

This PDF is a selection from an out-of-print volume from the National Bureau of Economic Research

Volume Title: Foreign Trade Regimes and Economic Development: South Korea

Volume Author/Editor: Charles R. Frank, Jr., Kwang Suk Kim and Larry E. Westphal

Volume Publisher: NBER

Volume ISBN: 0-87014-507-X

Volume URL: <http://www.nber.org/books/fran75-1>

Publication Date: 1975

Chapter Title: Front Matter

Chapter Author: Charles R. Frank, Jr. , Kwang Suk Kim, Larry E. Westphal

Chapter URL: <http://www.nber.org/chapters/c4061>

Chapter pages in book: (p. -23 - -2)

**Foreign Trade Regimes
and Economic Development:
SOUTH KOREA**

Foreign Trade Regimes and Economic Development:

*A Special Conference Series
on Foreign Trade Regimes
and Economic Development*

VOLUME VII



NATIONAL BUREAU OF ECONOMIC RESEARCH
New York 1975

SOUTH KOREA

by **Charles R. Frank, Jr.**

PRINCETON UNIVERSITY
AND THE BROOKINGS INSTITUTION

Kwang Suk Kim

KOREA DEVELOPMENT INSTITUTE

Larry E. Westphal

NORTHWESTERN UNIVERSITY

DISTRIBUTED BY Columbia University Press
New York and London

NATIONAL BUREAU OF ECONOMIC RESEARCH

*A Special Conference Series on Foreign Trade Regimes
and Economic Development*

To
the Memory of
Thomas F. Olmsted
1929-1975

Library of Congress Card Number: 74-82375
ISBN for the series: 0-87014-500-2
ISBN for this volume: 0-87014-507-X

Printed in the United States of America
DESIGNED BY JEFFREY M. BARRIE

A
J
M
J
H
D
G

A
A
A
W
E
E
E
E
E
D
V
V

N
C
O
H
O
M
E

NATIONAL BUREAU OF ECONOMIC RESEARCH

OFFICERS

Arthur F. Burns, *Honorary Chairman*
J. Wilson Newman, *Chairman*
Moses Abramovitz, *Vice Chairman*
John R. Meyer, *President*
Thomas D. Flynn, *Treasurer*
Douglas H. Eldridge, *Vice President-Executive Secretary*
Gary Fromm, *Director, NBER-Washington*

Victor R. Fuchs, *Vice President-Research; Co-director NBER-West*
Edwin Kuh, *Director, Computer Research Center*
Robert E. Lipsey, *Vice President-Research*
Sherman J. Maisel, *Co-director NBER-West*
Geoffrey H. Moore, *Vice President-Research*
Edward K. Smith, *Vice President*

DIRECTORS AT LARGE

Atherton Bean, *International Multifoods Corporation*
Andrew F. Brimmer, *Harvard University*
Arthur F. Burns, *Board of Governors of the Federal Reserve System*
Wallace J. Campbell, *Foundation for Cooperative Housing*
Erwin D. Canham, *Christian Science Monitor*
Emilio G. Collado, *Exxon Corporation*
Solomon Fabricant, *New York University*
Frank L. Fernbach, *United Steelworkers of America*
Eugene P. Foley, *Montrose Securities, Inc.*
David L. Grove, *International Business Machines Corporation*
Walter W. Heller, *University of Minnesota*
Vivian W. Henderson, *Clark College*

John R. Meyer, *Harvard University*
Geoffrey H. Moore, *National Bureau of Economic Research*
J. Wilson Newman, *Dun & Bradstreet, Inc.*
James J. O'Leary, *United States Trust Company of New York*
Rudolph A. Oswald, *Service Employees International Union*
Alice M. Rivlin, *Brookings Institution*
Robert V. Roosa, *Brown Brothers Harriman & Co.*
Eli Shapiro, *The Travelers Corporation*
Arnold M. Soloway, *Jamaicaway Tower, Boston, Massachusetts*
Lazare Teper, *International Ladies' Garment Workers' Union*
Theodore O. Yntema, *Oakland University*

