

**2012 Modularization of Korea's Development Experience:
Foreign Capital in Economic Development:
Korean Experiences and Policies**

2013



MINISTRY OF
STRATEGY
AND FINANCE



KDI SCHOOL
KDI School of Public Policy and Management

2012 Modularization of Korea's Development Experience:
**Foreign Capital in Economic Development:
Korean Experiences and Policies**

2012 Modularization of Korea's Development Experience
Foreign Capital in Economic Development:
Korean Experiences and Policies

Title	Foreign Capital in Economic Development: Korean Experiences and Policies
Supervised by	Ministry of Strategy and Finance (MOSF), Republic of Korea
Prepared by	KDI School of Public Policy and Management
Author	Jinsoo Lee, KDI School of Public Policy and Management, Associate Professor
Advisory	Sangwon Suh, Chung-Ang University, Associate Professor
Research Management	KDI School of Public Policy and Management
Supported by	Ministry of Strategy and Finance (MOSF), Republic of Korea

Government Publications Registration Number 11-7003625-000015-01

ISBN 979-11-5545-037-6 94320

ISBN 979-11-5545-032-1 [SET 42]

Copyright © 2013 by Ministry of Strategy and Finance, Republic of Korea

Knowledge
Sharing
Program



Government Publications
Registration Number

11-7003625-000015-01

Knowledge Sharing Program

2012 Modularization of Korea's Development Experience
**Foreign Capital in Economic
Development:
Korean Experiences and Policies**



MINISTRY OF
STRATEGY
AND FINANCE



KDI SCHOOL
KDI School of Public Policy and Management



Preface

The study of Korea's economic and social transformation offers a unique opportunity to better understand the factors that drive development. Within one generation, Korea has transformed itself from a poor agrarian society to a modern industrial nation, a feat never seen before. What makes Korea's experience so unique is that its rapid economic development was relatively broad-based, meaning that the fruits of Korea's rapid growth were shared by many. The challenge of course is unlocking the secrets behind Korea's rapid and broad-based development, which can offer invaluable insights and lessons and knowledge that can be shared with the rest of the international community.

Recognizing this, the Korean Ministry of Strategy and Finance (MOSF) and the Korea Development Institute (KDI) launched the Knowledge Sharing Program (KSP) in 2004 to share Korea's development experience and to assist its developing country partners. The body of work presented in this volume is part of a greater initiative launched in 2010 to systematically research and document Korea's development experience and to deliver standardized content as case studies. The goal of this undertaking is to offer a deeper and wider understanding of Korea's development experience with the hope that Korea's past can offer lessons for developing countries in search of sustainable and broad-based development. This is a continuation of a multi-year undertaking to study and document Korea's development experience, and it builds on the 40 case studies completed in 2011. Here, we present 41 new studies that explore various development-oriented themes such as industrialization, energy, human resource development, government administration, Information and Communication Technology (ICT), agricultural development, land development, and environment.

In presenting these new studies, I would like to take this opportunity to express my gratitude to all those involved in this great undertaking. It was through their hard work and commitment that made this possible. Foremost, I would like to thank the Ministry of Strategy and Finance for their encouragement and full support of this project. I especially would like to thank the KSP Executive Committee, composed of related ministries/departments, and the various Korean research institutes, for their involvement and the invaluable role they played in bringing this project together. I would also like to thank all the former public officials and senior practitioners for lending their time, keen insights and expertise in preparation of the case studies.

Indeed, the successful completion of the case studies was made possible by the dedication of the researchers from the public sector and academia involved in conducting the studies, which I believe will go a long way in advancing knowledge on not only Korea's own development but also development in general. Lastly, I would like to express my gratitude to Professor Joon-Kyung Kim and Professor Dong-Young Kim for his stewardship of this enterprise, and to the Development Research Team for their hard work and dedication in successfully managing and completing this project.

As always, the views and opinions expressed by the authors in the body of work presented here do not necessary represent those of the KDI School of Public Policy and Management.

May 2013

Joohoon Kim

Acting President

KDI School of Public Policy and Management



Contents | LIST OF CHAPTERS

Summary.....	15
--------------	----

Chapter 1

Introduction.....	17
1. Objective of the Report.....	18
2. Overview of the Role of Foreign Capital in the Development of the Korean Economy.....	19

Chapter 2

Korea's Outward-looking Development Strategy and Foreign Capital (1962-1979).....	23
1. The Adoption of Korea's Outward-looking Development Strategy and the Role of Foreign Capital in the 1960s and 1970s.....	24
1.1. Overview of Korea's Outward-looking Development Strategy and Economic Growth in the 1960s and 1970s.....	24
1.2. Contribution of Foreign Capital to Korean Economic Growth in the 1960s and the 1970s.....	26
1.3. Major Type of Foreign Capital in the 1960s and the 1970s: Debt.....	27
1.4. Sectoral Allocation of Foreign Capital in the 1960s and 1970s.....	29
1.5. Providers of Foreign Capital in the 1960s and 1970s.....	31
1.6. Promotion of Exports and Foreign Capital.....	34
1.7. Role of Presidential Leadership and Bureaucrats.....	38

2. The Establishment of Foreign Capital Management System (1962~1965).....	40
2.1 Enactment of Foreign Capital-Related Laws and Establishment of Economic Planning Board.....	40
2.2. Korean Government's Policies on Foreign Capital in the Early 1960s	41
2.3. Foreign Capital Inflows into Korea (1962~1965).....	42
3. The Development of Export-led Economic System and Foreign Capital (1966~1979).....	47
3.1. The Normalization of Diplomatic Relationship with Japan and the Introduction of Japanese Reparation Fund.....	47
3.2. Korean Government's Policies on Foreign Capital (1966~1972).....	53
3.3. Foreign Capital Inflows into Korea (1966~1972).....	57
3.4. Korean Government's Policies on Foreign Capital (1973~1979).....	60
3.5. Foreign Capital Inflows into Korea (1973~1979).....	61

Chapter 3

The Liberalization of Korean Capital Markets and Financial Crisis (1980~1997).....	67
1. Overview of the Korean Economy in the 1980s and 1990s.....	68
2. Foreign Debt Crisis in the Early 1980s	72
3. Foreign Capital Inflows into Korea (1980~1997).....	75
4. Decline in Public and Commercial Loans during the 1980s and 1990s.....	76
5. Foreign Direct Investments in the 1980s and 1990s	81
6. Foreign Securities Investments in the 1980s and 1990s.....	81
7. Foreign Debt and Financial Crisis in the Late 1990s	83



Contents | LIST OF CHAPTERS

Chapter 4

The Overcome of Financial Crisis and Further Liberalization of Korean Capital Markets (1998–present)	87
1. Liberalization of Korean Capital Markets after the Financial Crisis	88
2. Prudential Regulation on Foreign Exchange Risk	88
3. Volatilities of Foreign Capital Flows in the Recent Period	89
4. Cash Flows Management Since the Global Financial Crisis	94

Chapter 5

The Lessons Learned from the Korean Experiences in the Management of Foreign Capital for Developing Countries	97
1. The Establishment of Effective Foreign Capital Management System in Government	98
2. The Maintenance of the Export Sector’s International Competitiveness	99
3. The Transition from Government-led Growth Strategy to Market-led Growth Strategy	104
4. Prudential Regulation on Foreign Exchange Risk and Cash Flows Management	105
References	106
Appendix	108

Contents | LIST OF TABLES

Chapter 1

Table 1-1	Korea's GDP Growth Rate (1954~2012, annual average).....	18
Table 1-2	Korea's Investment and Savings Rates (1953~2011, annual average).....	20

Chapter 2

Table 2-1	The Contribution of Foreign Capital to Korea's Economic Growth (1962~1982, annual average).....	27
Table 2-2	Composition of Foreign Capital Flows into Korea (1945~1992).....	28
Table 2-3	Export Credit by Banks	34
Table 2-4	The Schedule of Monthly Export Promotion Meeting (1965~1979)	35
Table 2-5	Career Background of Vice-Ministers and Higher (1963~1983).....	39
Table 2-6	Introduction of Aid, Foreign Loans, and FDI into Korea (1962~1965).....	43
Table 2-7	Planned and Actual Amounts of Foreign Capital Introduced (1962~Sep. 1965)	43
Table 2-8	Permitted and Actual Amounts of Foreign Capital Introduced (1962~1965)	44
Table 2-9	The Introduction of Grant and Public Loan from Japan By the Agreement Between Korean and Japanese Governments (1966~1975).....	47
Table 2-10	The Sectoral Use of Japan Reparation Fund (1966~1975).....	49
Table 2-11	Import of Capital Goods by Japanese Reparation Fund (1966~1975)	50
Table 2-12	The Allocation of Japan Reparation Fund	51
Table 2-13	Sources of Funding for Pohang Iron and Steel Plant	52
Table 2-14	Limit on the Introduction of Short-term and Medium-term Commercial Loans (1970~1972).....	54
Table 2-15	Proportion of Commercial Loans with Short-term Maturity and High Interest Rates.....	56



Contents | LIST OF TABLES

Table 2-16 Foreign Debt and Payment of Principal and Interests for Medium and Long-Term Loans (1966~1972)	57
Table 2-17 Introduction of Foreign Capital (1966~1972)	57
Table 2-18 Introduction of Public Loans By Country (1966~1972).....	58
Table 2-19 Introduction of Public Loans By Industry (1966~1972)	59
Table 2-20 Introduction of Commercial Loans By Country (1966~1972).....	59
Table 2-21 Introduction of Commercial Loans By Industry (1966~1972)	60
Table 2-22 Introduction of Foreign Capital (1973~1979)	61
Table 2-23 Introduction of Public Loans By Country (1973~1979).....	62
Table 2-24 Introduction of Public Loans By Industry (1973~1979)	62
Table 2-25 Introduction of Commercial Loans By Country (1973~1979).....	63
Table 2-26 Introduction of Commercial Loans By Industry (1973~1979)	63
Table 2-27 Nominal Interest Rates of Public and Commercial (1973~1978)	64
Table 2-28 Foreign Debt and Payment of Principal and Interests for Medium and Long-Term Loans (1973~1978)	65

Chapter 3

Table 3-1	Korea's Total and Short-term Foreign Debt (1970~1989)	72
Table 3-2	Total Foreign Debt for Heavily-Debted Countries	73
Table 3-3	Korea's Debt per Capita and Ratio of Total Foreign Debt to GNP (1965~1989)	74
Table 3-4	Index for Foreign Debt Repayment (1976~1989)	75
Table 3-5	Introduction of Foreign Capital (1980~1992)	76
Table 3-6	Introduction of Public Loans By Country (1980~1992)	78
Table 3-7	Introduction of Public Loans By Industry (1980~1992)	79
Table 3-8	Introduction of Commercial Loans By Country (1980~1992)	80
Table 3-9	Introduction of Commercial Loans By Industry (1980~1992)	81
Table 3-10	Korea's Foreign Debt By Sector (1992~1997)	83
Table 3-11	Korea's Foreign Debt and Foreign Reserves (1992~1997)	84
Table 3-12	Korea's Foreign Debt By Financial Sector (1992~1997)	84

Chapter 5

Table 5-1	The Industrial Composition of Korean Export Products	100
Table 5-2	Korea's Top Ten Export Items	100
Table 5-3	The Export of Korea and its Proportion in the World's Export	103

Contents | LIST OF FIGURES

Chapter 1

Figure 1-1	Korean Domestic Savings and Investment Rates (1953~2011)	20
Figure 1-2	Foreign Savings Rate for Korea (1953~2011)	21
Figure 1-3	The Ratio of Domestic Savings to Investment for Korea (1953~2011)	21

Chapter 2

Figure 2-1	Korea's Outward-looking Development Strategy in the 1960s and 1970s	25
Figure 2-2	Korea's Annual GDP Growth Rate (1954~1979)	26
Figure 2-3	Aid, Foreign Debt and FDI as Source of Foreign Capital (1962~1979)	29
Figure 2-4	Sectoral Allocation of Public and Commercial Loans (1962~1979)	30
Figure 2-5	Sectoral Allocation of Foreign Direct Investments (1962~1979)	31
Figure 2-6	Lenders of Public Loans (1962~1979)	32
Figure 2-7	Lenders of Commercial Loans (1962~1979)	33
Figure 2-8	Sources of Foreign Direct Investments (1962~1979)	33
Figure 2-9	Korea's Annual Exports (1952~1979)	36
Figure 2-10	The Ratio of Exports to GDP for Korea (1953~1979)	36
Figure 2-11	The Debt-to-Service Ratio (DSR) and the Ratio of Current Account Deficit (Surplus) to GDP for Korea (1962~1979)	37
Figure 2-12	The Organizational Structure of Economic Planning Board (As of December 16, 1963)	41
Figure 2-13	Singing Ceremony for Joint-Stock Company Between Korea Oil Corporation and Gulf Oil (1963)	46
Figure 2-14	The Amount of Japaneses Reparation Funds As Percentage of Korean Exports (1966~1975)	48
Figure 2-15	Pohang Iron and Steel Plant	52
Figure 2-16	Masan Free Export Zone	56

Chapter 3

Figure 3-1	Korea's Annual GDP Growth Rate (1970~1997)	70
Figure 3-2	Korea's Annual Inflation Rate (1970~1997)	70
Figure 3-3	Korea's Annual Export (1980~1997).....	71
Figure 3-4	Korean Domestic Savings and Investment Rates (1980~1997)	71
Figure 3-5	The Amount of Public and Commercial Loans Newly Introduced (1979~1996)	77
Figure 3-6	The Balance of Public and Commercial Loans (1979~1996).....	77
Figure 3-7	Flows from FDI (1980~1996)	82
Figure 3-8	Flows from Foreign Securities Investments (1980~1996)	82

Chapter 4

Figure 4-1	Korea's Private Capital Flows (2003~2012)	90
Figure 4-2	Korea's Private Long-term Capital Flows and FDI (2003~2012)	90
Figure 4-3	Korea's Private Short-term Capital Flows (2003~2012)	91
Figure 4-4	Korea's Private Capital Flows from Securities Investment (2003~2012)	91
Figure 4-5	Korea's Capital Flows from Non-residents' Stock and Bond Investments (2003~2012)	92
Figure 4-6	Korea's Capital Flows from Derivatives Transactions (2003~2012)	92
Figure 4-7	Korea's Short-term Private Capital Flows from Other Investments (2003~2012)	93
Figure 4-8	Korea's Short-term Private Capital Flows from Other Investments (Assets)	93
Figure 4-9	Korea's Short-term Private Capital Flows from Other Investments (Liabilities)	94

Chapter 5

Figure 5-1	The Export of Korea and its Proportion in the World's Export (1961~2011)	104
------------	--	-----



Contents | LIST OF BOXES

Chapter 2

Box 2-1	The First Korean Government's Guarantee of Repayment of Commercial Loan: Case of Korea Oil Corporation and Gulf Oil (1963)	45
---------	--	----



Summary

This paper purports to examine the role of foreign capital and policies of the Korean government on foreign capital in the following three periods: The first period spans from 1962 to 1979, when foreign capital, especially foreign debt, contributed substantially to Korea's economic growth. The second period covers 1980 to 1997, when the Korean economy opened its financial market gradually and ended in a financial crisis. The third period is from 1998 to now when the Korean government has opened its financial markets while it has tried to mitigate the negative effects of volatile foreign capital flows.

In the early 1960s, the gap between domestic savings and investments for Korea was huge and Korea had to introduce substantial amount of foreign capital in order to fill the gap. The major form of foreign capital introduced into Korea in the 1960s and 1970s was debt. This outward-looking development strategy was very successful in 1960s and 1970s.

Whereas the principal types of foreign capital introduced in the 1960s and 1970s were public and commercial loans, financial institutions started to play a major role in the introduction of foreign capital since the 1980s. The amount of foreign debt, especially short-term foreign debt, increased substantially in the 1990s and the Korean economy became vulnerable to sudden outflow of foreign capital. In 1997, while some conglomerates went bankrupt, foreign investors lost their confidence in the prospect of the Korean economy, which led to the massive outflow of foreign capital. Thus, Korea suffered from a currency crisis at the end of 1997.

Since the 1997 financial crisis, the Korean government has substantially liberalized the foreign exchange and capital markets. At the same time, the Korean government has strengthened the prudential supervision of financial institutions in order to improve the stability of the foreign exchange and capital markets in Korea. Recently, against the backdrop of international discussions on the CFMs, the Korean government introduced

policy measures to mitigate excessive volatilities in foreign capital flows. The policy measures included (i) the introduction of the limit on the forward position of foreign exchange banks, (ii) the abolition of tax exemption on foreign investors' income from their investment in bonds, and (iii) the imposition of charges on foreign currency-denominated non-deposit debt of foreign exchange banks.

The lessons from Korean experiences on the management of foreign capital are as follows: (i) it is important to establish a system for the introduction of foreign capital and decisions on the use of foreign capital should be made mainly based on economic incentives, rather than political and social considerations. (ii) If a developing country introduces substantial amounts of foreign debt in order to fill the gap between domestic savings and investment, it is crucial to establish an economic system where the repayment of foreign debt would be made. (iii) It is crucial when a transition should be made from a government-led growth strategy to a market-led one. Regarding the introduction of foreign capital, the Korean government directly administered and regulated the introduction of public and commercial loans in the 1960s and 1970s. However, since the 1980s, financial institutions and private companies have financed directly from foreign investors. (iv) Even when the government adopts an indirect management system of foreign capital, the government should continue to maintain the macro-prudence of the economy. The economy may be vulnerable to external shocks when flow of foreign capital is highly volatile. Thus, in this case, government may need to implement policy measures to mitigate the volatility of foreign capital flows.

2012 Modularization of Korea's Development Experience
Foreign Capital in Economic Development:
Korean Experiences and Policies

Chapter 1

Introduction

1. Objective of the Report
2. Overview of the Role of Foreign Capital in the Development of the Korean Economy

Introduction

1. Objective of the Report

The Korean economy has realized a dramatic growth since the early 1960s. The GDP of the Korean economy grew at the average rate of a mere 4.1 percent annually for the period from 1954 to 1961. However, since the first Economic Development Plan was launched in 1962, the Korean economy has grown spectacularly. The GDP of the Korean economy grew at the average rate of 9.5 percent annually for the period from 1962 to 1979. Following that, the GDP of the Korean economy grew at the average rate of 8.2 percent annually over the period from 1980 to 1997. As the Korean economy becomes more developed, its GDP growth rate tends to stabilize at a lower rate. The GDP of the Korean economy grew at the average rate of 4.1 percent annually over the period from 1998 to 2012 <Table 1-1>.

Table 1-1 | Korea's GDP Growth Rate (1954~2012, annual average)

(Unit: percent)

1954~1961	1962~1979	1980~1997	1998~2012
4.1	9.5	8.2	4.1

Source: The Bank of Korea, Economic Statistics System (<http://ecos.bok.or.kr>)

This paper purports to examine the role of foreign capital and policies of the Korean government on foreign capital in the following three periods. The first period spans from 1962 to 1979, when foreign capital, especially foreign debt, contributed substantially to Korea's economic growth. The second period covers 1980 to 1997, when the Korean economy opened its financial market gradually and ended in a financial crisis. The third

period is from 1998 to now when the Korean government has opened financial markets while it has tried to mitigate the negative effects of volatile foreign capital flows.

2. Overview of the Role of Foreign Capital in the Development of the Korean Economy

Both the domestic savings and investment rates in Korea increased substantially from the early 1960s to the early 1990s, but has shown a declining tendency since the mid-1990s. The annual average of the domestic savings and investment rates in Korea for the period from 1953 to 1961 were merely 11.2 percent and 11.6 percent, respectively. In this period, both rates were fairly low, which is a typical characteristic of an under-developed country. As Korea experienced its dramatic economic growth, both the savings and investment rates increased substantially. The annual average of the domestic savings and investment rates of Korea increased to 19.6 percent and 24.2 percent respectively for the period from 1962 to 1979, and further increased to 33.8 percent and 34.2 percent respectively for the period from 1980 to 1997. Following that, the annual average of the domestic savings and investment rates of Korea declined to 32.1 percent and 29.2 percent, respectively, for the period from 1998 to 2011 <Table 1-2>.

It is noteworthy that the investment rate was higher than the domestic savings rate from the early 1960s to the mid 1980s, while the investment rate has become lower than the domestic savings rate since the mid 1980s [Figure 1-1]. The ratio of domestic savings to investment exceeded 100 percent in 1986 for the first time [Figure 1-3] and the annual average ratio of domestic savings to investment was only 84 percent for the period from 1962 to 1985. The fact that the investment rate was higher than the domestic savings rate from the early 1960s to the mid-1980s implies that foreign capital played an important role to finance investments for Korean economic development during this period. Thus, in this period, the major policy issue for the Korean government was how to secure foreign funds in order to finance investments for economic development. On the other hand, the annual average ratio of domestic savings to investment increased to 99 percent for the period from 1979 to 1997 and further increased to 111 percent for the period from 1998 to 2011 <Table 1-2>. Since the investment rate has become lower than the domestic savings rate, foreign capital has not been a major source of financing investments for the Korean economy. Thus, since the 1990s, a more important policy issue has been how to manage volatile foreign capital flows rather than how to secure foreign funds so that the Korean economy could avoid negative consequences from such volatile foreign capital flows.

Reflecting the role of foreign capital in the development of the Korean economy, the paper will examine the role of foreign capital and policies of the Korean government on foreign capital in the three periods as specified in the objective.

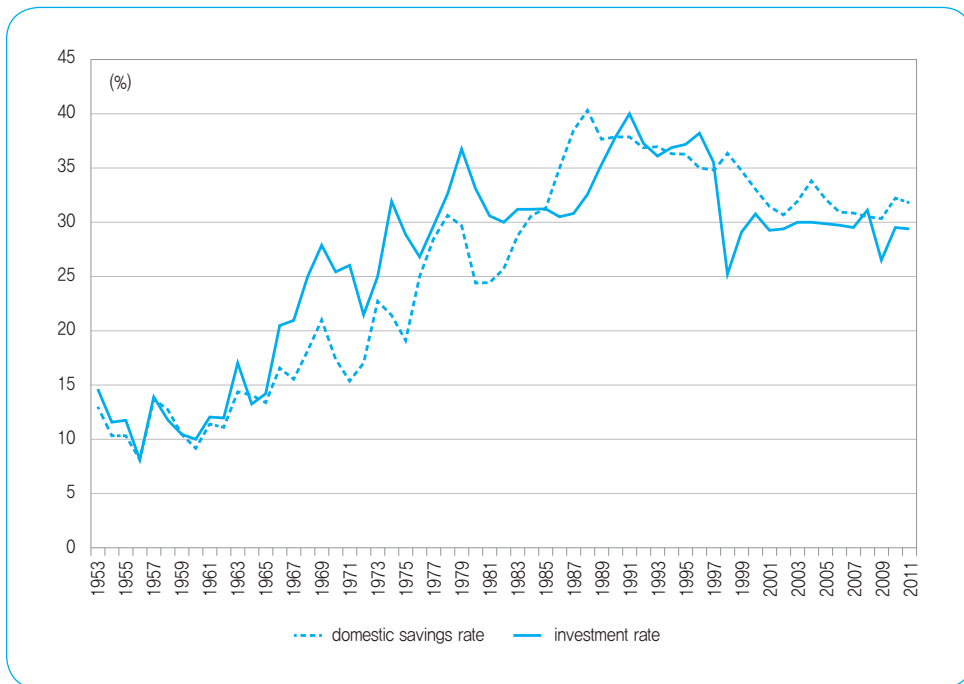
Table 1-2 | Korea's Investment and Savings Rates (1953~2011, annual average)

(Unit: percent)

	1953~1961	1962~1979	1980~1997	1998~2011
Investment Rate (A)	11.6	24.2	34.2	29.2
Domestic Savings Rate (B)	11.2	19.6	33.8	32.1
(B/A)	97	82	99	111

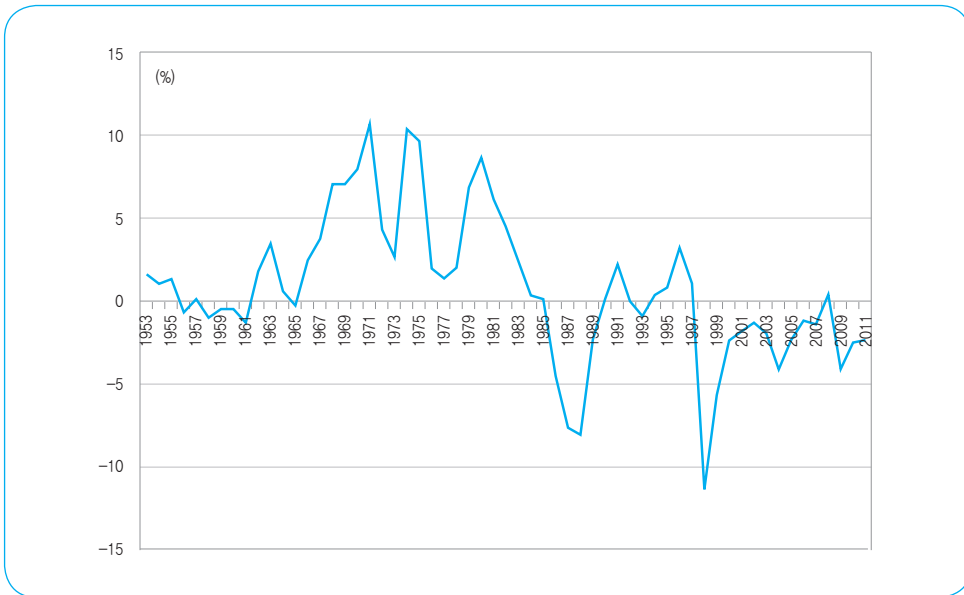
Source: The Bank of Korea, Economic Statistics System (<http://ecos.bok.or.kr>)

Figure 1-1 | Korean Domestic Savings and Investment Rates (1953~2011)



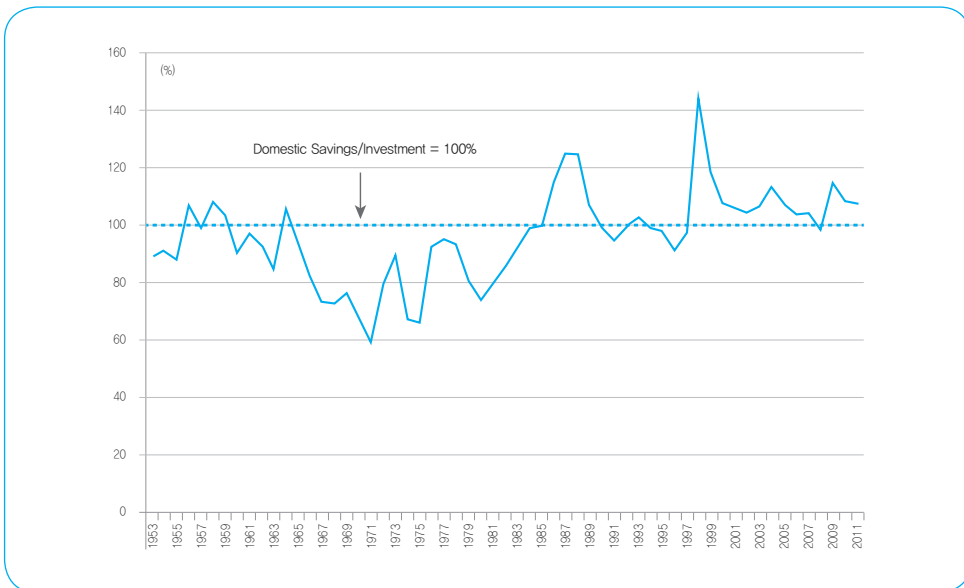
Source: The Bank of Korea, Economic Statistics System (<http://ecos.bok.or.kr>)

Figure 1-2 | Foreign Savings Rate for Korea (1953~2011)



Source: The Bank of Korea, Economic Statistics System(<http://ecos.bok.or.kr>)

Figure 1-3 | The Ratio of Domestic Savings to Investment for Korea (1953~2011)



Source: The Bank of Korea, Economic Statistics System (<http://ecos.bok.or.kr>)

2012 Modularization of Korea's Development Experience
Foreign Capital in Economic Development:
Korean Experiences and Policies

Chapter 2

Korea's Outward-looking Development Strategy and Foreign Capital (1962~1979)

1. The Adoption of Korea's Outward-looking Development Strategy and the Role of Foreign Capital in the 1960s and 1970s
2. The Establishment of Foreign Capital Management System (1962~1965)
3. The Development of Export-led Economic System and Foreign Capital (1966~1979)

Korea's Outward-looking Development Strategy and Foreign Capital (1962~1979)

1. The Adoption of Korea's Outward-looking Development Strategy and the Role of Foreign Capital in the 1960s and 1970s

1.1. Overview of Korea's Outward-looking Development Strategy and Economic Growth in the 1960s and 1970s

The Korean government started its first 5-year economic development plan in 1962 with the purpose of transforming the Korean economic structure from a poverty-stricken and aid-dependent one to a self-reliant one. In the early 1960s, the gap between domestic savings and investments for Korea was huge and Korea had to introduce substantial amount of foreign capital in order to fill the gap. The major form of foreign capital introduced into Korea in the 1960s and 1970s was debt. Thus, it was crucial for the Korean government to establish an economic system where the repayment of foreign debt would be made. Without such a system, Korea could not have continued to introduce foreign capital which was essential for its continued economic growth. As part of such a system, Korea adopted an export-oriented economic system in the early 1960s. In this export-oriented economic system, Korea tried to earn sufficient amount of foreign income for the repayment of foreign debt through its exports [Figure 2-1].

