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2 Historical Background: Economic Development Prior to 1962

Korea, once known as the ‘‘Hermit Kingdom,’’ has been among the fastest growing economies, attracting the attention of both developing and developed countries. The outward-looking strategy, adopted since the establishment of the first five-year development plan in 1962, has led the economy to record impressive growth rates. The economic performance has been cited as the most successful export-led growth among the developing countries. From 1962 to 1984, the Korean economy grew at an average annual rate of 8.4 percent. Within that time, Korea was transformed from a largely agricultural, subsistence economy to a newly industrialized one, despite initially low levels of domestic savings and a lack of natural resources.

This chapter briefly describes the sociocultural development, the political history, and the economic factors that brought about the rapid growth in the 1960s.¹ We divide the period prior to the initiation of the first five-year economic plan into three subperiods: (1) the colonial period, ending in 1945; (2) the post-liberation and Korean War period from 1945 to 1953; and (3) the construction period after the war from 1954 to 1962.

The phases of economic development cannot be completely matched with these subperiods. For example, severe economic dislocations prior to the end of the Korean War could be regarded as starting conditions for later development. Even the later reconstruction process could be viewed as a continuation of the economic rehabilitation program prior to the war, which aimed to overcome the barriers to self-sustaining economic growth with foreign aid. However, political and social changes have a significant impact on the economy, so it is useful to divide the period according to political chronology.

Unfortunately, most data in the early period are scattered, and even those available seem to be inconsistent. However, all efforts have been made to gather available information.

2.1 The Colonial Period, 1910–45

Traditionally, China was a suzerain to Korea and, not surprisingly, Korea’s trade was dominated by China. But as Japan began to modernize after the Meiji Restoration, it became more powerful and began to exert more influence over Korea. In 1876 Korea could not resist the military pressures from Japan to open trade and signed a trade treaty in Kang-Wha. Other countries such as the United States, Great Britain, China, Germany,

Russia, Italy, and France followed, coming to Korea and signing similar treaties on trade and commerce.

Korea became a battleground for many foreign powers during the late nineteenth century, but Japan's decisive victories in the Sino-Japanese War (1884–85) and Russo-Japanese War (1904–5) enabled Japan to ward off other foreign powers. Japan's dominance over Korea intensified and eventually, in 1910, Japan officially annexed Korea.

During the colonial period, 1910–45, the colonial government introduced many new social and economic institutions and built agricultural and social infrastructure. Also, a large number of Koreans gained experience in factories and received education at modern schools. As a result, Korea was able to post high rates of growth in both agricultural and industrial sectors by the standards of that time. In addition, colonial forces improved the industrial structure by increasing the share of manufacturing and mining sectors from a mere 4.1 percent in 1910–20 to 26.4 percent in 1938–40.

But this structural change had been catalyzed by Japan's desire to utilize Korea as its logistical base. In a real sense, the period can be labelled as the industrialization of Korea for Japan. The Korean economy was distorted into becoming an adjunct to Japan, controlled by the totalitarian rule of the colonial government. The pattern of trade was typified by the export of primary goods such as rice and mineral ores to Japan and the import of finished manufactured goods from Japan. Also, the industrialization process in colonial times prevented indigenous development of an entrepreneurial class and hindered the emergence of technical and skilled manpower among the Koreans. The ownership of physical capital was also heavily concentrated among the Japanese.

2.2 Post-Liberation Development and the Korean War, 1945–53

Japan's direct influence over Korea ended with the Second World War. The liberation on 15 August 1945 divided Korea into two regions, and the U.S. Army Military Government in Korea (USAMGIK) was established to control the political and social turmoil and support the transition of South Korea (henceforth, Korea) into an independent republic. However, severe dislocations were associated both with the departure of the Japanese and with the partition of the peninsula. The resources of the two regions were almost completely complementary, with most of the mineral ores and hydraulic power resources concentrated in the North, and the agricultural resources predominant in the South. The South was deprived of its traditional sources of intermediate and capital goods.