DIRECTORS BY UNIVERSITY APPOINTMENT

Moses Abramovitz, *Stanford*
Gardner Ackley, *Michigan*
Charles H. Berry, *Princeton*
Francis M. Boddy, *Minnesota*
Otto Eckstein, *Harvard*
Walter D. Fisher, *Northwestern*
R. A. Gordon, *California, Berkeley*
J. C. LaForce, *California, Los Angeles*

Robert J. Lampman, *Wisconsin*
Maurice W. Lee, *North Carolina*
Almarin Phillips, *Pennsylvania*
Lloyd G. Reynolds, *Yale*
Robert M. Solow, *Massachusetts Institute of Technology*
Henri Theil, *Chicago*
William S. Vickrey, *Columbia*

DIRECTORS BY APPOINTMENT OF OTHER ORGANIZATIONS

Eugene A. Birnbaum, *American Management Association*
Thomas D. Flynn, *American Institute of Certified Public Accountants*
Nathaniel Goldfinger, *American Federation of Labor and Congress of Industrial Organizations*
Harold G. Halcrow, *American Agricultural Economics Association*
Walter E. Hoadley, *American Finance Association*

Philip M. Klutznick, *Committee for Economic Development*
Paul W. McCracken, *American Statistical Association*
Roy E. Moor, *National Association of Business Economists*
Douglass C. North, *Economic History Association*
Willard L. Thorp, *American Economic Association*
Robert M. Will, *Canadian Economics Association*

DIRECTORS EMERITI

Percival F. Brundage
Frank W. Fetter
Gottfried Haberler

Albert J. Hettinger, Jr.
George B. Roberts

Murray Shields
Boris Shishkin
Joseph H. Willits

SENIOR RESEARCH STAFF

Gary S. Becker
Charlotte Boschan
Phillip Cagan
Stanley Diller
Solomon Fabricant
Milton Friedman
Gary Fromm
Victor R. Fuchs
J. Royce Ginn

Raymond W. Goldsmith
Michael Gort
Michael Grossman
F. Thomas Juster
John F. Kain
John W. Kendrick
Irving B. Kravis
Edwin Kuh
William M. Landes

Hal B. Lary
Robert E. Lipsey
Sherman J. Maisel
Benoit B. Mandelbrot
John R. Meyer
Robert T. Michael
Jacob Mincer
Ilse Mintz
Geoffrey H. Moore

M. Ishaq Nadiri
Nancy Ruggles
Richard Ruggles
Anna J. Schwartz
Robert P. Shay
Edward K. Smith
George J. Stigler
Victor Zarnowitz

*Relation of the Directors of the National Bureau to
Publication of the Country Studies in the Series on
Foreign Trade Regimes and Economic Development*

The individual country studies have not passed through the National Bureau's normal procedures for review and approval of research reports by the Board of Directors. In view of the way in which these studies were planned and reviewed at successive working parties of authors and Co-Directors, the National Bureau's Executive Committee has approved their publication in a manner analogous to conference proceedings, which are exempted from the rules governing submission of manuscripts to, and critical review by, the Board of Directors. *It should therefore be understood that the views expressed herein are those of the authors only and do not necessarily reflect those of the National Bureau or its Board of Directors.*

The synthesis volumes in the series, prepared by the Co-Directors of the project, are subject to the normal procedures for review and approval by the Directors of the National Bureau.

