

**2015 Modularization of Korea's Development Experience:  
South Korea's Voluntary Unilateral  
Import Liberalization  
During the 1<sup>st</sup> Half of 1980s**

**2015**



MINISTRY OF  
STRATEGY  
AND FINANCE



**KDI SCHOOL**  
KDI School of Public Policy and Management



---

# 2015 Modularization of Korea's Development Experience: South Korea's Voluntary Unilateral Import Liberalization During the 1<sup>st</sup> Half of 1980s

How Ideas, Interests and Bureaucratic Autonomy Drove New Policies,  
Overcoming Obstacles and Opposition\*

\* i) In this paper, "the 1<sup>st</sup> half of the 1980s" and "the early 1980s" are used interchangeably.

ii) The co-authors, Yoon-ha Yoo and Byoung-Joo Kim, would like to convey their very special thanks to Ambassadors Soogil Young and Ki-hwan Kim. Ambassador Kim kindly shared many hours going over his precious memories. Ambassador Young guided this study from the beginning to the end. Without his generous support, this study would have been impossible.

2015 Modularization of Korea's Development Experience  
South Korea's Voluntary Unilateral Import Liberalization  
During the 1<sup>st</sup> Half of 1980s

<b>Title</b>	South Korea's Voluntary Unilateral Import Liberalization During the 1 <sup>st</sup> Half of 1980s
<b>Supervised by</b>	Ministry of Strategy and Finance (MOSF), Republic of Korea
<b>Prepared by</b>	KDI School of Public Policy and Management
<b>Author</b>	Yoon-Ha Yoo, Professor, KDI School of Public Policy and Management Byoung-Joo Kim, Professor, KDI School of Public Policy and Management
<b>Advisory</b>	Min-young Han, Director of Economic Legal Affairs Division, Ministry of Foreign Affairs Soogil Young, Professor, KDI School of Public Policy and Management
<b>Research Management</b>	KDI School of Public Policy and Management
<b>Supported by</b>	Ministry of Strategy and Finance (MOSF), Republic of Korea

Government Publications Registration Number 11-1051000-000682-01

ISBN 979-11-5545-173-1 94320

ISBN 979-11-5545-171-7 [SET 6]

Copyright © 2014 by Ministry of Strategy and Finance, Republic of Korea

Knowledge  
Sharing  
Program



Government Publications  
Registration Number

11-1051000-000682-01

Knowledge Sharing Program

2015 Modularization of Korea's Development Experience

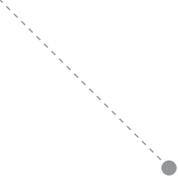
# South Korea's Voluntary Unilateral Import Liberalization During the 1<sup>st</sup> Half of 1980s



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 window of opportunity to better understand the factors that drive development. Within approximately a single generation, Korea transformed itself from an aid-recipient basket-case to a donor country with fast-paced yet sustained economic growth. What makes Korea's experience even more remarkable is that the fruits of Korea's rapid growth were relatively widely shared.

In 2004, the Korean Ministry of Strategy and Finance (MOSF) and the Korea Development Institute (KDI) launched the Knowledge Sharing Program (KSP) to assist partner countries in the developing world by sharing Korea's development experience. To provide a rigorous foundation for knowledge exchange engagements, KDI School has accumulated case studies through the KSP Modularization Program since 2010. During the first five years, the Modularization Program has amassed 138 case studies, carefully documenting noteworthy innovations in policy and implementation in a wide range of areas including economic policy, administration-ICT, agricultural policy, health and medicine, industrial development, human resources, land development, and environment. Individually, the case studies convey practical knowhow and insights in an easily accessible format; collectively, they illustrate how Korea was able to kick-start and sustain economic growth for shared prosperity.

Building on the success during the past five years, we are pleased to present an additional installment of six new case studies and two e-content topics completed through the 2015 Modularization Program. The six reports employ a wide range of examples to better illustrate the continued efforts to improve the effectiveness of managing the incumbent policy and management. The new case studies continue the tradition in the Modularization Program by illustrating how different agents in the Korean society including the government and civil society organizations worked together to find creative solutions to challenges for shared prosperity.

More specifically, these efforts include strengthening social communication between government and the people for sustainable growth through economic education; as well as open-door policies and measures to ensure fiscal stability while achieving sustainable growth in today's globalized world; and painstaking efforts to reform the financial industry

using the real-name financial system for fairness and equity; the informatization of personal information to increase effectiveness of public services; building up a national early warning system for fiscal stability and soundness.

Further contributing to knowledge sharing, the e-contents section features videos delving into Korea's export-oriented growth, often cited as a key government strategy that facilitated Korea's period of rapid development; and the gaming industry, a key success story in the sector for cultural contents. We also proudly note that the World Bank Group's Open Learning Campus (OLC), which will be launching in January 2016, has confirmed that it will feature the fourteen e-content programs built by the modularization program thus far.

I would like to express my gratitude to all those involved in the project this year. First and foremost, I would like to thank the Ministry of Strategy and Finance for the continued support for the Modularization Program. Heartfelt appreciation is due to the contributing researchers and their institutions for their dedication in research, to the former public officials and senior practitioners for their keen insight and wisdom they so graciously shared as advisors and reviewers, and also to the KSP Executive Committee for their expert oversight over the program. Last but not least, I am thankful to each and every member of the Development Research Team for their sincere efforts to bring the research to successful fruition, and to Professor Taejong Kim for his supervision.

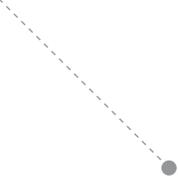
As always, the views and opinions expressed by the authors in the body of work presented here do not necessarily represent those of KDI School of Public Policy and Management.

**December 2015**

**Joon-Kyung Kim**

**President**

**KDI School of Public Policy and Management**



# Contents | LIST OF CHAPTERS

Summary.....	9
--------------	---

## Chapter 1

Introduction.....	11
-------------------	----

## Chapter 2

Theories&Debates.....	15
-----------------------	----

## Chapter 3

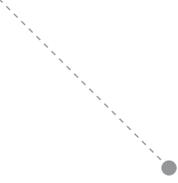
Korea's Actions During the 1 <sup>st</sup> Half of the 1980s.....	19
1. Overview.....	20
2. Tariff Reduction.....	20
3. Import Licensing.....	21
3.1. Trade Notice&Licensing.....	21
3.2. Import Surveillance System.....	24
3.3. Import Diversification Program.....	25
4. Objectives Sought.....	25
5. Policy Implementation Drive.....	28
5.1. Steps Taken.....	28
5.2. Public Communication.....	31
5.3. Dealing with Sectoral Resistance.....	33
6. Aftermath&Side-effects.....	34

## Chapter 4

Implications for Practice and Theory .....	37
1. Characterizing Korea's Case .....	38
2. Implications for Others .....	40

## Chapter 5

Conclusion .....	43
References .....	45
Appendices .....	47



## Contents | LIST OF TABLES

### Chapter 3

Table 3-1	Structure of Korea's General Tariff Rates: 1983, 1984&1988 .....	21
Table 3-2	Import Licensing Liberalization Ratio (ILLR) (1967~84) as of Each Year-End.....	22
Table 3-3	ILLR by Industry (1977~84) Selected Years .....	23
Table 3-4	Commodity Coverage of Import Surveillance (1981~85) as of Each Year End .....	24
Table 3-5	Number of Commodity Classes on Import Source Diversification Notice, 1980~85.....	25
Table 3-6	Major Public Communication Efforts (1983).....	32

## Summary

How did Korea carry out its trade liberalization voluntarily and unilaterally during the first half of the 1980s? This study offers an explanation on that. The mainstream neoclassical economics tells us that developing countries should choose to open their trade markets on their own, with or without outside demands. Most of political scientists, however, see voluntary and unilateral liberalization as a rather unrealistic and impractical option. They see, for one, fierce opposition from the industries that have enjoyed trade protection up to the point as a major barrier that could discourage the initiative from the very beginning. This study explains how Korea overcame this and other challenges and succeeded in achieving the difficult task of achieving the voluntary and unilateral trade liberalization during the first half of the 1980s.