USAMGIK implemented measures to revitalize the economy which suffered from a drastic decline in domestic production, severe food shortages, rapid population increase owing to an influx of refugees,

primarily from North Korea, and rampant inflation. Some of the measures, particularly redistribution of Japanese-owned land and modern education programs, laid the foundation for further economic development. USAMGIK also initiated the first foreign trade regulations to eliminate smuggling and attempted to control inflation by rationing essential goods and directly suppressing their prices. These economic rehabilitation programs were implemented with massive foreign aid as discussed below.

According to the preset political schedule, the first Republic of Korea was established on 15 August 1948, replacing USAMGIK. Its immediate tasks were to reorganize the governmental administration and reduce social unrest and economic instability following the governmental change. For the most part it adopted USAMGIK's economic policies, in particular by continuing the land reform, managing the grain supply, and organizing trade and foreign exchange policies. There were times, however, when the U.S. and Korean governments had conflicting opinions about the appropriate forms of foreign assistance, exchange rate management, and monetary and fiscal stance.

The abrupt outbreak of the Korean War in 1950 halted the rehabilitation of the economy. The war destroyed production facilities and took the lives of many hundreds of thousands of military and civilian people.

The three-year war ended in a stalemate in 1953, with the same hostile forces facing each other. The armistice signed between the Soviet and UN forces left Korea in total devastation and extreme poverty, bringing it back to the starting point of economic reconstruction.

We turn next to documenting economic growth, inflation, the role of foreign aid, and the major institutional reforms during this period.

2.2.1 Economic Stagnation

Production fell far below the pre-World War II level as both the liberation and sudden partition disconnected the economic links between North and South Korea as well as between Korea and Japan. Average rice production for 1945–64 was 9.3 percent below that for 1940–44. In 1948 manufacturing output was about 15 percent of the 1939 level. As shown in table 2.1, the economy started to recover slowly during 1947–49 as a result of increases in industrial production and tungsten exports until production fell sharply in the first two years of the Korean War. As the war gradually stalemated during 1952–53, production recovered to well above the prewar level. Still, net commodity product for 1953 was 27 percent less than that for 1940 in the southern region, as shown in table 2.2.

Table 2.3 also shows that the volume of commercial and government-financed trade flows during the 1946–53 period was almost trivial by preliberation standards. Adjusted for the sharp rise in the wholesale price index, the annual trade volume prior to 1953 never exceeded 7 percent of the 1940 level.

Table 2.1 Production Indexes, 1946–53

	1946	1947	1948	1949	1950	1951	1952	1953
Average index	100	115.1	148.8	208.8	131.8	106.2	183.6	239.6

Source: K. S. Kim and Roemer (1979, 29).

Table 2.2 Net Commodity Product, 1940 and 1953 (in billions of constant 1953 won)

	1940		1953		Percentage Change
Agriculture	26.44	(70.2)	21.20	(76.8)	-19.8
Forestry	2.62	(6.9)	1.16	(4.2)	-55.7
Fishery	3.38	(9.0)	0.43	(1.6)	-87.3
Mining	0.84	(2.2)	0.53	(1.9)	-36.9
Manufacturing	4.44	(11.7)	4.28	(15.5)	-2.7
Total commodity product (net)	37.72	(100.0)	27.60	(100.0)	-26.8

Source: Kim and Roemer (1979, 35).

