

Kang, Shin Joe

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Growth Achievements and Targets

by Shin Joe Kang, Seoul *

During the period of the First Five-Year Economic Development Plan which began in 1962, the Korean economy achieved an average annual growth rate of 8.3 p.c. The economic momentum was sustained and intensified with the launching of the Second Five-Year Plan in 1967. Furthermore, development was accelerated by the self-propelling power of the economy. This is indicated by the fact that the real growth rates in 1967 and 1968 were 8.9 p.c. and 13.3 p.c., respectively, despite severe droughts in the southern part of the peninsula in two consecutive years, and despite repeated provocative infiltrations of North Korea's armed commandos in efforts to disrupt the economic and social progress achieved thus far in the Republic of Korea. Thus, per capita GNP increased from \$ 95 in 1961, to \$ 165 in 1968 which was 73 p.c. increment, and in 1968 increased by 10.7 p.c. over the previous year in real terms.

Among the various factors contributing to this high growth of recent years have been expanded investment activities and rapidly-expanding exportation. In addition, there are many non-economic factors which have contributed immeasurably to the rapid economic development.

Investment Activities

The rate of investments rose from 13.1 p.c. of GNP in 1961, to 26.7 p.c. in 1968; in the same period, domestic savings increased from 4.5 p.c. to 15.1 p.c. of GNP. In particular, government savings, which were negative prior to 1964, rose steadily, to reach 6.4 p.c. of GNP in 1968. The high rate of domestic savings was reflected in the substantial increase in time and savings deposits at banking institutions. Time and savings deposits grew from \$ 5,800 mn won in 1961, to \$ 311,600 mn won in 1968. This indicates an increase of 54 times over the period.

Foreign savings, comprising foreign aid and foreign capital inflows, has also increased from 8.6 p.c. of GNP in 1961, to 11.6 p.c. in 1968. In 1968, foreign capital inflows reached \$ 358 mn, which exceeded the total amount of \$ 349 mn

attained for the period of six years from 1961 through 1966. Cumulative foreign capital inflows reached \$ 945 mn by the end of 1968, and this foreign capital has made a significant contribution to the expansion of social overhead capital facilities such as electricity, transportation and communication, and to the construction of key industries such as fertilizer, cement, oil refinery and many other projects.

Industrial Production

Stimulated by the high level of capital formation in recent years industrial production increased by 32.6 p.c. in 1968. In manufacturing industry the rate of increase was 37.0 p.c. Thus, industrial production expanded by 3.7 times during the period from 1961 to 1968. As to the strategy for industrial development, the Government has been steadily shifting its emphasis from import-substitution to export oriented industries.

Breaking down further those industries which registered considerable expansion during the period from 1961 to 1968, cement production increased from 523,000 tons to 3.572 mn tons; urea fertilizer from 65,000 tons to 568,000 tons; plywood from 152 mn square feet to 2,674 mn square feet; flat glass from 310,000 cases to 669,000 cases; plastic products from 6,000 tons to 45,000 tons and oil refining which went into operation in 1964 was 5.695 mn kilo litres in 1968. By and large, the above-mentioned products have been started with the aim of import substitution, thereby saving a great amount of foreign exchanges; furthermore, they are being exported, too.

Up to the late 1950's, light industry such as textiles, food processing, and leather and rubber products had played a dominant role in the growth of manufacturing industry. The growth pattern, however, has gradually been reshaped with increasing importance being given to heavy industry such as chemicals, metal products, and machinery. The rapid growth of heavy industry has been initiated mainly by the Government in order to reduce imports.

Along with the quantitative expansion, the industrial structure has also improved. In 1961,

* Director of the Economic Research Division in the Economic Planning Board.

agriculture and fisheries accounted for 40.1 p.c. of total value added, but in 1968 the primary sector had decreased to 28.8 p.c. of the total; mining and manufacturing industries increased their share from 15.2 p.c. in 1961 to 21.4 p.c. in 1968. This is indicative of the degree to which the Korean economy has achieved industrialization.

External Activities

Merchandise exports, which have greatly contributed to the high growth of the Korean economy, rose from \$43 mn in 1961, to \$500 mn in 1968—an increase of twelve times. The average annual rate of increase of exports for the period was approximately 40 p.c. Reflecting the rapid industrialization of the economy, the export commodity structure has become diversified and sophisticated. Primary products which comprised 78 p.c. of total exports in 1961 accounted for only 22.7 p.c. of exports in 1968, and manufactured goods the remaining 77.3 p.c. Major export commodities have been labor-intensive goods such as plywood, clothing, sweaters, wigs and raw silk, but recently, electronic components and electrical equipment have emerged as promising new export items.