From the mid-1970s into the beginning of the 1980s, Korea had faced serious economic and political difficulties. Political leaders and policymakers in charge were convinced that Korea needed a dramatic economic reform to turn the situation around. One important part of this reform was the trade market liberalization. Liberal policymakers believed that Korea needed the liberalization in order to drastically enhance its industrial competitiveness. With this objective in mind, they introduced a multi-year plan to open the market. This was announced well ahead of time for the private sector to prepare themselves for the coming change. The policymakers ran into daunting oppositions, but they did not yield and went ahead with planned implementation. In doing so, the liberal policymakers devised and carried out various strategies to support their efforts. For instance, they posted reformers in key positions in the government to deal with the opposition and drive implementation. They also came up with public relations and education programs to share their ideas with leaders of the public and the private sectors and with the general public. While the reformers made

---

such efforts, the overall political environment and the style of political leadership played critical roles. Through the transition from the end of the Park Chung-hee government to the beginning of the Chun Doo-hwan administration, the political atmosphere remained largely authoritarian. Thus, opposition against the reform drive was kept limited. And, in the process, the reformers took full advantage of political leadership's support for them.

In applying Korea's experience of trade liberalization during the first half of the 1980s to other developing countries, we are mindful of such unique political variables. Thus, more thoughts are needed on these variables in making Korea's experience more globally applicable. Nonetheless, those developing economies that choose to seek openness could take various actions Korea took into account. They include not only the content and the implementation strategy of the liberalization policy itself but also those of strategic personnel appointment and proactive public relations efforts that this study describes.

2015 Modularization of Korea's Development Experience  
South Korea's Voluntary Unilateral Import Liberalization  
During the 1<sup>st</sup> Half of 1980s

# Chapter 1

## Introduction

---

# Introduction

Trade liberalization is a difficult task of economic adjustment. Economic sectors that have been under the protection of tariffs and trade barriers will see them being exposed to foreign competition through trade liberalization. This prospect will lead them to rise up and resist market opening. To put it simply, concentrated costs on those directly affected by the liberalization often seem specific and immediate, while diffuse benefits to the rest of national economy frequently seem too general and remote. Those directly affected therefore will jump into action, while those that are supposed to indirectly benefit will lack incentives to counter.<sup>1</sup> For this reason, even for those who assume freer trade produces greater prosperity, it is difficult to see trade liberalizations taking place voluntarily and smoothly without serious political challenges.<sup>2</sup> And, for this and other reasons, in democracies, it is usually easier to see protection rise and free trade decline over time.<sup>3</sup>

Then, how do we achieve voluntary trade liberalization that will enhance an economy's openness outward? Some have argued countries will undertake efforts to do so, based on their own conviction of liberal economic values. Others said those countries where exporting interests override import-protected interests would eventually go ahead and open its markets voluntarily, because the overriding export-oriented interests would want to enjoy cheaper imports of production input at home and free trade abroad—without other countries' threatening them.

1. Mancur Olson, *The Logic of Collective Action* (Cambridge, MA: Harvard University Press, 1971).
2. This is even more the case for those who do not share the assumption that freer trade produces greater prosperity, in particular reference to developing economies.
3. Gene Grossman and Elhanan Helpman, "Protection for Sale", *The American Economic Review*, Vol. 84, No. 4. (Sep. 1994), pp. 833–850.

---

In Korea, import market was continuously liberalized since the 1960s, but a very dramatic voluntary unilateral trade liberalization was carried out during the 1980s.<sup>4</sup> The experience of this period will tell us which of the two arguments make better sense. This study examines that. The study also seeks to offer implications on how a country, particularly that of a “strong state”, may initiate and drive seemingly daunting political action and deliver success.<sup>5</sup>

Altogether, this study i) reviews theories regarding voluntary trade liberalization, ii) compares them with Korea’s experience from the 1980s, and iii) seeks to draw insights for those developing economies interested in voluntary trade liberalization of their own.

4. There were reasons for this trade liberalization of the early 1980s being different from the ones that came later in the mid and the late 1980s and during the 1990s. First of all, foreign pressure did not play an important role. It became a key factor after the mid-1980s. Secondly, as we will discuss in this study, the trade liberalization during the period of our concern here was mostly about tariffs and import permits. In contrast, the liberalizations that came after this period were largely about various non-tariff barriers.

5. The concept “strong state” has been widely discussed particularly among those who studied state-led industrialization in East Asia. For a more universal and comprehensive discussion, see Joel Migdal, *Strong Societies and Weak States* (Princeton, NJ: Princeton University Press, 1988). Also, consider Daron Acemoglu, “Politics and Economics in Weak and Strong States”, *Journal of Monetary Economics*, Vol. 52 (2005), pp. 1199–1226.



2015 Modularization of Korea's Development Experience  
South Korea's Voluntary Unilateral Import Liberalization  
During the 1<sup>st</sup> Half of 1980s

## Chapter 2

Theories&Debates

---

## Theories&Debates

Political scientists have introduced theories on how some countries will decide to go ahead with what seems to be politically challenging task of voluntary market opening. Judith Goldstein, for instance, explained how the United States, based on its belief in benefits of free trade, drove unilateral trade liberalization and demanded the same from other countries around the world.<sup>6</sup> Meanwhile, Helen Milner looked into how exporting industries of the United States identified greater openness in trade as their key interest and promoted it at home and abroad.<sup>7</sup>

While Goldstein and Milner offered important foundations for understanding voluntary unilateral trade liberalization, we are mindful of country variations on key factors—i.e. trade related ideas and interests—that the two political scientists reminded us of. In other words, we wonder whether the theories of both scholars may not readily apply to cases of developing world. That is particularly the case, because both of them anchored their studies on the United States' experience. After all, it is a long-observed fact that the world's leading economies often identify free trade as its primary interest and act to practice themselves and impose upon others to the extent possible.<sup>8</sup> But, for others, especially those economies still

6. Judith Goldstein, *Ideas, Interests, and American Trade Policy* (Ithaca, NY: Cornell University Press, 1994).

7. Helen Milner, *Resisting Protectionism: Global Industries and the Politics of International Trade* (Princeton, NJ: Princeton University Press, 1988).