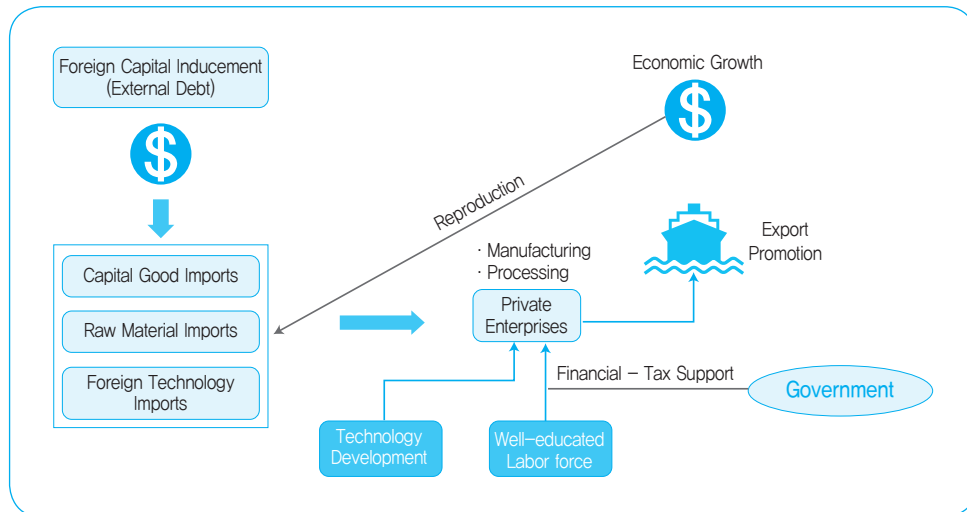
In the 1960s, the Korean government promoted the industrialization of light industries and exportation of products from the light industries. In addition, the Korean government made a great effort to construct social infrastructures such as roads and electrical power plants. While the Korean government tried to increase domestic savings in order to raise

funds for these investments, foreign capital played an important role for these investments. In order to attract foreign capital into Korea, the Korean government established a system for the management of foreign capital, including the enactment of foreign capital-related laws and the establishment of an organization in charge of the management of foreign capital.

In 1973, the Korean government announced that it would promote the industrialization of the heavy and chemical industries for further economic development. More specifically, the Korean government decided to focus on six sectors in the heavy and chemical industries such as steel, petrochemical, shipbuilding, machinery, non-ferrous metals, and electronic industries as the main industries for the advancement of industrial structure and the enhancement of international competitiveness. The Korean government also promoted the exportation of products from the heavy and chemical industries.

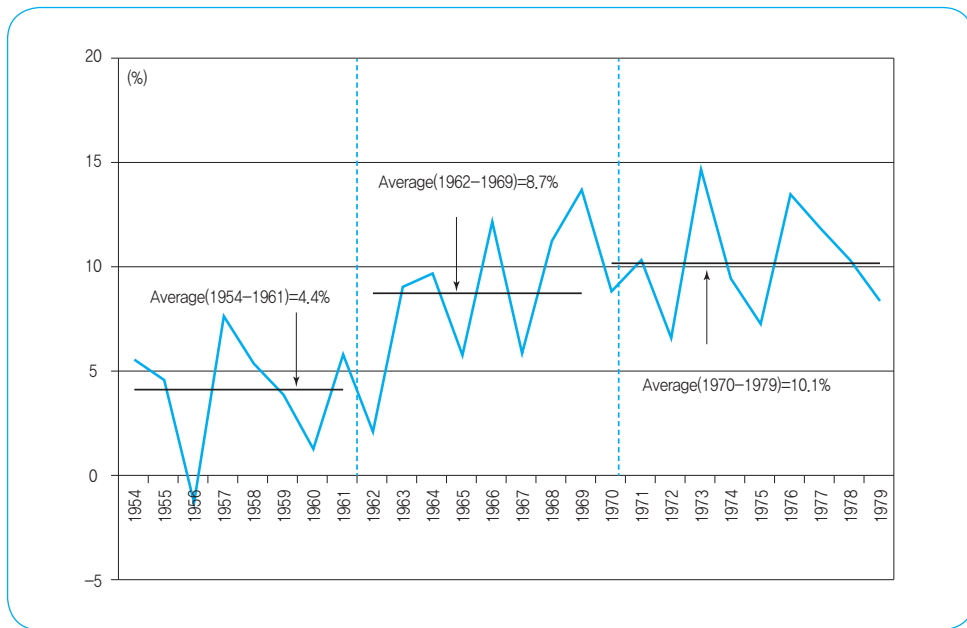
With the success of the outward-looking development strategy, the Korean economy recorded high economic growth rate in the 1960s and the 1970s. The GDP growth rate for the period from 1954 to 1961 averaged 4.4 percent per year. The annual average of GDP growth rates increased to 8.7 percent for the period from 1962 to 1969 and further increased to 10.1 percent for the period from 1970 to 1979 [Figure 2-2].

Figure 2-1 | Korea’s Outward-looking Development Strategy in the 1960s and 1970s



Source: Korea Development Institute

Figure 2-2 | Korea's Annual GDP Growth Rate (1954-1979)



Source: The Bank of Korea, Economic Statistics System (<http://ecos.bok.or.kr>)

1.2. Contribution of Foreign Capital to Korean Economic Growth in the 1960s and the 1970s

As mentioned in the previous section, when the Korean government started its first economic development plan in 1962 there was little domestic capital available in Korea. Thus, it was natural that the Korean government tried to induce foreign capital in order to develop its economy. In addition, the Korean government promoted exports of manufactured goods so that Korea could acquire foreign exchanges for further development.

This outward-looking development strategy was very successful in the 1960s and 1970s. According to an estimate by the Korea Development Institute (KDI), if investment had only been financed by domestic savings, the average annual growth rate of GDP for Korea during the period from 1962 to 1982 would have been 4.9 percent. Since the actual average annual growth rate of GDP for Korea during the period was 8.2 percent, the contribution of foreign savings to the Korean economic growth during this period was estimated to be 3.3 percent per year <Table 2-1>.

Table 2-1 | The Contribution of Foreign Capital to Korea's Economic Growth (1962~1982, annual average)

(Unit: percent)

	Actual GNP growth rate(A)	Hypothetical GNP growth rate without foreign capital(B)	Contribution of foreign capital to GNP growth rate(A-B)
1962~1966	7.9	3.8	4.1
1967~1971	9.7	4.9	4.8
1972~1976	10.2	6.9	3.3
1977~1981	5.7	4.1	1.5
1982	5.3	4.1	1.2
1962~1982	8.2	4.9	3.3

Source: Korea Development Institute (recited from Economic Planning Board, White Paper on Foreign Debt (in Korean), 1986, p.101)

1.3. Major Type of Foreign Capital in the 1960s and the 1970s: Debt

Foreign debt such as public and commercial loans was the major form of foreign capital introduced in the 1960s and the 1970s (<Table 2-2>, [Figure 2-3]). For the period from 1945 to 1961, aids such as the US and UN grants were the only available sources of foreign capital. The US and UN grants for the period from 1945 to 1961 amounted to \$3.1 billion, which constituted 99.9 percent of total foreign capital inflows into Korea during this period. However, since aid began to decline in the late 1950s and was expected to diminish further, the Korean government adopted measures to encourage the inflow of foreign capital in the early 1960s.¹ With this effort from the Korean government, the sum of public and commercial loans began to surpass the amount of aid in 1966. For the period from 1966 to 1972, the amounts of public and commercial loans were \$1.1 billion and \$2.0 billion, which constituted 26.4 percent and 45.6 percent of the total foreign capital inflows into Korea during the period, respectively. This trend continued in the mid and late 1970s. For the period from 1973 to 1978, the amounts of public and commercial loans were \$3.4 billion and \$5.9 billion, which constituted 30.6 percent and 52.2 percent of the total foreign capital inflows into Korea during the period, respectively.

On the other hand, FDI played a minor role in the 1960s and the 1970s. The amount of FDI was merely \$13 million during the period from 1962 to 1965 (1.5 percent of the total

1. Krueger (1979), p.108.

foreign capital inflows into Korea during the period). For the period from 1966 to 1972, the amount of FDI was \$227 million (5.3 percent of the total foreign capital inflows into Korea during the period) and for the period from 1973 to 1978, the amount of FDI was \$704 million (6.3 percent of the total foreign capital inflows into Korea during the period).

Most of the researches on the relationship between foreign capital and economic growth find that FDI tends to contribute to the economic growth of the recipient countries² while foreign debt tends to have a negative effect on the economic growth of the borrowing countries.³ Korea is a rare case where it developed its economy successfully with foreign debt in the 1960s and 1970s.

Table 2-2 | Composition of Foreign Capital Flows into Korea (1945~1992)

(Unit: US\$ million, percent)

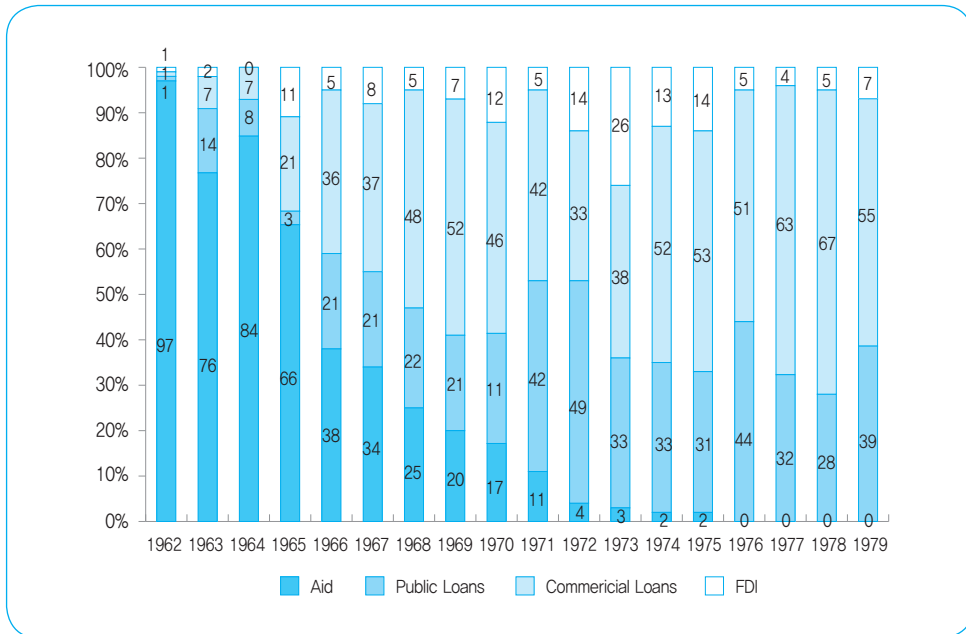
	1945~61	1962~65	1966~72	1973~78	1979~85	1986~92
Public Loans	5 (0.1)	62 (7.1)	1,130 (26.4)	3,431 (30.6)	10,015 (28.9)	4,688 (15.4)
Commercial Loans	-	71 (8.0)	1,950 (45.6)	5,858 (52.2)	7,937 (22.7)	5,206 (17.1)
FDI	-	13 (1.5)	227 (5.3)	704 (6.3)	1,157 (3.3)	5,684 (18.7)
Bank Loans	-	-	205 (4.8)	1,007 (9.0)	11,892 (34.1)	4,318 (14.2)
Bonds (Financial Institutions)	-	-	-	219 (1.9)	2,989 (8.6)	5,978 (19.7)
Bonds (Firms)	-	-	-	-	834 (2.4)	4,515 (14.9)
US & UN Grants	3,117 (99.9)	739 (83.4)	552 (13.0)	-	-	-
Reparation Grants	-	-	211 (4.8)	-	-	-
Total	3,121	886	4,275	11,219	34,914	30,289

Source: The Ministry of Finance and Korea Development Bank, Foreign Capital and the Korean Economic Development: A Thirty-Year History (in Korean), 1993, p.616, 618, 621 (recited from Lim, Introduction: Reflections on Korea's Development, in Kim, From Despair to Hope: Economic Policymaking in Korea 1945-1979, 2011, p.xxxiii)

2. Balasubramanyam, Salisu, and Sapsford(1996), Borensztein, De Gregorio, and Lee(1998), Haveman, Lei, and Netz(2001), Reisen and Soto(2001), Hermes and Lensink(2003), Lensink and Morrissey(2006), IMF(2007), Kose, Prasad, and Terrones(2009), Cipollina, Giovannetti, Pietrovito, and Pozzolo(2012).

3. Reisen and Soto(2001), Kose, Prasad, and Terrones(2009).

Figure 2-3 | Aid, Foreign Debt and FDI as Source of Foreign Capital (1962~1979)



Source: The Committee for the Sixty-Year History of Korean Economy, “The Korean Economy: Six Decades of Growth and Development” (in Korean), volume I, pages 80~81

Note: The proportions of aid, public loans, commercial loans and FDI to the sum of aid, public loans, commercial loans and FDI are computed by the author

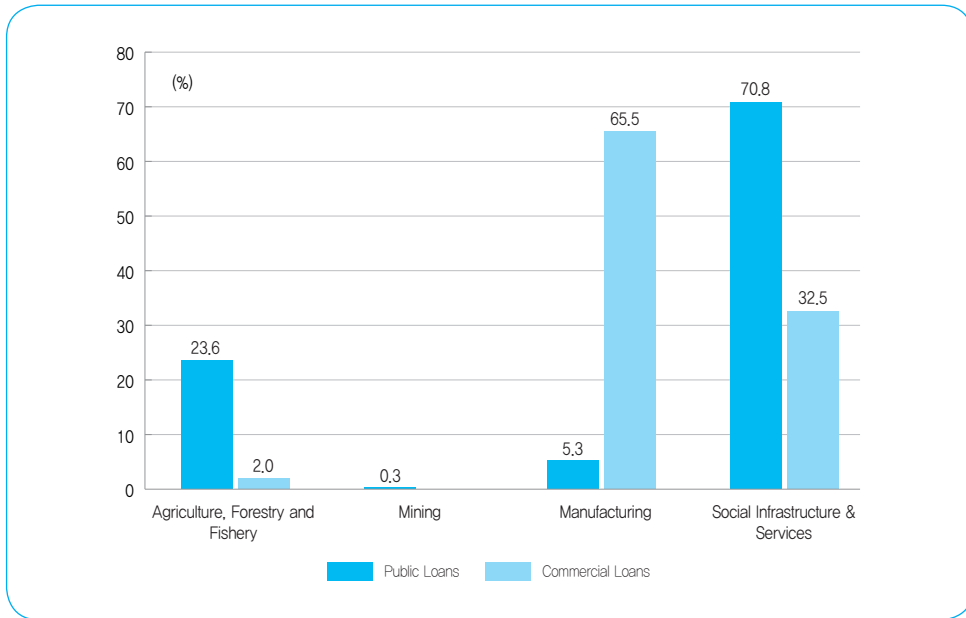
1.4. Sectoral Allocation of Foreign Capital in the 1960s and 1970s

Most of the public loans introduced during the period from 1962 to 1979 were used for social infrastructures and service industries (70.8 percent of the total public loans). The second largest proportion of the public loans was used for agriculture, forestry and fishery industries (23.6 percent of the total public loans). Only 5.3 percent and 0.3 percent of the total public loans were used for manufacturing and mining industries, respectively [Figure 2-4].

For commercial loans introduced during this period, the largest proportion was used for manufacturing industries (65.5 percent of the total commercial loans). Then, 32.5 percent of the commercial loans were used for social infrastructures and service industries. The proportion of the commercial loans used for agriculture, forestry, and fishery industries only amounted to 2.0 percent of the total commercial loans [Figure 2-4].

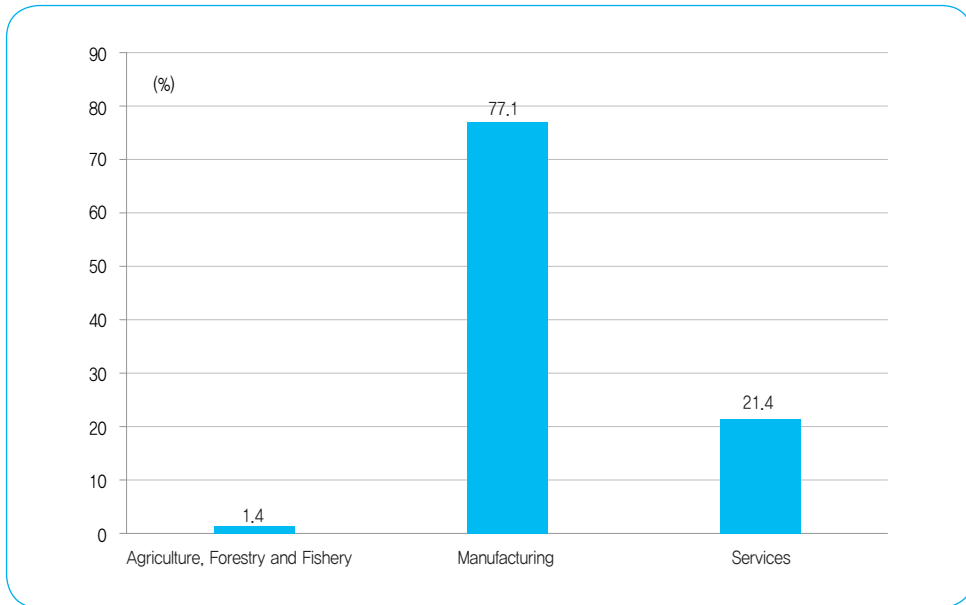
In addition, 77.1 percent of the total foreign direct investments during the period from 1962 to 1979 went to manufacturing industries. The second largest proportion of foreign direct investments was used for service industries (21.4 percent). The proportion of foreign direct investments for agriculture, forestry, and fishery industries was only 1.4 percent of the total foreign direct investments during the period.

Figure 2-4 | Sectoral Allocation of Public and Commercial Loans (1962~1979)



Source: Computed by the author with the data from the Ministry of Finance and Korea Development Bank (1993), p.66, 68, 112, 117, 164, 170, 216, 223

Figure 2-5 | Sectoral Allocation of Foreign Direct Investments (1962~1979)

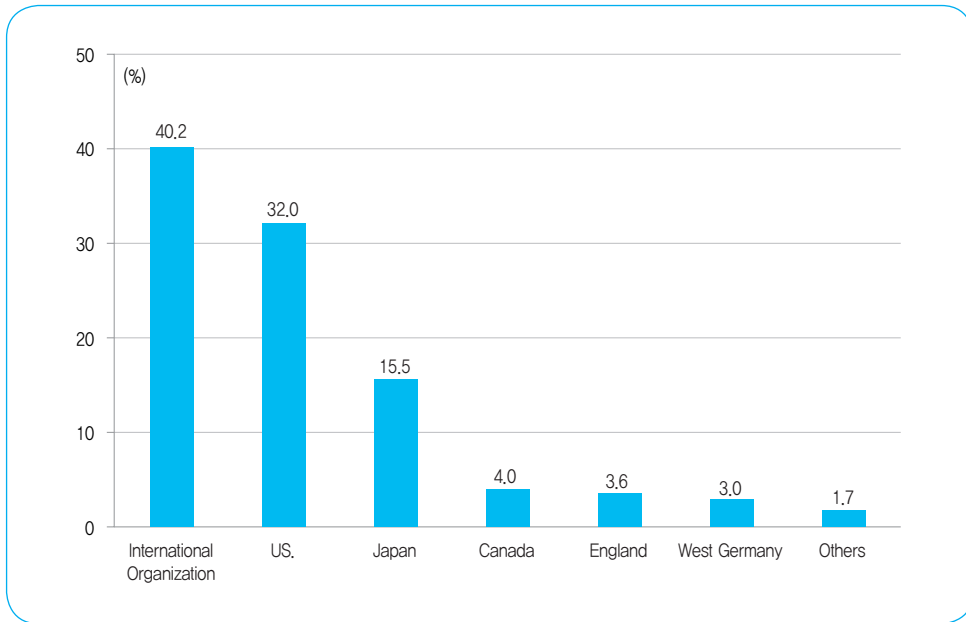


Source: Computed by the author with the data from the Ministry of Finance and Korea Development Bank (1993), p.70, 122, 180, 238

1.5. Providers of Foreign Capital in the 1960s and 1970s

For the period from 1962 to 1979, major providers of public loans included international organization (40.2 percent of the total public loans), the U.S. (32.0 percent), Japan (15.5 percent), Canada (4.0 percent), England (3.6 percent), and West Germany (3.0 percent). For the commercial loans, the major lenders were the U.S. (24.9 percent of the total commercial loans), Japan (23.2 percent), England (14.0 percent), France (7.0 percent), and West Germany (5.6 percent) [Figure 2-6].

Figure 2-6 | Lenders of Public Loans (1962~1979)

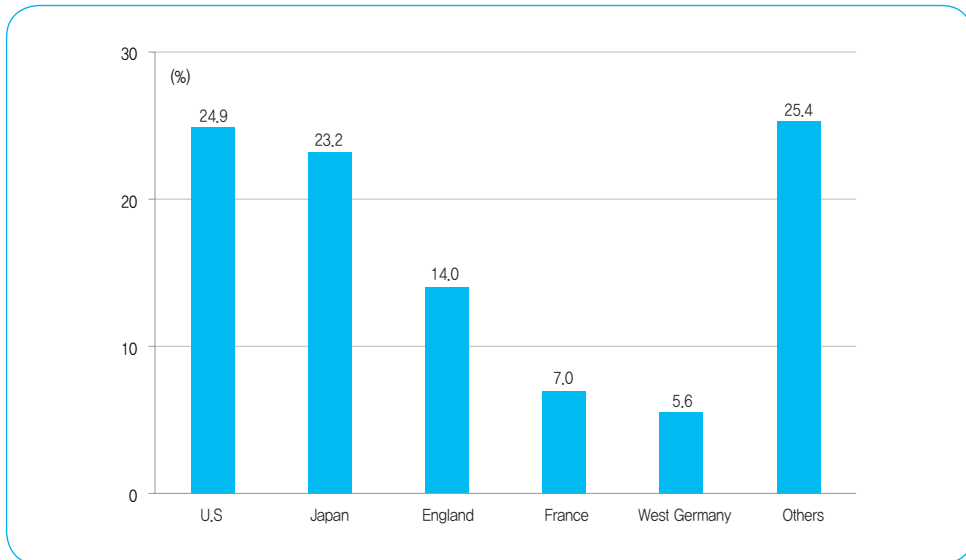


Source: Computed by the author with data from the Ministry of Finance and Korea Development Bank (1993), p.66, 110, 162, 214

For the commercial loans introduced during the period from 1962 to 1979, major lenders were the U.S. (24.9 percent of the total commercial loans), Japan (23.2 percent), England (14.0 percent), France (7.0 percent), and West Germany (5.6 percent) [Figure 2-2].

