

# The Formation and Development of the "Korean Model" of Development Strategy

ESH0, Hideki / 絵所, 秀紀

---

(出版者 / Publisher)

法政大学経済学部学会

(雑誌名 / Journal or Publication Title)

経済志林 / The Hosei University Economic Review

(巻 / Volume)

58

(号 / Number)

3・4

(開始ページ / Start Page)

21

(終了ページ / End Page)

43

(発行年 / Year)

1991-03-20

(URL)

<https://doi.org/10.15002/00008518>

# The Formation and Development of the 'Korean Model' of Development Strategy

Hideki Esho

## Introduction

Nobody can deny the fact that Korea is the most successful case of economic development among the developing countries. She stepped up very quickly the ladder of economic development from a poor rural society to a Newly Industrializing Economy. In only 35 years, Korea's GNP increased more than sevenfold. This unique experience changed the main focus of development economics from import-substituting industrialization to export-oriented industrialization during 1970s.

But even Korea's development was not free from economic crisis. During the two oil crisis of the 1970s accompanied by recession and interest rate increases in developed countries, most of the oil-importing developing countries experienced an adverse balance of payments, increased inflation, slowing down of economic growth, and debt crisis. Korea, which had been able to develop rapidly by exporting manufactured items since the mid-

---

This paper was originally presented under the title of "The Experience of Korea's Economic Development as the Structural Adjustment Model" at the 14th International Symposium of Hosei University: *Asia Pacific Region as a Center for Growth in the World Economy* held on September 26-28, 1990. The author is heavily indebted to Prof. J. Hubbell of the Hosei University for excellent revision of my English as well as for helpful comments. He is also most grateful to Prof. Toshio Watanabe (Tokyo Institute of Technology), Mr. Tamio Hattori (Institute of Developing Economy), and Prof. D. Green (Hosei University) for their valuable comments at the symposium.

1960s, did not escape from these widespread disasters. Particularly since the end of 1970's, Korea has been largely affected by external shocks and experienced the fueling of inflation, mounting current account deficit, and accumulation of foreign debt. In 1980, Korea experienced a minus 4.8 percent growth rate and in 1981 Korea became the fourth largest debtor country in the world followed by Brazil, Mexico, and Argentina.

However, the Korea's performance in structural adjustment to this economic crisis was also quite remarkable. In contrast with the heavily indebted countries of Latin America, Korea was able to restrain inflation and improve current account deficits in a very short period without significant sacrifice of growth. By 1986, Korea's balance of trade went in the black and her debt burden was substantially reduced. Korea was able to quickly overcome the economic crisis with a set of structural adjustment programs including institutional reforms. Today, the Korea's experience has considerable influence on the theory of development economics not only because of her successful export-oriented development strategy, but also because of her successful structural adjustment. Her adjustment experience has been recognized as the model case for structural adjustment programs by the IMF as well as the World Bank.

This paper is a small survey of studies of Korea's development experience from the viewpoint of the formation and development of the 'Korean Model' for possible emulation by other developing countries.

### **1. The Formation of the 'Korean Model' of Development Strategy**

Korea experienced remarkably rapid growth by promoting labour-intensive manufacturing for exports which was in line with her comparative advantage from 1960 to 1973. Exports grew

40 to 50 percent per annum and production increased more than 10 percent annually during this period. In addition, it has been said that Korea's rapid growth had not suffered adverse income distribution effects (Westphal [1978]; Rao [1978]; Adelman & Robinson [1978]; Krueger [1978]).

These facts validate the export-oriented development strategy to be accepted by developing countries in general and ousted the old fashioned import-substituting development strategy which depended on an export pessimism. The export-oriented development strategy became the new orthodoxy in development economics in 1970s. Korea's policy reforms towards an export-oriented development strategy in mid-1960s formed the basic prototype of the 'Korean Model'.