Contents

<i>Co-Directors' Foreword</i>	xvi
<i>Acknowledgments</i>	xix
<i>Principal Dates and Historical Events in South Korea</i>	xxi
Chapter 1: Introduction	1
Notes	5
Chapter 2: Economic Growth in South Korea since World War II	6
Economic Disorganization Following Liberation	6
Economic Growth and Trade, 1946 to 1953	8
Post-Korean War Reconstruction	11
Military Government, 1961 to 1963	13
Civilian Government and Economic Reform, 1964 to 1966	18
Continuation of Rapid Growth, 1967 to 1971	19
Slowdown, 1971 to 1972, New Reforms, and Recovery, 1973	21
Notes	23

Chapter 3: Development of the Trading and Exchange Rate System: Phase I, 1945 to 1953, and Phase II, 1953 to 1960	25
Development of the Barter System, 1946 to 1953	26
The Bank of Korea, 1950	27
Exchange Rates, 1945 to 1963	28
Allocation of Foreign Exchange and Multiple Rates, 1952 to 1960	29
Tariffs	36
Import Controls	37
Export Promotion	38
End of an Era	41
Notes	41
Chapter 4: Two Liberalization Episodes and Their Short-Term Consequences, 1961 to 1966	42
Devaluation and Exchange Rate Unification	43
Changes in Trade Policy, 1961 to 1963	44
Return to Multiple Exchange Rates, 1963	47
Exchange Rate Reform, 1964 to 1965	47
Liberalization of Import Restrictions, 1964 to 1966	48
Intensification of Export Incentives	49
Effects of the Liberalization Efforts	51
Notes	55
Chapter 5: Further Efforts at Liberalization: 1967 to Early 1973	56
Efforts to Liberalize Trade, 1967 to Early 1973	58
Growth of Export Subsidies	63
Exchange Rates	67
Quantitative Estimates of the Restrictiveness of the Trade and Payments Regime, 1958 to 1970	69
Summary and Conclusions	76
Notes	76
Chapter 6: Exports and the Growth and Structure of the Economy	77
Pattern of Export Growth	77
Net Foreign Exchange Content of Exports	81
Range of Export Incentives	83
Export Sensitivity to Subsidies and Exchange Rates	84

CONTENTS

ix

Measuring Structural Change	86
Contributions to South Korea's Economic Growth	90
Comparisons with "Normal" Development Patterns	93
Conclusions	98
Notes	99
Chapter 7: Foreign Capital and the Exchange Rate Regime	101
Official Encouragement of Foreign Capital Imports	101
Foreign Capital in South Korea's Economic Growth	106
Cost of Capital Imports	108
Real and Nominal Rates of Interest on Foreign Capital	109
Efficiency of Foreign Borrowing	110
Real Private and Social Costs of Foreign Borrowing	115
Foreign Borrowing and Sectoral Resource Allocation	117
Discontinuous Devaluation and Gliding Parity	119
Economic Policy and Foreign Loans	121
Appendix: Calculation of Implicit Subsidies on Foreign Loans	122
Notes	124
Chapter 8: Macroeconomic Relationships and Commercial Policy Variables	125
The Basic Model	125
The Data	128
Basic Hypotheses and Tests	132
Further Description and Estimation Results	133
Simultaneous Estimation	143
Appendix: Data Used in the Econometric Model	148
Notes	162
Chapter 9: Effects of the Exchange Rate Regime on Growth: A Simulation Approach	164
Commercial Policy Variables	164
Interactions between Basic Commercial Policy Variables and the Behavior of Economic Aggregates	165
The Simulation Model	166
Method of Simulation	168
Simulation Experiments	170