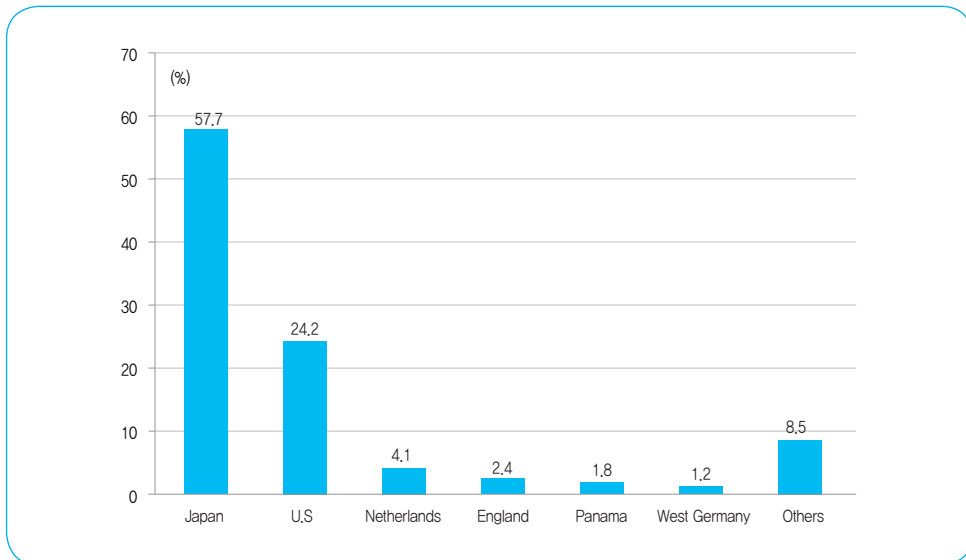
For foreign direct investments, the majority of the investments came from Japan (57.7 percent of the total foreign direct investments), the U.S. (24.2 percent), the Netherlands (4.1 percent), England (2.4 percent), Panama (1.8 percent), and West Germany (1.2 percent).

Figure 2-7 | Lenders of Commercial Loans (1962~1979)



Source: Computed by the author with data from the Ministry of Finance and Korea Development Bank (1993), p.68, 116, 168, 221

Figure 2-8 | Sources of Foreign Direct Investments (1962~1979)



Source: Computed by the author with data from the Ministry of Finance and Korea Development Bank (1993), p.70, 122, 180, 238

1.6. Promotion of Exports and Foreign Capital

Since the major type of foreign capital introduced into Korea in the 1960s and 1970s was debt, it was very important to earn foreign income through exports in order to repay foreign debt. Thus, the Korean government implemented a comprehensive export promotion program including financial and tax supports. For example, the Korean government guided Korean banks to provide export credits with low interest rates to exporters.⁴ The share of export credit in total bank credit was 4.5 percent for the period from 1961 to 1965 and increased to 7.6 percent during the period from 1966 to 1972. The share further increased to 13.3 percent during the period from 1973 to 1981. The gap between the interest rate on export credit and general interest rate continued to be large in the 1960s and 1970s. The gap was 8.9 percent during the period from 1961 to 1965 and rose to 17.1 percent during the period from 1966 to 1972. The gap was reduced to 7.6 percent but was still substantial during the period from 1973 to 1981 <Table 2-3>.

Table 2-3 | Export Credit by Banks

(Unit: percent)

	1961~65	1966~72	1973~81	1982~86	1987~91
Share of Export Credit in Total Bank Credits	4.5	7.6	13.3	10.2	3.1
Interest Rate on Export Credit (A)	9.3	6.1	9.7	10.0	10~11
General Interest Rate (B)	18.2	23.2	17.3	10~11.5	10~13
(B-A)	8.9	17.1	7.6	0~1.5	0~2.0

Source: Joon-Kyung Kim (1993), <Table 4-3> (recited from the Committee for the Sixty-Year History of Korean Economy, "The Korean Economy: Six Decades of Growth and Development", p.18)

Also, the Korean government set a target for each year's total exports by summing up the export forecasts of individual firms and held 'Monthly Export Promotion Meeting', chaired by President Park himself. In the Meeting, government officials and business representatives gathered, monitored export performance compared to the target, and discussed any issues for the promotion of exports.⁵ The Meeting was held almost every month during the period from 1965 to 1979 <Table 2-4>.⁶

4. The Committee for the Sixty-Year History of Korean Economy, "The Korean Economy: Six Decades of Growth and Development", p.17-18.

5. The Committee for the Sixty-Year History of Korean Economy, "The Korean Economy: Six Decades of Growth and Development", p.18-19.

6. Kang, Lee and Choi (2008), p.169-178.

With support from the Korean government, Korea's exports grew spectacularly in the 1960s and the 1970s. The export amount was a mere \$41 million in 1961, but increased to \$118 million in 1964. Korea's exports surpassed \$10 billion in 1977 and reached \$15.1 billion in 1979 [Figure 2-1]. For the period from 1961 to 1979, Korea's export increased at the rate of 38.8 percent per year. The ratio of exports to GDP also increased from 2.0 percent in 1961 to 23.5 percent in 1979 [Figure 2-9].

The composition of Korea's export products also changed substantially. The proportion of primary products to the total exports decreased rapidly from 72.3 percent in 1962 to 11.1 percent in 1972. The proportion of primary products to the total exports further decreased to 7.7 percent in 1980. On the other hand, the proportion of manufacturing products to the total exports increased from 27.7 percent in 1962 to 88.9 percent in 1972. The proportion of manufacturing products to the total exports further increased to 92.3 percent in 1980. Also, the proportion of products from light industries to the total exports decreased from 67.4 percent in 1972 to 48.4 percent in 1980, while the proportion of products from heavy industries to the total exports increased from 21.5 percent in 1972 to 43.9 percent in 1980.⁷

Table 2-4 | The Schedule of Monthly Export Promotion Meeting (1965~1979)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Frequency
1965	-	5	-	-	-	21	-	-	13	-	15	15	5
1966	24	-	28	25	21	23	18	16	19	17	21	19	11
1967	23	13	15	17	15	19	24	21	25	25	20	29	12
1968	22	19	18	23	28	July 1	29	19	27	21	18	16	12
1969	20	17	24	21	19	16	28	29	27	27	17	15	12
1970	27	23	23	20	25	22	27	24	21	26	23	21	12
1971	25	22	22	-	31	21	26	23	20	25	29	27	11
1972	24	21	27	24	30	28	-	30	27	25	27	28	11
1973	30	28	28	25	30	28	-	29	26	31	-	28	10
1974	30	27	27	24	29	July 1	-	28	25	30	27	27	11
1975	-	26	31	30	28	25	-	29	24	31	26	24	10
1976	28	25	Apr 7	29	26	30	-	25	29	27	-	29	10
1977	26	25	25	27	31	28	-	25	23	25	25	-	10
1978	27	27	29	27	30	29	-	25	29	27	-	-	9
1979	24	8	-	27	24	-	12	-	7	-	-	-	6

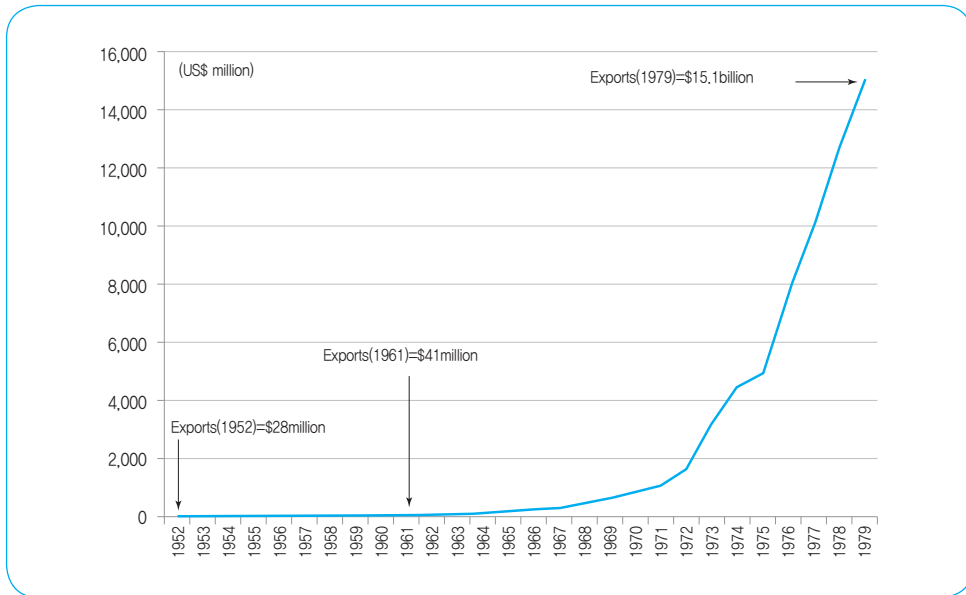
Source: Chosun Daily News and Joongang Daily News 1965~1979 (recited from Kang, Lee and Choi (2008), p.174)

Note: (1) The number for each month is the date when the Monthly Export Promotion Meeting was held for the month

(2) 'Frequency' refers to the number of Monthly Export Promotion Meetings held for each year

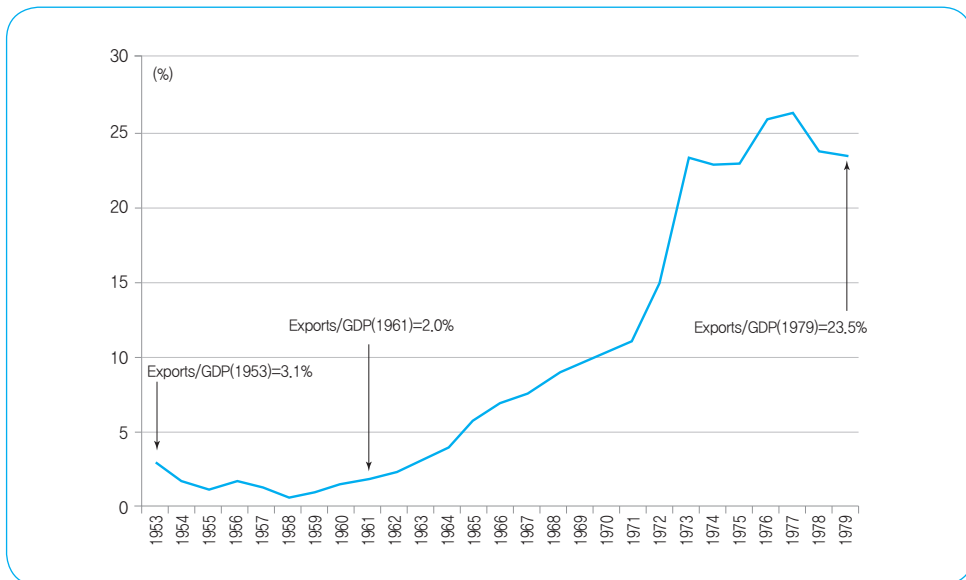
7. The Committee for the Sixty-Year History of Korean Economy (2010), volume III, p.64 (Table 3-7).

Figure 2-9 | Korea's Annual Exports (1952~1979)



Source: The International Monetary Fund, International Financial Statistics

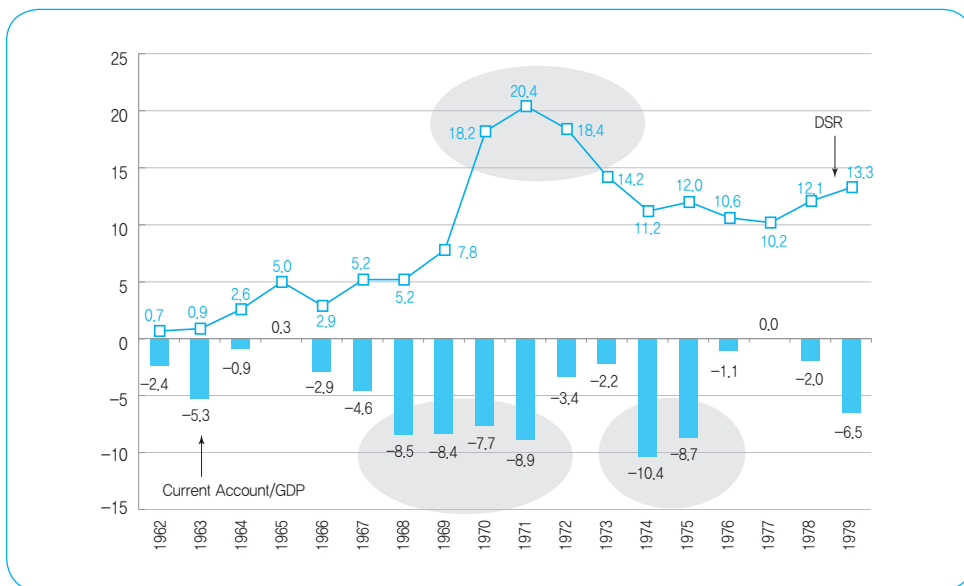
Figure 2-10 | The Ratio of Exports to GDP for Korea (1953~1979)



Source: The data on exports are from the IMF's IFS and the data on GDP are from the Bank of Korea's Economic Statistics System (<http://ecos.bok.or.kr>)

If an economy cannot earn sufficient foreign exchanges from exports for the repayment of foreign debt and imports of products from foreign countries, the sustainability of the economy will be questionable and the economy may suffer from a crisis due to a shortage in foreign exchanges. For the measures of these two aspects of exports, we examine (i) the debt-to-service ratio (DSR), which is the ratio of the repayment of principal and interests to exports, and (ii) the ratio of current account deficit (or surplus) to GDP. The DSR was above 15 percent⁸ for the period from 1970 to 1972. The ratio of current account deficit to GDP was very high especially during the period from 1968 to 1971 and during the period from 1974 to 1975 [Figure 2-11]. Thus, it was questionable whether the Korean economy could export enough to repay the debt and to continue to import for further development from the late 1960s to the mid 1970s. In other words, there was an increasing concern on the sustainability of the Korean economic system during this period.

Figure 2-11 | The Debt-to-Service Ratio (DSR) and the Ratio of Current Account Deficit (Surplus) to GDP for Korea (1962-1979)



Source: The data on the DSR come from the Ministry of Finance and Korea Development Bank, *Foreign Capital and the Korean Economic Development: A Thirty-Year History* (in Korean), 1993, p.619, 623, 626, 631. The data on exports are from the IMF's IFS and the data on GDP are from the Bank of Korea's Economic Statistics System (<http://ecos.bok.or.kr>)

8. The Korean government tried to maintain the DSR below 15 percent in the early 1970s. [The Ministry of Finance and Korea Development Bank, *Foreign Capital and the Korean Economic Development: A Thirty-Year History* (in Korean), 1993, p.130].

1.7. Role of Presidential Leadership and Bureaucrats

The priority in the government policies was placed in the promotion of exports during the presidency of President Park Chung-hee. As mentioned earlier, the Korean government set a target for each year's total exports and held 'Monthly Export Promotion Meeting', chaired by President Park himself, in order to monitor export performance and to discuss any issues for the promotion of exports in almost every month during the period from 1965 to 1979.

Although President Park had a military background, under his presidency, most top positions in economy-related ministries were filled with technocrats who had professional knowledge and skills in their own areas. For example, there were thirteen people appointed as ministers of the Economic Planning Board during 1963 to 1983 and only one of them had a prior military career. Among nine people who worked as economic secretaries to the President during the period, no one had a military background. Also, none of the finance ministers and only two out of 11 ministers of trade and industry during this period had a military background. On the other hand, for those ministries where political concerns were more significant, a large number of people with prior military career were appointed. For example, nine out of thirteen ministers of home affairs and seven out of nine KCIA directors during the period had military background <Table 2-5>.⁹

Also, during Park's presidency, there was a strong and effective competition for top positions in all the ministries, called a three-levels-deep political network:¹⁰ "Don't forget that Park was also using a criterion of skills; if you didn't perform, he always had an assistant Vice-Minister and a Planning Coordination Officer in the wings, waiting for their chance. So it wasn't just patronage, it was effective competition for Park's favor that induced such responsiveness."¹¹

Thus, promotion of export, one of the principal policy objectives set by the Korean government, was effectively implemented by the joint efforts of President Park and technocrats in economy-related ministries.

9. David Kang, *Crony Capitalism*, 2002, p.87-88.

10. David Kang, *Crony Capitalism*, 2002, p.87.

11. David Kang, *Crony Capitalism*, 2002, p.87-89.

Table 2-5 | Career Background of Vice-Ministers and Higher (1963~1983)

Bureau	Total Number	Number with Prior Career in Military
Prime minister	11	3
Economic Planning Board		
Minister	13	1
Vice-Minister	13	0
Presidential Secretary		
Chief Secretary	8	2
Economic Secretary	9	0
Finance		
Minister	14	0
Vice-Minister	18	0
Trade and Industry		
Minister	11	2
Vice-Minister	9	0
Agriculture and Forestry		
Minister	15	0
Vice-Minister	11	0
Energy and Resources		
Minister	7	1
Vice-Minister	3	0
Construction		
Minister	15	6
Vice-Minister	10	2
Transportation		
Minister	16	11
Vice-Minister	13	2
Defense		
Minister	9	9
Vice-Minister	9	6
Home Affairs		
Minister	13	9
Vice-Minister	13	3
KCIA		
Director	9	7

Source: Byung-kook Kim, "Bringing and Managing Socioeconomic Change" (Ph.D. dissertation, Harvard University, 1988), p.119 (recited from David Kang, *Crony Capitalism*, 2002, p.88)

2. The Establishment of Foreign Capital Management System (1962~1965)

2.1 Enactment of Foreign Capital-Related Laws and Establishment of Economic Planning Board

The Korean government established a system for the management of foreign capital, including the enactment of foreign capital-related laws and the establishment of an organization in charge of the management of foreign capital in the early 1960s.

The Korean government announced the first 5-year economic development plan in July 1961 and planned to use both domestic and foreign sources for the economic development. With an aim to introduce foreign capital necessary for the first 5-year economic development plan, the Korean government revised the ‘Foreign Capital Inducement Act’, which had been enacted in January 1960, and announced the ‘Guidelines on the Introduction of Foreign Capital’ in December 1961 just before the first 5-year economic development plan began. Also, the Korean government promulgated the “Act on Special Measures for the Procurement of Capital-goods by Long-term Payments” in 1963 so that imports of capital goods by using long-term export credits from capital exporting countries, especially from Japan, which didn’t have a diplomatic relationship with Korea.¹²

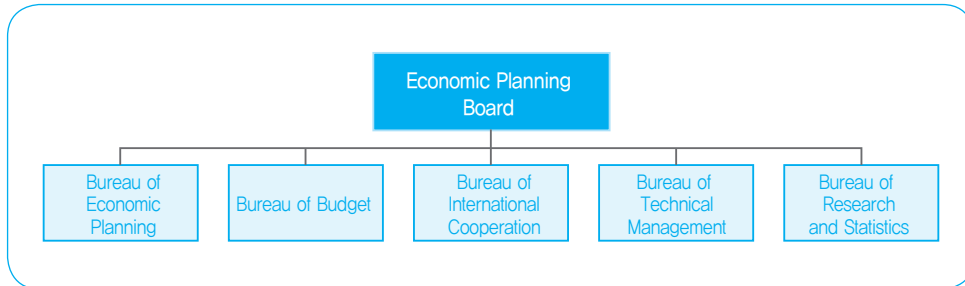
The Economic Planning Board (EPB), which was the main ministry in charge of the economic development plan, was established in July 1961. The three main functions of the EPB were planning, national budgeting, and management of foreign capital.¹³ The EPB, especially the Bureau of International Cooperation, was responsible for the introduction of foreign capital [Figure 2-12]. The introduction of foreign capital was also approved by the ‘Committee on the Inducement of Foreign Capital’, which was chaired by the Minister of the EPB. The members of the Committee on the Inducement of Foreign Capital included the Minister of Foreign Affairs, the Minister of Finance, the Minister of Commerce and Industry, the Minister of Agriculture, the Governor of the Bank of Korea (the central bank of Korea), the Governor of the Korea Development Bank, the Governor of the Agricultural Bank, the chairman of the Korea Chamber of Commerce and Industry, and two professionals who had substantial knowledge and experiences in industries or law.¹⁴

12. The Ministry of Finance and Korea Development Bank, *Foreign Capital and the Korean Economic Development: A Thirty-Year History* (in Korean), 1993, p.58.

13. Kim, H. eds., *Glory and Disgrace of the Korean Economy: Unofficial History of the Economic Planning Board*, 1999, p.89-93.

14. The Ministry of Finance and Korea Development Bank, *Foreign Capital and the Korean Economic Development: A Thirty-Year History* (in Korean), 1993, p.57.

Figure 2-12 | The Organizational Structure of Economic Planning Board
(As of December 16, 1963)



Source: Adapted by the author from the Economic Planning Board, *Economic Policies in the Development Era*, 1982, p.420

2.2. Korean Government's Policies on Foreign Capital in the Early 1960s

The Korean government's principal policy on foreign capital in the early 1960s was to introduce bona fide foreign capital, regardless of the form and amount, for the successful implementation of the economic development plan.¹⁵ As an inducement to foreign capital, tax concessions were provided such as full and partial exemptions from individual income or corporation income tax on the foreign lender's interest income. FDI into Korea was also encouraged by full exemption from individual or corporation income tax of foreign investor's income for the first 3 years, a 50 percent reduction in tax for the next 5 years, full exemption from customs duties on imported capital goods and no capital gains taxes on foreign investment.¹⁶

In addition, the Korean government decided to guarantee the repayment of foreign debt even by private sector, if necessary, since the international credit ratings of domestic enterprises and financial institutions were so low that they could not borrow foreign funds with their own credit. Thus, the Korean government enacted the 'Act on the Payment Guarantee of Foreign Debt' in July 1962. According to the Act, the Korean government made an annual plan for the payment guarantee of foreign capital being spent for its economic development plan each year and submitted the annual plan to the National Assembly in order to get the approval of the payment guarantee by the Korean government. The businesses eligible to apply for the payment guarantee included businesses in key industries for the

15. The Ministry of Finance and Korea Development Bank (1993), p.52.

16. Frank, Kim, and Westphal, *Foreign Trade Regime & Economic Development: South Korea*, 1975, p.104.

national economy, businesses for improvement of the balance of payments, and businesses for the production of necessities in people's living.¹⁷

The procedures of the payment guarantee by the Korean government were as follows: When a company applied for the payment guarantee by the Korean government to the Minister of the EPB, the Minister of the EPB consulted with relevant ministries or institutions. Then, the Minister of the EPB decided whether to approve or not the application through the deliberations of the Committee on the Inducement of Foreign Capital. If the Minister of the EPB disagreed with the decisions of the Committee, the Minister of the EPB had to report the disagreement to the Cabinet Meeting chaired by the President. In this case, the final decision would be made in the Cabinet Meeting.¹⁸ If the applicant received an approval for the payment guarantee, the applicant was obliged to offer collateral to the Korea Development Bank within two months. Within one month after the applicant completed the offering of the collateral, the applicant could request the payment guarantee to the Bank of Korea. The Bank of Korea would then take immediate action for the payment guarantee.

2.3. Foreign Capital Inflows into Korea (1962~1965)

During the period from 1962 to 1965, the major form of foreign capital inflows into Korea was aid from the U.S. and international organizations such as the U.N. From 1962 to 1965, the total amount of foreign capital introduced into Korea was \$901.0 billion. For the period, aid amounted to \$729.5 million (81 percent of the total amount) <Table 2-6>.

17. The Ministry of Finance and Korea Development Bank (1993), p.58.

18. Foreign Capital Inducement Act, Articles 5, 6, 7, and 8.

Table 2-6 | Introduction of Aid, Foreign Loans, and FDI into Korea (1962~1965)

(Unit: US\$ million, percent)

	Total	Aid	Public Loans	Commercial Loans	FDI
1962	240.3 (100.0)	232.3 (96.7)	1.8 (0.7)	2.6 (1.1)	3.6 (1.5)
1963	283.0 (100.0)	216.5 (76.5)	40.3 (14.2)	20.5 (7.2)	5.7 (2.0)
1964	178.0 (100.0)	149.3 (83.9)	14.8 (8.3)	13.2 (7.4)	0.7 (0.4)
1965	199.7 (100.0)	131.4 (65.8)	5 (2.5)	41.5 (20.8)	21.8 (10.9)
sum	901.0 (100.0)	729.5 (81.0)	61.9 (6.9)	77.8 (8.6)	31.8 (3.5)

Source: the Committee for the Sixty-Year History of Korean Economy, “The Korean Economy: Six Decades of Growth and Development” (in Korean) volume I, p.80

Note: The total amount for each year and the whole period are computed by the author. The proportion of each type of foreign capital introduced is also computed by the author

Despite all the efforts to introduce foreign capital into Korea, during the period from 1962 to 1965, foreign borrowing and foreign direct investment into Korea were negligible. For the period from 1962 to September 1965, the amount of public loan, commercial loan, and FDI were only \$65 million, 57.7 million, and \$6.4 million, respectively. The amount of foreign capital which the Korean government was able to introduce in this period was only 30.3% of the amount which the Korean government had planned to introduce under the original plan <Table 2-7>.

Table 2-7 | Planned and Actual Amounts of Foreign Capital Introduced (1962~Sep. 1965)

(Unit: US\$ million, percent)

	Planned(B)	actual				(A/B)
		Sum (A)	public loan	Commercial loan	FDI	
1962	50.0	7.1	7.1	-	-	14.2
1963	88.7	72.3	43.2	23.6	5.5	81.5
1964	112.2	23.0	11.6	10.9	0.5	20.5
1965.1~9	78.1	26.7	3.2	23.1	0.4	34.2
sum	426.0 ¹⁾	129.2	65.0	57.7	6.4	30.3

Source: The Economic Planning Board, Economic White Paper, 1965, p.258

Note: 1) Planned amount of foreign capital was for the period from 1962 to 1966

Also, the actual amount of foreign loans and FDI introduced during 1962 to 1965 was far smaller than the amount of foreign loans and FDI permitted to be introduced by the Korean government during the period. For this period, the total amount of foreign capital permitted to be introduced by the Korean government was \$441.6 million, but only 33.5 percent of the permitted amount (\$147 million) was actually introduced <Table 2-8>.