Foreign exchange earnings from service were \$420 mn in 1968. Thus, the total foreign exchange earnings of both merchandise and service exports jumped from \$166 mn in 1961 to \$920 mn in 1968, representing an increase of 5.5 times.

Imports also rose from \$316 mn in 1961 to \$1,445 mn in 1968. Most imports that had been financed by grants from foreign sources in the early years of the period are now financed by Korea's own funds. In 1961, import financed by foreign exchange holdings consisted of only 33.2 p.c. of the total imports, but it rose to 68.9 p.c. of the total in 1968.

Non-economic Factors

The shortages of natural resources impel the urgent establishment of export-oriented industries through rapid industrialization. The industrialization of Japan serves as an example and incentive to Korea to achieve this goal. The high level of education is also being cited as a factor contributing to the rapid development of Korean economy. The preparedness for future development is based on education as a foundation. In recent years, this emphasis made possible a short-cut in the time-lag between "challenge" and "response".

A strong leadership under President Park Chung Hee has successfully built-up a political stability in Korea which is lacking in some developing

countries. All dynamic factors have been devoted to the nation-building works which were only possible under the political stabilization established since 1961.

Objectives of the Second Plan

The basic objective of the Second Plan is "To promote the modernization of the industrial structure and to build the foundations for a self-supporting economy". By faithfully adhering to the principles of a competitive market economy during the Second Plan and by exploiting the advantages which accrue from such an economy, the overall objective of an efficient and active national economy can be achieved along with the following major targets:

- ☐ Attainment of food self-sufficiency;
- ☐ Acceleration and diversification of industrialization by giving emphasis to investment in such industries as chemicals, machinery, and iron and steel;
- ☐ Improvement of the balance of payments position;
- ☐ Restraint of population increase and increase in employment;
- ☐ Substantial increase in national income, by giving a special emphasis on increasing of farmers' income; and
- ☐ Raising of the level of technology and productivity and improvement of manpower resources.

With these major targets, the Second Plan was started in 1967. Despite a decline of 5.5 p.c. in value added in the agricultural sector in 1967, the real overall growth rate in 1967 was 8.9 p.c., which is 0.6 percentage points over the average annual growth rate of the First Plan period. As already mentioned before, the serious droughts in two consecutive years affected primarily the southern part of the country. Nevertheless, the growth rate of GNP was 13.3 p.c. in 1968, which though less than the 13.4 p.c. increase in 1966 exceeds the annual average growth rate attained during the First Plan period and the planned rate of 7 p.c. of the Second Plan. As a result, the annual average rate of growth for the first two years of the Second Plan was 11.1 p.c.

Tasks and Prospects

A dynamic, rapidly developing economy is liable to be confronted with a number of problems requiring the continuing attention of economic policy makers. Inter alia, prices, agriculture output and incomes, social overhead capital, balance of international payments, population and employment are worthy of mention.

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GERMAN PRISM

Merging of Hapag and Nord- deutscher Lloyd

The two largest German shipping companies, Hamburg-Amerika-Linie (Hapag) and Norddeutscher Lloyd (Bremen), intend to become consolidated corporations in the near future. According to informations published by both companies this merger will be recommended to the shareholders at the general meeting at the end of July after corresponding decisions taken by the executive and supervisory boards of the two corporations. The principal shareholders of both companies (Deutsche Bank, Dresdner Bank and Veritas Vermögensverwaltungsgesellschaft, München) have agreed to this merger.

It has further been stated that the merger is to be achieved through a new formation called Hapag-Lloyd AG. For this purpose assets and liabilities of both shipping companies are to be brought in the new corporation that will have a capital stock of DM 116 mn and head offices at Hamburg and Bremen. The new shipping company will dispose of a freighter fleet of 114 vessels and a total tonnage of more than 1.1 mn tons and will thus belong to the biggest European shipping companies.

Performances of Development Aid in 1969

The Federal Republic's total public and private net contributions for the benefit of developing countries and multilateral development aid organisations in 1969 correspond to a share of 1.48 p.c. in the GNP. The total of public aid, allocations of private organisations and other capital transfers above all of the private sector of the economy to less developed countries amounted to DM 8,893.4 mn as compared with DM 6,653.7 mn in 1968. Total net contributions consisted to 26.2 p.c. in public contributions, 2.2 p.c. in performances of private organisations and 71.6 p.c. in contributions made by private enterprise. The share of the individual items in the GNP amounts to 0.39 p.c. for public contributions, 0.03 p.c. for those of private organisations and 1.06 p.c. in the case of private enterprise.