Equilibrium Exchange Rates	171
Manipulation of Commercial Policy Variables	176
Conclusions	183
Appendix: Solution of the Nonlinear Simulation Model	184
Notes	185
Chapter 10: The Foreign Exchange Regime and Resource Allocation	186
Standard Measurement Techniques	187
Extensions and Variations Used in Measuring Protection	189
The Data Base	191
Nominal Rates of Protection and Quantitative Restrictions	192
Average Protection	195
Incentives to Domestic and Export Sales	197
Variability in Rates of Protection	200
Effective Incentives and Resource Allocation	206
Factor Intensity of Trade	208
Valuation of Output and Growth Rates at World Market and Domestic	
Prices	215
Conclusions	216
Notes	216
Chapter 11: An Overview	219
Effects of Growth on Employment	219
Growth and Income Distribution	223
Factors Promoting Rapid Growth	225
Supply of Savings	227
Supply of Foreign Exchange	230
Demand for Foreign Exchange	233
Economic Efficiency	237
Role of the Liberalization Episodes	239
Conclusions	240
Notes	244
Appendix A: Definition of Concepts and Delineation of Phases	245
<i>Bibliography</i>	249
<i>Index</i>	258

Tables

2-1	Manufacturing Output and Employment, 1940 and 1948	7
2-2	Production Indexes of Major Commodities, 1946 to 1953	9
2-3	Merchandise Exports and Imports, 1945 to 1953	10
2-4	Annual Percentage Growth of GNP and Major Sectors, 1954 to 1972	11
2-5	Major Price Indexes at Midyear, 1953 to 1972	13
2-6	Balance of Payments, 1953 to 1972	14
2-7	GNP, Exports, and Imports, 1953 to 1972	15
2-8	GNP, Domestic Savings, and Gross Investment, 1953 to 1973	17
3-1	Nominal Exchange Rates of Won to U.S. Dollar in South Korea, 1945 to 1970	30
3-2	Price-Level-Deflated Exchange Rates of Won to U.S. Dollar in South Korea, 1945 to 1970	32
3-3	Major Export Incentives	40
4-1	Number of Importable Items in Semiannual Trade Programs, 1961 to 1967 (First Half)	45
4-2	Preferential Bank Loans for Exports, 1964 to 1966	52
5-1	Total Importable Subitems before and after Adoption of the Negative-List Trade Program	58
5-2	Import Program for Basic Items, 1967 to 1970	59
5-3	Changes in Legal Tariff Rates before and after Tariff Reform, 1967	60
5-4	Weighted Average Tariff Rates Compared: Major Product Groups, Old and New Schedules	61

5-5	Preferential Loans for Exports, 1967 to 1970	64	
5-6	Tax Concessions for Exports, 1965 to 1970	66	
5-7	Official Exchange Rate at Purchasing Power Parity, 1965 to 1973	68	
5-8	Price-Level-Deflated and Purchasing-Power-Parity Effective Exchange Rates on Exports, 1958 to 1970	70	
5-9	Price-Level-Deflated and Purchasing-Power-Parity Effective Exchange Rates on Imports, 1958 to 1970	72	
5-10	Comparison of Purchasing-Power-Parity Effective Exchange Rates for Exports and Imports, 1958 to 1970	75	
6-1	Export Growth, 1953 to 1973	78	
6-2	Structure and Growth Rates of Exports, 1961 to 1973	79	
6-3	Major Manufactured Exports, 1961 to 1973	80	
6-4	Exports by Country, 1960 to 1973	81	
6-5	Effective Exchange Rate on Exports, Purchasing-Power-Parity Basis, 1955 to 1970	84	
6-6	Direct and Indirect Contributions to Economic Growth	91	
6-7	Direct Trade Effects by Industry, 1960 to 1968	94	
6-8	Observed Structure in South Korea and Structural Norms for Less Developed Countries	96	
7-1	Arrivals of Foreign Capital and Official Grants, 1966 to 1971	102	
7-2	Foreign Loan and Investment Agreements, 1959 to 1971	103	
7-3	Status of Foreign Capital Inducement, 1961 to 1963	105	
7-4	Foreign Capital and Gross Investment, 1960 to 1972	106	1
7-5	Private and Social Real Interest Costs, 1965 to 1970	116	1
7-6	Comparative Real Interest Costs of Domestic and Foreign Loans, 1965 to 1970	118	1
7-7	Present Value of Repayments on 1,000 Won Loan	119	
8-1	Endogenous Variables of the Model	126	1
8-2	Exogenous Variables of the Model	127	
8-3	B Matrix for Endogenous Variables	128	1
8-4	Basic Matrixes of the Macro-model	130	
8-5	Instrumental Variables on the Basis of Causal Orderings	146	1
8-6	Two-Stage Least Squares Estimates with Fisher's First-Order Instrumental Variables	147	1
8-7	Two-Stage Least Squares Estimates with Fisher's Second-Order Instrumental Variables	148	1
8-8	Description of Raw Data and Sources	149	1
8-9	Transformations of Raw Data	151	
8-10A	Raw Data in Billions of Constant 1965 Won	153	1
8-10B	Raw Data in Billions of Won at Current Prices	154	1
8-10C	Raw Data in Millions of Dollars, Dollar Prices	155	
8-10D	Exchange Rate and Export Premia, Won per Dollar	156	1