Table 2-8 | Permitted and Actual Amounts of Foreign Capital Introduced (1962~1965)

(Unit: US\$ million, percent)

Year		Public Loan	Commercial Loan		FDI	Total
			Guarantee	No Guarantee		
1962	Permitted (A)	73.0	-	1.8	3.6	78.4
	Actual (B)	7.1	-	-	-	7.1
	Ratio (B/A)	9.7	-	-	-	9.1
1963	Permitted (A)	9.5	54.7	15.4	5.5	85.1
	Actual (B)	43.2	22.0	1.7	5.5	72.4
	Ratio (B/A)	61.0	40.2	9.9	60.4	48.6
1964	Permitted (A)	37.9	60.1	1.8	0.7	100.5
	Actual (B)	11.6	10.7	0.1	0.5	22.9
	Ratio (B/A)	51.4	28.5	9.5	61.2	38.8
1965	Permitted (A)	76.5	74.0	4.5	22.6	177.6
	Actual (B)	4.9	33.4	2.2	5.0	45.5
	Ratio (B/A)	33.9	35.0	17.0	34.0	33.5
Total	Permitted (A)	196.9	188.8	23.5	32.4	441.6
	Actual (B)	66.8	66.1	4.0	11.0	147.9
	Ratio (B/A)	35.0	35.0	17.0	34.0	33.5

Source: The Economic Planning Board, Report on the Introduction of Foreign Capital (as of the end of 1965), (recited from Kim (1976))

Note: The ratio refers to the accumulated ratio between permitted and actual amounts of foreign capital introduced since 1962. Guarantee refers to a case when there was a repayment guarantee by the Korean government and no guarantee refers to a case when there was no such guarantee

Box 2-1 | The First Korean Government's Guarantee of Repayment of Commercial Loan: Case of Korea Oil Corporation and Gulf Oil (1963)

When Korea Oil Corporation (KOCO) made a contract to introduce a commercial loan of \$20 million with Gulf Oil in 1963, the Korean government guaranteed the repayment of the principal (\$20 million) and interests (\$8.3 million) for Gulf Oil. This was the first case of the repayment guarantee for a commercial loan by the Korean government. At the same time, Gulf Oil was also permitted to invest \$5 million for 25 percent of the total stocks issued by KOCO. Thus, KOCO became the first joint-stock company between Korean and foreign investors.

In 1962, the Korean government decided to construct a refinery plant in Ulsan as part of the project for the first 5-year economic development plan and KOCO was established to run the refinery plant. The Korean government originally planned to build the refinery plant with its own foreign reserves, but decided to introduce foreign capital for the construction of the refinery plant in April 1963. Thus, KOCO contacted 5 major oil companies in the U.S. for the introduction of foreign capital and Gulf Oil was chosen for its best contractual terms in June 1963.

KOCC applied to the EPB for the introduction of commercial loan and direct investments from Gulf Oil, and also for the payment guarantee of the commercial loan by the Korean government. In the application of the payment guarantee, the Bank of Korea was obliged to pay both the principal and all the interests to Gulf Oil immediately when KOCC was in default.

Following the application, the EPB consulted with relevant ministries and organizations such as the Ministry of Finance, the Ministry of Commerce and Industry, the Ministry of Government Legislation, the Bank of Korea, and the Korea Development Bank. In particular, the Ministry of Government Legislation commented that some of the contractual terms violated the Korean laws effective at the time. Also, the Bank of Korea recommended revising the term for the payment guarantee so that, when KOCC was in default, the Bank of Korea would pay the principal and interests on installment for the remaining maturity as originally planned. In September 1963, the Committee on the Inducement of Foreign Capital approved the introduction of commercial loan and direct investments and the payment guarantee of the commercial loan. However, based on the comments from the Ministry of Government Legislation and the Bank of Korea, the committee also ordered KOCC to renegotiate with Gulf Oil so that all the contractual terms would not violate the Korean law and that the term for the payment guarantee would be revised as suggested by the Bank of Korea. Thus, KOCC renegotiated with Gulf Oil on these issues, but Gulf Oil declined to revise any contractual terms.

Facing opposition from Gulf Oil to revise the contractual terms, the EPB decided to stick to the original contractual terms as the refinery plant should be operated early next year and there was no alternative better than Gulf Oil. Thus, in October 1963, the Minister of the EPB reported to the Cabinet Meeting about the difference between the opinion of the EPB and the decision of the Committee on the Inducement of Foreign Capital. In the Cabinet Meeting, it was decided that the original contractual terms would be kept. In November 1963, contracts on the introduction of commercial loans and direct investment were made between KOCC and Gulf Oil.

Source: The Ministry of Finance, Government Documents for KOCC's Commercial Loans, 1963 (Control Number of BA0147302 in National Archives of Korea)

Figure 2-13 | Singing Ceremony for Joint-Stock Company Between Korea Oil Corporation and Gulf Oil (1963)



Source: The Ministry of Finance and Korea Development Bank, Foreign Capital and the Korean Economic Development: A Thirty-Year History (in Korean), 1993

3. The Development of Export-led Economic System and Foreign Capital (1966~1979)

3.1. The Normalization of Diplomatic Relationship with Japan and the Introduction of Japanese Reparation Fund

The Korean government badly needed foreign capital for the success of its economic development plan. Thus, the Korean government tried to introduce foreign capital from various sources including Japan. Korea was a former colony of Japan from 1910 and 1945 and there was no formal diplomatic relationship between Korea and Japan for the period from 1945 and 1964. The diplomatic relation between Korea and Japan was normalized in June 1965.

When the diplomatic relationship between Korea and Japan was normalized in 1965, the Japanese government agreed to provide a total of \$500 million to Korea. The funds, called ‘Japanese Reparation Fund’, comprised of a grant (\$300 million) and public loan (\$200 million). The Japanese Reparation Fund was introduced from 1966 to 1975 <Table 2-9>. The export amounted to \$118 million in 1964 and the amount of foreign exchange reserves of Korea was only \$136 million at the end of 1964.¹⁹ Thus, the Japan Reparation Fund was a large source of foreign funds for the development of Korean economy, especially in the 1960s. The amounts of Japanese Reparation Fund introduced in 1966, 1967 and 1968 were 33.7 percent, 19.3 percent, and 10.0 percent of exports of the corresponding year, respectively [Figure 2-14].

Table 2-9 | The Introduction of Grant and Public Loan from Japan By the Agreement Between Korean and Japanese Governments (1966~1975)

(Unit: US\$ thousand, percent)

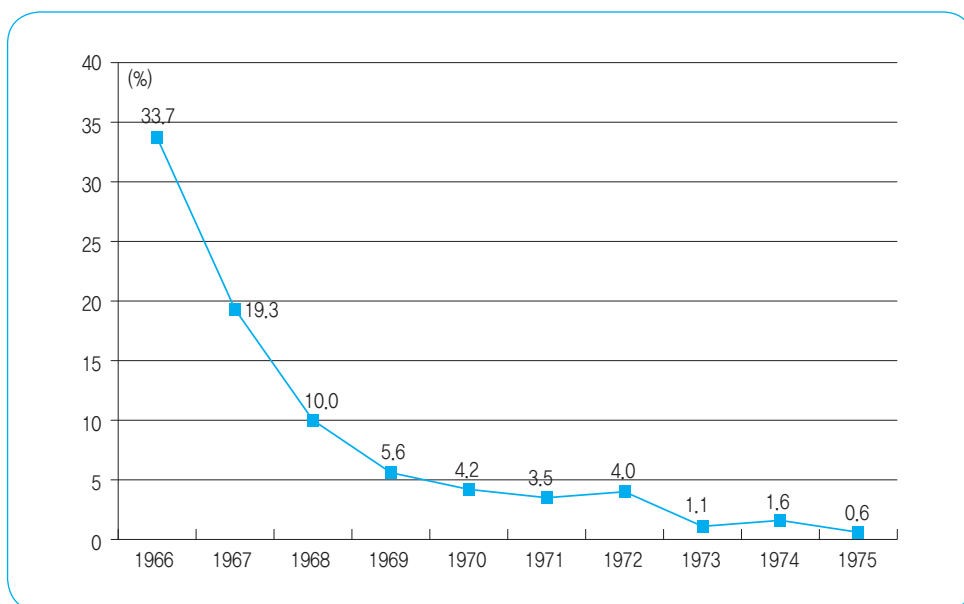
	Grant		Public Loan		Sum	
	Amount	Percent	Amount	Percent	Amount	Percent
1966	39,915	13.3	44,677	22.3	84,592	16.9
1967	34,668	11.6	27,389	13.7	62,057	12.4
1968	27,979	9.3	17,813	8.9	45,792	9.2
1969	24,059	8.0	11,070	5.5	35,129	7.1
1970	25,995	8.7	8,894	4.4	34,889	7.0
1971	29,205	9.7	8,000	4.0	37,205	7.4

19. The Bank of Korea's Economic Statistics System (<http://ecos.bok.or.kr>).

	Grant		Public Loan		Sum	
	Amount	Percent	Amount	Percent	Amount	Percent
1972	29,798	9.9	34,900	17.5	64,698	12.9
1973	29,613	9.9	5,004	2.5	34,617	6.9
1974	28,016	9.3	41,521	20.8	69,537	13.9
1975	30,752	10.3	732	0.4	31,484	6.3
total	300,000	100.0	200,000	100.0	500,000	100.0

Source: The Economic Planning Board, White Paper on the Reparation Funds, 1976, p.29

Figure 2-14 | The Amount of Japanese Reparation Funds As Percentage of Korean Exports (1966~1975)



Source: The data on the amount of Japanese Reparation Fund come from the Economic Planning Board, White Paper on the Reparation Funds, 1976, p.29, and the data on Korean exports are from the Bank of Korea's Economic Statistics System (<http://ecos.bok.or.kr>)

Note: The ratio between the amount of Japanese Reparation Fund and Korean exports is computed by the author

In order to use the Japanese Reparation fund effectively and efficiently, the Korean government promulgated the “Act on the Use and Management of the Funds from Japan” in February 1966. According to the Act, the grant could be used for the promotion of agriculture, forestry and fisheries, the introduction of raw materials and related services, and other similar businesses to contribute to the economic development of Korea. The

public loans from Japan could be used for the support of small businesses, the expansion of mining and basic industries, and the building of social infrastructure. A committee chaired by the Prime Minister was responsible for the use and the management of the funds.²⁰

The \$500 million fund from Japan during 1966 to 1975 substantially contributed to the capital formation of Korea, especially in its early development stage. 40.4 percent (\$120 million) of the grant and all the public loan (\$200 million) from Japan were used for the introduction of capital goods <Table 2-10>. In particular, in 1966 and 1967, the proportion of capital goods financed by the Japanese Reparation Fund to the total amount of capital goods introduced into Korea reached 28.0% and 10.7%, respectively <Table 2-11>.

Table 2-10 | The Sectoral Use of Japan Reparation Fund (1966~1975)

(Unit: US\$ thousand, percent)

Grant			Public Loan		
Sector	Amount	Percent	Sector	Amount	Percent
Capital goods	121,316	40.4	Capital goods	200,000	100.0
Agriculture and Forestry	36,548	12.2	Agriculture and Forestry	2,309	1.2
Fishery	27,176	9.1	Mining and Manufacturing	113,725	56.8
Mining and Manufacturing	31,438	10.4	Social Infrastructure	583,966	42.0
Science and Technology	20,125	6.7			
Social Infrastructure	6,029	2.0			
Raw Materials	132,825	44.3			
Banking fees and liquidation account	45,859	15.3			
Sum	300,000	100.0		200,000	100.0

Source: The Economic Planning Board, White Paper on the Reparation Funds, 1976, p.31

20. The Ministry of Finance and Korea Development Bank, Foreign Capital and the Korean Economic Development: A Thirty-Year History (in Korean), 1993, p.98-99.

Table 2-11 | Import of Capital Goods by Japanese Reparation Fund (1966~1975)

(Unit: US\$ million, percent)

Year	Total Imports of Capital Goods (A)	Imports of Capital Goods by Japanese Reparation Fund (B)	B/A
1966	224.6	62.8	28.0
1967	382.0	40.9	10.7
1968	621.0	31.3	5.0
1969	711.4	16.9	2.4
1970	688.7	15.4	2.2
1971	807.1	29.2	3.6
1972	879.2	55.1	6.3
1973	1,330.5	12.3	0.9
1974	2,153.9	47.1	2.2
1975	2,212.7	10.3	0.5
sum	10,011.1	321.3	3.2

Source: The Economic Planning Board, White Paper on the Reparation Funds, 1976, p.90

<Table 2-12> reports the allocation of Japanese Reparation Fund for development projects. Notably, substantial amount of the Japanese Reparation Fund (23.9 percent of the total Japanese Reparation Fund) was used for the construction of the Pohang Iron and Steel Plant [Figure 2-15]. The total cost for the construction of the Pohang Iron and Steel Plant amounted to \$519 million from 1968 to 1977. The amount of Japanese Reparation Fund used for the construction of the Pohang Iron and Steel Plant was \$119 million, which was 23.0 percent of the total construction costs. In particular, for the first period of construction from 1968 to 1973, the amount of Japanese Reparation Fund used for the construction of the Pohang Iron and Steel Plant reached \$77 million (grant of \$31 million and public loan of \$46 million), which was 45.1 percent of the total construction cost for the first period, \$161 million. Thus, Japanese Reparation Fund was a major source of financing for the construction of the Pohang Iron and Steel Plant, especially in the first construction period <Table 2-13>.

Table 2-12 | The Allocation of Japan Reparation Fund

(Unit: US\$ million, percent)

Project	Amount	Percent
Agriculture	39	7.8
Fishery	27	5.4
Manufacturing	278	55.6
Construction of POSCO	119	23.9
Purchase of raw materials	133	26.5
Promoting of SMEs	22	4.5
Science and Technology	20	4.0
Equipment for practical training for schools	6	1.2
Equipment/facilities at KIST	3	0.6
Infrastructure	90	18.0
Soyang river Multi-Purpose Dam	22	4.4
Seoul-Busan Expressway	7	1.4
Improvement of Railway System	20	4.2
Yeongdong Thermal Power Plant	2	0.4
Expansion of Waterworks	4	0.8
Namhae Bridge	2	0.4
Rehabilitation of Han River Bridge	1	0.2
Electric Power Transmission Lines	4	0.7
Expansion of out-of-town Telephone Lines	4	0.8
Total	500	100.0

Source: The Economic Planning Board, White Paper on the Reparation Funds, 1976, p.378~381 (recited from Kim (2011), xxxiv)

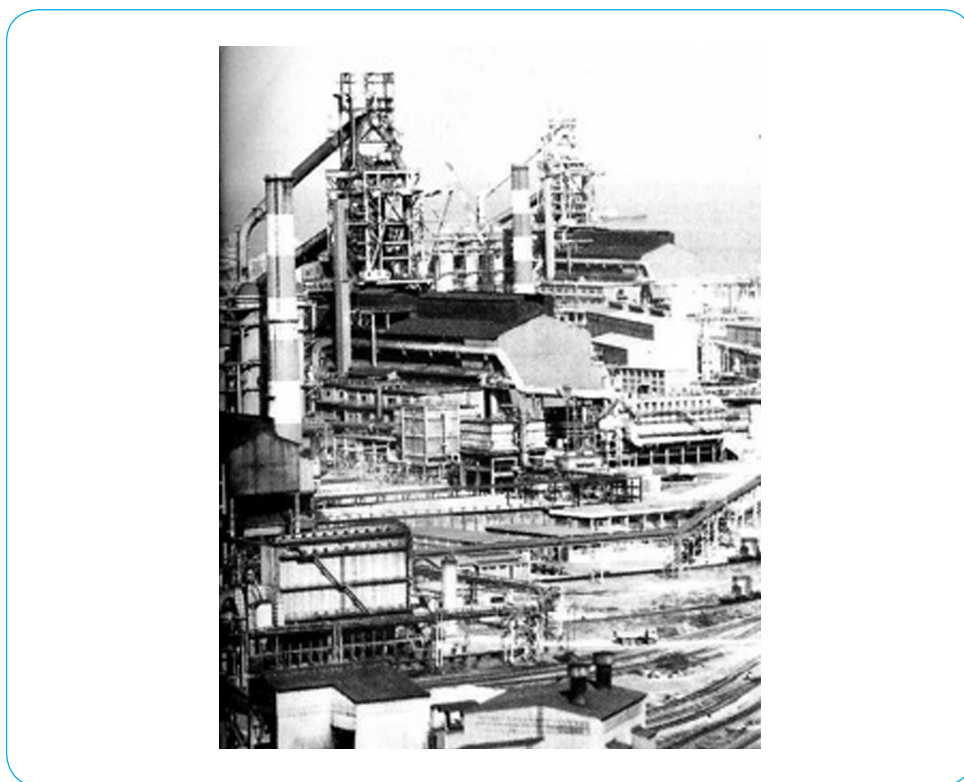
Table 2-13 | Sources of Funding for Pohang Iron and Steel Plant

(Unit: US\$ thousand, percent)

	Grant from Japanese Reparation Fund	Public Loan from Japanese Reparation Fund	Others	Sum
First Phase (1968~1973)	30,800 (18.3)	46,428 (27.6)	90,830 (54.1)	168,058 (100.0)
Cast-Iron Plan (1973~1975)	-	-	9,595 (100.0)	9,595 (100.0)
Second Phase (1973~1977)	-	42,252 (12.4)	299,002 (87.6)	341,254 (100.0)
Total	30,800 (5.9)	88,680 (17.1)	399,427 (77.0)	518,907 (100.0)

Source: POSCO (recited from the Economic Planning Board, White Paper on the Reparation Funds, 1976, p.203)

Figure 2-15 | Pohang Iron and Steel Plant



Source: The Ministry of Finance and Korea Development Bank, Foreign Capital and the Korean Economic Development: A Thirty-Year History (in Korean), 1993

3.2. Korean Government's Policies on Foreign Capital (1966~1972)

The substantial increase in Korea's exports in the mid 1960s altered foreigners' expectation on Korea's prospects,²¹ and contributed to the increase in foreign capital flows into Korea since 1966. Also, the large gap between domestic and foreign interest rates due to the interest rate reform in 1965 also provided incentives for foreign borrowing to domestic entrepreneurs.²² As it was expected that commercial loans from Japan would substantially increase after the normalization of the diplomatic relation between Korea and Japan, the payment guarantee system was simplified. Since January 1966, instead of payment guarantee by the Korean government, the Bank of Korea guaranteed the payment of foreign loans which the Korean government gave permission to introduce. In this period, while the Korean government continued to solicit foreign capital for further economic development, the Korean government also emphasized to introduce foreign capital with favorable conditions such as long-term maturity and low interest rates.

In August 1966, the Korean government merged three existing acts on the introduction of foreign capital, including the 'Foreign Capital Inducement Act', the 'Act on the Payment Guarantee of Foreign Debt', and the 'Act on Special Measures for the Procurement of Capital-goods by Long-term Payments', into the "Act on the Introduction of Foreign Capital" so as to ensure effective management of foreign capital.

Under the "Act on the Introduction of Foreign Capital," the Korean government tried to promote foreign direct investment into Korea by easing restrictions on foreign direct investment. Also, for the effective management of foreign capital, new clauses were added on the limit of the payment guarantee and the supervision of companies for which the payment guarantees were provided as follows: First, in order to prevent foreign borrowing from exceeding the ability to repay, the principal and interest payments due to the government payment guarantees could not exceed 9% of the total income of foreign exchanges each year. Second, if a company was delinquent on the foreign loan for which the repayment was guaranteed, the same procedures for the case of tax delinquency would be applied for the disposition of the collateral offered by the company so that the loss from the guarantee would be quickly recouped for sure. Third, if a company was delinquent on the foreign loan, the management of the company should be jointly liable for the loss of the Korean government due to the payment guarantee. Fourth, the Korean government would have the right to oversee the financial condition and properties of the company for which the payment guarantees were offered. Fifth, the government-guaranteed companies must offer

21. Krueger (1979), p.110.

22. The Committee for the Sixty-Year History of Korean Economy (2010), p.27-28.

their shares to the public within five years from the date of the approval for the payment guarantee.

As foreign capital, especially commercial loans, flowed substantially into Korea in the mid and late 1960s, some of the firms which had borrowed foreign debt with the Korean government's repayment guarantee could not repay the debt and the Korean government, through the Korea Development Bank, had to repay the debt for those insolvent firms. Such repayment by the Korean government became a critical social issue in the late 1960s. Thus, the Korean government introduced several measures for the effective management of foreign capital. For example, in 1969, the Korean government introduced another mechanism to the existing one in order to screen the appropriateness of the introduction of foreign capital more strictly. 'Committee on the Management of Foreign Capital' was newly established as an additional screening mechanism and the third economic secretary to the President in the Blue House (Presidential Office) was in charge of the Committee. Also, in 1970, the 'Investment Review Committee' was established as an internal organization in the Economic Planning Board and the committee evaluated investment projects financed by foreign loans with screening criteria such as marketability, optimality of the size of facilities, profitability, financial soundness, technical feasibility, and industry-related effects. Also, the Korean government, with consultation from the IMF, set the limit on the introduction of short-term and medium-term commercial loans for the period from 1970 to 1972 <Table 2-14>.

Table 2-14 | Limit on the Introduction of Short-term and Medium-term Commercial Loans (1970~1972)

(Unit: US\$ million)

Year	Limit	Maturity (years)
1970	96	3~10
	80	10~12
1971	60	shorter than 3 years
	208	3~10
	260	10~15
1972	65	shorter than 3 years
	257	3~10
	345	10~15

Source: The Economic Planning Board and the Bank of Korea (recited from the Ministry of Finance and Korea Development Bank, Foreign Capital and the Korean Economic Development: A Thirty-Year History (in Korean), 1993, p.96)

As substantial amount of commercial loans introduced in the mid and late 1960s and the burden of the payments of the principal and interests of commercial loans became heavier, the Korean government tried to attract foreign direct investment more actively. Especially, in 1970, the Korean government set up a Free Export Zone in Masan [Figure 2-16], a port in the southern area, with a purpose to promote exports. Foreign companies or joint venture companies which manufactured goods only for exports were eligible to be in the Free Export Zone.

Since 1966, the amount of commercial loans with short-term maturity and high interest rates increased substantially. For example, in 1967, the proportion of commercial loans with maturity between 3 and 5 years was 39.4 percent and the proportion of commercial loans with interest rate higher than 6.5 percent was 27.9 percent <Table 2-15>.

As the amount of foreign debt increased substantially since 1966, the burden of the principal and interest repayment became increasingly higher. The debt to service ratio (DSR) was merely 2.6 percent in 1966, but skyrocketed to 20.4 percent in 1971. Foreign debt also increased dramatically. The total amount of foreign debt dramatically increased from \$392 million in 1966 to 3.59 billion in 1972. Thus, the ratio of total foreign debt to current GNP increased from 10.6 percent in 1966 to 33.5 percent in 1972 <Table 2-16>.

At the end of the 1960s, many companies which had introduced foreign capital became insolvent and this became a social issue. Accordingly, in 1968, the Korean government tried to strengthen the supervision of the companies which had introduced foreign capital. In 1969, the Korean government implemented a plan to close or to reorganize 16 insolvent companies which had introduced foreign capital.

Figure 2-16 | Masan Free Export Zone



Source: The Ministry of Finance and Korea Development Bank, Foreign Capital and the Korean Economic Development: A Thirty-Year History (in Korean), 1993

Table 2-15 | Proportion of Commercial Loans with Short-term Maturity and High Interest Rates

(Unit: US\$ thousand, percent)

	1966	1967	1968
Commercial Loans with Maturity Between 3 and 5 years	39.4	41.9	28.6
Commercial Loans with Interest Rate Higher Than 6.5% per Annum	15.2	27.9	27.1

Source: The Bank of Korea (recited from the Ministry of Finance and Korea Development Bank (1993), p.130)

Table 2-16 | Foreign Debt and Payment of Principal and Interests for Medium and Long-Term Loans (1966~1972)

(Unit: US\$ million)

	1966	1967	1968	1969	1970	1971	1972	1966~1972
Payment of Principal and Interests for Medium and Long-Term Loans	13	31	45	90	185	230	365	959
(Public Loans)	2	5	6	14	18	36	69	150
(Commercial Loans)	11	26	39	76	141	182	257	732
(Banking Loans)	-	-	-	-	26	12	39	77
DSR (%)	2.9	5.2	5.2	7.8	18.2	20.4	18.4	-
Total Foreign Debt/ GNP (%)	10.6	15.0	23.1	27.3	27.7	30.8	33.5	-
Total Foreign Debt	392	645	1,199	1,800	2,245	2,922	3,587	-

Source: The Economic Planning Board and the Bank of Korea (recited from the Ministry of Finance and Korea Development Bank (1993), p.131)

3.3. Foreign Capital Inflows into Korea (1966~1972)

The amount of foreign capital, especially public and commercial loans, substantially increased since 1966. The amounts of public and commercial loans reached \$1.13 billion and \$1.95 billion, respectively, during the period from 1966 to 1972. During the same period, bank loans of \$205 million and foreign direct investment of \$227 million were introduced. Foreign aid from the U.S. and the U.N. amounted to \$552 million during the same period, but the amount of aid decreased throughout the period. The amount of the aid was just \$5 million in 1972 <Table 2-17>.

Table 2-17 | Introduction of Foreign Capital (1966~1972)

(Unit: US\$ million)

	1966	1967	1968	1969	1970	1971	1972	1966~1972
Public Loans	73	106	70	139	115	303	324	1,130
Commercial Loans	110	124	268	410	367	345	326	1,950
Loans by Financial Institutions	-	-	40	30	25	90	20	205
FDI	14	11	19	13	66	43	61	227

	1966	1967	1968	1969	1970	1971	1972	1966~1972
Aid from the U.S. and the U.N.	103	97	106	107	83	51	5	552
Grant from Japan	30	30	34	31	25	31	27	211
Sum	330	368	537	730	680	863	763	4,275

Source: The Economic Planning Board and the Bank of Korea (recited from the Ministry of Finance and Korea Development Bank (1993), p.108)

During the period from 1966 to 1972, the total amount of public loans reached \$1.13 billion. Most of the public loans were from the U.S., Japan, and international organizations. The amounts of public loans from the U.S., Japan, and international organizations were \$685 million, \$256 million, and \$152 million, respectively. The majority of public loans were introduced in 1971 and 1972 due to large agricultural crop failures in those years <Table 2-18>.

Table 2-18 | Introduction of Public Loans By Country (1966~1972)

(Unit: US\$ million)

	1966	1967	1968	1969	1970	1971	1972	1966~1972
U.S.	54	71	42	105	86	140	187	685
Japan	14	26	17	21	13	102	63	256
International Organization	-	-	7	11	14	57	63	152
West Germany	5	8	4	1	1	2	4	25
U.K.	0	1	-	-	-	-	-	1
Canada	-	-	0	1	-	2	3	6
Others	-	-	-	-	1	-	4	5
Sum	73	106	70	139	115	303	324	1,130

Source: The Economic Planning Board and the Bank of Korea (recited from the Ministry of Finance and Korea Development Bank (1993), p.110)

Among the public loans of \$1.13 billion introduced during the period from 1966 to 1972, \$512 million were used for agriculture, forestry, and fisheries and \$115 million were used for the manufacturing industry. Also, \$493 million were used for social infrastructures such as facilities for transportation, storage, and electricity <Table 2-19>.