Dr Eppler, the Federal Minister for Economic Cooperation, stated in this context: For the first time private transfers alone surpassed the target

of 1 p.c. of the GNP which the World Trade Conference at New Delhi demanded for public and private contributions taken together. Direct investments (including re-investments) also reached a record level of DM 920 mn. However, private direct investments in less developed countries are still below 30 p.c. of our total investments abroad. Almost three quarters of these barely 30 p.c. went to Latin American and South European developing nations. The Federal Republic's private direct investments in Asia and Africa undertaken since the end of World War II amounted to an average of DM 1 per head of the population. Thus the figures for 1969 cannot refute the statement of the Pearson Report that private capital transfer will never be able to substitute for government aid. Therefore in 1970 the Federal Republic will increase its liabilities for public aid by 11 p.c. as compared with 1969.

Fundamental Clarification of Tax on Cou- pons Required

Due to the high capital exports during the last months the Federal Ministry of Finance proposed to abolish the tax on coupons disputed for a long time now (Tax on earnings from securities, above all dividends, if the owners are foreigners). According to the Federal Ministry, the net yield on foreign capital investments in the Federal Republic would rise without this tax and capital imports would consequently increase. But it also sees the elimination of the tax on coupons as a contribution rendered in advance towards a future tax harmonisation within the Common Market. Consequently taxation at the domicile is to obviate all taxes deducted at source. The Advisory Council in the Federal Ministry of Finance does not agree with these reasons given by the Federal Ministry for the abolishment of the tax. Since capital movements depend mainly on (anticipated) differences in interest rates, obviously it is the interest rates that should be changed. This is a matter of monetary and credit policy. And the argument that the abrogation of the tax on coupons would contribute towards tax harmonisation in the EEC seems to the Council rather irrelevant, since this harmonisation is still far away. However, the Council also rejects the tax on coupons on tax systematic grounds. Whatever the reasons, a fundamental clarification of these taxes cannot be postponed any more. The present situation is evidence of this.

Severe Liquidity Losses of the Banks

The present monetary situation is characterised by a heavy strain on bank liquidity continuing for weeks already. The available liquidity reserves of the credit institutes that already at the end of the year had declined to less than DM 20 bn, continued decreasing in January and at the end of January the banks' liquidity ratio with 5.8 p.c. was smaller than at its lowest level during the restriction phase of 1965/66.

If the market influences foreseeable already now are not compensated for by opposing measures of the Federal Bank, a further decrease of bank liquidity is to be expected. Contractive influences will originate from cuts in Federal expenditure. Moreover, the development in foreign trade and payments should reduce liquidity even more rather than improve it. No doubt this liquidity shortage of the banks will also take effect on the economy and considerably slow down domestic monetary expansion. In the present economic situation and after the unusual monetary expansion in 1969 this is a very welcome development. In the monetary field, too, conditions are thus created that will enable an adaption of demand to real productive facilities and a limitation of price increases to an unavoidable minimum.

Government Intending to Concentrate Its Participations

The Federal Ministry of Finance is working on plans for concentrating Federal participations. In the Ministry these plans have made good progress but have not yet been coordinated with the other departments and also not within the government coalition. It remains to be seen whether the Free Democrats will be won over to agree to this plan. In Bonn this is thought possible only under the condition that this concentration of Federal participations is simultaneously linked with a transfer to private ownership.

The advocates of a concentration of Federal properties in a holding company believe that this way the Federal enterprises could be operated according to entrepreneurial conceptions better than is possible for the Ministry. Besides, the Federal Government anticipates considerable budgetary burdens caused by necessary increases of capital that in the next few years might reach a volume of DM 750 mn. Putting part of these participations into private owner-

ship within a holding company would take this burden off the Government. Moreover, the Government would even make a sales profit of approx. DM 300 mn.

Machine Building Anticipates 10 p.c. Growth Rate of Turnover

This year mechanical engineering expects—at a conservative estimate of the further development of demand—a turnover increase of at least 10 p.c. or, respectively, a real growth rate of production of approx. 6 p.c. This relative optimism concerning the near future is based on the existing big backlogs of orders in hand. After all, incoming orders exceeded the turnover until November, 1969, by a good 25 p.c. Present orders in hand will last for 9 months, so that a high level of employment is secured. However, the Association of Machine Builders states that another "cost explosion" will cause great difficulties for machinery exporters. Heavy burdens at home and the importing countries' policies are forcing the enterprises to produce more and more abroad. With reference to the export business the Association states that deliveries to Russia increased strongly while exports to the Balkans declined. The quota of transactions with the East-bloc is said to be 6.9 p.c.