However, although most development economists recognized the superiority of the export-oriented strategy over the import-substituting strategy, the idea that in Korea the export-orientation was not the only factor which had contributed to the rapid growth without deteriorating income distribution was also made clear. In other words, the question of exactly what factors had contributed to the successful export-oriented strategy was raised. Many studies have pointed out a lot of factors which might have contributed to the Korean miracle. Among them the main factors which most of the studies note are: first, the existence of ample cheap and highly qualified labour; second, the existence of a strong government which has firm resolve and commitment to pursue economic development supported by excellent bureaucratic leadership; third, a favourable international environment. Two favourable initial conditions which are almost always cited by development economists can also be added to the list. These are the land reform, which is said to have contributed to relatively egalitarian asset distribution, and the massive US aid during the 1950s. Recently, a lot of studies stress the critical role of the state and methods of state intervention in the economic develop-

ment (Datta-Chaudhuri [1981]; Sen [1981]; Bradford [1987]; Kuznetz [1988]; Park [1990]).

The second big issue in the Korean Model is related to the contents and explanations of the export-oriented development strategy itself. Worldwide recession and rising trends of protectionism in the developed countries after the oil crisis casted doubts on the effectiveness of export-oriented development strategy and a new export pessimism appeared. The Nobel Lecture by Lewis [1980] was a pioneer work for this new export pessimism. In such a situation Streeten [1982] asserted that the faults of import-substitution policies resulted not from the misallocation of resources between export-orientation and import-substitution or inefficiencies arising from such allocation, but rather from inefficient use of the resources allocated to the given objective of import substitution. The dichotomy between outward-looking and inward-looking strategies might divert attention from a more important set of decisions relating to the quality of management, scale, technology, product-mix, product design, types of education, recruitment and training, administration, and so on. So, Streeten said, the ultimate test of the respective merits of the outward-looking and inward-looking strategies was not their ability to allocate resources between sectors, but their power to mobilize domestic resources and skills and to create and activate incentives, attitudes and institutions for development. Streeten also argued, following the study of Cline [1982], that if all developing countries were to be as successful as Taiwan and South Korea in increasing exports, trade barriers would quickly be erected or terms of trade would deteriorate and the demand constraint would become operative. Cline called this 'a fallacy of composition'.

Against Cline and Streeten, Balassa [1983 a] and Ranis [1985] defended the position of export-oriented strategy. Balassa rejoined that Streeten's characterization that the proponents of outward-oriented development strategies advocated discrimination

in favour of exports and against import substitution was simply an attack on a straw man. Balassa elaborated that outward-oriented strategy meant 'the equal treatment of sales in domestic and foreign markets' and the distinction was based on whether sales in domestic and export markets received similar incentives, or import substitution was favoured over exportation. Balassa wrote, "South Korea and Taiwan, as well as Singapore have provided similar incentives to exports and to import substitution, on the average. What is more, if appropriate domestic policies are applied, export expansion and efficient import substitution will go hand in hand. Thus adopting an outward-oriented strategy would also involve reducing the bias of the incentive system against primary activities. Such a change in incentives would promote exports as well as import substitution in primary products".

Against Cline and Streeten's 'fallacy of composition' hypothesis, Ranis [1985] argued that Cline understood the East Asian Model as that of 'exporting as much as possible', but that his analysis was wrong. Rather the East Asian Model was one of 'moving in the direction of market liberalization as quickly as possible'. So, Ranis continued, "different LDCs [would] arrive at a substantial manufactured goods export capacity at different points in time, producing goods with different attributes, even if they should start in this direction as of now". We may characterize this debate as one over the definition of the outward-oriented strategy as Bhagwati [1987] says, but the appropriateness of such definitions by Balassa and Ranis also must depend on the historical realities of the Korean export-oriented strategy since the mid-1960s. Whether the Korean strategy since the mid-1960s was that of 'exporting as much as possible' or that of 'moving in the direction of market liberalization' is another question. Criticizing the dichotomy of export-orientation versus import-substitution, Sachs [1985] argued it was important to work

within a framework of at least three sectors, i. e., importables, exportables, and nontradables, to assess the allocation of resources. This is because in the two-sector model, all policies that protect the import-competing sector necessarily hurt the exporting sector. Here protectionism is nothing more than anti-export biased, since resources pulled into importables must come from exportables. On the other hand, in the three-sector framework, it is possible for protectionist policies to go hand in hand with export-promoting policies if resources are drawn from nontradables into both the tradable sectors. According to Sachs, the export-promotion policies of Korea had this character.