Table 2-19 | Introduction of Public Loans By Industry (1966~1972)

(Unit: US\$ million)

	1966	1967	1968	1969	1970	1971	1972	1966~1972
Agriculture, Forestry and Fishery	-	-	-	78	54	203	177	512
Mining	5	2	2	1	-	-	-	10
Manufacturing	32	20	15	2	5	6	35	115
Social Infrastructure and Other Service Industries	36	84	53	58	56	96	112	493
Sum	73	106	70	139	115	303	324	1,130

Source: The Economic Planning Board and the Bank of Korea (recited from the Ministry of Finance and Korea Development Bank (1993), p.112)

On the other hand, during the period from 1966 to 1972, the total amount of commercial loans reached \$1.95 billion. Among them, the amounts of commercial loans introduced from the U.S. and Japan were \$607 million and \$531 million, respectively. Also, European countries such as France, West Germany, and the U.K. provided substantial amount of commercial loans to Korea (\$194 million from France, \$167 million from West Germany, and \$174 million from the U.K.). Thus, Korea was partly successful in the diversification of foreign funding sources to other countries than the U.S. and Japan <Table 2-20>.

Table 2-20 | Introduction of Commercial Loans By Country (1966~1972)

(Unit: US\$ million)

	1966	1967	1968	1969	1970	1971	1972	1966~1972
U.S.	13	19	94	162	154	99	66	607
Japan	61	46	88	88	83	63	102	531
France	27	4	5	23	46	67	22	194
West Germany	7	16	35	45	32	16	16	167
U.K.	-	1	6	30	28	52	57	174
Netherlands	-	-	-	4	4	2	9	19
Belgium	-	2	0	2	2	11	11	28
Italy	-	-	20	32	5	7	2	66
Others	2	36	20	24	13	28	41	164
Sum	110	124	268	410	367	345	326	1,950

Source: The Economic Planning Board and the Bank of Korea (recited from the Ministry of Finance and Korea Development Bank (1993), p.116)

Among the commercial loans of \$1.95 billion introduced during the period from 1966 to 1972, \$76 million were used for agriculture, forestry, and fisheries and \$1.05 billion were used for the manufacturing industry. Also, \$823 million were used for social infrastructures and the service industries <Table 2-21>.

Table 2-21 | Introduction of Commercial Loans By Industry (1966~1972)

(Unit: US\$ million)

	1966	1967	1968	1969	1970	1971	1972	1966~1972
Agriculture, Forestry and Fishery	24	11	3	14	9	3	12	76
Manufacturing	85	80	164	170	148	189	215	1,051
Social Infrastructure and Other Service Industries	1	33	101	226	210	153	99	823
Sum	110	124	268	410	367	345	326	1,950

Source: The Economic Planning Board and the Bank of Korea (recited from the Ministry of Finance and Korea Development Bank (1993), p.117)

3.4. Korean Government's Policies on Foreign Capital (1973~1979)

Because domestic saving was not large enough to finance a long-term economic development plan proposed by the Korean government in 1973, the introduction of foreign capital was inevitable. Specific financing needs for the long-term economic development plan included (i) financial support for Saemaeul movement, (ii) construction of facilities for heavy and chemical industries and social infrastructure, and (iii) industrial reorganization for strengthening the international competitiveness of industries. Also, as oil price hiked due to the first oil crisis and commercial loans which had been introduced between 1968 and 1969 matured, the demand for foreign funds increased substantially.

Thus, since 1973, the Korean government adopted a policy to promote the introduction of foreign capital in order to meet the enlarged financing needs mainly due to the implementation of a long-term development plan and the widening trade deficit. In addition, the Korean government promoted the introduction of foreign capital from the Middle East oil-producing countries. In particular, the Korean government supported the business activities of Korean construction companies in the Middle East oil-producing countries.

Since the second half of 1975 as the global economy began to recover, the export of Korea also increased again. In addition, foreign exchange earnings from the business activities of

Korean construction companies in the Middle East oil-producing countries substantially increased. Thus, under these favorable situations, the Korean government strengthened the management of the introduction of foreign capital.

3.5. Foreign Capital Inflows into Korea (1973~1979)

During the period from 1973 to 1979, the amounts of public and commercial loans were \$4.52 billion and \$7.44 billion, respectively. During the same period, financial institutions borrowed \$2.75 billion from foreign investors and foreign direct investment into Korea amounted to \$899 million <Table 2-22>.

Table 2-22 | Introduction of Foreign Capital (1973~1979)

(Unit: US\$ million)

	1973	1974	1975	1976	1977	1978	1979	1973~79
Public Loans	403	385	477	713	636	817	1,089	4,520
Commercial Loans	461	603	801	839	1,241	1,913	1,578	7,436
Loans by Financial Institutions	49	218	200	131	300	328	1,522	2,748
FDI	191	163	62	85	102	101	195	899
Sum	1,104	1,369	1,540	1,768	2,279	3,159	4,384	15,603

Source: The Ministry of Finance and the Bank of Korea (recited from the Ministry of Finance and Korea Development Bank (1993), p.159, 212)

During the period from 1973 to 1979, the total amount of public loans reached \$4.52 billion. Most of the public loans were from the U.S., Japan, and international organizations. The amounts of public loans from the U.S., Japan, and international organizations were \$1,107 million, \$630 million, and \$2,132 million, respectively. In addition, West Germany, the U.K., and Canada provided public loans of \$134 million, \$204 million, and \$222 million, respectively during this period <Table 2-23>.

Table 2-23 | Introduction of Public Loans By Country (1973~1979)

(Unit: US\$ million)

	1973	1974	1975	1976	1977	1978	1979	1973~79
U.S.	195	98	79	193	126	176	240	1,107
Japan	102	124	61	55	76	98	114	630
International Organization	93	150	292	357	306	407	527	2,132
West Germany	7	13	34	45	16	7	12	134
U.K.	-	-	1	12	32	60	99	204
France	-	-	1	8	11	2	-	22
Canada	6	-	9	40	41	49	77	222
Hong Kong	-	-	-	2	22	18	20	62
Others	-	-	-	1	6	-	-	7
Sum	403	385	477	713	636	817	1,089	4,520

Source: The Ministry of Finance and the Bank of Korea (recited from the Ministry of Finance and Korea Development Bank (1993), p.162, 214)

Among the public loans of \$4.52 billion introduced during the period from 1973 to 1979, \$836 million were used for agriculture, forestry, and fisheries, especially for Samaeul movement. In addition, \$183 million were used for manufacturing industry, and \$3.50 billion were used for social infrastructures <Table 2-24>.

Table 2-24 | Introduction of Public Loans By Industry (1973~1979)

(Unit: US\$ million)

	1973	1974	1975	1976	1977	1978	1979	1973~79
Agriculture, Forestry and Fishery	158	46	43	103	181	165	140	836
Manufacturing	36	19	39	16	17	23	33	183
Social Infrastructure and Other Service Industries	209	320	395	594	438	629	916	3,501
Sum	403	385	477	713	636	817	1,089	4,520

Source: The Ministry of Finance and the Bank of Korea (recited from the Ministry of Finance and Korea Development Bank (1993), p.164, 216)

During the period from 1973 to 1979, the total amount of commercial loans reached \$7.43 billion. Among them, the amounts of commercial loans introduced from the U.S. and Japan were \$1.72 billion and \$1.66 billion, respectively. Also, West Germany, the U.K., and France provided commercial loans to Korea (\$338 million from West Germany, \$1,152 million from the U.K., and \$468 million from France) <Table 2-25>.

Table 2-25 | Introduction of Commercial Loans By Country (1973~1979)

(Unit: US\$ million)

	1973	1974	1975	1976	1977	1978	1979	1973~79
U.S.	152	305	313	218	256	304	168	1,716
Japan	69	104	120	46	346	585	390	1,660
West Germany	13	16	41	62	55	54	97	338
U.K.	32	64	85	126	208	353	284	1,152
France	16	24	63	94	69	139	63	468
Others	179	90	179	293	307	478	577	2,103
Sum	461	603	801	839	1,241	1,913	1,578	7,436

Source: The Ministry of Finance and the Bank of Korea (recited from the Ministry of Finance and Korea Development Bank (1993), p.168, 221)

Among the commercial loans of \$7.44 billion introduced during the period from 1973 to 1979, \$92 million were used for agriculture, forestry and fisheries and \$5.55 billion were used for manufacturing industry. Also, \$2.25 billion were used for social infrastructures and service industries <Table 2-26>.

Table 2-26 | Introduction of Commercial Loans By Industry (1973~1979)

(Unit: US\$ million)

	1973	1974	1975	1976	1977	1978	1979	1973~1979
Agriculture, Forestry and Fishery	13	27	10	21	10	6	5	92
Manufacturing	202	428	586	630	893	1,305	1,501	5,545
Social Infrastructure and Other Service Industries	241	148	205	192	339	602	522	2,249
Sum	461	603	801	839	1,241	1,913	1,578	7,436

Source: The Ministry of Finance and the Bank of Korea (recited from the Ministry of Finance and Korea Development Bank (1993), p.170, 223)

During the period, although the Korean government promoted the introduction of public loans and FDI, the amount of commercial loans with short-term maturity and high interest rates increased substantially. During the period from 1973 to 1978, the annual interest rates for commercial loans ranged from 9.2 percent to 12.0 percent, while the annual interest rates for public loans ranged from 4.4 percent to 7.8 percent. Also, the maturity of commercial loans was shorter than that of public loans <Table 2-27>.

Table 2-27 | Nominal Interest Rates of Public and Commercial (1973~1978)

(Unit: US\$ million)

	1973	1974	1975	1976	1977	1978
Public Loans	4.4	5.6	6.5	7.1	6.7	7.8
Commercial Loans	9.3	9.2	10.1	11.8	13.0	12.0

Source: The Economic Planning Board (recited from the Ministry of Finance and Korea Development Bank (1993), p.184)

The increase in commercial loans led to the increase in the principal and interest payments during the period from 1973 to 1978. The principal and interest payments of commercial loans during this period amounted to \$3.46 billion, while the principal and interest payments of all the long-term and medium-term loans amounted to \$5.53 billion. Also, the amount of foreign debt increased substantially in this period. The total amount of foreign debt dramatically increased from \$4.26 billion in 1970 to \$14.87 billion in 1978. The ratio of total foreign debt to current GNP also increased from 35.5 percent in 1973 to 41.8 percent in 1975. However, the ratio of total foreign debt to current GNP decreased to 30.3 percent in 1978 because of the improvement in the balance of payments <Table 2-28>. As the global economy began to recover, Korea's exports also increased again. Besides, foreign exchange earnings from the business activities of Korean construction companies in the Middle East oil-producing countries substantially increased. Both of these contributed to the improvement in the balance of payments for Korea.

Table 2-28 | Foreign Debt and Payment of Principal and Interests for Medium and Long-Term Loans (1973~1978)

(Unit: US\$ million)

	1973	1974	1975	1976	1977	1978	1973~1978
Payment of Principal and Interests for Medium and Long-Term Loans	516	546	655	853	1,183	1,779	5,532
(Public Loans)	84	90	138	206	284	384	1,186
(Commercial Loans)	335	401	417	542	702	1,060	3,457
(Banking Loans)	97	55	99	101	190	331	873
(Foreign Currency Denominated Bonds)	-	-	1	4	7	4	16
DSR (%)	14.2	11.2	12.0	10.6	10.2	12.1	-
Total Foreign Debt/GNP (%)	32.5	32.8	41.8	38.4	35.9	30.3	-
Total Foreign Debt	4,260	5,937	8,456	10,533	12,648	14,871	-

Source: The Ministry of Finance (recited from the Ministry of Finance and Korea Development Bank (1993), p.185)

The Liberalization of Korean Capital Markets and Financial Crisis (1980~1997)

1. Overview of the Korean Economy in the 1980s and 1990s
2. Foreign Debt Crisis in the Early 1980s
3. Foreign Capital Inflows into Korea (1980~1997)
4. Decline in Public and Commercial Loans during the 1980s and 1990s
5. Foreign Direct Investments in the 1980s and 1990s
6. Foreign Securities Investments in the 1980s and 1990s
7. Foreign Debt and Financial Crisis in the Late 1990s

The Liberalization of Korean Capital Markets and Financial Crisis (1980~1997)

1. Overview of the Korean Economy in the 1980s and 1990s

The adverse effects of the government-led economic growth strategy that had been pursued continuously since the 1960s became apparent in the late 1970s. Amid the concerns that high inflation and over-investments in heavy and chemical industries might weaken the international competitiveness of Korean industries, the second oil crisis in the late 1970s had a negative effect on the Korean economy. The economic condition for Korea substantially deteriorated in the late 1970s and the early 1980s. The inflation rate skyrocketed and the growth rate became much lower [Figure 3-1], [Figure 3-2].

The Korean government concluded that the crisis Korea faced in the late 1970s was not a temporary one, and was mainly due to the structural problems which were the side effects of the government-led economic growth strategy adopted in the 1960s and 1970s. Thus, the Korean government tried to switch its growth strategy from a government-led one to a market-led one. The first move in the switch of the strategies was the announcement of “Comprehensive Policy Measures of Economic Stabilization” by the Korean government in April 1979. The policy measures included the reduction of the export support, the adjustment of investment in heavy and chemical industries, and the reduction of investments in rural housing improvement projects. Also, the Korean government announced that it would rely on market forces to implement those policies rather than administrative powers.

The comprehensive policy measures were reflected in the 5th five-year economic and social development plan, which began in 1982. The goal of the plan was to achieve optimal economic growth under the basic principles of stability, efficiency, and balance. Concrete policy measures to achieve the goal were specified as follows: First, in order to

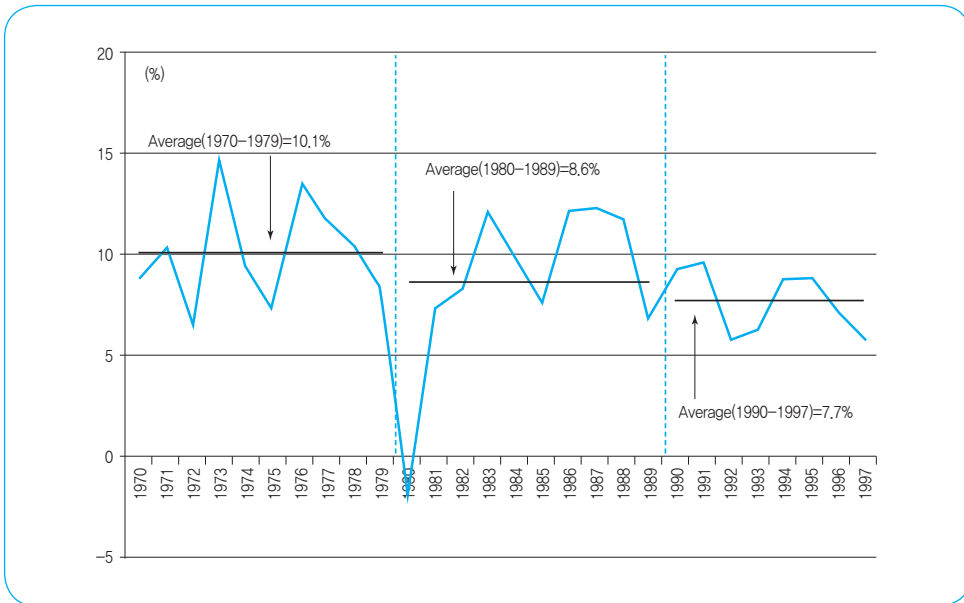
achieve economic stability, price stability was the first and foremost priority. The Korean government targeted for consumer price inflation of a single digit. Second, in order to improve the efficiency of the economy, the Korean government switched its growth strategy from a government-led one to a market-led one. Third, in order to promote balanced growth across various group of people, sectors and regions. The Korean government tried to nurture the small and medium enterprises which produced intermediate parts to develop regional industrial complex and to expand the social security to more people. As a result of these policies, with the help of the stabilization of oil prices, the inflation has been settled down to a one-digit rate since 1982 [Figure 3-2].

Since the middle of 1980s, against the backdrop of the weak dollar, low oil price, and low international interest rates, the export of Korea increased dramatically [Figure 3-3] and the economic growth rate of Korea returned to a high level. In particular, the current account which had been in chronic deficit recorded a surplus in the late 1980s. As the current account turned from deficit to surplus and domestic savings rate surpassed investment rate in the late 1980s, foreign debt began to decrease in 1986 [Figure 3-4].

Korea's economic policy on trade was also completely transformed in the 1980s. In the 1960s and 1970s, the Korean government promoted export and placed various import restrictions at the same time. However, since the 1980s, the Korean government opened up the economy mainly through the liberalization of imports. Also, in the late 1980s, the Korean government began to liberalize foreign exchange and capital markets, although in a gradual manner.

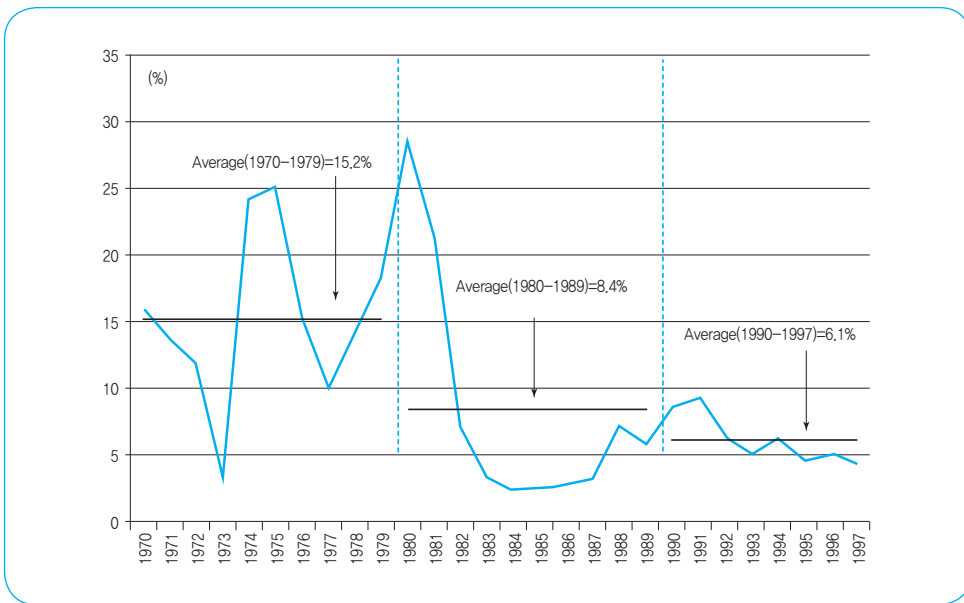
The opening-up of Korean capital markets to foreign investors began in earnest in 1992, when foreign investors could invest directly in the Korean stock market. As Korea joined the OECD, the liberalization of Korean capital market was more advanced. While Korean capital market opened up to foreign investors, a massive volume of foreign capital flew into Korea and the amount of foreign debt, especially short-term debt, substantially increased. Thus, Korea had a vulnerable economic structure to sudden outflow of foreign capital. In 1997, when some conglomerates went bankrupt, foreign investors lost their confidence in the prospect of Korean economy, which led to a massive outflow of foreign capital. Thus, Korea suffered from a currency crisis at the end of 1997.

Figure 3-1 | Korea's Annual GDP Growth Rate (1970~1997)



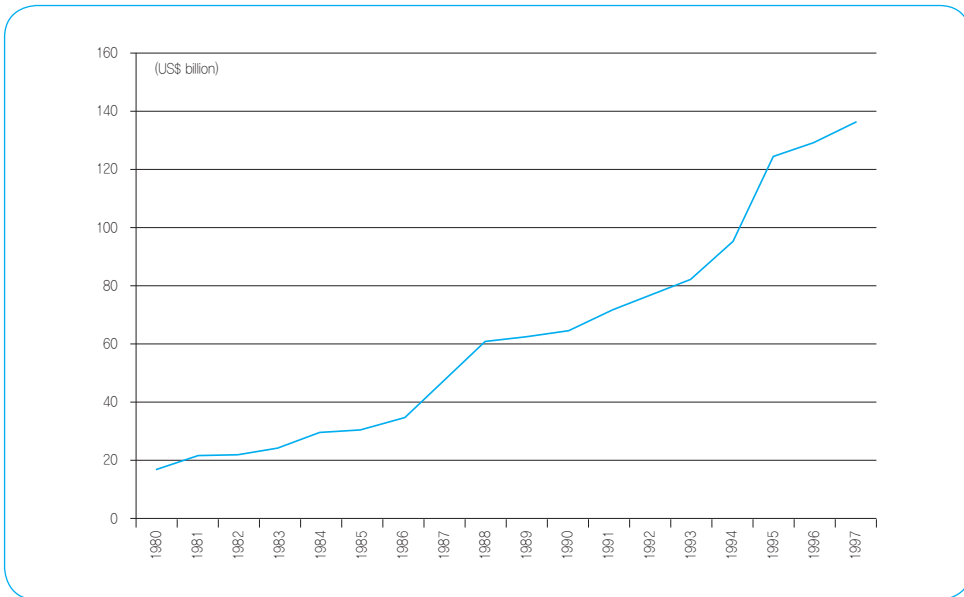
Source: The Bank of Korea, Economic Statistics System (<http://ecos.bok.or.kr>)

Figure 3-2 | Korea's Annual Inflation Rate (1970~1997)



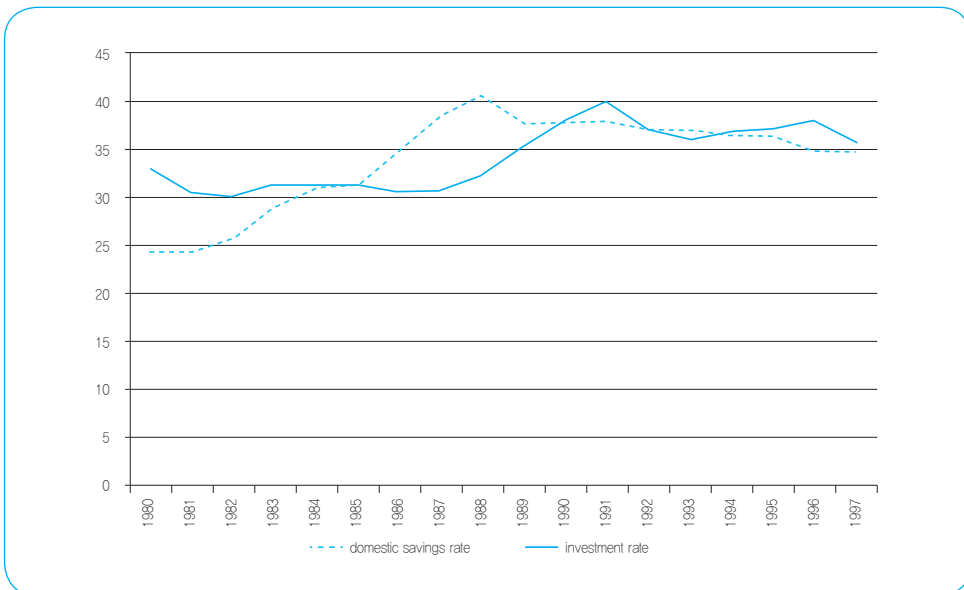
Source: The Bank of Korea, Economic Statistics System (<http://ecos.bok.or.kr>)

Figure 3-3 | Korea's Annual Export (1980~1997)



Source: The Bank of Korea, Economic Statistics System (<http://ecos.bok.or.kr>)

Figure 3-4 | Korean Domestic Savings and Investment Rates (1980~1997)



Source: The Bank of Korea, Economic Statistics System (<http://ecos.bok.or.kr>)

2. Foreign Debt Crisis in the Early 1980s

While many developing countries accumulated a large volume of foreign debt, Poland, Mexico, Brazil, and Argentina were unable to repay foreign debt in the early 1980s. Under these circumstances, the Korean government promoted the introduction of foreign capital in order to finance development projects and current account deficit. For example, in order to promote foreign direct investment, the Korean government switched from a positive system to a negative system in 1983. Under the positive system, foreign direct investment was allowed in the sectors on the list. However, under the negative system, foreign direct investment was allowed in any sector if not on the list. As a means of opening up Korean capital markets to foreign investors, the Korean government permitted the issuance of first foreign beneficiary securities in 1981 and the listing of Korea Fund on the New York Stock Exchange in 1984.

As Korea financed its development projects mainly through foreign loans since the early 1960s, Korea accumulated a large volume of foreign debt. The total foreign debt amounted to \$2.25 billion, the proportion of short-term foreign debt was 18.9 percent, and the ratio of foreign debt to GNP was 28.6 percent in 1970. However, in 1985, the total foreign debt increased to \$46.76 billion, the proportion of short-term foreign debt increased to 23 percent, and the ratio of foreign debt to GNP also increased to 55.9 percent <Table 3-1>, <Table 3-3>. Thus, in the early 1980s, Korea had the fourth largest foreign debt in the world, only surpassed by Brazil, Mexico, and Argentina <Table 3-2>. Also, as foreign debt indicators for Korea deteriorated in the early 1980s, there was a growing concern on the abilities of Korea to repay foreign debt. However, as Korea enjoyed current account surpluses in the late 1980s, the amount of total foreign debt began to decrease and foreign debt indicators improved <Table 3-4>. Thus, the concern on the abilities of Korea to repay foreign debt was not a serious one any more at the end of the 1980s.

