by 1976 should succeed, which seems unlikely, if the present ratio of imports and exports remains unchanged, the total picture of crisis will not change and none of the ambitious plans of the Third Plan could be implemented as planned.

\textit{Japan in Korea:} The problems of trade deficit and the foreign debts are not purely economic, but could have serious political complications. A case in point is the role of Japan in Korea. Several serious problems exist in Japan's economic future. First, the problem of rising wages at home could significantly diminish profit margins. Second, the growing manpower shortage—due to exceptionally successful postwar population control—will limit the possibilities of economic expansion and further raise wages. Third, economic competition among the firms in Japan largely destroyed smaller and medium enterprises (especially the smaller consumer goods industry), and the resurrection of these firms could only be undertaken overseas in such countries as Korea and Taiwan. Fourth, growing global resentment against rising imports of "Made in Japan" goods will force the Japanese to devise means to skirt that problem—for example by setting up "transformation industries" in developing countries. Finally, its abundant surplus capital and the huge foreign exchange holdings will force Japan to export more and more capital funds for overseas economic penetration.

All of the above factors apply to Japan's massive economic penetration of South Korea. More than one hundred Japanese firms of all kinds are already operative in the country, with interest in various vital industrial projects—mining, chemical industries, iron and steel industry, machine tool industry, motor vehicle assembly plants, naval dockyards, and munitions ventures. As a result, numerous "transformation industries" were set up in Korea to facilitate Japanese capital investment and to take advantage of the local availability of abundant and cheap skilled labor. Furthermore, in this way, Japan would be able to collect profits—although indirectly—from the results of Korean exports which in fact were the products of Japanese investment.
Between 1965 and 1969, Japan’s investment in Korea—either exclusive or in joint ventures with local partners—had increased substantially and by 1970 Japan had become the second largest investor in Korean economy (second only to the U.S. whose role is declining compared to Japan’s).\(^9\) In 1969 alone, Japan’s investment constituted 58% of the total foreign investment. In addition, Japan had made some $72 million in commercial loans to South Korea, and it is expected to provide some $2800 million in capital in the implementation of the Third Five Year Plan.

The economic and political implications of the rapidly growing Japanese penetration are not to be underestimated. Economically, growing Japanese involvement in the Korean scene would mean that it would be difficult for Korea to adopt economic policies in conformity with its national needs. It would in fact amount to a subtle form of economic colonialism—an experience in the long run not much dissimilar to the years of Japanese domination of Korea until 1945.

There are indeed numerous allegations that Japan is exerting a substantial political influence in South Korean politics as a part of its economic penetration of the country. This apprehension has been raised even by Japanese intellectuals, among whom the most notable is Professor Eto Shinkichi of Tokyo University. Should, indeed, such heightened political influence come to pass, this may bring a disruptive renewal of the aggressive Japanese stance in peninsula affairs, and will certainly complicate the Korean problem.

Japanese economic penetration with the ultimate objective of political influence (certainly motivated by non-economic considerations) could create a political atmosphere of increasing corruption and irregularities in the management of Korean economy and eventually lead to a political crisis—compounded by anti-Japanism. Indeed, Japan’s silence and reluctance to reorient its economic relations with South Korea on the basis of sound economic principles show to a great extent its extra-economic ambitions on the peninsula—a factor not only economically devastating in South Korea’s competition with North Korea but a critical element in elevating the political heat with Peking. Lastly, it is well to point out that the present regime, if it should continue to allow the re-introduction of Japan on terms contradictory to Korea’s own interest, will have to answer for its conduct to the people in a far more severe way than what had been the case with Syngman Rhee’s regime.

**Corruption:** Corruption in the official and private sectors is reportedly monumental in South Korea. Despite the earlier pledges of the military junta in the early 1960’s, rampant and unabashed corruption earned the present regime in Seoul an infamous reputation. One American businessman alleged that “corruption is rife and ‘under the table’ payments necessary to smooth any deal are bigger in Seoul than in Manila.”\(^20\)

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To be sure, attempts have been made to eradicate corruption. However, the success is less than marginal, as most of the big "sharks" are left untouched and unpunished, and in many cases untouchable as the enormous complexity of power relations demand subtle treatment for the sake of the regime's short-term stability. This is indeed the greatest dilemma facing the present government, which in the beginning at least polemically aspired to becoming the cleanest and most dedicated of the post-Liberation regimes.

Looking back, it is fair to say, given the extremely difficult conditions of anarchy and confusion when it came to power, that the present government has been remarkably successful in making strides toward economic progress. However, considering the period of time it has been in power with considerable room for flexibility and originality, the present Park government has failed in promoting its "organizational capacity," that is to say "policing capacity," in enhancing "social discipline," and in remodeling the educational process geared toward ensuring rationality.

In failing such a crucial task, the government has relinquished its leadership in a self-proclaimed revolution to change the basic atmosphere of the nation and generate renewed commitment to inculcating elements for a "new man" or the "modern man"—"efficiency, diligence, orderliness, punctuality, frugality, scrupulous honesty, rationality in decisions on action, preparedness for change, alertness to opportunities as they arise in a changing world, energetic enterprise, integrity and self-reliance, cooperativeness, and willingness to take the long view."21

In perspective, economic instability could eventually lead to political instability, and given the regime's lack of self-confidence and dwindling popular support, an atmosphere of political repression could become a fixture. Furthermore, fearful of changes, both in internal and external policies, the present government may not be able to adjust to rapid changes in the international scene and could find itself without viable options. Then, it may be a crisis for which there may not be a possibility of retrieval.

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