8. Charles Kindleberger, *The World in Depression: 1929–1939* (Berkeley, CA: Univ. of California Press, 1986).

---

developing, do these theories apply? This question seems to have remained open for quite some time.<sup>9</sup>

There are other related questions, as well. When and how do those states that are built upon nationalistic—and often mercantilist—perspective of development suddenly change their positions and turn to free trade on their own? How do they explain such need for sudden change to their public? How do they deal with those economic sectors directly affected by dramatic outward market opening? The remainder of this study seeks to answers to these questions.

In doing so, this study pays keen attention on Korea’s one important particularity and seeks to control it in producing implications for others. The particularity is that of a “strong state”. Korea offers one eye-catching example of a “strong state” delivering fast and successful industrialization.<sup>10</sup> The power of the state had been indeed exceptionally strong for three decades from 1960 until the end of the 1980s during its heydays of industrialization success. And, this experience of Korea remains an exception rather than a rule in the developing world today. Thus, this study seeks to offer implications for others that are as controlled as possible, with this peculiarity in mind.

9. These and other questions have been raised by many including Dani Rodrik in his paper, “The Rush to Free Trade in the Developing World: Why So Late? Why Now? Will It Last?” (NBER Working Paper no. 3947, 1992).

10. Alice Amsden, *Asia’s Next Giant: South Korea and Late Industrialization* (New York: Oxford University Press, 1992).



2015 Modularization of Korea's Development Experience  
South Korea's Voluntary Unilateral Import Liberalization  
During the 1<sup>st</sup> Half of 1980s

## Chapter 3

### Korea's Actions During the 1<sup>st</sup> Half of the 1980s

1. Overview
2. Tariff Reduction
3. Import Licensing
4. Objectives Sought
5. Policy Implementation Drive
6. Aftermath&Side-effects

---

# Korea's Actions During the 1<sup>st</sup> Half of the 1980s

## 1. Overview

Korea carried out its trade liberalization of the 1980s, based on its 1984-88 Five-Year Plan. The liberalization was pursued at multiple fronts, including across-the-board tariff rate cuts and discontinuation of import licensing for a gradually growing number of goods. During this period, the import liberalization ratio increased from 80% of 1983 to 95% by 1988. The nominal tariff average was cut from 24% of 1983 to 13% by 1989. Side-effects of the dramatic policy changes were managed through planning ahead of time and proactive communication with industries through early notification.<sup>11</sup>

## 2. Tariff Reduction

In 1984, the Advanced Notice of Tariff Reduction was announced with up to 11-year time horizon. This was a clear example of a carefully prepared signaling system. This conveyed the message of the government's commitment to liberalization and the calling of private sector's preparation in advance.<sup>12</sup>

The advanced notice system came in as a part of the 1984 tariff reform. The reform was the first step of a five-year tariff reduction plan. The overall average tariff rate for non-

11. Sang-woo Nam, "Korea's Stabilization and Liberalization Policies in the 1980s," a paper presented at the Korea Development Institute, Policy Forum on "Private Sector-led Development Strategy and the Role of the Government in Developing Countries", Seoul, Korea October 15-17, 1992, pp. 15-16.

12. Nam, pp.15-16.

agricultural product was lowered by 5.7% from 22.6% in 1983 to 16.9% by 1988.<sup>13</sup> The overall direction of the tariff reduction was two-fold. First, the tariffs for industrial goods were to be cut roughly by a one-fourth. Second, they were to be made largely similar in levels, regardless of whether they are levied at early input-product stages or at later and finished stages.

**Table 3-1 | Structure of Korea's General Tariff Rates: 1983, 1984&1988**

(Unit: %)

	1983	1984	1988 [projected]
Non-agricultural Products	22.6	20.6	16.9
Raw Materials	11.9	10.6	9.5
Intermediate Products	21.9	18.7	17.1
Finished Products	26.4	24.7	18.9
All Products	23.7	21.9	21.3

Source: Ministry of Finance.

### 3. Import Licensing

What made a greater difference than the tariff cuts was relaxation of import licensing. The reason was straight forward. Earlier, during the 1970s for instance, tariffs had been already lowered several times, including the years of 1973, 1976, and 1978. Gradual reduction of tariffs was Korea's commitment to the outside world. Korea continuously stated that it was seeking freer trade through continuously lowering tariffs. With this commitment and the actions that followed, Korea's tariffs were already on a lower side, and thus did not have that much of a room to make dramatic further differences. Instead of high tariffs, Korea had other means for trade protection, such as import licensing and the Import Diversification Listing.<sup>14</sup>

#### 3.1. Trade Notice&Licensing

On the import licensing side, changes were introduced through the means of trade notice revisions. This was done, because—in principle—importers were to submit trade notices

13. Soogil Young, "Import Liberalization and Industrial Adjustment in Korea", Working Paper 8613 (Seoul, Korea: Korea Development Institute, 1986) p. 21.

14. Young (1986).

and the government was to issue import licenses. Back in 1976, the trade notice and license system had been changed from that of a positive listing system to that of a negative listing system. Under the positive system, those items subject to automatic import approval were listed. Under the new negative system, only those subject to discretionary import approval were listed, meaning those unlisted were the ones that needed neither notices nor license to be imported.

With the negative system however, the government had enjoyed considerable discretionary power to decide—among the listed items—what could be imported or restricted, depending—among other factors—on current account situation.

**Table 3-2 | Import Licensing Liberalization Ratio (ILLR) (1967~84) as of Each Year-End\***

Year	ILLR (%)
1967	58.8
1968	56.0
1969	53.6
1970	52.8
1971	53.5
1972	49.5
1973	50.7
1974	49.3
1975	47.8
1976	49.6
1977	49.9
1978	61.3
1979	69.1
1980	70.1
1981	75.5
1982	77.4
1983	81.2
1984	85.4

\* The proportion of items subject to automatic import approval under the regular trade notice, based on classification of goods into 1097 items at the 4-digit level of the CCC Nomenclature (CCCN).

Source: Young (1986) Table 6.

In 1978 and 1979, this licensing system was dramatically liberalized, dropping many items from the negative list. And, in 1981, another round of relaxation followed, deleting more items from the list.<sup>15</sup>

Going beyond this tradition of taking sporadic one-time actions, in 1983 and 1984, a longer-term five-year plan to shorten the negative list was announced. The ratio of goods unbound by the negative list—now free to import—increased from 70% of all goods in 1980 to over 85 % in 1984.<sup>16</sup>

By 1984, many of the input products for upper-scale manufacturing saw their liberalization level reaching over 90%. This was in line with the original vision to have most of the main stream products freed from quantitative import restrictions, as shown below.