Table 3-1 | Korea's Total and Short-term Foreign Debt (1970~1989)

(Unit: US\$ million, percent)

Year	Total Foreign Debt (A)	Short-term Foreign Debt (B)	B/A
1970	2,245	357	18.9
1971	2,922	450	15.4
1972	3,589	600	16.7
1973	4,260	612	14.4
1974	5,937	1,136	19.1
1975	8,456	2,167	25.6

Year	Total Foreign Debt (A)	Short-tem Foreign Debt (B)	B/A
1976	10,533	2,681	25.4
1977	12,648	2,923	23.1
1978	14,871	2,593	17.4
1979	20,500	4,651	22.4
1980	27,365	7,575	27.7
1981	32,490	8,486	26.1
1982	37,295	10,288	27.6
1983	40,094	10,567	26.4
1984	43,053	11,425	26.5
1985	46,762	10,732	23.0
1986	44,510	9,256	20.8
1987	35,568	9,291	26.1
1988	31,150	9,780	31.4
1989	29,368	10,820	36.8

Source: The Ministry of Finance, Korean Economy and Introduction of Foreign Capital, 1991, p.20

Table 3-2 | Total Foreign Debt for Heavily-Debted Countries

(Unit: US\$ hundred million)

Country	1981	1985	1988	1989
Brazil	806	1,046	1,146	1,146
Mexico	782	969	1,016	959
Argentina	357	509	589	596
Korea	330	472	370	337
Venezuela	321	352	347	341
Chile	157	204	196	182
Poland	-	333	421	427
Philippines	209	266	294	304
Sum of 46 Heavily-Debted Countries	4,094	5,764	6,560	6,587

Source: World Debt Table (recited from the Ministry of Finance, Korean Economy and Introduction of Foreign Capital, 1991, p.15)

**Table 3-3 | Korea's Debt per Capita and Ratio of Total Foreign Debt to GNP
(1965~1989)**

(Unit: US\$, percent)

Year	Total Foreign Debt/Population	Total Foreign Debt/GNP
1965	7.2	6.9
1966	69.6	28.6
1967	88.8	31.2
1968	107.1	35.0
1969	124.9	32.5
1970	171.1	32.8
1971	239.5	41.8
1972	294.2	38.4
1973	347.5	35.9
1974	401.9	30.3
1975	546.7	35.3
1976	718.2	48.5
1977	839.5	52.2
1978	949.0	56.4
1979	1,003.5	53.4
1980	1,065.5	51.8
1981	1,146.0	55.9
1982	1,080.8	43.3
1983	855.5	27.6
1984	742.1	18.4
1985	693.0	14.4
1986	7.2	6.9
1987	69.6	28.6
1988	88.8	31.2
1989	107.1	35.0

Source: The Ministry of Finance, Korean Economy and Introduction of Foreign Capital, 1991, p.14

Table 3-4 | Index for Foreign Debt Repayment (1976~1989)

(Unit: percent)

Year	Payment of Principal and Interests for Foreign Debt /Population
1976	40.4
1977	34.3
1978	29.0
1979	40.1
1980	52.3
1981	51.3
1982	57.0
1983	45.0
1984	54.0
1985	56.1
1986	45.3
1987	31.7
1988	21.6
1989	20.5

Source: Adapted by the author with the data from The Ministry of Finance, Korean Economy and Introduction of Foreign Capital, 1991, p.18

3. Foreign Capital Inflows into Korea (1980~1997)

Whereas the principal types of foreign capital introduced in the 1960s and 1970s were public and commercial loans, financial institutions started to play a major role in the introduction of foreign capital since the 1980s. During the period from 1980 to 1985, the borrowing from financial institutions amounted to \$13.36 billion, which exceeded the amount of public or commercial loans (public loan of \$9.02 billion and commercial loan of \$6.36 billion) introduced during the period. Also, during the period from 1986 to 1992, the amount of borrowing from financial institutions exceeded the amount of public or commercial loans (borrowing from financial institutions: \$10.30, public loan of \$4.69 billion and commercial loan of \$526 million) introduced during the period. In addition, the amount of debt securities issued by private companies was \$834 million during the period from 1980 to 1985 and increased to \$4.52 billion during the period from 1986 to 1992. Foreign direct investment was also increased from \$962 million during the period from 1980 to 1985 to \$5.68 billion during the period from 1986 to 1992 <Table 3-5>.

Table 3-5 | Introduction of Foreign Capital (1980~1992)

(Unit: US\$ million)

	1980	1981	1982	1983	1984	1985	1980~1985
Public Loans	1,516	1,690	1,868	1,494	1,424	1,024	9,016
Commercial Loans	1,403	1,247	914	973	858	964	6,359
Loans by Financial Institutions	440	2,196	1,619	2,121	3,121	3,862	13,359
Debt Securities Issued By Companies	-	43	-	113	200	478	834
FDI	131	152	129	122	193	240	962
Sum	3,490	5,328	4,536	4,823	5,796	6,563	30,530

(Unit: US\$ million)

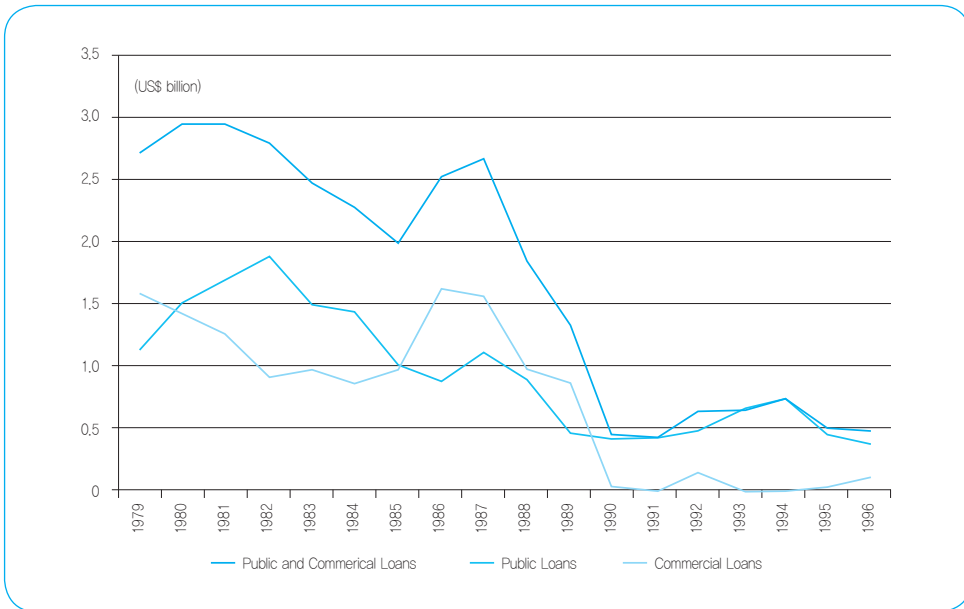
	1986	1987	1988	1989	1990	1991	1992	1986~1992
Public Loans	880	1,109	891	475	418	429	486	4,688
Commercial Loans	1,620	1,558	988	860	30	-	150	5,206
Loans by Financial Institutions	1,180	777	9	208	1,445	4,450	2,227	10,296
Debt Securities Issued By Companies	389	315	110	50	570	1,165	1,916	4,515
FDI	477	626	894	812	895	1,177	803	5,684
Sum	4,546	4,385	2,892	2,405	3,358	7,221	5,582	30,389

Source: The Ministry of Finance and the Bank of Korea (recited from the Ministry of Finance and Korea Development Bank (1993), p.212, 268)

4. Decline in Public and Commercial Loans during the 1980s and 1990s

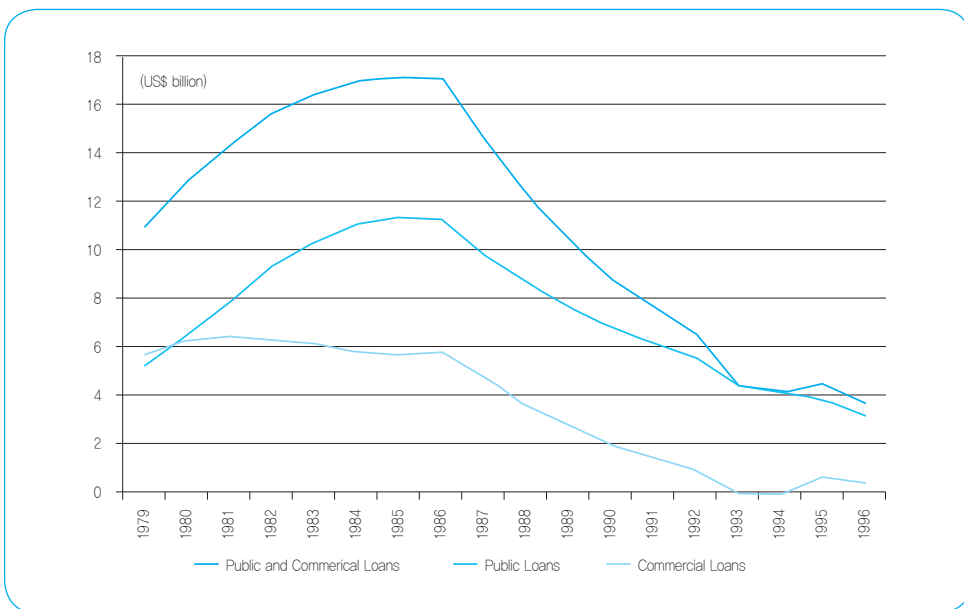
The amount of public and commercial loans substantially decreased since 1987 and amounted to about \$0.5 billion per year in the early 1990s. Especially, the introduction of commercial loans was negligible since the early 1990s [Figure 3-5]. Thus, the balance of public and commercial loans began to decrease in 1986 and was around \$1 billion in the middle of the 1990s [Figure 3-6].

Figure 3-5 | The Amount of Public and Commercial Loans Newly Introduced (1979~1996)



Source: The Bank of Korea, Economic Statistics System (<http://ecos.bok.or.kr>)

Figure 3-6 | The Balance of Public and Commercial Loans (1979~1996)



Source: The Bank of Korea, Economic Statistics System (<http://ecos.bok.or.kr>)

During the period from 1980 to 1985, the total amount of public loans reached \$9.02 billion. Most of the public loans were from international organizations, the U.S., and Japan. The amounts of public loans from international organizations, the U.S., and Japan were \$3.59 billion, \$2.42 billion, and \$782 million, respectively. During the period from 1986 to 1992, the total amount of public loans decreased to \$4.69 billion. Most of the public loans were still from international organizations. The amounts of public loans from international organizations, Japan, and France were \$2.58 billion, \$1.25 billion, and \$668 million, respectively. Notably, there was no public loan from the U.S. for the period from 1988 to 1992 <Table 3-6>.

Table 3-6 | Introduction of Public Loans By Country (1980~1992)

(Unit: US\$ million)

	1980	1981	1982	1983	1984	1985	1980~1985
U.S.	336	457	635	515	313	164	2,420
Japan	136	345	77	68	65	91	782
International Organization	381	452	863	672	740	479	3,587
West Germany	2	9	12	17	13	6	59
U.K.	123	100	22	6	13	13	277
France	10	33	70	143	186	201	643
Canada	191	77	57	34	-	-	359
Hong Kong	187	116	69	12	-	-	384
Others	151	101	62	27	94	70	505
Sum	1,516	1,690	1,868	1,494	1,424	1,024	9,016

(Unit: US\$ million)

	1986	1987	1988	1989	1990	1991	1992	1986~1992
U.S.	69	6	-	-	-	-	-	75
Japan	101	181	196	196	198	208	172	1,252
International Organization	446	614	552	231	208	217	314	2,582
Germany	4	31	9	2	-	-	-	46
U.K.	1	-	-	-	-	-	-	1
France	239	249	130	38	12	-	-	668
Others	20	28	4	8	-	4	-	64
Sum	880	1,109	891	475	418	429	486	4,688

Source: The Ministry of Finance (recited from the Ministry of Finance and Korea Development Bank (1993), p.214, 270)

Among the public loans of \$9.02 billion introduced during the period from 1980 to 1985, \$749 million were used for agriculture, forestry, and fisheries and \$34 million were used for the mining industry. In addition, \$558 million were used for the manufacturing industry, and \$7.68 billion were used for social infrastructure and the service industry. During the period from 1986 to 1992, \$59 million were used for agriculture and forestry, \$518 million were used for the manufacturing industry, and \$4.19 billion were used for social infrastructure and the service industry <Table 3-7>.

Table 3-7 | Introduction of Public Loans By Industry (1980~1992)

(Unit: US\$ million)

	1980	1981	1982	1983	1984	1985	1980~1985
Agriculture, Forestry and Fishery	163	405	111	70	-	-	749
Mining	10	1	4	7	11	1	34
Manufacturing	28	23	19	133	217	138	558
Social Infrastructure and Other Service Industries	1,316	1,261	1,733	1,284	1,196	885	7,675
Sum	1,516	1,690	1,868	1,494	1,424	1,024	9,016

(Unit: US\$ million)

	1986	1987	1988	1989	1990	1991	1992	1986~1992
Agriculture, Forestry and Fishery	29	6	24	-	-	-	-	59
Mining	-	-	-	-	-	-	-	-
Manufacturing	112	207	25	19	-	119	36	518
Social Infrastructure and Other Service Industries	739	896	842	456	418	310	448	4,109
Sum	880	1,109	891	475	418	429	486	4,688

Source: The Ministry of Finance (recited from the Ministry of Finance and Korea Development Bank (1993), p.216, 271)

During the period from 1980 to 1985, the total amount of commercial loans reached \$6.36 billion. Among them, the amounts of commercial loans introduced from the U.S. and Japan were \$1.55 billion and \$1.31 billion, respectively. Also, the U.K., and Hong Kong provided commercial loans to Korea (\$1.1 billion from the U.K. and \$805 million from Hong Kong). During the period from 1986 to 1992, the total amount of commercial loans reached \$5.21 billion. Among them, the amounts of commercial loans introduced

from Japan and the U.K. were \$2.52 billion and \$1.12 billion, respectively. The amount of commercial loans from the U.S. substantially decreased to \$133 million during the same period <Table 3-8>.

Table 3-8 | Introduction of Commercial Loans By Country (1980~1992)

(Unit: US\$ million)

	1980	1981	1982	1983	1984	1985	1980~1985
U.S.	238	394	299	226	236	155	1,548
Japan	301	99	90	202	182	432	1,306
West Germany	68	10	30	1	28	3	140
U.K.	162	187	182	254	141	174	1,100
France	31	124	56	72	10	26	319
Hong Kong	97	101	178	69	219	141	805
Others	506	332	79	149	42	33	1,141
Sum	1,403	1,247	914	973	858	964	6,359

(Unit: US\$ million)

	1986	1987	1988	1989	1990	1991	1992	1986~1992
U.S.	93	39	1	-	-	-	-	133
Japan	663	573	629	475	30	-	150	2,520
Germany	114	71	56	9	-	-	-	250
U.K.	407	570	116	22	-	-	-	1,115
France	69	44	43	1	-	-	-	381
Hong Kong	89	174	28	312	-	-	-	603
Others	185	87	115	41	-	-	-	352
Sum	1,620	1,558	988	860	30	-	150	5,206

Source: The Ministry of Finance (recited from the Ministry of Finance and Korea Development Bank (1993), p.221, 276)

Among the commercial loans of \$6.36 billion introduced during the period from 1980 to 1985, \$20 million was used for agriculture, forestry, and fisheries and \$38 million was used for the mining industry. In addition, \$2.5 billion was used for the manufacturing industry and \$3.8 billion was used for social infrastructures and the service industries. On the other hand, among the commercial loans of \$5.21 billion introduced during the period from 1986 to 1992, \$3.48 billion was used for the manufacturing industry and \$1.73 billion was used for social infrastructures and the service industries <Table 3-9>.

Table 3-9 | Introduction of Commercial Loans By Industry (1980~1992)

(Unit: US\$ million)

	1980	1981	1982	1983	1984	1985	1980~1985
Agriculture, Forestry and Fishery	8	12	-	-	-	-	20
Mining	-	1	8	29	-	-	38
Manufacturing	618	476	347	305	301	456	2,503
Social Infrastructure and Other Service Industries	777	758	559	639	557	508	3,798
Sum	1,403	1,247	914	973	858	964	6,359

(Unit: US\$ million)

	1986	1987	1988	1989	1990	1991	1992	1986~1992
Agriculture, Forestry and Fishery	-	-	-	-	-	-	-	-
Mining	-	-	-	-	-	-	-	-
Manufacturing	1,039	1,168	805	468	1	-	-	3,481
Social Infrastructure and Other Service Industries	581	390	183	392	29	-	150	1,725
Sum	1,620	1,558	988	860	30	-	150	5,206

Source: The Ministry of Finance (recited from the Ministry of Finance and Korea Development Bank (1993), p.223, 277)

5. Foreign Direct Investments in the 1980s and 1990s

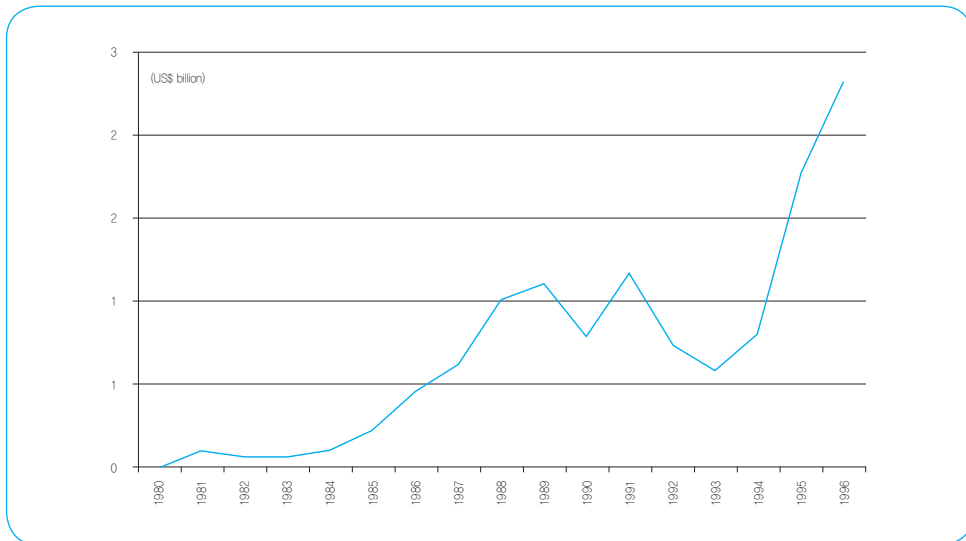
As the Korean government promoted foreign direct investment aggressively since the 1980s, foreign direct investment increased throughout the 1980s and 1990s, but remained at a low level. The amount of foreign direct investment was only \$2.33 billion in 1996 [Figure 3-7].

6. Foreign Securities Investments in the 1980s and 1990s

Foreign portfolio investment in securities was at a negligible level in the 1980s, but rapidly increased since 1992, when foreign investors were allowed to invest directly in

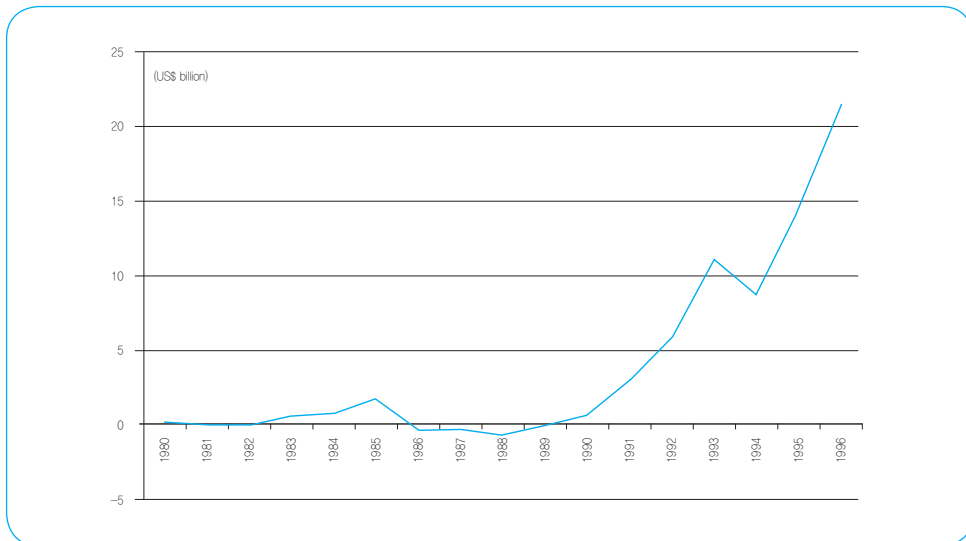
the Korean stock market. More than \$20 billion flew into the Korean stock market in 1996 [Figure 3-8].

Figure 3-7 | Flows from FDI (1980~1996)



Source: The Bank of Korea, Economic Statistics System (<http://ecos.bok.or.kr>)

Figure 3-8 | Flows from Foreign Securities Investments (1980~1996)



Source: The Bank of Korea, Economic Statistics System (<http://ecos.bok.or.kr>)

7. Foreign Debt and Financial Crisis in the Late 1990s

In the early 1990s, without proper prudential regulations, the Korean government tried to liberalize its financial and capital markets mainly through the domestic banking system. Since domestic banks were under the control of the Korean government, Korean policy makers believed that the liberalization of financial and capital markets would be implemented in an orderly way through domestic banks. However, as domestic banks and financial institutions such as merchant banks borrowed substantial amount of funds from foreign lenders, the Korean economy became vulnerable to liquidity shocks from foreign sources.²³

The amount of foreign debt increased substantially from \$42.8 billion in 1992 to \$104.7 in 1996. Especially, short-term foreign debt increased dramatically. The amount of long-term foreign debt (\$24.3 billion) was larger than that of short-term foreign debt (\$18.5 billion) in 1992, but the amount of short-term foreign debt (\$61.0 billion) became larger than that of long-term foreign debt (\$43.7 billion) in 1996 <Table 3-10>.

Table 3-10 | Korea's Foreign Debt By Sector (1992~1997)

(Unit: US\$ billion)

	1992	1993	1994	1995	1996	1997
Public Sector	5.6	3.8	3.6	3.0	2.4	22.3
Long-term	5.6	3.8	3.6	3.0	2.4	22.3
Short-term	0	0	0	0	0	0
Corporate Sector	13.7	15.6	20.0	26.1	35.6	46.2
Long-term	6.5	7.8	9.0	10.5	13.6	25.3
Short-term	7.2	7.8	11.0	15.6	22.0	20.9
Financial Sector	23.5	24.4	33.3	49.3	66.7	58.4
Long-term	12.2	13.0	13.9	19.6	27.7	31.0
Short-term	11.3	11.4	19.4	29.7	39.0	27.4
Total Foreign Debt	42.8	43.9	56.8	78.4	104.7	126.8
Long-term	24.3	24.7	26.5	33.1	43.7	78.6
Short-term	18.5	19.2	30.4	45.3	61.0	48.2
Total Foreign Debt/GNP (%)	14.0	13.3	15.1	17.3	21.8	28.6

Source: Shin and Wang, How to Sequence Capital Market Liberalization: Lessons from the Korean Experience, 1999, p.20

23. The Committee for the Sixty-Year History of Korean Economy, "The Korean Economy: Six Decades of Growth and Development" (in Korean) volume I, pages 49~50.

On the other hand, foreign exchange reserves only increased from \$17.1 billion in 1992 to \$33.2 billion in 1996, which was smaller than the amount of short-term foreign debt. As short-term foreign debt increased dramatically, the ratio of short-term foreign debt to foreign exchange reserves increased from 108.1 percent in 1992 to 183.7 percent in 1996 <Table 3-11>.

Table 3-11 | Korea's Foreign Debt and Foreign Reserves (1992~1997)

(Unit: US\$ billion)

	1992	1993	1994	1995	1996	1997
Total Foreign Debt (A)	42.8	43.9	56.8	78.4	104.7	126.8
Short-term (B)	18.5	19.2	30.4	45.3	61.0	48.2
Foreign Reserves (C)	17.1	20.2	25.6	32.7	33.2	20.4
B/A (%)	43.2	43.7	53.5	57.8	58.3	38.0
B/C (%)	108.1	95.1	118.8	138.5	183.7	236.3

Source: Shin and Wang, How to Sequence Capital Market Liberalization: Lessons from the Korean Experience, 1999, p.24

Furthermore, if the debt incurred by an overseas branch of financial institutions (which was not accounted as foreign debt in the official statistics) was included, the short-term foreign debt of financial institutions further increased from \$29.8 billion in 1992 to \$78.2 billion in 1996. Thus, foreign exchange reserves could not play a role as a buffer against external shocks <Table 3-12>.

Table 3-12 | Korea's Foreign Debt By Financial Sector (1992~1997)

(Unit: US\$ billion)

	1992	1993	1994	1995	1996	1997
Short-term Debt (A)	11.3	11.4	19.4	29.7	39.2	27.4
Short-term of Overseas Branch(B)	18.5	21.1	28.0	33.4	39.0	20.3
Total Short-term Debt (A+B)	29.8	32.5	47.4	63.1	78.2	47.7
Foreign Reserves	17.1	20.2	25.6	32.7	33.2	20.4

Source: Shin and Wang, How to Sequence Capital Market Liberalization: Lessons from the Korean Experience, 1999, p.25

In this way, the Korean economy became vulnerable to sudden outflow of foreign capital. In 1997, when some conglomerates went bankrupt, foreign investors lost their confidence in the prospect of the Korean economy, which led to a massive outflow of foreign capital. Thus, Korea suffered from a currency crisis at the end of 1997.

2012 Modularization of Korea's Development Experience
Foreign Capital in Economic Development:
Korean Experiences and Policies

Chapter 4

The Overcome of Financial Crisis and Further Liberalization of Korean Capital Markets (1998~present)

1. Liberalization of Korean Capital Markets after the Financial Crisis
2. Prudential Regulation on Foreign Exchange Risk
3. Volatilities of Foreign Capital Flows in the Recent Period
4. Cash Flows Management Since the Global Financial Crisis

The Overcome of Financial Crisis and Further Liberalization of Korean Capital Markets (1998~present)

1. Liberalization of Korean Capital Markets after the Financial Crisis

Since the 1997 financial crisis, the Korean government has substantially liberalized the foreign exchange and capital markets. For example, in December 1997, the daily limit on the fluctuations in the exchange rate was abolished so that the exchange rate system was transitioned to a freely floating exchange rate system. Also, foreign investors were allowed to invest in publicly traded bonds in December 1997. The Korean government announced its plan on the first and second phases of foreign exchange liberalization in 1998 and in 2001, respectively, with the purpose to liberalize the Korean capital markets.

2. Prudential Regulation on Foreign Exchange Risk

As there has been much progress in the liberalization of foreign exchange and capital markets, the Korean government has strengthened the prudential supervision of financial institutions in order to improve the stability of the foreign exchange and capital markets in Korea. Now, the Financial Supervisory Service (FSS), which is the supervisory body of financial institutions in Korea, implements prudential regulations for financial institutions through the management of FX liquidity and currency positions of financial institutions.

3. Volatilities of Foreign Capital Flows in the Recent Period

The volatility of private capital flows in Korea has been very large. Especially, during the recent global financial crisis, Korea experienced a large outflow of private capital. The outflow of private capital from Korea amounted to \$73.4 billion in 2008. However, in 2009, Korea experienced large private capital inflows of \$47.4 billion [Figure 4-1]. The high volatility of private capital flows show that the Korean economy has a structure that is vulnerable to external shocks.

Korea has experienced long-term private capital outflows since 2005 [Figure 4-2]. This is mainly due to the rapid increase in Korea's foreign direct investment. Korea's net foreign direct investment has been negative and exhibited little fluctuations since 2005. This suggests that the flows of long-term private capital including foreign direct investment are determined by structural factors, rather than by short-term fluctuations in business activities. Thus, it is expected that the volatility of private long-term capital flows will not be high in the foreseeable future.