Table 2.3 Merchandise Exports and Imports for South Korea, 1940–53 (in millions of won)

	Current Prices		Seoul WPI (1947 = 100)	1947 Constant Prices	
	Exports ^a	Imports ^a		Exports	Imports
1940	0.48	0.77	0.4	118.75	192.50
1946	0.05	0.16	55.0	0.09	0.29
1947	1.11	2.09	100.0	1.11	2.09
1948	7.20	8.86	162.9	4.42	5.44
1949	11.27	14.74	222.8	5.06	6.62
1950	32.57 ^b	5.21 ^b	348.0 ^c	9.36 ^b	1.50 ^b
1951	45.91	121.83	2,194.1 ^d	2.09	5.55
1952	194.96	704.42	4,570.8	4.27	15.41
1953	398.72	2,237.01	5,951.0	6.70	37.59

Source: BOK, *Economic Review* 4 (1949):51, and BOK, *Annual Economic Review*, 1955. See also Kim and Roemer (1979, 31).

Note: Trade volumes for 1940 represent one-half of all Korean exports and imports. The trade data for 1946–53 include only private and government trade, and thus exclude financed imports, transactions with North Korea, and smuggling.

^aExports and imports were originally valued in won (yen in 1940) on the basis of f.o.b. export or c.i.f. import prices until March 1951 and thereafter on the basis of domestic market prices (tariffs, domestic taxes, and trade margins were subtracted from domestic prices to estimate the price of imports).

^bImports and exports made through Incheon and Seoul customs offices during March–June 1950 were not included because of missing data due to the war.

^cAverage index for June 1950.

^dAverage index for April–December in Pusan.

2.2.2 Foreign Aid and Foreign Exchange Regimes

Dislocation, poverty, and extreme shortages of many commodities made the survival of South Korea as an independent political entity after the liberation infeasible without massive foreign aid. The United States provided most of the foreign aid mainly in the form of food, clothing, medicines, fuel, and fertilizers to meet emergency needs and to raise rice production toward self-sufficiency. A small amount was spent on reconstruction works.

Table 2.4 lists the foreign aid agencies and their contributions. The Government Appropriations for Relief in Occupied Areas (GARIOA) aid program started early in the USAMGIK period, and it provided nearly half of the total aid during 1945–53. The GARIOA program was followed by the Economic Cooperation Administration (ECA) program, which emphasized capital development and restrictive economic policies. Although there were often donor-recipient conflicts over the primary role for foreign aid, pressing demands from the U.S. for economic (especially price) stabilization led to a significant reduction in the money supply before the outbreak of the Korean War.

The war reshuffled the entire recovery program, with more emphasis on relief than development. The Civil Relief in Korea (CRIK) program, mainly financed by the U.S., provided almost all assistance during 1952–53, followed by the United Nations Korean Reconstruction Agency (UNKRA) which was multinationally based. These programs financed nearly 70 percent of total imports during 1951–53 as commercial export earnings for imports were almost negligible.

Since the export performance was so poor, imports were constrained with trade regulations. Indeed, USAMGIK had initiated strong foreign trade regulations that restricted exports and imports only to licensed traders. Exports were linked to imports by a barter trading system, and imports faced a 10 percent across-the-board tariff. Also, quantitative restrictions were pervasive, and the overvalued exchange system was maintained.

Table 2.4 Economic Assistance to Korea, 1945–53 (in millions of U.S. dollars)

	GARIOA	ECA	CRİK	UNKRA	Total
1945	4.9				4.9
1946	49.9				49.9
1947	175.4				175.4
1948	179.6				179.6
1949	92.7	23.8			116.5
1950		49.3	9.4		58.7
1951		32.0	74.4	0.1	106.5
1952		3.8	155.2	2.0	161.0
1953		0.2	158.8	29.6	188.4
Total	502.5	109.1	397.8	31.7	1,040.9

Source: BOK, *Economic Statistics Yearbook*, various years.