**Table 3-3 | ILLR by Industry (1977~84) Selected Years\***

	Total Imported Items		ILLR (%)		
	in 1977	1977	1980	1983	1984
Food, Beverages&Tobacco	191	49	45	60	61
Textiles	227	40	70	81	90
Apparel	75	21	42	74	91
Leather Products	32	66	87	91	100
Footwear	9	44	100	100	100
Wood Products	50	72	82	90	100
Rubber Products	26	39	92	91	92
Miscellaneous Products of Petroleum	12	92	100	100	100
Plastic Products	14	0	93	100	100
Printing&Publishing	17	82	88	94	94
Professional&Scientific Equipment	72	57	60	67	75
Miscellaneous Products	62	34	54	64	70
Paper Products	42	45	88	93	93
Industrial Chemicals	305	48	77	83	84
Other Chemical Products	107	87	96	97	98
Petroleum Products	17	94	100	100	100

15. Ibid.

16. Ibid.

	Total Imported Items		ILLR (%)		
Non-metallic Mineral Products	99	58	86	91	91
Iron&Steel Products	92	57	76	80	84
Non-ferrous Metal Products	76	82	90	89	89
General Machinery	278	49	54	65	70
Electrical Machinery	137	20	29	48	56
Transport Equipment	81	32	31	37	46
Total Manufacturing	2,093	50	67	76	80

\* The number of the automatic import-approval items relative to the total number of actually imported. Commodities have been counted in terms of Korea's tariff lines.

Source: Office of Customs Administration Trade Tapes.

## 3.2. Import Surveillance System

The trade liberalization of this period brought changes to “Import Surveillance System”. Korea was operating this system, so that the authorities could impose variable tariffs on items that were designation for surveillance. For these items on the list to watch, higher tariff would be imposed in case of a sudden import surge, based on the rationale that such a surge could cause domestic market instability. The trade liberalization of the early 1980s reduced the scope of items under this surveillance.

**Table 3-4** | Commodity Coverage of Import Surveillance (1981~85) as of Each Year End

Year	Total Commodity	Commodity Classes	
	Classes (A)	Under Surveillance (B)	% (B/A)
1981	7,465	193	2.6
1982	7,460	201	2.7
1983	7,460	161	2.1
1984	7,915	125	1.6
1985	7,915	118	1.5

Source: Ministry of Trade and Industry.

### 3.3. Import Diversification Program

The last field of actions liberalizing trade during the early 1980s related to the Import Source Diversification Notice System. The system was originally designed to address the issue of Korea's structural dependency on Japan for industrial input goods and some high-end consumer products. Partly motivated by negative national sentiments stemming from the era of Japan's colonization of Korea, the system operated to minimize Japanese imports and to boost Korea's industrial independence over time.

**Table 3-5** | Number of Commodity Classes on Import Source Diversification Notice, 1980–85

Year	Number*	Commodity Coverage** (%)
1980	195	19.3
1981	205	20.3
1982	209	20.7
1983	174	17.2
1984	168	16.6
1985	160	15.8

Note: \*At the 4-digit level of CCCN \*\* Relative to the total of 1,010

Source: Ministry of Trade and Industry.

The liberalization of the early 1980s made a considerable impact on the Import Source Diversification Notice System. The scope of application of this system was reduced significantly as we can see above.

## 4. Objectives Sought

The trade liberalization of the early 1980s was meant to become a historic threshold bridging between two different eras, the growth-focused protection-based era of Korea's trade policy on one hand; and the new balance-focused era seeking a relatively more open economy on the other.

The late 1970s' hyperinflation was a global phenomenon, but Korea had to suffer even more, as the country had been recording double-digit annual economic growths for two decades. Coupled by high oil prices and cheap-dollar-triggered excessive liquidity that were driving inflation worldwide, Korea's consumer income was rising and its property

---

market was booming, leading to ever-growing purchasing power and rising consumption demand. High inflation became one of the most pressing agendas for the government. It had to address people's unhappiness about ever-rising prices up front, for the sake of boosting political legitimacy.

In addition, there was another pressing structural concern. The previous government's push for switching the country's focus from light manufacturing businesses to heavy chemical industries (HCI) produced daunting challenges from the mid-1970s. In the corporate and financial sectors, for instance, the government's push led to a large amount of non-performing loans, as the country's largest businesses could not pay back what they borrowed for investing in HCI. For consumers, there were supply shortages of basic goods. Ordinary people were saying then that, other than coal for heating homes, the government was simply not interested in ensuring an adequate supply of consumer goods, as its focus was totally devoted to the HCI drive.<sup>17</sup> And, despite the government attention, even coal as home-heating fuel was in occasional short supply, further enraging the public.

The public came to believe that the HCI development drive was a failure that needed to be rectified. The rectification, according to the rising consensus at least among the educated public, meant ending of the era where the government planned and directed industrial development while protecting important industries from foreign competition. The new era envisioned was the one where the government would step back, letting the market drive. In the past leading to that point, market protection had been the default mode, with only selective market openings for the purpose of raising international competitiveness. In the new era, the public needed a new default mode with new policies that were different from those of the past.

Simply put, pressure for such change was apparent, at least in the minds of relatively highly educated public, opinion makers and many of the leading policymakers. One way or another, it became necessary to seek change, because of the public anxiety over high inflation and what seemed then to be the defunct HCI drive. In short, the last chapter of the old era led by the omnipresent and omnipotent government had to come to an end.

For those policymakers who had trade liberalization in mind, this was a golden moment to get into the full gear towards market opening. These reformers did have consumer welfare and export industry interests in mind. However, these concerns did not feature prominently in policy discussions. Rather, at least on the surface and in the records, their eyes seemed

---

17. Kim, Ki-hwan (formerly, vice minister of commerce and industry, ambassador at large for economic affairs, and president of KDI), Personal interview (Nov. 14, 2015)

---

to be singlehandedly focused on the need to upgrade Korea's industrial competitiveness. They saw too many of the Korean industries being protected, not as much by high tariffs, but more by various import approval and restriction systems. These reformers had lost trust in infant industry protection argument. Even though they had seen some value of infant industry protection during previous decades, they saw its relevance lost due to political competition. By then, they had seen too many industries lobbying for getting and keeping the "infant industry" classification and receiving protection through the import controls. In fact, the reformers came to question the idea of "infant industry" itself. They realized that it was difficult, if not impossible, to define which country deserved such classification and which did not. The reformers became convinced that infant industries remained "infant" because of their classification and the protection that came with it. The reformers concluded that the way to have infant industries graduate from the infant status was, not to wait until they mature, but to remove the classification and the protection at once so that they would be forced to compete, improve themselves and thus mature through market process. This had to be done then, during the 1980s. They decided not to wait any longer. With any further hesitation and delays, Korea industries would only strengthen their lobbying power to make protection permanent. Reformers saw the possibility of permanent government capture by industrial interest on the horizon. The reformers believed that, with further wait, Korean industries would soon lose their chance to take a leap forward for good.<sup>18</sup>

18. Ibid.

---

## 5. Policy Implementation Drive

### 5.1. Steps Taken

One major announcement of the overall new direction came out as early as April 17, 1979, before the end of the Park Chung-hee administration. On that day, recognizing the needs for change, the Vice Prime Minister H.H. Shin released the Comprehensive Economic Stabilization Plan (CESP) at a press conference.<sup>19</sup>

But, before all the details were finalized and executed, about six months after its announcement, the CESP had to be set aside, following the end of the Park government. This dormant period did not last long however. The new incoming Chun government was looking for new policy ideas. Some of economic reform measures were pushed ahead even before the formal inauguration of the new government. The National Security Council (NSC) presided by General Chun, who had led the military coup, worked on various economic issues that could make a notable difference to the public and add to whatever political legitimacy possible for the young generals.