Research Project: Demand for Buildings from 1970 to 1980

The Federal Ministry of Economics has given the Ifo-Institut für Wirtschaftsforschung (Institute for Economic Research), Munich, a research commission. Within the framework of a research project covering the development tendencies of demand for buildings the Institute is to investigate "the demand for buildings between 1970 and 1980 at a steady and adequate economic growth". The purpose of this investigation is to elaborate the fundamentals of the problem how demand for buildings must develop in the Federal Republic in order to correspond with the target of a steady and adequate economic growth in accordance with § 1 of the Law to Secure Stability and Economic Growth. The different projections and prognoses pertaining to building investments up to 1980, the investment plans of local authorities, of the German Council for Education and Training and of the Scientific Advisory Council will serve as basis for the ascertainment of the probable demand for buildings. The emphasis of this study will be on longer-term structural developments within the national economy.

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In 1968, price increases were held within limits of 7 to 10 p.c.; the wholesale price index rose by 7.1 p.c. in the year, while the consumer price in Seoul registered an increase of 9.9 p.c. Although these rates might appear rather high to eyes accustomed to price movements in developed economies, in the historical context of the Korean economy, which had continuously undergone price rises ranging over 20 p.c. per annum, the increases noted for 1968 can be regarded as moderate and manageable. In 1968, the money supply increased by 25 p.c., considerably less than in 1967, when a 42 p.c. increase caused great concern. As a result, the Korean economy has achieved a high rate of growth under a declining trend of price increases. The economy will make all possible efforts to reduce the rates of price rises in years to come.

Recognizing the lagging of the agricultural sector and the widening of the gap between urban and rural incomes, the Government has determined to step up agricultural development in many directions and will continue with this policy in coming years.

Social Overhead Capital Facilities

In the field of social overhead capital facilities, the two major bottlenecks which threatened to impede Korea's economic growth—power and transportation—have been greatly relieved in 1968. The generating capacities of 917 MW as of the end of 1967 was increased to 1,629 MW by the end of June, 1969.

Expansion and modernization of transportation media and transport facilities have been receiving the utmost attention of the Government ever since the commencement of the First Five-Year Plan. Compared to the patterns of the efforts made during the First Five-Year Plan period, which placed the main emphasis on railroad modernization and network expansion, the present transport development emphasis is on the highway network. In 1968 a highway construction program was formulated. Under this program, the Seoul-Inchon highway—23.4 km in length—and a highway extending 38.6 km between Seoul and Osan (a part of 428 km Seoul-Pusan highway) were completed and opened to traffic in 1968. The remaining sections between Osan and Pusan will be finished by the end of June, 1970. Other highways are also under study to be finished by the middle of the 1970's. When completed, they will place the entire country within one-day travel-distance. In parallel with inland transportation, an increasing portion of capital expenditures is being used for coastal transportation. As a

result of these efforts, the total hauling capabilities of inland and coastal transportation have been greatly increased.

Foreign loans approved by the Government as of the end of June this year reached approximately \$2 bn, of which \$1.2 bn worth has arrived. As the requirements for foreign loans are ever increasing, the burden of foreign debt services has also been growing. Nevertheless, rapid expansion of merchandise exports together with service exports could put the burden in the level of less than 6 p.c. of the actual foreign exchange earnings in 1968. In the future, the Government will pursue a tight policy of foreign capital inducement which allows the annual ceiling of foreign debt service, including repayment of principal and interest, to be held within a reasonable portion of annual foreign exchange earnings.

The population of Korea increased from 25.4 mn in 1961 to 30.8 mn in 1968, with a moderately declining trend in the growth rate, from 2.9 p.c., to 2.3 p.c. per annum. This is, still, a rather high rate of population growth for a developing country like Korea. Therefore, the Government will continue the active implementation of family planning programs with a view to reducing population increases.

Along with the economic development, employment has expanded. In 1963, 7.950 mn were employed; in 1968 employment had risen to 9.621 mn. However, 5.1 p.c. of the labor force was still unemployed in 1968. There has been improvement in the employment structure. In 1963, employment in the mining and manufacturing industries represented only 8.6 p.c. of total employment, but in 1968 this increased to 14.0 p.c. This shows that partial employment in agriculture has been diminished by a transshift of labor force to industry.

Targets Aimed at

With careful management of measures designed to overcome major obstacles facing the Korean economy, and successful implementation of the Second Plan, Korea will be in a position where it can no longer be considered an under-developed economy. On completion of the Third Five-Year Plan, the GNP will reach a level of approximately \$13 bn in 1976—an impressive gain of more than two and a half times compared with \$5 bn of 1968's GNP. As a result, per capita GNP will reach a rate of \$350 in 1976. Persistent efforts by the Government and by the people in the coming years will continue to transform the country from an economy of an early „take-off“ stage to a self-supporting and, finally, to an advanced industrial economy in the late 1970s and in the early years of the 1980s.