The overvaluation of Korean currency had been the focus of conflicts between the U.S. and Korea. Currency overvaluation discouraged exports and, as exports could not match import demand, excess demand for foreign exchange produced a black market in which rates were substantially higher than the official ones. Because foreign exchange earnings from sales to U.S. and UN forces were substantial, the Korean government intended to overvalue its currency to gain more foreign exchange for a given amount of won. The same intent was apparent in the giving of a large won “advance” to the UN Command, the repayment of which in U.S. dollars would occur in due time. Thus, the Korean government was more concerned with obtaining foreign exchange through won sales to the U.S. and the UN than with promoting exports, because of the belief that devaluation would be ineffective in improving the balance. It was thought that the barter system, with some export incentives, tariffs, and strict quantity restriction on imports could effectively reduce the trade deficit. These trade and payment regimes prevailed for the rest of the 1950s without major changes.

2.2.3 War-related Inflation

Very high inflation rates first appeared as strict price controls were removed after the liberation. The price index jumped twenty-five-fold between July and August of 1945, although the issue of notes stayed moderate during the period. Rapid inflation continued in 1946 with a 366 percent increase in prices. However, inflation rates declined steadily during 1947–49, as economic stabilization measures were implemented.

Monetary expansion during the Korean War gave a second momentum for hyperinflation. Prices shot up drastically after the outbreak of the war and surged again in the next year with an expansion in government military expenditure. In 1951 the annual inflation rate reached 530 percent. However, as table 2.5 shows, inflation had been reduced to 30 percent by 1953.

During 1945–53 inflation rates were high compared with those during the colonial period, reflecting the expansionary effects of banks’ lending to the government for economic recovery and war financing. Also important was the role of aid goods and foreign monies such as U.S. dollars and U.S. military payment certificates (MPCs) that were circulated in the unorganized financial markets in exchange for goods. The hyperinflationary process invoked a flight from money into goods, which in turn brought about a flow of commodities and foreign monies through the unorganized financial markets. While a detailed analysis of this early inflationary episode is beyond the scope of this chapter, it does seem that the provision of massive aid immediately after the war helped to arrest the hyperinflationary bias.

2.2.4 Educational Expansion and Land Reform

Two institutional changes, educational expansion and land reform, seem to have been critical for the subsequent success of export-led development. Both changes were motivated by egalitarianism.

Table 2.5 Money Supply and Inflation, 1946–53

	Bank of Chosun Notes Issued (in million won ^a)	Seoul WPI (1947 = 100)	Inflation over Previous Period (%)
December 1944	3.14	0.60	
July 1945	4.70	0.69	15
August 15, 1945	4.98	17.0 ^b	2,364
September 8, 1945	8.50	11.2 ^b	-34
December 31, 1945	8.76	11.8 ^b	5

	Money Supply Index (1947 = 100)	Seoul WPI (1947 = 100)	Annual Inflation (%)
1946	49.1	55.0	366
1947	100.0	100.0	82
1948	166.2	162.9	63
1949	264.7	222.8	37
1950	458.3	348.0 ^c	56
1951	1,588.4	2,194.1 ^d	530
1952	3,148.2	4,570.8	108
1953	6,762.6	5,951.0	30

Source: BOK, *Annual Economic Review*, 1947, 1955, and Bloomfield and Jenson (1951).

^aThe amount of bank notes issued in old won denomination is converted into the presently used won denomination.

^bMonthly average.

^cAverage index for June 1950.

^dAverage index for April–December in Pusan.

The high aspirations for educational attainment typical of Koreans stems from their cultural traditions. The Japanese had established facilities for primary education, however, these were used to “Japanize” the Koreans. All instruction was in Japanese prior to 1945. Furthermore, the opportunities for higher education were extremely limited. The liberation opened the way to the higher education that was a prerequisite for social advancement. An extensive public education system (with instruction in Korean) was initiated during the USAMGIK period. The initial focus on elementary levels was followed by a rapid expansion of the school population in higher education.