TABLES

xiii

8-10E	Tariffs, Tariff Equivalents, and Export Subsidies in Billions of Won at Current Prices	156
8-10F	Price Indexes	157
8-10G	Other Data	157
8-11A	Endogenous Variables	158
8-11B	Basic Commercial Policy Variables	160
8-11C	Derived Commercial Policy Variables	160
8-11D	Other Exogenous Variables	161
9-1	Discounted Value of Total Output with Official Exchange Rate at Its Historical Value and Variations in Tariffs and Foreign Exchange Taxes per Dollar of Import (TAM) and Subsidies per Dollar of Export (SOX)	176
9-2	Discounted Value of Consumption with Official Exchange Rate at Its Historical Value and Variations in TAM and SOX	177
9-3	Discounted Value of Output with Official Exchange Rate at 80 Percent of Its Historical Value and Variations in TAM and SOX	180
9-4	Discounted Value of Consumption with Official Exchange Rate at 80 Percent of Its Historical Value and Variations in TAM and SOX	181
9-5	Discounted Values of Output and Consumption with Official Exchange Rate at 120 Percent of Its Historical Value and Variations in TAM and SOX	182
10-1	Average Incentive Rates by Major Industry Grouping, 1968	195
10-2	Average Incentive Rates in Manufacturing by Trade Category, 1968	196
10-3	Effective Protection for and Subsidy to Export and Domestic Sales by Industry Group, 1968	198
10-4	Effective Protection for and Subsidy to Export and Domestic Sales in Manufacturing by Trade Category, 1968	199
10-5	Frequency Distributions of Incentives Measures in 150-Sector Sample	202
10-6	Sectors Having High Effective Protection for Domestic Sales, 1968	204
10-7	Rank Correlation Coefficients between Effective Incentives and Resource Allocation	207
10-8	Effective Incentives to Major Export Sectors, 1968	210
10-9	Effective Incentives to Major Import-Substituting Sectors, 1968	212
10-10	Factor Intensity of Trade	214
11-1	Farm and Nonfarm Population and Unemployment, 1957 to 1972	220
11-2	Population and Labor Force Growth, 1960 to 1972	221

11-3	Employment, Earnings and Output in Nonagricultural Sectors, 1957 to 1972	222
11-4	Sources of Domestic Savings, 1953 to 1972	229
11-5	Foreign Exchange Receipts on Current Account, 1961 to 1972	231
11-6	Capital Account Transactions and Foreign Exchange Holdings, 1953 to 1972	234
11-7	Effective Exchange Rate on Imports on Purchasing-Power-Parity Basis, and Growth of Imports, 1955 to 1970	235
11-8	Elasticity of Imports, Various Periods	237