Under the NSC, the hard push produced resistance and backlash in some issue areas. To deal with the aftermath of the heavy and chemical industrialization drive, the NSC—for example—urged private companies in some industries such as automobiles and electricity-generation equipment to merge and consolidate. Hyundai and Daewoo in these cases protested hard.<sup>20</sup> Despite such challenges in some issue areas, the ideas of the CESP largely

19. The CESP goals were the following.

1. Creating opportunity to cease the chronic 30-year inflation
  2. Establishing cooling-off period for managing fast pace of development
  3. Stabilizing the livelihood of the people to generate greater public trust and national harmony
  4. Implementing special measure for the goal number 3 above
  5. Seeking greater flexibility in policy options and tools, to leave behind the era where only end-results—measured by various indices—were emphasized
  6. Encouraging market-driven more-efficient resource allocations
  7. Adhering to the relatively new principle of fiscal restraint and strengthening financial system and industry
  8. Cutting large investment projects in order to better accommodate domestic demand for consumer goods and services
  9. Curtailing real estate speculations to promote more balanced livelihood of the public
  10. Seeking long-term economic and social stability to achieve ‘true prosperity’
- in Dongchul Cho and Younguck Kang, “Korea’s Stabilization Policies in the 1980s”, *2012 Modularization of Korea’s Development Experience, Ministry of Strategy and Finance* (Seoul, Korea: 2012) p.43.

20. Ibid. p.47.

survived the political transition. Many of them were taken up and forcefully implemented by the Chun government after its inauguration.

Significant new policy moves were publicized through surprise announcements. The corporate tax rate was cut in 1981 from 33% to 20%. Interest rates for savings deposits were asked to be brought down to single digits. One major reform, the ‘real name financial transaction’ rule was announced and then retracted due to strong backlash. These surprises—and some reversals—seemed inevitable, because reformers believed that big changes had to be implemented forcefully, without extensive consultation. Such extensive consultation could lead only to resistance, the reformers believed.<sup>21</sup>

As one key part of the CESP, trade liberalization had to wait for its time. It had to come later after the launching of the new government. Meanwhile, reform-minded liberal economists and policy makers expanded their influence within the new government. In 1981 and 1982, several of the Economic Planning Board’s (EPB) high-level officials—who had earlier designed the CESP—were appointed to replace those in the Ministry of Finance that had resisted CESP implementations in such issue areas of weakening government control over banks’ loan-making decisions. The foundation for future liberalizations was further solidified by this personnel transplanting.

The idea of trade liberalization fully surfaced in policy discussions by early 1983. The Ministry of Finance, headed by a reform-minded former EPB official, Kang KyongShik, aired the idea for substantial tariff cuts and removal of import restrictions. This position did not emerge overnight. Liberalization advocates at first took their time to painstakingly persuade others within the finance ministry. When the finance ministry finally spoke in one voice, the Ministry of Commerce and Industry in charge of manufacturing industries and trade policies reacted negatively.

Two government think-tanks, representing the views of the two opposing ministries, got engaged in heated open debates. The Korea Development Institute (KDI) argued that, with exception of rice, Korea should open up all of its imports, introducing a full-scale liberalization by 1987. The Korea Institute for Industrial Economics and Trade (KIET) spoke out in support of the Ministry of Commerce and Industry, advocated a slower and more gradual liberalization, citing Korea’s long concern for current account deficit.

KDI’s position—shared with the finance ministry—was clear: Time for trade protection was over in Korea. It was necessary by then to open the market further for greater

21. *Ibid.* p.51.

---

international competition at home. To survive the competition, Korean companies would have to further upgrade and enhance their competitiveness. This would lead them to move upscale in global competition, the liberalization advocates argued. If Korea missed the opportunity to open up its domestic market then, it would not only make domestic producers stay behind—as global competition moved forward—but also allow domestic players to exercise market power that could stifle potential competition from both domestic and international rivals, ultimately hurting Korean consumers and undermining the nation’s economic interests, the advocates warned. Those companies that wanted protection rather than greater competitiveness had to be weeded out through the liberalization, the free trade supporters pressed on.

KIET, on the other hand, pressed for gradualism. Liberalization did not need a dramatic cross-the-board opening, they said. Different industries and sectors needed different schedules, based on the government’s delicate care and attention for those differing needs. An all-out market opening would only lead to losses of important domestic industries to international competition. The consequences would be irreversible, the gradualists argued.

The end of the intra-government debate ended rather abruptly. The Chief Economic Adviser to the President, Kim Jae-ik, the *de facto* head of economic reform and the CESP drive, persuaded President Chun to appoint Kim Ki-hwan as the new Vice Minister of Trade and Commerce in October 1983. This new vice minister was a former head of the KDI and one of the most prominent voices for market opening in Korea for years. Vice Minister Kim quickly acted to produce the trade and commerce ministry’s annual plan for tariff reduction and market opening.<sup>22</sup>

However, struggle continued. While moving forward, Vice Minister Kim faced tacit resistance within his trade and commerce ministry, especially from those with ties to industries seeking continued protection. Very poorly paid then, government officials were very much used to being “wined and dined” by private sector businesses. Particularly, many of those government officials who had the discretion to approve and disapprove imports were believed to be enjoying backdoor compensations from the businesses that benefited from their decisions. The effect was apparent. Small group discussions with his subordinates were sometimes leaked to industry executives. Vice Minister Kim and his boss, the minister, would receive phone calls from them asking for mercy and continued protection.<sup>23</sup>

22. *Ibid.*

23. Kim, Interview.

Outside the government, media went on to challenge liberalist reformers, invoking a nationalist argument. Nationalists alleged that the reformers were simply naïve worshippers of the Western world's blind faith in market supremacy, disregarding Korea's situation. Reformers were often labeled unpatriotic and more sympathetic toward Western neoclassical economic values than to Korean values and national interests.<sup>24</sup>

Vice Minister Kim took these reactions as a sign of urgency. He decided that it was technically impossible to determine which industries should go first for further liberalization. He summoned his director generals that headed relevant bureaus of trade policy and reminded them of a goal stipulated in the 5<sup>th</sup> Five Year Economic Plan, the goal to achieve a full trade liberalization of the entire industrial sector by the end of the 1980s. He said all he wanted was a liberalization schedule for industries to meet the declared goal. He did not care about anything else, including arguments on which industries had to open first and which ones would come a little later, as long as they were spread out over time before the end of the 1980s, he said.<sup>25</sup> Subsequently, despite ongoing challenges, the plans were set up and actions of liberalization were implemented, as explained earlier here.

