The ROK's Economic Development in the 1960s and 1970s and the Role of Foreign Capital (Summary)

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The ROK entered a period of so-called "developmental dictatorship", which started with Park Jung-Hee's seizure of power via a 1961 coup d'etat, lasted until the 1970s. Until 1961, the ROK was an "aid-reliant economy" by virtue of the assistance it received from the United States. However, at the time of the Park Jung-Hee administration, the South Korean economy had achieved significant economic growth thanks to active domestic investment and exports, and from 1961 to 1979 the annual average economic growth rate reached a high of 9.4%. High economic growth was supported by high investment, but foreign capital inflows played a major role as a source of investment. In particular, the introduction of the Claim Fund from Japan during 10 years from 1966 played a major role in supplying capital goods in the first stage of economic development, in spite of its small scale in monetary terms. In contrast to the situation with regard to assistance from the USA until 1950s, Japan's provision of funds was geared more towards the purchase of capital goods rather than that of consumer goods, and was used mostly to contribute to the formation of social infrastructure. Not only the funds provided on a governmental basis, but also a good deal of economic cooperation on a private basis was used for the purchase of capital goods and contributed to the formation of private capital.

The foreign capital introduced in this way was mostly used for infrastructure development and the nurturing of export industries, and actually yielded good results in that it weakened the country's reliance on foreign countries as sources of investment. The gross domestic savings rate rose from 7.6% in 1965 to 19.1% in 1969, reaching 26.3% in 1979. This shows the rise in onshore procurement of funds for investment. Looking at the degree of the government's financial independence, of annual revenue (general account + special account - internal transactions) in the first half of the 1960s, procurement via tax receipts and government-owned enterprises (monopolies of tobacco and Korean ginseng, railways, communications, and cereal projects) remained around the 55% level. But it rose from the latter half of the 1960s and reached a weighting of 98.4% in 1978. Offshore funding in the form of aid and loans for the government's finance fell from over 20% in the first half of the 1960s to 5.1% in 1978. If we look at the export effect of the introduction of foreign investment, the increase in the export effect between the latter half of the 1960s and the early 1970s was offset by raw material imports, but the effect of import substitution became greater, and as a result, the amount of export effect arising from the introduction of foreign capital rose to more than half the amount of overall exports. This shows that the introduction of foreign capital contributed greatly to an improvement in the balance of payments during the initial stage of the ROK's economic development. In this way, rises in the domestic savings rate, the level of financial inde-pendence, import substitution and exports, strengthened the country's self-sustaining base for the sustainable growth of the economy.

However, the fact that the ROK government's policy resolve to overcome the "aid-reliant economy" tag and realize a self-sustaining economy was strong, and that the population had high hopes for economic development is extremely important. One can say that the government of the ROK, as a recipient of development finance, was able to accomplish a high degree of economic growth through the clarification of strategic aims for economic development and a high degree of concentration of foreign investment on capital stock and technological reserves. That strong governmental leadership, government-owned enterprises and major conglomerates worked in close cooperation and created a systematic preferential relationship that one could even describe as an unholy alliance between the political and economic worlds. This was an ingredient that caused various economic problems from the 1980s, but during the period of economic development until the 1970s, the state held hegemony and this helped to increase the state's economic strength. Even more importantly, it actively introduced modern technology from overseas and 'mass-produced' engineers. In particular, the nurturing of engineers that was undertaken jointly by Japan and the ROK, which took place by such means as Japanese experts visiting the ROK to train engineers and the short-term dispatch of engineering trainees to Japan, had a significant effect on the ROK's technological development.

The following lessons can be learned from the ROK's economic reconstruction experience in the 1960s and 1970s:

1. The adoption of "foreign capital introduction" (loans + foreign direct investment) policies that aim at the sustainable growth and independence of the economy. As a result of the appearance of a development-oriented government that does not simply rely on "aid", the consistency of

economic development has been maintained.

2. Concentration of the initial impact of foreign capital on the development of infrastructure and the nurturing of export industries. By means of this, increases in import substitutes, exports, the domestic savings rate and the degree of financial independence have been realized and a self-sustaining base for the sustainable growth of the economy has been constructed.
3. The planned nurturing of effective industry by the government, based on the demands of the market, in order to acquire foreign currency. While the light industry sector was supported by private consumption expenditure to the tune of more than 70% of GDP until the first half of the 1970s, it grew naturally. Then, it exported mainly labor-intensive goods and actively entered overseas markets, while domestically a shift towards heavy and chemical industries was realized, and the reconfiguration of industry was achieved.

The ROK's economic development in the 1960s and 1970s succeeded as a result of the introduction of foreign capital as development funds. As a result, the introduction of development funds became unnecessary.