The third big issue on the Korean Model of export-oriented development strategy is whether or not the outward-looking economy is more vulnerable to external shocks than the inward-looking economy. Many critics, including the dependent school, have long asserted that once the world economic situation got worse the superiority of the export-oriented strategy should erode away. Oil crisis and subsequent world recession during 1970s and 1980s put this assertion and the validity of the Korean Model to a severe test. If a favorable international environment were lost, would the Korean Model still be viable? We will now discuss this problem.

## **2. Structural Adjustment of the Developing Countries in the 1970's and 1980's**

Recession in the industrial countries with corresponding structural adjustments problems in the developing countries that occurred during the two oil crises in the 1970s attracted a great deal of attention of development economists.

Dell [1980] noted that "the succession of crisis in the world economy that began with the collapse of the Bretton Woods system in 1971 subjected the developing countries to the most

severe test of their capacity for adjustment of the post-war period". He pointed out four principal sources of balance of payments deficits which were beyond the control of the developing countries: first, the sharp deterioration in the price of primary commodities; second, that part of developing countries' deficits that constituted the counterpart of structural surpluses in certain industrial and oil-exporting countries; third, the slackening of imports by industrial countries; fourth, a growing wave of protectionism in the industrial countries. This was the argument which stressed the transmitting channel of disturbances in the industrial countries to the developing countries. Dell also stressed that those most adversely affected by the disturbances in the industrial countries were the poorest countries. His argument was based on the UNDP/UNCTAD report to Group 24. We can understand his argument as supporting the viewpoint of the South. Stimulated by Dell's argument, a lot of issues have been raised on the causes of balance of payments crisis in developing countries and on the policy responses of the developing countries to those crisis. Among them one of the largest issues was on the nature and causes of the economic disequilibrium in the developing countries.

The paper that Black [1981] presented at the Conference on Economic Stabilization by the Brookings Institution criticized Dell's argument. According to him, "the non-oil developing countries have not been major actors on the world stage" during most of the dramatic decade of the 1970s. So at first most analyses of stabilization policies have dealt with the industrial countries and the much of the attention of the developing countries were addressed to the debates on the New International Economic Order. Black noted, however, that the communiques to the Ministerial Group of 24 in 1979 have brought stabilization issues in developing countries to the forefront of international debate. These communiques were created out of Dell's arguments.

Black investigated the relative contribution of external and internal sources of macroeconomic fluctuations in 40 developing countries from 1971 through 1978. The results he found were; the largest contribution, 47 percent of the total discrimination, came from the country characteristics, i. e., initial conditions; the second largest factor, 35 percent, came from internal variables; and the smallest fraction, 17 percent, came from external variables. These results contradicted Dell's assertion that the principal sources of macroeconomic imbalances were those "beyond the control of the developing countries". Based on these results, Black said that whether the stabilization could be successful or not depended mainly on internal policy. He payed special attention to the case of Asian developing countries where the controlling inflation "has enabled them to avoid stabilization difficulties while moving rapidly forward in development and the growth of foreign trade at the same time". He added that "these results have not been achieved without some stringency in monetary and fiscal policy".

Factor analysis on the causes of economic imbalances in developing countries by Black attracted a great deal of attention by the IMF as well as the World Bank.