Another social program that modernized Korea on a egalitarian basis was land reform. The measure was first implemented by USAMGIK in 1947 by distributing farmland previously owned by the Japanese to the tenants. The new Korean government continued the process in 1949, so that most of the land had either been redistributed or sold privately by landlords who had anticipated the redistribution. As a result, the number of farmers owning all the land they farmed increased dramatically, and the number of tenants fell from 48.9 percent of the total in 1945 to just 5–7 percent by 1952. The reform effectively reduced the concentration of land ownership, and it led to further-reaching social consequences: it ushered in the decline of the

landlord class which had formed the backbone of the traditional society for centuries.

In sum, the two institutional changes put Korea in a far better position to achieve growth with relative equity than many other developing countries. Equity and income distribution are discussed further in chapter 12.

2.3 The Postwar Reconstruction Period, 1954–62

When the Korean War ended with the armistice in 1953, all efforts were made to reconstruct the infrastructure and industrial facilities of Korea. The government endeavored to curb inflationary pressures, viewing inflation as a stumbling block to the effective implementation of monetary, fiscal, and trade policies. However, continuing hostility between North and South Korea necessitated big military spending that otherwise would have been used for reconstruction and stabilization. Thus, reconstruction, stabilization, and strong defense were the main tasks of the government after the war. No doubt the government was also concerned about economic growth, but it remained of secondary importance.

2.3.1 Slow Economic Growth with Import Substitution

With the aid of the reconstruction and stabilization programs of the aid agencies, the economy grew at 4.1 percent during the period from 1953–55 to 1960–62, and the industrial sector grew over 10 percent per year (table 2.6), with its share of GNP increasing from 13.6 to 18 percent.

Table 2.6 Economic Growth, 1953–62 (in percentages)

Year	Primary	Industry			GNP	(Commodity Export)
		Total	(Manufacturing)	Services		
1954	6.7	20.0	(18.7)	2.5	5.5	(-36.0)
1955	2.7	17.1	(22.8)	5.7	5.4	(-27.9)
1956	-5.8	13.3	(17.3)	4.0	0.4	(42.1)
1957	9.4	11.8	(8.3)	5.8	7.7	(1.5)
1958	6.1	8.1	(9.1)	3.5	5.2	(-20.3)
1959	-0.9	11.3	(9.2)	7.5	3.9	(11.3)
1960	-0.5	6.7	(8.2)	2.8	1.9	(54.1)
1961	11.8	4.6	(3.1)	-1.1	4.8	(22.7)
1962	-5.0	14.0	(13.2)	8.9	3.1	(30.0)
Average						
1953–55						
to 1960–62	2.0	10.8	(13.2)	4.3	4.1	(7.6)
Share of GNP						
1953–55	45.2	13.6	(10.5)	40.0	100.0	
1960–62	39.9	18.2	(13.8)	41.0	100.0	

Source: BOK, *National Income in Korea*, 1975.

Note: Percentages based on constant 1970 market prices.

Industry grew at a much faster rate than agriculture because industry began from such a low base after the devastation of the war. Still, the major source of industrial growth in the 1950s was the government's policy of import substitution. A study by Frank, Kim, and Westphal (1975) showed that the direct contribution of import substitution to the growth of the manufacturing sector was far greater than that of export expansion and that the shares of exports and imports in GDP were appreciably below Chenery's estimates of the structural "norm" of countries at similar stages of development and capital flows (Chenery, Robinson, and Syrquin 1986).

2.3.2 Aid, Trade, and Payments

Foreign aid and the trade and payments regimes were highly interdependent. As the value of commodity imports in current U.S. dollars was more than eleven times the value of exports on average from 1953 to 1962, foreign aid financed commodity imports. The major sources of foreign exchange were aid and the local currency expenditures of the UN forces. When aid imports were sold in the domestic market, the sales receipts were deposited in "counterpart funds." The Korean government could then use those funds only for purposes mutually agreed upon with the American government. Therefore, the impact of aid on Korean economic policies, either through the commodity imports or the counterpart funds, was tremendous because the inflow of commodity imports was crucial to economic reconstruction and price stabilization and because the government deficit was largely financed by counterpart funds.