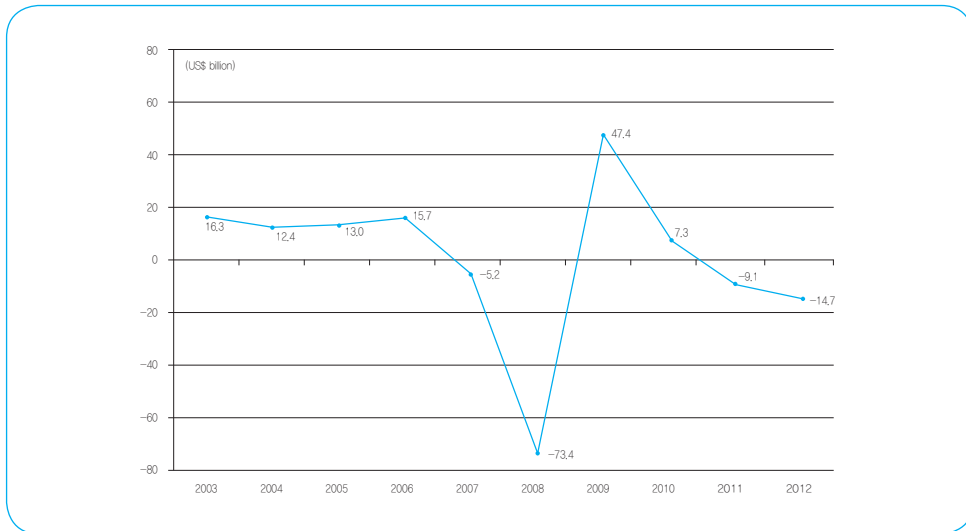
On the other hand, the short-term private capital flow has been highly volatile. The short-term private capital flow was at the level between \$10.2 billion and \$25.0 billion during the period from 2003 to 2007. The short-term private capital turned to a net outflow of \$53.3 billion in 2008. Then, the short-term private capital turned back to net inflows of \$60.1 billion in 2009 and of \$25.3 billion in 2010 [Figure 4-3].

Among the items in the short-term private capital flow, flows from securities investment [Figure 4-4], [Figure 4-5] and other capital transactions [Figure 4-7] are highly volatile, whereas flows from derivative transactions are relatively stable [Figure 4-6].

For the items in the category of other capital transactions, flows from short-term borrowings are high volatile [Figure 4-9], whereas flows from all the other items in the category of other capital transactions are relatively stable [Figure 4-8], [Figure 4-9].

Since a large amount of outflow in the short-term private capital, especially outflow in securities investment and short-term borrowings, is the main contributor to the instability of the Korean foreign exchange and capital markets, it is necessary to introduce macro-prudential policy measures, especially for securities investment and short-term borrowing, in order to mitigate such volatile short-term private capital flows.

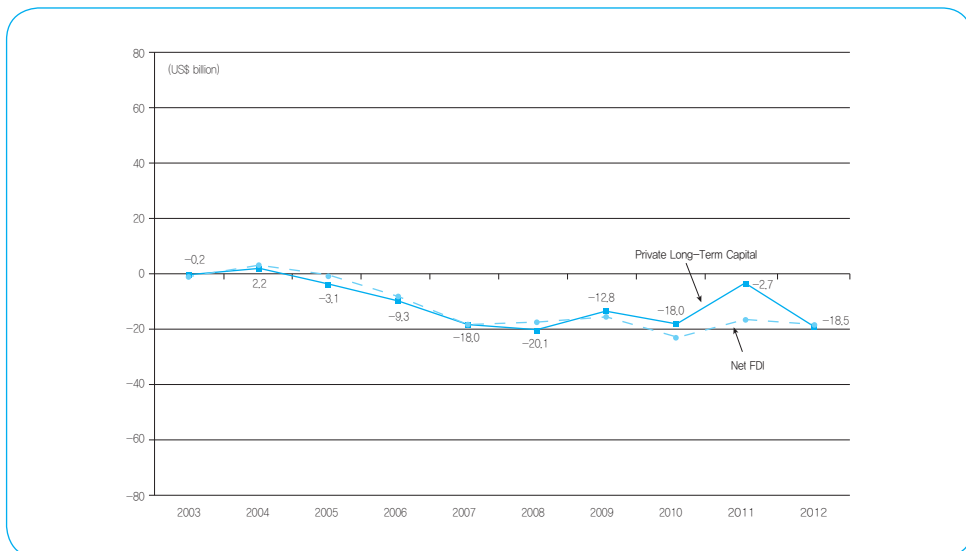
Figure 4-1 | Korea's Private Capital Flows (2003~2012)



Source: Computed by the author with the data from the Bank of Korea's Economic Statistics System (<http://ecos.bok.or.kr>)

Note: The data for year 2012 is the data for the period from January 2012 to November 2012

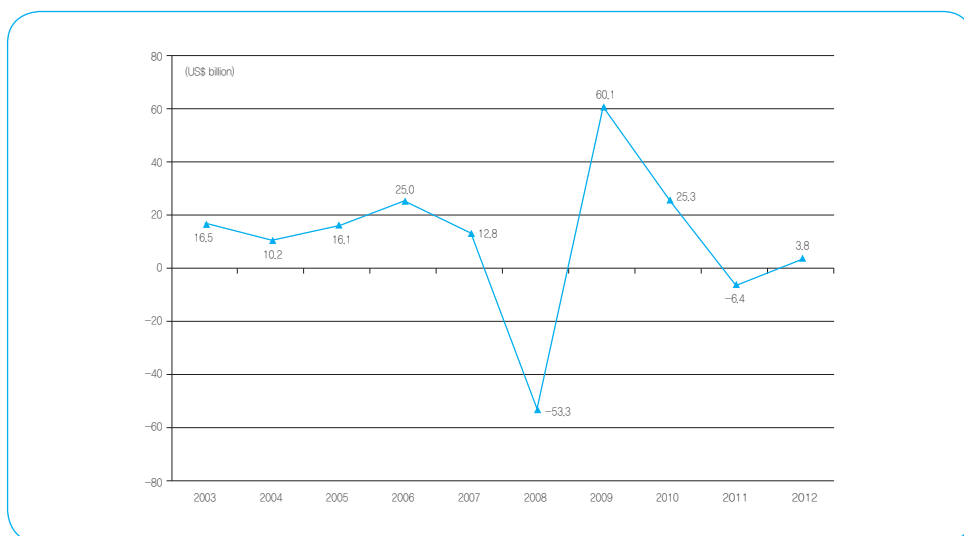
Figure 4-2 | Korea's Private Long-term Capital Flows and FDI (2003~2012)



Source: Computed by the author with the data from the Bank of Korea's Economic Statistics System (<http://ecos.bok.or.kr>)

Note: The data for year 2012 is the data for the period from January 2012 to November 2012

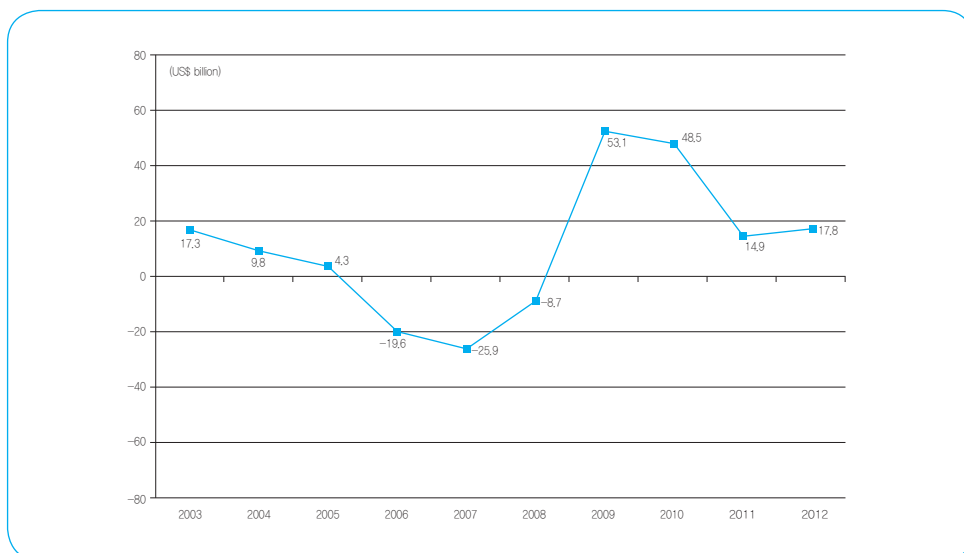
Figure 4-3 | Korea's Private Short-term Capital Flows (2003-2012)



Source: Computed by the author with the data from the Bank of Korea's Economic Statistics System (<http://ecos.bok.or.kr>)

Note: The data for year 2012 is the data for the period from January 2012 to November 2012

Figure 4-4 | Korea's Private Capital Flows from Securities Investment (2003-2012)



Source: Computed by the author with the data from the Bank of Korea's Economic Statistics System (<http://ecos.bok.or.kr>)

Note: The data for year 2012 is the data for the period from January 2012 to November 2012

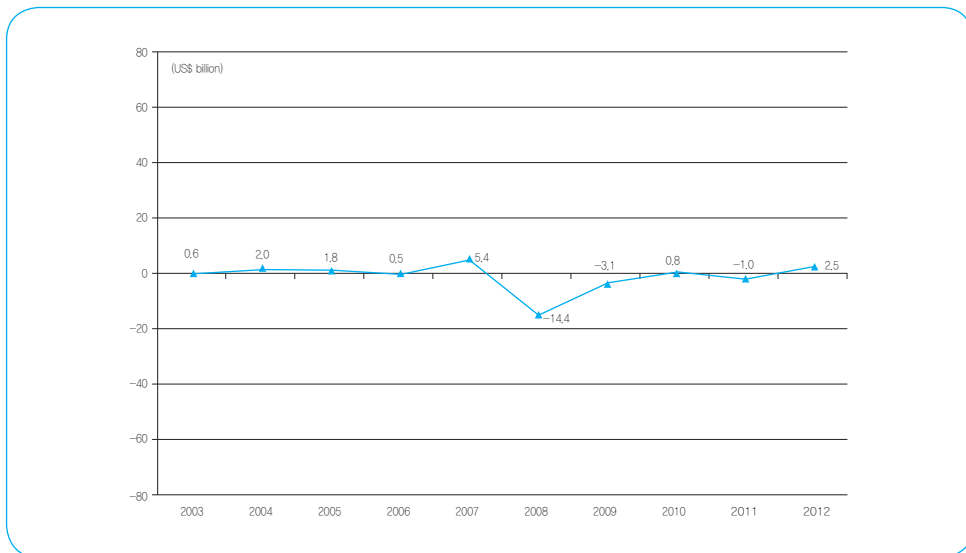
Figure 4-5 | Korea's Capital Flows from Non-residents' Stock and Bond Investments (2003~2012)



Source: The Bank of Korea, Economic Statistics System (<http://ecos.bok.or.kr>)

Note: The data for year 2012 is the data for the period from January 2012 to November 2012

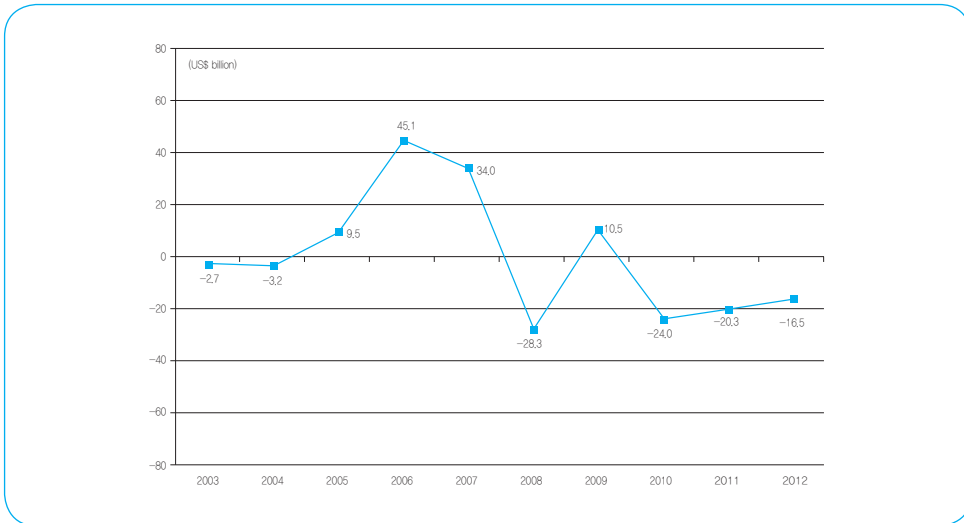
Figure 4-6 | Korea's Capital Flows from Derivatives Transactions (2003~2012)



Source: The Bank of Korea, Economic Statistics System (<http://ecos.bok.or.kr>)

Note: The data for year 2012 is the data for the period from January 2012 to November 2012

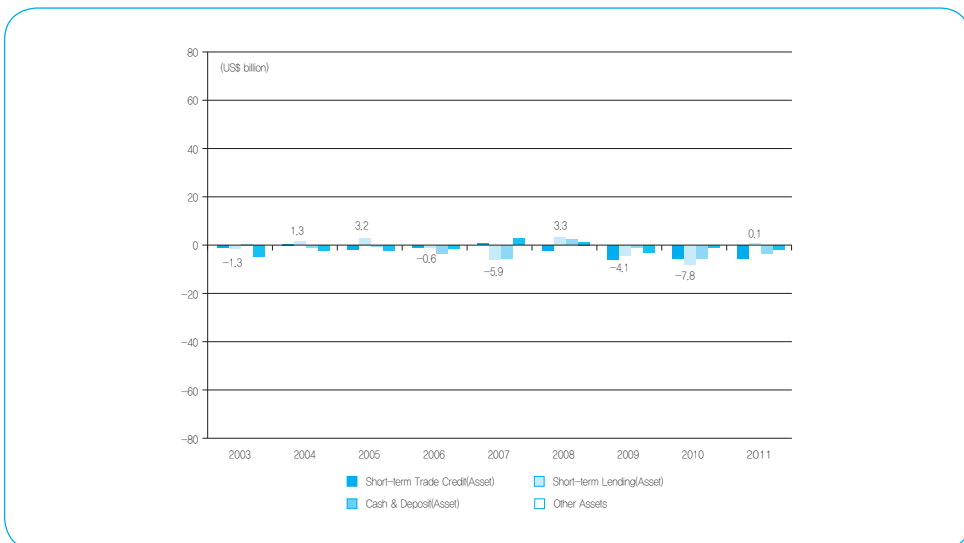
Figure 4-7 | Korea's Short-term Private Capital Flows from Other Investments (2003~2012)



Source: Computed by the author with the data from the Bank of Korea's Economic Statistics System (<http://ecos.bok.or.kr>)

Note: The data for year 2012 is the data for the period from January 2012 to November 2012

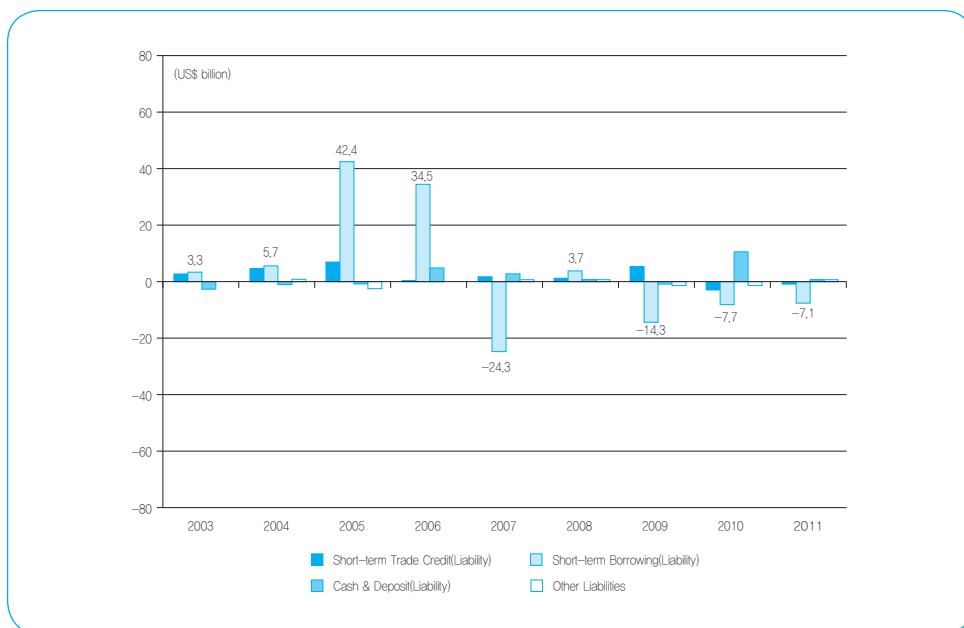
Figure 4-8 | Korea's Short-term Private Capital Flows from Other Investments (Assets)



Source: The Bank of Korea, Economic Statistics System (<http://ecos.bok.or.kr>)

Note: The data for year 2012 is the data for the period from January 2012 to November 2012

Figure 4-9 | Korea's Short-term Private Capital Flows from Other Investments (Liabilities)



Source: The Bank of Korea, Economic Statistics System (<http://ecos.bok.or.kr>)

Note: The data for year 2012 is the data for the period from January 2012 to November 2012

4. Cash Flows Management Since the Global Financial Crisis

The IMF expresses that Capital Flows Management (CFM) can be a policy option if a country experiences highly volatile capital flows. For example, according to Ostry, Ghosh, Habermeier, Chamon, Qureshi, Reinhart (2010), when a country experiences massive inflows of capital, the country can adopt macroeconomic policies such as the appreciation of domestic currency appreciation, the accumulation of foreign reserves, the sterilization of foreign currency, and low interest rate. At the same time, the country may strengthen the rules for the macro-prudency so as to mitigate the risks due to excessive borrowing from abroad. However, if the economy is under a situation where such macroeconomic policy measures may not be undertaken, or be effective, direct controls on capital inflows may be adopted.

Against the background of international discussions on the CFMs, in June 2010, the Korean government announced that it would introduce policy measures to mitigate excessive

volatilities of foreign capital flows. The policy measures included (i) the introduction of the limit on the forward position of foreign exchange banks, (ii) the abolition of tax exemption on the foreign investors' income from their investment in bonds, and (iii) the imposition of charges on foreign currency-denominated non-deposit debt of foreign exchange banks.

2012 Modularization of Korea's Development Experience
Foreign Capital in Economic Development:
Korean Experiences and Policies

Chapter 5

The Lessons Learned from the Korean Experiences in the Management of Foreign Capital for Developing Countries

1. The Establishment of Effective Foreign Capital Management System in Government
2. The Maintenance of the Export Sector's International Competitiveness
3. The Transition from Government-led Growth Strategy to Market-led Growth Strategy
4. Prudential Regulation on Foreign Exchange Risk and Cash Flows Management

The Lessons Learned from the Korean Experiences in the Management of Foreign Capital for Developing Countries

1. The Establishment of Effective Foreign Capital Management System in Government

The Korean government established a system for the introduction of foreign capital. The Korean government established the Economic Planning Board in July 1961 just before it started the first economic development plan. The Economic Planning Board coordinated government economic policies and was also responsible for the introduction of foreign capital. The introduction of foreign capital was carried out by the Minister of the Economic Planning Board through a resolution of the “Committee on the Promotion of Foreign Capital”. Since the international credit ratings of domestic enterprises and financial institutions were so low that they could not borrow foreign funds with their own credit, the Korean government even provided the payment guarantee of foreign capital introduced by private companies when the foreign capital would be spent for its economic development plan.

Also, decisions on the use of foreign capital were made by professional technocrats with knowledge on economy mainly based on economic incentives, rather than political and social considerations. Although President Park has a military background, under his presidency, most of top positions for economy-related ministries were filled with technocrats who had professional knowledge and skills in their own areas. In addition, during the presidency of President Park, there was a strong and effective competition for top positions in all the ministries. Thus, the principal economic policy objectives set by the Korean government were effectively implemented by the joint efforts of President Park and technocrats in economy-related ministries.

2. The Maintenance of the Export Sector's International Competitiveness

If a developing country introduces substantial amounts of foreign debt in order to fill the gap between domestic savings and investment, it is crucial to establish an economic system where the repayment of foreign debt would be made. Without such system, the country cannot continue to introduce foreign capital which is essential for its continued economic growth. One such system is the export-oriented economic system which Korea has adopted since the early 1960s. In order to keep the export-oriented economic system working, it is important to maintain international competitiveness of export products. If a country loses its international competitiveness of its export products, the country can hardly earn sufficient amount of foreign income which is indispensable for the repayment of foreign debt.

The Korean government tried to promote the international competitiveness of industries, especially the international competitiveness of light industries in the 1960s and of the heavy and chemical industries since the 1970s. For example, in the 1960s and 1970s, as an effort to promote export, the Korean government held a Monthly Export Promotion Meeting, chaired by the President himself. In the Meeting, government officials and business representatives gathered, monitored export performance compared to the target, and discussed any issues for the promotion of exports.

With the support from the Korean government, Korea's exports grew spectacularly in the 1960s and the 1970s, and the composition of Korea's export products also substantially changed <Table 5-1>, <Table 5-2>. As evidenced in the increasing share of Korean exports in the world's exports <Table 5-3>, [Figure 5-1], Korea has successfully maintained the competitiveness of its export products.

Table 5-1 | The Industrial Composition of Korean Export Products

(Unit: percent)

	1962	1972	1980	1990	2000	2008
Primary Products	72.3	11.1	7.7	5.0	2.8	1.8
Manufacturing Products	27.7	88.9	92.3	95.0	97.2	98.2
Products from Light Industries	-	67.4	48.4	38.5	16.2	6.4
Products from Heavy Industries	-	21.5	43.9	56.5	81.0	91.8

Source: Korea Customs Service and Korea International Trade Association (recited from the Committee for the Sixty-Year History of Korean Economy, “The Korean Economy: Six Decades of Growth and Development” (in Korean) volume III, page 64)

Table 5-2 | Korea’s Top Ten Export Items

(Unit: US\$ million, percent)

ranking	1961		
	Item	Amount	Proportion to the total export
1	Ironstone	5.3	13.0
2	Tungsten	5.1	12.6
3	Silk	2.7	6.7
4	Anthracite	2.4	5.8
5	Squid	2.3	5.5
6	Raw fish	1.9	4.5
7	Plumbago	1.7	4.2
8	Plywood	1.4	3.3
9	Rice	1.4	3.3
10	Pig Hair	1.2	3.0
Total		25.3	62.0

ranking	1970		
	Item	Amount	Proportion to the total export
1	Textiles	341.1	40.8
2	Plywood	91.9	11.0
3	Wig	90.4	10.8
4	Ironstone	49.3	5.9
5	Electronics	29.2	3.5
6	Confectionery	19.5	2.3
7	Shoes	17.3	2.1
8	Tobacco	13.5	1.6
9	Steel	13.4	1.5
10	Metal Products	12.2	1.5
Total		677.5	81.1

ranking	1980		
	Item	Amount	Proportion to the total export
1	Clothing	2,778	15.9
2	Steel Plate	945	5.4
3	Shoes	908	5.2
4	Ships	620	3.5
5	Audio Equipments	593	3.4
6	Man-made Fiber	564	3.2
7	Rubber	503	2.9
8	Lumber	485	2.8
9	Video Equipments	446	2.5
10	Semiconductor	434	2.5
Total		8,276	47.3

ranking	1990		
	Item	Amount	Proportion to the total export
1	Clothing	7,600	11.7
2	Semiconductor	4,541	7.0
3	Shoes	4,307	6.6
4	Video Equipments	3,627	5.6
5	Ships	2,829	4.4
6	Computers	2,549	3.9
7	Audio Equipments	2,480	3.8
8	Steel Plate	2,446	3.8
9	Man-made Fiber	2,343	3.6
10	Automobiles	1,971	3.0
Total		34,693	53.4

ranking	2000		
	Item	Amount	Proportion to the total export
1	Semiconductor	26,006	15.1
2	Computers	14,687	8.5
3	Automobiles	13,221	7.7
4	Petroleum Products	9,055	5.3
5	Ships	8,420	4.9
6	Wireless Communication Devices	7,882	4.6
7	Synthetic Resin	5,041	2.9
8	Steel Plate	4,828	2.8
9	Clothing	4,652	2.7
10	Video Equipments	3,667	2.1
Total		97,459	56.6

ranking	2008		
	Item	Amount	Proportion to the total export
1	Ships	43,157	10.2
2	Petroleum Products	37,573	8.9
3	Wireless Communication Devices	35,713	8.5
4	Automobiles	35,032	8.3
5	Semiconductor	32,793	7.8
6	Flat Panel Displays	18,732	4.4
7	Steel Plate	15,948	3.8
8	Synthetic Resin	14,909	3.5
9	Auto Parts	13,950	3.3
10	Computers	10,697	2.5
Total		258,504	61.3

Source: Ministry of Commerce, Industry and Energy and Korea International Trade Association (recited from the Committee for the Sixty-Year History of Korean Economy, “The Korean Economy: Six Decades of Growth and Development” (in Korean) volume III, page 65)

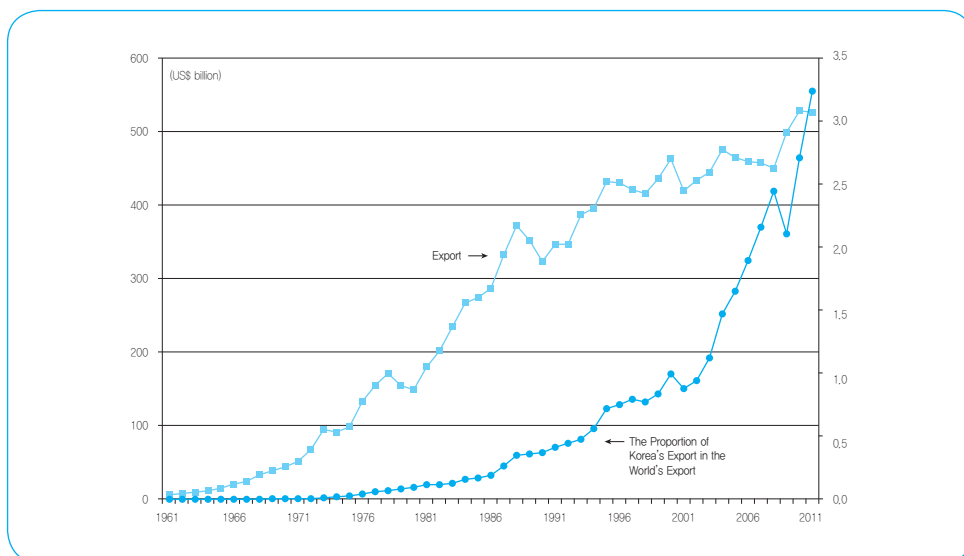
Table 5-3 | The Export of Korea and its Proportion in the World’s Export

(Unit: US\$ billion, percent)

	1961	1970	1980	1990	2000	2011
Export (\$ billion)	0.04	0.8	17.5	65.0	172.3	556.6
The Proportion of Korea’s Export in the World’s Export	0.03	0.27	0.88	1.88	2.71	3.09

Source: IMF, International Financial Statistics

Figure 5-1 | The Export of Korea and its Proportion in the World's Export (1961~2011)



Source: IMF, International Financial Statistics

3. The Transition from Government-led Growth Strategy to Market-led Growth Strategy

A government may need to play a major role in the early stages of economic development, especially for the construction of social infrastructures. In Korea's case, the Korean government even provided the payment guarantee on foreign capital which was introduced by private companies in the 1960s. When government intervention is necessary, it is important to design such an intervention system in an efficient and effective way so that the intervention will contribute to economic growth. However, even when a government's intervention is efficient and effective for economic growth in the early stage of economic development, the intervention may hinder further economic growth as the economy matures. As the economy grows, the creative activities of the private sector become more important for growth. Therefore, the government's direct intervention in economy is likely to lead to a slowdown in economic activity, rather than to promote economic activity at this stage. Thus, it is crucial when a transition should be made from a government-led growth strategy to a market-led one.