2
9
1
4
5
7

Figures

2-1	Behavior of Key Economic Aggregates	16
7-1	Marginal Efficiency of Investment Schedule	111
7-2	Optimal Consumption Allocation over Time: No Foreign Borrowing	112
7-3	Optimal Consumption Allocation over Time with Foreign Borrowing	113
7-4	Inefficiency in Consumption over Time	115
9-1	Income and Consumption over Time: Pure Effective Exchange Rate Equal to Historical Exchange Rate Including Taxes and Subsidies	172
9-2	Behavior of Discounted Values of Income and Consumption with Variations in the Pure Effective Exchange Rate	173
9-3	Behavior of Discounted Values of Income and Consumption with Pure Effective Exchange Rate Valued Relative to 1965 Effective Exchange Rate	175
9-4	Time Paths of Consumption and Output with SOX Equal to 120 Percent of Historical Values and TAM Equal to 200 Percent of Historical Values	179

Co-Directors' Foreword

This volume is one of a series resulting from the research project on Exchange Control, Liberalization, and Economic Development sponsored by the National Bureau of Economic Research, the name of the project having been subsequently broadened to Foreign Trade Regimes and Economic Development. Underlying the project was the belief by all participants that the phenomena of exchange control and liberalization in less developed countries require careful and detailed analysis within a sound theoretical framework, and that the effects of individual policies and restrictions cannot be analyzed without consideration of both the nature of their administration and the economic environment within which they are adopted as determined by the domestic economic policy and structure of the particular country.

The research has thus had three aspects: (1) development of an analytical framework for handling exchange control and liberalization; (2) within that framework, research on individual countries, undertaken independently by senior scholars; and (3) analysis of the results of these independent efforts with a view to identifying those empirical generalizations that appear to emerge from the experience of the countries studied.

The analytical framework developed in the first stage was extensively commented upon by those responsible for the research on individual countries, and was then revised to the satisfaction of all participants. That framework, serving as the common basis upon which the country studies were undertaken, is further reflected in the syntheses reporting on the third aspect of the research.

The analytical framework pinpointed these three principal areas of research which all participants undertook to analyze for their own countries.

Subject to a common focus on these three areas, each participant enjoyed maximum latitude to develop the analysis of his country's experience in the way he deemed appropriate. Comparison of the country volumes will indicate that this freedom was indeed utilized, and we believe that it has paid handsome dividends. The three areas singled out for in-depth analysis in the country studies are:

1. *The anatomy of exchange control:* The economic efficiency and distributional implications of alternative methods of exchange control in each country were to be examined and analyzed. Every method of exchange control differs analytically in its effects from every other. In each country study care has been taken to bring out the implications of the particular methods of control used. We consider it to be one of the major results of the project that these effects have been brought out systematically and clearly in analysis of the individual countries' experience.

2. *The liberalization episode:* Another major area for research was to be a detailed analysis of attempts to liberalize the payments regime. In the analytical framework, devaluation and liberalization were carefully distinguished, and concepts for quantifying the extent of devaluation and of liberalization were developed. It was hoped that careful analysis of individual devaluation and liberalization attempts, both successful and unsuccessful, would permit identification of the political and economic ingredients of an effective effort in that direction.

3. *Growth relationships:* Finally, the relationship of the exchange control regime to growth via static-efficiency and other factors was to be investigated. In this regard, the possible effects on savings, investment allocation, research and development, and entrepreneurship were to be highlighted.

In addition to identifying the three principal areas to be investigated, the analytical framework provided a common set of concepts to be used in the studies and distinguished various phases regarded as useful in tracing the experience of the individual countries and in assuring comparability of the analyses. The concepts are defined and the phases delineated in Appendix A.