## 5.2. Public Communication

Reformers had been actively countering criticisms all along. As early as in 1980, the KDI's Vice President Sakong Il developed public relations (PR) program to generate support for the CESP. In 1981, an ad hoc government organization, the Economic Policy Public Relations Group was created. The following year, it was converted into a permanent body, the Department of Economic Education Planning within the Economic Planning Board. The chief architect of the CESP, Kim Jae-ik of the presidential office personally led the PR campaign. Civil servants, educators of all levels from college professors to elementary school teachers, and even ordinary citizens such as those in military reserve were summoned to sit in public lectures preaching the need for the CESP-driven economic reform. President Chun himself did not hesitate in speaking out for reform in public.

In 1982, the KDI was asked to develop another PR campaign plan. It helped the nation's main national TV station produce documentaries on global economic challenges and Korea's reform needs. In 1983, more than 700 leaders of the government, business and politics were brought in to a New Year's event hosted by the Korean Chamber of Commerce.

24. Cho and Kang, p.51.

25. Ibid.

They listened to extensive lectures on the necessity for overhauling the Korean economy.<sup>26</sup> Many agree that these all-out efforts made considerable difference in generating support for economic policy changes.<sup>27</sup> But, others believe more should have been done, because challenges were so daunting from the outset.

**Table 3-6 | Major Public Communication Efforts (1983)**

Host	Program	Date	Participants	Contents
Min. of Commerce & Industry, KDI	Consensus Building Education on Economic Stabilization	Weekends of Feb. 1983	Officials of Economic Ministries	Commerce Ministry debated against KDI on scope and pace of full-scale import liberalization, in front of the participants
Federation of Korean Industries	Business Roundtable in Preparation for Trade Liberalization	Mar. 8, 1983	Private Sector Businesses	Measures to protect domestic industries were discussed and proposed to the government
Tariff Evaluation Committee	Open Discussion on Tariff Change	Mar. 31, 1983	Academics Experts, Business Executives, Political Leaders	Details, problems and implications were discussed. Adjustments were proposed
Korea International Trade Association	Seminar: Explaining Trade Liberalization	Jun. 3, 1983	Open	Revised trade data disclosure rules and preparatory measures for trade liberalization were discussed

Implementing stabilization (to control inflation), promoting market economy (reducing government intervention), and opening the economy (to the outside world) were three main ideas behind the CESP. And, there were ironies found along the way of promoting them in public relations. Among the three, the first cause, stabilization had already enjoyed firm public consensus and support, even though the reformers recognized it was potentially the most difficult one to implement, politically speaking. Necessary austerity could affect ordinary citizens' daily lives and this meant considerable political liabilities in the actual implementation process. However, a lot of public discourse had already been generated regarding the need for stabilization ever since the mid-1970s. Thus, talking publicly about the big picture and what needed to be done was relatively easy.

26. Cho and Kang (2012), p.53.

27. Lee, Jang Kyu, *You're the President When it Comes to Economic Policies*, [in Korean] (Seoul: Ollim 2008).

The second cause of the CESP, strengthening a market mechanism (and reducing government intervention), was also a relatively easy one to talk about. For ordinary citizens, this seemed like an agenda affecting—not themselves but—the large companies. For most large companies, obviously the cause was something that they strongly welcomed, as they wanted to see less of government interference in their decision-making and actions.

The third cause of the CESP, promoting outward openness, was the trickiest one to tackle in public relations. In theory, Korean consumers would benefit from lower-priced and better-quality imports that would come with liberalization. However, the nationalistic protectionist thinking that had been strongly promoted for decades was standing in the way. During the 1970s, use of imports had been called unpatriotic and un-Korean and even criminalized in some sectors. Thus, a sudden advocacy for market openness was seen as an unsettling turnaround. What used to be dark had to be taken as bright overnight. This dramatic transition in rhetoric was hard for the public to digest. Critics resisting trade liberalization thus generally had an upper hand in public discourse. In the end, policy implementation went ahead, perhaps without going all the way in generating public consensus to the fullest possible degree. Its impact was being felt for years and decades that followed.<sup>28</sup>

### 5.3. Dealing with Sectoral Resistance

Resistance against the liberalization drive was strong under the surface throughout the process. Especially, inside the commerce and industry ministry in charge of trade policy, such opposition was strongly felt. Officials with ties with the affected industries continuously aired their support for the infant industry argument. Outside the ministry, as mentioned earlier, the KIET, the think tank under the ministry's jurisdiction, came out to oppose reformist liberals at KDI in public debates.

However, these oppositions were overridden with hierarchy and authority. The presidential office orchestrated the liberalization drive and sent leading reformers to key positions of finance and industry ministries. With new bosses controlling future promotion and career directions, working-level officials inside these ministries could not continue to resist too long.

As for the industries affected, their hands were fundamentally tied. The personal ties with the working-level ministry officials were largely all they had as pressure channels. Meanwhile, to the legislature, industries often did not have robust channels of lobbying.

28. Even to this day, it is fair to say that the Korean public itself has not fully embraced the idea on benefits of market opening. Among many cases, consumer associations, for one, largely remain protectionist based on nationalistic beliefs. Many outlets of Korean media continue to air nationalistic rhetoric on trade issues.

---

As ex-military generals were coming to power, the legislature's power had been subdued. Politicians were not free to criticize major government policy initiatives like trade liberalization. To prevent any political opposition, ex-military generals had basically muzzled lawmakers at the time.

Export interest—that would in theory support the opening—was not actively recruited in the government campaign. In education programs and public discussions, the new government did not allow competition of sectoral interests. The government defined market opening as the choice to strengthen and upgrade national industrial competitiveness, a choice to serve the national interest. In this setting, anyone opposing the initiative could not talk about their own sectoral interest and concerns in public. Arguments for infant industry and gradualism had to be offered also in the name of national interest. Regardless, the opposition could not win. The reformers were firmly supported by the new president who was eager to make dramatic differences and strengthen his legitimacy. Those seeking status quo were on the defensive. Doubts could be raised. But, no one could amass enough momentum to derail the reform measures.<sup>29</sup>

To the public that wanted a clear departure from the economic policy line of the Park government for the 1970s, the new Chun government offered a departure defined by three themes; stabilization, private sector autonomy, and market opening. The last one among the three puzzled the public, especially after decades of familiar mercantilist rhetoric. The new government campaigned hard to explain the need for new thinking. The public went along, even though a full-scale change of heart did not take place overnight.

## 6. Aftermath&Side-effects

As the dramatic trade liberalization was pushed ahead for implementation, its side-effects were rather limited. Economic or industrial dislocations were rarely observed. This was believed to have been made possible through careful timing and sequencing of implementation.

Liberalization targets were chosen with competitive positions of the concerned industries in mind. In fact, several studies have argued that many of the industries affected by the

29. Before the trade liberalization drive, the new government tried to introduce the real name system for finance that was to open up all the money hidden in the banks under pseudonyms and other people's names. The reform faced strong opposition and failed. The new government could not afford to take another back steps. The commitment was firmer than ever before, while opposition to the trade liberalization was far more limited.

---

liberalization were already competitive enough to be ready for it.<sup>30</sup> The timing was right for most of the industries, even though rarely anyone in the industry would admit it openly. For those small number of companies and industries that were on borderline, the government issued advance notices of product-specific liberalization with reasonably long lead time.