Khan & Knight [1982] [1983] of the IMF wrote that "it can hardly be disputed that during the past decade exogenous factors—the fourfold rise in energy prices in 1973-74, the weak economic performance of the industrial economies since 1974, and the further increase in energy prices in 1979-80—were major contributors to the adjustment problems of developing countries. Nevertheless, in many countries a combination of inflationary demand management policies, restrictions on trade and payments, and rigid exchange rate policies also contributed to a cumulative loss of competitiveness, and consequent balance-of-payments difficulties". They stressed both external and internal factors. They examined the relationship between the change in average

annual percentage in the terms of trade and the change in the current accounts for 37 non-oil developing countries, as well as the relationship between the rate of inflation and the rate of appreciation of the real effective exchange rate for 48 non-oil developing countries between 1973 and 1980. The results Khan & Knight got were: first, by and large, the worsening current accounts of the developing countries in the 1970s were related to deteriorating terms of trade; second, countries experiencing high rates of inflation tended to lose competitiveness more rapidly than those which were able to maintain better control over their domestic inflation rates; third, there was a strong relationship between the real exchange rate appreciation and current account deterioration, or depreciation and improvement. However, they remarked that it was more relevant to try to ascertain whether the factors responsible for the payments imbalance were to be transitory or permanent than to ascertain whether the factors were internal or external.

From the World Bank camp, Balassa *et al.* vigorously published a number of studies on the performance of structural adjustment in developing countries from the viewpoint of the policy response to the external shocks (Balassa [1981 b] [1982] [1983 b] [1984]; Balassa & McCarthy [1984]; Balassa & Williamson [1987]). Balassa stressed that from the viewpoint of the policy responses to the external shocks, outward-looking economies suffered much more than inward-looking economies, but the former could respond far better than the latter. This viewpoint clarified the relationships between long-term development strategy alternatives and the short- as well as medium-term structural adjustment measures.

But if we look at his argument carefully, the Korean adjustment measures after the first oil crisis do not fit in his analytical framework, albeit he characterizes Korea as a representative case for export-oriented NIES. His assertion that "by and large, outward-oriented economies were willing to accept lower rates of

economic growth in the quadrupling of oil prices and the world recession in order to stabilize their economies and to avoid large foreign indebtedness” could not apply to the Korean case. At one place, he said that “on the whole, inward-oriented economies biased the system of incentives against labor-intensive activities; such a bias did not exist, or it was less pronounced, under outward orientation”, but in another place he stated that Korea during the late 1970s was ‘an exception’ because of the real appreciation of the Won exchange rate. Although he contrasted inward-oriented economies with outward-oriented economies by saying that the former used such measures as credit rationing and tax preferences to promote import-substituting industries, and that this was not the case for the latter, he confessed in footnote in the same paper that “Korea provides an exception toward the end of the period” (Balassa [1983 b]). If the Korean structural adjustment is an exception to NIES and at the same time the Korean development strategy is a representative case of NIES, we are faced with nothing less than a logical contradiction.

### **3. The Development of the ‘Korean Model’**

#### **(1) The First Adjustment Period: Turn to the Heavy and Chemical Industrialization Strategy (1973-78)**

The oil crisis in 1973 and subsequent world recession severely damaged the oil-importing developing countries and brought to them a slowing down of economic growth and external debt crisis. Korea was no exception.

Korea’s crisis management during this time has nothing in common with the orthodox monetarist stabilization policy advocated by the IMF which consisted of restrictive demand management and devaluation. Not only that. It was also substantially different from the typical structural adjustment program of the Asian NIES according to Balassa’s framework. In this sense

Korea's adjustment was very unique and was 'an exception' to the export-oriented Asian NIES (Park [1985] [1986]).

First, Korean government shifted her development strategy from labour-intensive light manufacturing industrialization for exports to the big-push for heavy and chemical industrialization. This policy shift has occurred because the policy-makers have recognized that the Korean comparative advantages in light manufacturing exports have been lost. Second, as a result of the above policy shift, government intervention has increased. Third, the exchange rate of the Won against the US dollar was fixed during the period between 1975 and 1979. So the real exchange rate in terms of purchasing power appreciated 14 percent in this period. As a result of this, inflation accelerated, and exports slowed down, ICOR increased, and the income distribution deteriorated. Fourth, import restrictions and credit allocations increased.

Balassa explained these phenomena as 'policy reversals' in Korea's development history (Balassa [1985]). For him, the policy shift to heavy and chemical industrialization was nothing more than a wrong policy choice, which would abandon the comparative advantages Korea inherently had, i. e., a deviation from the 'Korean Model'. He pointed that the capital productivity in manufacturing industry has declined because of the real appreciation of the Won and excessive investment allocation to the heavy and chemical industries, and there appeared excess capacity in those sectors in the face of the small domestic markets, while the expansion and upgrading of labour-intensive exports have been hampered.