The country studies undertaken within this project and their authors are as follows:

Brazil	Albert Fishlow, University of California, Berkeley
Chile	Jere R. Behrman, University of Pennsylvania
Colombia	Carlos F. Díaz-Alejandro, Yale University
Egypt	Bent Hansen, University of California, Berkeley, and Karim Nashashibi, International Monetary Fund
Ghana	J. Clark Leith, University of Western Ontario

India	Jagdish N. Bhagwati, Massachusetts Institute of Technology, and T. N. Srinivasan, Indian Statistical Institute
Israel	Michael Michaely, The Hebrew University of Jerusalem
Philippines	Robert E. Baldwin, University of Wisconsin
South Korea	Charles R. Frank, Jr., Princeton University and The Brookings Institution; Kwang Suk Kim, Korea Development Institute, Republic of Korea; and Larry E. Westphal, Northwestern University
Turkey	Anne O. Krueger, University of Minnesota

The principal results of the different country studies are brought together in our overall syntheses. Each of the country studies, however, has been made self-contained, so that readers interested in only certain of these studies will not be handicapped.

In undertaking this project and bringing it to successful completion, the authors of the individual country studies have contributed substantially to the progress of the whole endeavor, over and above their individual research. Each has commented upon the research findings of other participants, and has made numerous suggestions which have improved the overall design and execution of the project. The country authors who have collaborated with us constitute an exceptionally able group of development economists, and we wish to thank all of them for their cooperation and participation in the project.

We must also thank the National Bureau of Economic Research for its sponsorship of the project and its assistance with many of the arrangements necessary in an undertaking of this magnitude. Hal B. Lary, Vice President-Research, has most energetically and efficiently provided both intellectual and administrative input into the project over a three-year period. We would also like to express our gratitude to the Agency for International Development for having financed the National Bureau in undertaking this project. Michael Roemer and Constantine Michalopoulos particularly deserve our sincere thanks.

JAGDISH N. BHAGWATI
Massachusetts Institute of Technology

ANNE O. KRUEGER
University of Minnesota

Acknowledgments

When Charles Frank was engaged by the Co-Directors of this series to write the book on Korea, he learned that Larry E. Westphal and Kwang Suk Kim were already at work on a parallel study sponsored by the World Bank. To avoid duplication, the three of them agreed to collaborate, and the present volume represents their joint efforts.

Kim did most of the research for chapters 2, 3, 4, and 5, and also wrote the first drafts. Westphal and Kim produced chapters 6 and 10, and Frank contributed the remaining chapters. All three authors participated in the planning of each other's work and in the revision of first drafts.

Much of the material in chapters 6 and 10 was drawn from the Westphal and Kim contribution to the World Bank study. Their essay, "Industrial Policy and Development in Korea," emphasizes the methodology of measuring effective incentives and contains considerably more detailed analysis than it was thought necessary to include in the National Bureau's series.

We are grateful to the World Bank and to Bela Balassa, editor of *Development Strategies in Semi-Industrialized Countries*, for permission to make use of the Westphal and Kim essay in this book. We are also grateful to Balassa for his helpful guidance at every stage of our research and for his comments on several draft chapters.

The authors thank Thomas Olmsted and his colleagues at the USAID mission to Korea for their full support and cooperation. They also acknowledge the Ford Foundation grant of 1971 that enabled Kim to spend a year at Princeton working closely with his coauthors. Upon his return home, Kim was named a senior fellow of the Korea Development Institute. The Institute and its

president, Mahn-je Kim, were very helpful to the authors. The Korean officials who offered their services are too numerous to be listed here.

The compilation of the 1955 input-output table in Chapter 10 was supported by grants from the University Committee on Research in the Humanities and Social Sciences and the Council on International and Regional Studies, Princeton University. Sae Min Oh of the Bank of Korea's staff oversaw the task. Much of the computation of the growth contributions was financed by the Research Program in Economic Development, the Woodrow Wilson School, Princeton University. The Research Program in Economic Development provided general assistance including office space, secretarial help, and research assistants. Northwestern University granted Westphal a quarter's paid leave to permit time for further computations and writing.