In case of Korea, the transition began in the early 1980s. Regarding the introduction of foreign capital, the Korean government directly administered and regulated the introduction

of public and commercial loans in the 1960s and 1970s. However, since the 1980s, financial institutions and private companies have financed from foreign investors and the Korean government has indirectly managed the introduction of foreign capital.

4. Prudential Regulation on Foreign Exchange Risk and Cash Flows Management

In the early 1990s, without proper prudential regulations, the Korean government tried to liberalize its financial and capital markets and suffered from financial crisis in 1997. Thus, even when a government adopts an indirect management system of foreign capital, it should continue to maintain the macro-prudence of the economy. The economy may be vulnerable to external shocks when flow of foreign capital is highly volatile. Thus, in this case, government may need to implement policy measures to mitigate the volatility of foreign capital flows.

As preventive measures, regulatory agency may need to strengthen the prudential supervision of financial institutions in order to improve the stability of the foreign exchange and capital markets. Also, when a country experiences massive inflows or outflows of capital and is under a situation where conventional macroeconomic policy measures may not be undertaken, or be effective, direct controls on capital flows may be adopted.

- Balasubramanyam, V., M. Salisu, and D. Sapsford, "Foreign Direct Investment and Growth in EP and IS Countries," *Economic Journal* 106, 1996.
- Borensztein, E., J. Gregorio, and J. Lee, "How Does Foreign Direct Investment Affect Growth?" *Journal of International Economics* 45, 1998.
- Cipollina, M., G. Giovannetti, F. Pietrovito, and A. Pozzolo, "FDI and Growth: What Cross-country Industry Data Say," *The World Economy*, 2012.
- Committee for the Sixty-Year History of Korean Economy, "The Korean Economy: Six Decades of Growth and Development" (in Korean), volume I, III, 2010.
- Committee for the Sixty-Year History of Korean Economy, "The Korean Economy: Six Decades of Growth and Development" (in English), 2010.
- Economic Planning Board, Economic White Paper (in Korean), 1965.
- Economic Planning Board, White Paper on the Reparation Funds (in Korean), 1976.
- Economic Planning Board, Economic Policies in the Development Era (in Korean), 1982, Miraesa.
- Economic Planning Board, White Paper on Foreign Debt (in Korean), 1986.
- Haveman, J., V. Lei, and J. Netz, "International Integration and Growth: A Survey and Empirical Investigation," *Review of Development Economics* 5, 2001.
- Hermes, N. and R. Lensink, "Foreign Direct Investment, Financial Development and Economic Growth," *Journal of Development Studies* 40, 2003.
- International Monetary Fund, "Reaping the Benefits of Financial Globalization," 2007.
- Kang, D., *Crony Capitalism: Corruption and Development in South Korea and the Philippines*, 2002, Cambridge University Press.
- Kang, K., Y. Lee, and S. Choi, *The System of Policy Determination in the Period of High Economic Growth: Economic Planning Board and Policy Implementation Structure*, 2010, KDI.
- Kim, C., *From Despair to Hope: Economic Policymaking in Korea 1945-1979*, 2011, KDI.
- Kim, C. *Introduction of Foreign Capital* (in Korean), 1976, Ijogak.
- Kim, H. eds., *Glory and Disgrace of the Korean Economy: Unofficial History of the Economic Planning Board* (in Korean), 1999
- Kose, M., E. Prasad, and M. Terrones, "Does Openness to International Financial Flows Raise Productivity Growth?" *Journal of International Money and Finance* 28, 2009.

-
- Kruger, A., *The Developmental Role of the Foreign Sector and Aid*, 1979, Harvard University.
- Lensink, R. and O. Morrissey, “Foreign Direct Investment: Flows, Volatility, and the Impact on Growth,” *Review of International Economics* 14, 2006.
- Ministry of Finance, *Korean Economy and Introduction of Foreign Capital* (in Korean), 1991
- Ministry of Finance and Korea Development Bank, *Foreign Capital and the Korean Economic Development: A Thirty-Year History* (in Korean), 1993
- Ostry, Jonathan, A. Ghosh, K. Habermeier, M. Chamon, M. Qureshi, and D. Reinhart, “Capital Inflows: The Role of Controls,” *IMF Staff Position Note/10/04*, 2010.
- Reisen, H. and M. Soto, “Which Types of Capital Inflows Foster Developing Country Growth?” *International Finance* 4, 2001.
- Shin, I. and Y. Wang, “How to Sequence Capital Market Liberalization: Lessons from the Korean Experience”, 1999. KIEP Working Paper 99-30.

Table A-1 | Korea's Annual GDP Growth Rate, Investment Rate and Domestic Savings Rate, 1953~2012

(Unit: percent)

Year	GDP growth rate	Investment rate (A)	Domestic savings rate (B)	B/A
1953	-	14.7	13.1	89
1954	5.6	11.4	10.4	91
1955	4.5	11.7	10.3	88
1956	-1.3	8.0	8.6	108
1957	7.6	14.0	13.9	99
1958	5.5	11.8	12.8	108
1959	3.9	10.4	10.8	104
1960	1.2	10.0	9.0	90
1961	5.9	12.0	11.7	98
1962	2.1	11.8	11.0	93
1963	9.1	17.0	14.4	85
1964	9.7	13.2	14.0	106
1965	5.7	14.1	13.2	94
1966	12.2	20.4	16.6	81
1967	5.9	20.9	15.4	74
1968	11.3	24.9	18.2	73
1969	13.8	27.9	21.4	77
1970	8.8	26.2	19.0	73
1971	10.4	26.0	15.3	59
1972	6.5	21.3	17.0	80
1973	14.8	25.3	22.8	90
1974	9.4	31.9	21.5	67
1975	7.3	28.7	19.1	66
1976	13.5	26.6	24.7	93
1977	11.8	29.5	28.2	96
1978	10.3	32.6	30.6	94
1979	8.4	36.7	29.7	81
1980	-1.9	33.0	24.3	74
1981	7.4	30.5	24.3	80
1982	8.3	30.1	25.6	85
1983	12.2	31.2	28.9	93

Year	GDP growth rate	Investment rate (A)	Domestic savings rate (B)	B/A
1984	9.9	31.2	30.9	99
1985	7.5	31.3	31.2	100
1986	12.2	30.5	34.9	115
1987	12.3	30.8	38.4	125
1988	11.7	32.4	40.4	125
1989	6.8	35.3	37.6	107
1990	9.3	38.0	37.8	100
1991	9.7	40.0	37.9	95
1992	5.8	37.0	36.9	100
1993	6.3	36.0	36.9	103
1994	8.8	36.8	36.4	99
1995	8.9	37.1	36.2	98
1996	7.2	38.1	34.8	91
1997	5.8	35.6	34.6	97
1998	-5.7	25.2	36.6	145
1999	10.7	29.1	34.6	119
2000	8.8	30.7	33.0	108
2001	4.0	29.3	31.1	106
2002	7.2	29.3	30.5	104
2003	2.8	30.0	31.9	107
2004	4.6	29.9	34.0	114
2005	4.0	29.8	32.1	108
2006	5.2	29.7	30.8	104
2007	5.1	29.5	30.8	105
2008	2.3	31.0	30.5	98
2009	0.3	26.2	30.2	115
2010	6.3	29.6	32.1	109
2011	3.6	29.4	31.7	108
2012	2.0	-	-	-

Source: The Bank of Korea, Economic Statistics System (<http://ecos.bok.or.kr>)

Note: For GDP growth rate for the period from 1953 to 1970, the base year is 1975 and for the GDP growth rate for the period from 1971 to 2012, the base year is 2005

Table A-2 | Introduction of Aid, Foreign Loans, and FDI into Korea, 1945~2012

(Unit: US\$ million)

Year	Aid	Public Loans	Commercial Loans	FDI
1945	4.9	-	-	-
1946	49.5	-	-	-
1947	175.4	-	-	-
1948	179.6	-	-	-
1949	116.5	-	-	-
1950	58.7	-	-	-
1951	106.4	-	-	-
1952	161.3	-	-	-
1953	194.2	-	-	-
1954	153.9	-	-	-
1955	236.7	-	-	-
1956	326.4	-	-	-
1957	382.9	-	-	-
1958	321.2	-	-	-
1959	222.2	-	-	-
1960	245.1	-	-	-
1961	199.2	-	-	-
1962	232.3	1.8	2.6	3.6
1963	216.5	40.3	20.5	5.7
1964	149.3	14.8	13.2	0.7
1965	131.4	5	41.5	21.8
1966	115.4	63	110	15.6
1967	129.5	80	138	28.3
1968	131.2	112	252	25.6
1969	135.3	148	361	48.6
1970	106.6	147	283	75.9
1971	80.4	325	320	40.2
1972	34.9	438	299	122.0
1973	31.8	404	461	318.2
1974	29.0	385	603	152.8
1975	31.9	477	802	207.3

Year	Aid	Public Loans	Commercial Loans	FDI
1976	1.7	713	839	79.2
1977	0.9	638	1,241	83.6
1978	0.2	818	1,929	149.4
1979	0.2	1,123	1,584	191.3
1980	0.4	1,518	1,416	143.1
1981	0.2	1,690	1,247	153.2
1982	0.1	1,868	914	189.0
1983	-	1,494	973	269.4
1984	-	1,424	858	422.3
1985	-	1,024	964	532.2
1986	-	880	1,620	354.7
1987	-	1,109	1,558	1063.9
1988	-	891	988	1283.8
1989	-	472	860	1090.3
1990	-	418	30	802.6
1991	-	429	0	1396.0
1992	-	486	150	894.5
1993	-	643	0	1044.3
1994	-	742	0	1316.5
1995	-	464	39	1970.4
1996	-	387	108	3205.5
1997	-	5,395	1,302	6971.1
1998	-	5,172	1,914	8858.0
1999	-	3,917	12,161	15544.6
2000	-	764	-	15264.9
2001	-	311	-	11287.6
2002	-	108	-	9095.3
2003	-	18	-	6470.5
2004	-	-	-	12795.6
2005	-	-	-	11565.5
2006	-	-	-	11247.4
2007	-	-	-	10515.6
2008	-	-	-	11711.9
2009	-	-	-	11484.1

Year	Aid	Public Loans	Commercial Loans	FDI
2010	-	-	-	13071.0
2011	-	-	-	13673.1
2012	-	-	-	16257.6

Source: The data for the period from 1945 to 2009 are from the Committee for the Sixty-Year History of Korean Economy, "The Korean Economy: Six Decades of Growth and Development" (in Korean) volume I, pages 80~81. The data on foreign loans and FDI for the period from 2010 to 2012 are from the Bank of Korea's Economic Statistics System (<http://ecos.bok.or.kr>)

Note: The statistics on commercial loans have not been collected since 2000

Table A-3 | Korea's Introduction and Redemption of Public and Commercial Loans, 1966~2010

Year	Arrivals	Redemption of Principal		Balance		Public Loans	Commercial Loans
		Public Loans	Commercial Loans	Public Loans	Commercial Loans		
1966	172	63	110	-	-	-	-
1967	218	80	138	-	-	-	-
1968	364	112	252	-	-	-	-
1969	509	148	361	-	-	-	-
1970	430	147	283	-	-	-	-
1971	644	325	320	-	-	-	-
1972	736	438	299	-	-	-	-
1973	864	404	461	-	-	-	-
1974	988	385	603	-	-	-	-
1975	1,278	477	802	-	-	-	-
1976	1,552	713	839	-	-	-	-
1977	1,879	638	1,241	536	100	436	3,837
1978	2,747	818	1,929	825	138	687	5,079
1979	2,707	1,123	1,584	1,129	173	956	5,707
1980	2,934	1,518	1,416	1,084	257	827	6,296
1981	2,937	1,690	1,247	1,317	333	984	6,440
1982	2,782	1,868	914	1,432	388	1,044	6,310
1983	2,467	1,494	973	1,671	543	1,128	6,155

Year	Arrivals	Redemption of Principal		Balance		Public Loans		Commercial Loans	
		Public Loans	Commercial Loans	Public Loans	Commercial Loans	Public Loans	Commercial Loans	Public Loans	Commercial Loans
1984	2,282	1,424	858	1,768	660	1,108	16,961	11,056	5,905
1985	1,988	1,024	964	1,831	704	1,127	17,118	11,376	5,742
1986	2,500	880	1,620	2,531	1,006	1,525	17,085	11,250	5,835
1987	2,667	1,109	1,558	5,117	2,522	2,595	14,636	9,837	4,799
1988	1,879	891	988	4,181	2,021	2,160	12,334	8,707	3,627
1989	1,332	472	860	3,228	1,543	1,685	10,438	7,636	2,802
1990	448	418	30	2,023	1,229	794	8,866	6,828	2,038
1991	429	429	0	1,607	1,050	557	7,688	6,207	1,481
1992	636	486	150	1,787	1,102	685	6,535	5,590	945
1993	643	643	0	2,630	1,572	1,058	4,437	4,437	0
1994	742	742	0	1,330	987	343	4,192	4,192	0
1995	503	464	39	1,083	804	279	4,529	3,852	677
1996	495	387	108	1,280	1,020	260	3,698	3,219	479
1997	6,697	5,395	1,302	879	712	167	9,496	10,189	1,594
1998	7,086	5,172	1,914	570	510	60	15,985	15,096	3,421
1999	16,078	3,917	12,161	4,714	514	4,200	28,483	18,962	11,382
2000	-	764	-	-	679	-	-	18,561	-
2001	-	311	-	-	546	-	-	17,877	-
2002	-	108	-	-	1,477	-	-	16,620	-

Year	Arrivals		Redemption of Principal		Balance	
	Public Loans	Commercial Loans	Public Loans	Commercial Loans	Public Loans	Commercial Loans
2003	-	18	-	-	11,506	-
2004	-	-	-	-	8,806	-
2005	-	-	-	-	5,752	-
2006	-	-	-	-	4,680	-
2007	-	-	-	-	3,821	-
2008	-	-	-	-	5,752	-
2009	-	-	-	-	4,680	-
2010	-	-	-	-	3,821	-

Source: Ministry of Strategy and Finance (downloaded from the Bank of Korea's Economic Statistics System (<http://ecos.bok.or.kr>))

Note: The data on commercial loans have not been collected since 2000

Table A-4 | Foreign Direct Investment into Korea, 1962~2012

(Unit: US\$ million)

Year	Total	FDI from						
		International organization	The Continent of America	Asia	Europe	The Middle East	African Continent	Others
1962	4	-	4	-	-	-	-	-
1963	6	-	5	1	-	-	-	-
1964	1	-	0	-	0	-	-	-
1965	22	-	11	1	11	-	-	-
1966	16	-	5	10	0	-	-	-
1967	28	-	18	10	1	-	-	-
1968	26	1	12	12	1	0	-	-
1969	49	-	21	22	5	-	-	-
1970	76	0	51	22	2	-	-	-
1971	40	-	12	27	1	-	-	-
1972	122	1	39	79	4	-	-	-
1973	318	0	17	298	3	-	-	-
1974	153	2	48	100	3	-	-	-
1975	207	3	53	112	22	17	-	-
1976	79	6	15	52	7	-	-	-
1977	84	1	20	45	12	7	-	-
1978	149	4	41	79	25	-	-	-

Year	Total	FDI from							
		International organization	The Continent of America	Asia	Europe	The Middle East	African Continent	Others	
1979	191	3	49	111	23	4	-	-	
1980	143	6	78	43	16	-	-	-	
1981	153	1	62	72	19	-	-	-	
1982	189	1	106	68	14	-	-	-	
1983	269	3	66	176	24	0	-	-	
1984	422	8	196	169	50	-	-	-	
1985	532	2	109	379	40	3	-	-	
1986	355	3	129	160	63	-	-	-	
1987	1,064	9	267	571	216	1	-	-	
1988	1,284	31	289	713	243	3	5	-	
1989	1,090	26	321	525	217	1	-	-	
1990	803	3	336	257	207	-	-	-	
1991	1,396	8	312	248	824	3	-	-	
1992	895	4	433	171	282	4	0	-	
1993	1,044	1	344	392	307	0	-	-	
1994	1,317	7	324	569	407	11	-	-	
1995	1,970	8	688	798	475	2	0	-	
1996	3,205	1	925	1,220	1,058	1	0	-	
1997	6,971	2	3,418	1,137	2,410	3	1	-	

Year	Total	FDI from							
		International organization	The Continent of America	Asia	Europe	The Middle East	African Continent	Others	
1998	8,858	79	3,774	2,020	2,965	20	0	-	
1999	15,545	17	4,203	4,776	6,413	19	117	-	
2000	15,265	18	6,042	4,717	4,479	3	6	0	
2001	11,288	16	5,582	2,346	3,109	226	9	0	
2002	9,095	0	4,852	2,270	1,870	2	101	0	
2003	6,471	0	1,947	1,383	3,102	15	24	-	
2004	12,796	0	5,200	4,304	3,213	66	12	0	
2005	11,566	0	3,108	3,514	4,874	37	32	0	
2006	11,247	0	1,948	4,009	5,233	44	13	0	
2007	10,516	0	3,191	2,335	4,630	84	276	0	
2008	11,712	0	1,904	3,282	6,483	27	16	0	
2009	11,484	0	2,167	3,704	5,364	238	10	1	
2010	13,071	-	2,685	6,893	3,291	171	30	1	
2011	13,673	-	3,746	4,399	5,395	92	41	0	
2012	16,258	-	4,407	8,848	2,932	52	15	3	

Source: Ministry of Knowledge Economy (downloaded from the Bank of Korea's Economic Statistics System (<http://ecos.bok.or.kr>))

Table A-5 | Korea's External Debt and Foreign Exchange Reserves, 1962~2012

(Unit: US\$ million, percent)

Year	Gross External Debt (A)	Gross External Debt/GDP (%)	Short-term External Debt (B)	Foreign Exchange Reserves (C)	B/C (%)
1962	89	3.9	-	169	-
1963	157	5.8	-	131	-
1964	177	6.1	-	136	-
1965	206	6.9	-	146	-
1966	392	10.9	-	245	-
1967	645	15.4	-	357	-
1968	1,199	23.1	-	391	-
1969	1,800	27.7	-	553	-
1970	2,935	36.2	-	610	-
1971	3,650	38.4	-	568	-
1972	4,548	42.1	-	740	-
1973	5,572	40.4	-	1,094	-
1974	7,230	37.3	-	1,056	-
1975	9,215	42.7	-	1,550	-
1976	11,336	38.0	-	2,961	-
1977	15,715	41.1	-	4,306	-
1978	18,956	35.4	-	4,937	-
1979	25,074	39.2	-	5,708	-
1980	32,298	50.2	-	6,571	-
1981	36,144	49.9	-	6,891	-
1982	40,899	52.8	-	6,984	-
1983	48,814	56.8	-	6,910	-
1984	49,633	52.3	-	7,650	-
1985	57,255	58.2	-	7,749	-
1986	55,483	48.8	-	7,955	-
1987	49,601	34.6	-	9,193	-
1988	44,778	23.3	-	12,378	-
1989	43,375	18.4	-	15,245	-
1990	47,777	17.7	-	14,822	-

Year	Gross External Debt (A)	Gross External Debt/GDP (%)	Short-term External Debt (B)	Foreign Exchange Reserves (C)	B/C (%)
1991	55,657	17.6	-	13,733	-
1992	60,262	17.8	-	17,154	-
1993	67,330	18.1	-	20,262	-
1994	83,622	19.2	38,451	25,673	149.8
1995	113,002	21.3	54,856	32,712	167.7
1996	150,869	26.3	75,886	33,237	228.3
1997	167,281	31.4	63,757	20,405	312.5
1998	155,462	43.4	39,580	52,041	76.1
1999	144,765	31.4	43,058	74,055	58.1
2000	141,429	26.5	49,657	96,198	51.6
2001	121,346	24.0	40,293	102,821	39.2
2002	132,757	23.1	48,179	121,413	39.7
2003	141,650	22.0	50,805	155,352	32.7
2004	150,625	20.9	56,348	199,066	28.3
2005	161,413	19.1	65,911	210,391	31.3
2006	225,200	23.7	113,748	238,956	47.6
2007	333,428	31.8	160,249	262,224	61.1
2008	317,370	34.1	149,894	201,223	74.5
2009	345,677	41.4	149,215	269,995	55.3
2010	359,757	35.5	139,763	291,571	47.9
2011	398,724	35.7	137,369	306,402	44.8
2012	413,437	-	126,660	326,968	38.7

Source: The data on gross external debt for the period from 1962 to 1993 are from the Committee for the Sixty-Year History of Korean Economy, “The Korean Economy: Six Decades of Growth and Development” (in Korean) volume I, page 211. The data on gross and short-term external debts for the period from 1994 to 2012 are from the Bank of Korea’s Economic Statistics System (<http://ecos.bok.or.kr>). The data on GDP and foreign exchange reserves also come from the Bank of Korea’s Economic Statistics System

Table A-6 | Korea's Current Account, Exports and Imports, 1952~2012

(Unit: US\$ million, percent)

Year	Current Account	Current Account/GDP (%)	Exports	Imports
1952	-	-	28	214
1953	-68	-5.2	40	345
1954	-33	-2.4	24	243
1955	-36	-2.6	18	341
1956	-23	-1.6	25	386
1957	-3	-0.2	23	442
1958	38	2.0	14	378
1959	16	0.8	20	304
1960	13	0.7	32	344
1961	33	1.6	41	316
1962	-56	-2.4	56	422
1963	-143	-5.3	87	560
1964	-26	-0.9	118	404
1965	9	0.3	173	463
1966	-103	-2.9	251	716
1967	-192	-4.6	321	996
1968	-440	-8.5	457	1,463
1969	-549	-8.4	624	1,824
1970	-623	-7.7	836	1,984
1971	-848	-8.9	1,067	2,394
1972	-371	-3.4	1,625	2,522
1973	-309	-2.2	3,221	4,240
1974	-2,013	-10.4	4,462	6,852
1975	-1,887	-8.7	4,945	7,274
1976	-314	-1.1	7,716	8,774
1977	12	0.0	10,048	10,811
1978	-1,085	-2.0	12,722	14,972
1979	-4,151	-6.5	15,057	20,339
1980	-5,071	-7.9	17,512	22,292
1981	-3,927	-5.4	21,268	26,131
1982	-2,134	-2.8	21,853	24,251

Year	Current Account	Current Account/GDP (%)	Exports	Imports
1983	-1,428	-1.7	24,446	26,192
1984	-386	-0.4	29,245	30,631
1985	-1,513	-1.5	30,282	31,136
1986	4,492	4.0	34,715	31,585
1987	10,779	7.5	47,281	41,020
1988	14,838	7.7	60,696	51,811
1989	5,267	2.2	62,377	61,465
1990	-1,390	-0.5	65,016	69,844
1991	-7,511	-2.4	71,870	81,525
1992	-2,240	-0.7	76,632	81,775
1993	2,973	0.8	82,236	83,800
1994	-3,508	-0.8	96,013	102,348
1995	-8,012	-1.5	125,058	135,119
1996	-22,953	-4.0	129,715	150,339
1997	-8,183	-1.5	136,164	144,616
1998	42,644	11.9	132,313	93,282
1999	24,479	5.3	143,685	119,752
2000	14,803	2.8	172,268	160,481
2001	8,428	1.7	150,439	141,098
2002	7,542	1.3	162,471	152,126
2003	15,584	2.4	193,817	178,827
2004	32,312	4.5	253,845	224,463
2005	18,607	2.2	284,419	261,238
2006	14,083	1.5	325,465	309,383
2007	21,770	2.1	371,489	356,846
2008	3,198	0.3	422,007	435,275
2009	32,791	3.9	361,614	322,843
2010	29,394	2.9	466,384	425,212
2011	26,068	2.3	556,602	524,366
2012	43,139	-	548,100	519,574

Source: The data on current account for the period from 1953 to 1979 are from the Committee for the Sixty-Year History of Korean Economy, "The Korean Economy: Six Decades of Growth and Development" (in Korean) volume I, page 209. The data on current account for the period from 1980 to 2012 are from the Bank of Korea's Economic Statistics System (<http://ecos.bok.or.kr>). The data on GDP also come from the Bank of Korea's Economic Statistics System. The data on exports and imports are from the International Monetary Fund's International Financial Statistics

www.ksp.go.kr

Ministry of Strategy and Finance, Republic of Korea

339-012, Sejong Government Complex, 477, Galmae-ro, Sejong Special Self-Governing City, Korea Tel. 82-44-215-2114 www.mosf.go.kr

KDI School of Public Policy and Management

130-722, 85 Hoegiro Dongdaemun Gu, Seoul, Korea Tel. 82-2-3299-1114 www.kdischool.ac.kr



ISBN 979-11-5545-037-6

**Knowledge Sharing Program
Development Research and Learning Network**

- 130-722, 85 Hoegiro Dongdaemun Gu, Seoul, Korea
- Tel. 82-2-3299-1071
- www.kdischool.ac.kr