In this situation conflicts were bound to arise between the aid donor and recipient about the objectives of aid flows. The frictions centered on whether the primary objective was aid to finance economic reconstruction or to attain self-sufficiency.

Table 2.7 quantifies the significance of foreign assistance. Unfortunately, the foreign aid figures do not coincide according to sources and coverage of foreign aid. In addition to data problems, the overvaluation of the won leads to an underestimation of aid and imports as a fraction of GNP. Aid, however, seems to constitute over 70 percent of imports during 1953–60.

The trade and payments regime continued to consist of the exchange controls and import licensing that had begun in 1949, however, the impact of multiple exchange rates, tariffs, and quantitative controls intensified.

Some partial steps toward export promotion policies were undertaken in 1954 and 1955. The government introduced an export-import linkage system which stipulated that some essential materials could be imported only with the foreign exchange earned through exports. Special exchange rates were applied to specific commodity exports whereby the exchange rates were set at 10 to 50 percent above the legal rate to compensate for the loss of profit in export production. In addition, the exporters of particular commodities who were losing international competitiveness due to high domestic production

Table 2.7 Foreign Aid, 1953–60 (in millions of U.S. dollars)

	1953	1954	1955	1956	1957	1958	1959	1960
U.S. bilateral	12.8	108.4	205.8	271.0	368.8	313.6	219.7	245.2
CRUK	158.8	50.2	8.7	0.3	—	—	—	—
UNKRA	29.6	21.3	22.2	22.4	14.1	7.7	2.5	0.2
Total	201.2	179.9	236.7	293.7	382.9	321.3	222.2	245.4
Total imports	345.4	243.3	341.4	386.1	442.1	378.2	303.8	343.5
Aid as a percentage of Imports	58.3	73.9	69.3	76.1	86.6	84.9	73.1	71.4
Imports as a percentage of GNP (current prices)	12.9	7.3	9.8	13.1	12.0	10.7	10.1	12.6

Source: BOK. *Economic Statistics Yearbook*, 1960, 1974, and IMF. *International Financial Statistics*, May 1976.

Note: Imports as a percentage of GNP are calculated including imports of both goods and services. Dashes indicate that data were not available.

costs were authorized to import high profit commodities such as sugar, newspaper, and wool yarn. Finally, some direct subsidies were given to exporters of commodities that were experiencing international price declines.

However, these export promotion policies were relatively ineffective because they were insufficient to compensate for the growing overvaluation of the won. Industrial products remained uncompetitive, and there seems to have been little increase in incentives to produce manufactured goods for export. Exports were mainly primary commodities such as mineral ores and agricultural and fishery products. The trade balance fluctuated with changes in foreign aid and grain harvests. Still, it is important to note that most manufacturing sectors had recovered beyond the prewar level by 1956 and the structure of exports had begun to shift toward light manufacturing.

The import structure changed more visibly. Although the import volume fluctuated widely according to the foreign aid amount, the portion of imports such as food, crude materials, and chemicals rose, while the share of mineral fuels and manufactured goods declined. This indicates clearly the direction of import substitution in the 1950s.

Table 2.7 shows that foreign aid peaked in 1957. The decline in aid flows (which had been preannounced) brought about a number of policy changes. In particular, the reduced aid set the stage for shifts toward export promotion and toward reliance on foreign borrowing and domestic savings to finance investment and growth. These issues are discussed in detail in subsequent chapters.

2.3.3 Chronic Inflation

The inflation stemming from the high rate of monetary expansion maintained its fast pace throughout the postwar period. During 1953–62

annual inflation averaged around 17–20 percent (table 2.8). However, inflation rates varied from period to period, mainly a result of fluctuating food prices.