Hal Lary read each draft of this volume very carefully and made numerous suggestions which greatly improved the end result. Jagdish Bhagwati and Anne Krueger provided expert guidance and intellectual stimulation. They gave us many helpful comments on earlier versions of the manuscript. T. N. Srinivasan, who read the next to last draft, passed on a variety of useful ideas. All of our colleagues associated with the National Bureau project are to be thanked for the insight of their suggestions, which were offered at the group sessions on research strategy.

A special acknowledgment is due Alice Ann Navin, without whose valuable assistance, the input-output analysis and effective incentive calculations could not have been done so expeditiously. Rekka Nadkarni furnished expert and extremely valuable help to Charles Frank in the computer programming and analysis in chapters 8 and 9. Kyi-Ja Kang tabulated statistical materials and performed computations for Kwang Suk Kim.

Many draft chapters were typed by Dorothy Rieger of Princeton's Research Program in Economic Development. Claudette Simpson also helped with the typing of several revised chapters. The final draft was typed by Rosemary Taromino.

The authors alone are responsible for all errors and omissions.

P
i
19
19
19
19
M
J
A
19
J
S
N
M
J
J
M
A

Principal Dates and Historical Events in South Korea

- 1904 Effective takeover of government by the Japanese in Korea.
- 1910 Korea formally annexed to Japan.
- 1945 Liberation of Korea by American and Russian troops; country split along 38th parallel; U.S. military government installed in South Korea.
- 1947 First stage of land reform; properties expropriated after departure of Japanese landlords are redistributed.
- May 1948 National Assembly elections, rightist parties in the majority.
- July 1948 Syngman Rhee elected President of South Korea by the National Assembly.
- Aug. 1948 End of rule by U.S. military government.
- 1949 Second stage of land reform; expropriation and redistribution of land from farms greater than three chongbos (about three hectares).
- June 1950 Beginning of war between North and South Korea.
- Sept. 1950 General MacArthur lands with UN troops at Inchon.
- Nov. 1950 UN troops reach the Yalu River but are thrown back by Chinese troops who enter the war.
- March 1951 Seoul retaken by UN troops.
- July 1951 Peace talks begin at Kaesong; battlefield stabilized.
- July 1953 Korean War armistice signed.
- March 1960 Opposition parties walk out of National Assembly over charges of fraud.
- April 1960 Student demonstrations lead to resignation of President Rhee.

- July 1960 New National Assembly elections; Chang Myon chosen as prime minister by the Assembly.
- Jan. 1961 Devaluation of the won from 65 to 100 won to the U.S. dollar.
- Feb. 1961 Devaluation of the won from 100 to 130 won to the U.S. dollar.
- May 1961 Military coup from which General Park Chung Hee emerges as head of ruling junta.
- June 1961 Unification of the multiple exchange rate system.
- Jan. 1963 Return to multiple exchange rates.
- Oct. 1963 National Assembly elections followed by Assembly elections of Park Chung Hee as president.
- May 1964 Devaluation from 130 to 257 won to the U.S. dollar; exchange rate fluctuates.
- March 1965 Reunification of the multiple exchange rate system.
- Aug. 1965 Exchange rate pegged at 271 won to the U.S. dollar.
- Sept. 1965 Interest rate reform; loan rate on regular commercial bank loans raised from 16 to 26 percent.
- Jan. 1967 Controlled flotation of the domestic currency upward from 271 won to the dollar.
- May 1967 Reelection of Park Chung Hee as president.
- July 1967 Reform of the import control system by switch from the positive-list to a negative-list system.
- 1967 Tariff reform.
- April 1971 Third election of Park Chung Hee as president.
- June 1971 Devaluation from 326 to 370 won to the U.S. dollar; exchange rate pegged.
- 1971 Further tariff reforms.
- Jan. 1972 Exchange rate floated upward in controlled fashion from 370 won to the U.S. dollar.
- June 1972 Exchange rate pegged at about 400 won to the U.S. dollar.
- Aug. 1972 Financial reforms and initiation of price stabilization program.
- Sept. 1973 Further tariff reforms.