In other words, where necessary, private sector response was largely proactive in positive ways. Korean companies acted quickly to upgrade their businesses in terms of the quality produced and technologies used. They reorganized their production systems and domestic and overseas sales and marketing strategies.<sup>31</sup> In short, the liberalization was seen as a considerable success with little downside.<sup>32</sup>

30. Yang (1986) and Nam both present this observation.

31. Nam, p.16.

32. Details of this assessment are effectively documented at length in Yang (1986).



2015 Modularization of Korea's Development Experience  
South Korea's Voluntary Unilateral Import Liberalization  
During the 1<sup>st</sup> Half of 1980s

## Chapter 4

### Implications for Practice and Theory

1. Characterizing Korea's Case
2. Implications for Others

---

# Implications for Practice and Theory

## 1. Characterizing Korea's Case

In Korea's case of trade liberalization during the early 1980s, there are several factors to note. The first one among them is relative absence of foreign pressure. In market openings of late industrializers, particularly those of East Asia, it is common sense to identify foreign pressure as the main cause. This does seem to apply to Korea for most periods of time, but not this particular period of the early 1980s this study looks into. As mentioned, the market opening drive for this period had originated from the mid to late 1970s. During the time, some in the United States had expressed discontent over Korea's trade practices. Nevertheless, the full-scale government-level channeling of demand for market opening began from the late part of the first Reagan Administration in 1983 and 1984. By then, the market opening drive in Korea was already well under way in a unilaterally initiated style. Thus, while market liberalizations of the late 1980s should be viewed as a result of foreign pressure, the one of the early 1980s that this study examines should not be.<sup>33</sup>

We see ideas and interests both mattered in initiating and implementing voluntary unilateral trade liberalization. Korea's international trade had phenomenally grown during the two previous decades before the 1980s, based on its determination to seek export-driven development. This experience of success boosted Korea's conviction in the importance of free trade, first abroad and then at home. Korea had learned that international competition abroad enhanced global competitiveness of its companies. As a consequence, at least some of the most reform-minded ones among the policymaker came to expect greater international competition at home producing similar benefits for those sectors that had been protected from imports.

33. Kim, Interview.

On top of that, a sense of urgency added to the drive. At home, the 1970s' quick turn to heavy industry development had placed the entire economy in disarray and imbalance. Heavy investments were not producing returns fast enough. Instead, businesses were going bankrupt and financial sector were getting ever shakier. Abroad, the second oil shock, financial crises and synchronized downturns around the world continued, further heightening a sense of crisis for Korea—an economy already highly dependent on world market. This sense of crisis and threatened interest led Korea to dramatic actions of stabilization, liberalization and market opening. Reformist policymakers then saw a make-or-break moment for boosting Korea's industrial competitiveness. They thought they had no choice other than drastically opening up the trade market, exposing previously protected industries to international competition and making them jumpstart their drive for competition-driven improvement.<sup>34</sup> Here, the idea (i.e. the faith in market competition) and the interest (i.e. the desire to achieve industrial upgrade) came together.

We do not see as much of explicit interest group politics being played out in this particular case of Korea's trade liberalization during the early 1980s.<sup>35</sup> As mentioned at the beginning in the theory section here, researchers like Helen Milner would look for evidence where Korean exporters might have supported the trade liberalization drive, confronting protectionist demand of the import-competing interest. But, in written records and interviews, we did not find such evidence. Policymakers remained convinced that export was the engine needed to move the country forward in an economic development trajectory. They had witnessed Korea's light manufacturing exporters competing and growing in international competition. Thus, they wanted to apply the market force to the rest of the economy, hoping to convert home-based industries into new exporters by forcefully exposing them to global competition. In this process, as mentioned earlier, the affected industries reacted quite strongly through their ties to sympathetic government officials. Nonetheless, their hands were rather tied because of political circumstance.

34. Ibid.

35. It seems reasonable to expect more of interest group politics playing out in trade liberalizations from the late 1980s until the late 1990s and during the FTA era that followed. More studies are needed to understand these periods. We may expect different kinds of lessons for trade liberalization (i) from the late 80s through the late 90s' market opening under outside pressure and (ii) from the FTA era's explicit give-and-take exchanges that came after the beginning of the new millennium.

---

In discussing Korea's experience during the 1980s, a particularity of the period stands out, namely the political environment. At the time, following the end of the 18 year rule of President Park Chung-hee in 1979, young military generals staged a military coup and set up a new government under the leadership of Chun Doo-hwan. The Chun government was built upon political oppression. Before its inauguration, for example, the National Security Council—a quasi-supreme authority—took actions to shut down major media outlets. Political oppositions were jailed. It was a time of an extremely strong state without many of democratic checks and balances. The government's top priorities were pushed ahead with virtually no opposition or resistance, at least on the surface.

Therefore, it is imperative to understand the content and the pace of the market liberalization in Korea during this time within this political context. At the same time, it is difficult to expect other developing economies elsewhere to implement voluntary unilateral market liberalization in the manner and the speed we saw in the Korean case during the early 1980s. That is why we need the following discussion on how we may draw specific points from Korea's experience to be emulated by others.

## 2. Implications for Others

Implications for other developing economies may be summarized into three points. First, the Korean case shows that the infant industry argument for gradualism—the widely accepted mantra in the developing world—may be forcefully set aside, if and when policymakers have enough of firm conviction and political support from the leadership. Korean policymakers had witnessed the positive effect of global competition among export industries during the previous two decades. They rejected the idea of postponing market opening for those industries 'not yet ready.' They had the firm conviction that opening the market further and introducing more competition would lead to greater competitiveness, not the other way around. In implementing this belief into action, they tried actively to communicate the idea to the public. They made the schedule of opening as transparent as possible with reasonable lead time.

Secondly, the “horizontal and vertical consistencies” the political leadership maintained was a critical success factor for achieving market liberalization.<sup>36</sup> To seek “horizontal consistency,” the presidential office placed reformers in key posts of relevant ministries. When the reformers faced opposition at these posts, the presidential office intervened to lend support. As result, at all fronts of the government, unity was achieved and maintained.

36. Kim, Interview.

---

For “vertical consistency,” we saw political stability. The private sector could not actively lobby against market liberalization. All of the actors—the political leadership, the government, private sector businesses and the public—remained unified. This came from the tradition of the government-led industrialization that had begun in the 1960s under the previous Park government. The new Chun government that carried out this trade liberalization came into power through a military coup, thus making publicized opposition to its key policies nearly impossible. Clearly, this kind of political oppression should never be a precondition for successful market liberalization. Rather, perhaps a democratic political leadership that can more effectively persuade and unify the public would be a much better choice for creating national unity and solidarity behind bold policy initiatives.

Accordingly, the third and the last point of lesson is the need to create a sense of common purpose. During the early 1980s, Korea had a politically oppressive regime. At the same time, however, the whole nation shared a sense of crisis and urgency to lift itself from its past, regardless of one’s political position. President Chun and his team may have taken advantage of this to solidify their rule. Meanwhile, policymakers who continued to serve in both the Park and the Chun governments came up with decisive reform measures and proactively communicated the reform needs to the public. For any government, democratic or not, the kind of dedication and commitment we saw in the reformers who drove the trade liberalization during the early 1980s seem to offer a good example of effective reform planning and execution.