In the face of the chronically high inflation, pressure for a financial stabilization program came from U.S. aid officials in the process of negotiating with the Korean government about the level of aid and its objectives. Beginning in the second half of 1957, the restrictive program set quarterly ceilings for monetary expansion and enforced strict budgetary reduction. Consequently, inflation declined to very low rates of 2–4 percent, although decreases in food prices resulting from bumper crops in 1957 and 1958 also helped. The declining inflation during the implementation of the program was accompanied by an economic slowdown (see table 2.6), similar to the stabilization experiences of other developing countries. The austerity measures together with the declining aid flows also explain the decline in import volumes (see table 2.7).

2.4 The Korean Economy in 1960: An Overview

We end this chapter by summarizing Korea's economic position at the beginning of the 1960s, on the eve of the industrial transformation and impressive growth. The trade regime was characterized by import substitution, including the familiar complex set of multiple exchange rates, import licensing, and overvaluation. The economy was heavily reliant on foreign aid, with exports accounting for only 3 percent of output, while imports amounted to over 10 percent. While inflation had been brought under control, output growth rates were stagnant. Furthermore, manufacturing

Table 2.8 Inflation Rates, 1953–62

Period	GNP Deflator	WPI	Wholesale Price of Foods	Seoul CPI
1954	31.6	28.0	-19.8	36.0
1955	65.3	81.9	136.9	69.6
1956	30.6	31.4	60.4	22.5
1957	20.4	16.3	15.0	23.1
1958	-0.5	-6.5	-18.0	-3.1
1959	2.6	2.6	-12.4	4.3
1960	9.5	10.7	19.6	8.3
1961	15.1	13.2	18.4	8.0
1962	13.9	9.4	12.8	6.5
1953–57	36.0	37.4	36.8	36.6
1957–60	3.8	2.0	-4.9	3.1
1953–62	19.6	18.7	16.7	17.9

Source: BOK, *Economic Statistics Yearbook*, various issues.

accounted for just 11 percent of GNP, with over 45 percent of output concentrated in the primary sector. The next chapters examine Korea's transformation into a rapidly growing economic miracle.

3 An Overview of Korea's External Debt

In 1962 Korea's external debt stood at \$58 million, only 2.5 percent of GNP. By 1982 Korea had accumulated over \$37 billion in external debt, or 52.7 percent of GNP, ranking it fourth in the list of debtor countries. After an impressive turnaround, Korea began to reduce its external debt in 1986. This chapter presents and discusses a number of debt statistics. The objective is to identify the key trends to be examined in detail in subsequent chapters. In addition to the tables in the text, we refer extensively to debt tables from the Data Appendix.

3.1 Korea's External Debt

Table 3.1 traces the accumulation of Korean debt from 1961 to 1986. As shown, the debt stock rose steadily until 1985, with an average annual increase of \$2 billion. Over 75 percent of the increase between 1962 and 1982 occurred during three periods of rapid debt accumulation. From 1966 to 1969 the debt rose from \$0.35 to \$1.8 billion, or from 9.6 percent to 27.2 percent of GNP. A second jump followed the 1973 increase in oil prices. The debt stock increased by \$4.2 billion from 1973 to 1975, pushing the debt/GNP ratio to 40.6 percent. As debt accumulation slowed during the recovery period from 1975 to 1978, the debt/GNP ratio fell back to 28.6 percent. The third period of rapid accumulation began in 1979. Over the next three years, the debt stock rose from \$14.9 to \$37.3 billion, while the debt/GNP ratio jumped to 52.7 percent. During the subsequent recovery (1982–85), the debt/GNP ratio averaged 53.8 percent before falling below 47 percent in 1986. The three periods of accumulation will be examined in chapters 4 and 5. We return to the recent debt decumulation in chapter 13.

Table A2.1 in the Data Appendix provides a more detailed breakdown of external debt by maturity and borrower. It identifies two other aspects of Korea's external debt history. It shows that there have been considerable shifts in the term structure of the debt. There have also been shifts in the composition of the debt between the public sector and the bank and nonbank private sector.