2015 Modularization of Korea's Development Experience  
South Korea's Voluntary Unilateral Import Liberalization  
During the 1<sup>st</sup> Half of 1980s

## Chapter 5

Conclusion

---

## Conclusion

Korea's market opening during the early 1980s was a unique case of unilateral liberalization. Based on the public's demand to break from the past and the desire for a new direction, policymakers were firmly committed to coming up with decisive ideas for dramatically upgrading the country's industrial competitiveness.

To deal with opposition, the reformers strategically posted their people in key positions. By doing this, they managed to keep various fronts of the government in line. To share their ideas for the new direction, the reformers actively reached out to different corners of the government, opinion makers, private sector businesses and the Korean people.

Korea at the time had not yet achieved fully democracy. However, some of the key lessons from this experience will be helpful for developing economies seeking simultaneous development of democracy and a market economy.

- Acemoglu, Daron, "Politics and Economics in Weak and Strong States", *Journal of Monetary Economics*, Vol. 52 (2005)
- Amsden, Alice, *Asia's Next Giant: South Korea and Late Industrialization* (New York: Oxford University Press, 1992)
- Baldwin, Robert, "US Trade Policy since 1934: An Uneven Path toward Greater Trade Liberalization," *NBER Working Paper* (no. 15397, 2009)
- Cho, Dongchul and Younguck Kang, "Korea's Stabilization Policies in the 1980s", *The 2012 Modularization of Korea's Development Experience*, (Seoul: Ministry of Strategy and Finance, 2012)
- Evans, Peter, *Embedded Autonomy: States & Industrial Transformation* (Princeton, NJ: Princeton Univ. Press, 1995)
- Goldstein, Judith, *Ideas, Interests and American Trade Policy* (Ithaca, NY: Cornell Univ. Press, 1993)
- Grossman, Gene and Elhanan Helpman, "Protection for Sale," *The American Economic Review* Vol. 84, No. 4. (Sep. 1994)
- Grossman, G. and E. Helpman, *Special Interest Politics* (Cambridge, MA: MIT Press, 2001)
- Grossman, G. and E. Helpman, *Interest Groups and Trade Policy* (Princeton, NJ: Princeton Univ. Press, 2001)
- Kim, Ji-Hong, *Industry Protection and Trade Liberalization Policy of Korea* (Seoul: KDI 1996)
- Kim, Ki-hwan, *Personal interview* (Seoul: Nov. 14, 2015)
- Kim, Kwang-Suk, *Industrial Policy and Trade Liberalization in Korea* (Seoul: KDI 1987)
- Kindleberger, Charles, *The World in Depression: 1929-1939* (Berkeley, CA: Univ. of California Press, 1986)
- Korea Development Institute, *Key Tasks of Industrial Policy and Direction of Policy Reform for Assisting Industries* [in Korean] (Seoul: KDI, 1982)
- Lee, Jang Kyu, *You're the President When it Comes to Economic Policies* [in Korean] (Seoul: Ollim, 2008)

- Migdal, Joel, *Strong Societies and Weak States* (Princeton, NJ: Princeton Univ. Press, 1988)
- Milner, Helen, *Resisting Protectionism: Global Industries and the Politics of International Trade* (Princeton, NJ: Princeton Univ. Press, 1988)
- Nam, Sang-woo, “Korea’s Stabilization and Liberalization Policies in the 1980s,” a paper presented at Policy Forum on Private Sector-led Development Strategy and the *Role of the Government in Developing Countries* (Seoul: KDI, October 15-17, 1992)
- OECD, *Making Reform Happen* (Paris: The OECD, 2010)
- Olson, Mancur, *The Logic of Collective Action* (Cambridge, MA: Harvard Univ. Press, 1971)
- Rodrik, Dani, “The Rush to Free Trade in the Developing World: Why So Late? Why Now? Will It Last?” *NBER Working Paper* (no. 3947, 1992)
- Sakong, Il and Youngsun Koh eds., *Six Decades of Growth and Development* (Seoul: KDI, 2010)
- Young, Soogil, “Import Liberalization and Economic Management”, *Economic Papers* [in Korean] (Seoul: Seoul National University, 1984)
- Young, S., “Import Liberalization and Industrial Adjustment in Korea,” *KDI Working Paper 8613* (Seoul: KDI, 1986)
- Young, S., *Korea’s Trade Policy Problems: A Comprehensive Review* (Seoul: KDI, 1986)

## APPENDIX : INTERVIEW WITH KIM KI-HWAN - SUMMARY

**Date : Nov. 14, 2015**

- ◎ The 5<sup>th</sup> 5 Year Plan : its designing and formalization explained
  - Backgrounds on how the key directions and ideas were set up
- ◎ Comprehensive Economic Stabilization Plan (CESP) : background and preparation explained
  - Three themes—stability, market autonomy and liberalization—explained
- ◎ Consumer goods supply shortages under the heavy industrialization drive
  - popular discontent rising, political risks growing, sense of crisis spreading among the political leadership
- ◎ Rise of the civilian economists dominance following 1980s military coup
  - Distrust on the industry ministry bureaucrats : their ties with businesses hindering decision making
  - A former vice minister of foreign affairs was appointed as the head of the industry ministry : brining in fresh blood
  - Various other dramatic and creative personnel decisions to counter industry corruption and lobby followed
- ◎ How the voluntary unilateral market opening progressed
  - overview and problems of industry protection under the heavy industry drive
  - government-industry connections : interest group capture & corruption
  - intensive industry lobbies against market opening
  - intra-ministry resistance against market opening
- ◎ Public communication : educating and persuading the public on the need for market opening
  - Wining over the media : strategies and efforts
  - Various debate broadcasts : planned and executed
- ◎ Market opening : strategies and steps
  - “vertical-horizontal consistencies” : top-down coherence
  - deciding the order of opening
  - infant industry argument : key points and rebuttal
  - industries excluded : national defense and agriculture

© Foreign pressure : a factor behind liberalization?

- Early 1980's liberalization : not triggered by foreign pressure
- Foreign pressure began in 1984 when the US trade balance with Korea went red.
- Korea's trade market opening ever since mid-1980s : mostly foreign pressure driven

[END]



www.ksp.go.kr

**Ministry of Strategy and Finance, Republic of Korea**

30109, Government Complex-Sejong, 477, Sejong-si, Korea Tel. 82-44-215-2114 [www.mosf.go.kr](http://www.mosf.go.kr)

**KDI School of Public Policy and Management**

30149, 263 Namsejong-ro, Sejong-si, Korea Tel. 82-44-550-1114 [www.kdischool.ac.kr](http://www.kdischool.ac.kr)



ISBN 979-11-5545-173-1

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

- 30149, 263 Namsejong-ro, Sejong-si, Korea
- Tel. 82-44-550-1172
- [www.kdischool.ac.kr](http://www.kdischool.ac.kr)