Haggard & Moon [1983] suggested three factors which would constrain the outward-looking growth of a 'small trading nation' such as Korea: first, 'dyadic dependence' on the economic performance of the US and Japan; second, 'sensitivity', meaning domestic economic performance determined by the performance of and trends in the international economy; third, 'reliance',

which refers to the need for external inputs—capital, technology, raw materials, and energy—to pursue a given development strategy. They also paid attention to a number of serious problems produced by heavy and chemical industrialization strategy, and said that these problems demonstrated “the difficulties of an aggressive adjustment strategy for a small trade-oriented economy” and they indicated the ‘inherent limitations’ of such a policy. The reasons they pointed out are: first, most of the technology demanded was to be imported, and high royalty payments raised production costs without improving the technological capabilities of the participating firms; second, the reliance on debt, both domestic and foreign, had resulted in a weakening of the financial structure of many firms.

Contrasting with these viewpoints, Dornbush & Park [1987] presented another evaluation on the policy shift to the heavy and chemical industrialization in Korea. They wrote that “Korea now serves as a model for the export-oriented strategy of development that multilateral institutions are urging on countries of Africa and Latin America”, and for that reason they stressed that Korea “have adjusted successfully to both the oil shocks of the 1970s and the debt shock of the early 1980s”. They also stated that Korea was “the only major debtor that has overcome the debt problem and has done so with a vengeance” in the latter half of the 1980s. They casted doubts on the idea that “widespread agreement that the heavy and chemical industry investment campaign of the 1970s involved a misallocation of resources”. They said that “there is no hard evidence that Korea’s investments were in fact poor”, and followed that “today it is apparent that many of these industries have gained in export share. The automobile industry is a case in point”. They praised highly the heavy and chemical industrialization policy saying that “improved technology has come with high investment level”. Collins & Park [1989] also pointed out that the investment in

heavy and chemical industries were beginning to pay off today.

**(2) The Second Adjustment Period: The Crisis and the Implementation of the 'Orthodox Adjustment Program' (1979-86)**

Added to the external shocks such as the second oil crisis, there was a series of unexpected events. These were distortions of excessive capacity in heavy and chemical industries, the political instability following the assassination of President Park in October 1979, poor agricultural performance in 1980, and the decision by the Carter administration to cut US troops in Korea. In 1980, Korea was in the midst of the worst political and economic crisis since her independence. 'The miracle' had ended. The external debt accumulated since 1979, and the external debt stocks rose up to 52.5 percent of GNP in 1982 (see Table 1).

But, as early as 1983-84, Korea was able to recover from the crisis followed by the revival of world demand and the improvements in terms of trade. In 1986, Korea not only experienced a resumption of inflation but also accumulated a trade surplus. She met her debt service, and her debt stock was reduced. This unique experience attracted the attention of development economists on the policy response of Korean Government.

Faced with a crisis, Korean government introduced a comprehensive stabilization policy in 1979 and 1983.

Aghevli & Márquez-Ruarte [1987] of the IMF observed with satisfaction that "Korea's experience following the second wave of oil price increases is an excellent example of how orthodox stabilization policies, effectively implemented, can help a country adjust to domestic and external shocks". According to them, the aim of the Korea's orthodox stabilization policy is "to revive economic growth, while reducing domestic inflation and the current account imbalance", and that policy consisted of strict financial discipline, which sharply reduced the public sector deficit, tight monetary policy, substantial devaluation of the Won and

**Table 1** External Debt of the Republic of Kores (US \$ millions)

	1980	1981	1982	1983	1984	1985	1986	1987	1988
Total Debt Stocks	29,480	32,989	37,330	40,419	42,098	47,158	46,728	40,459	37,156
Total Debt Service	4,449	5,920	6,348	6,429	7,161	9,691	12,791	17,481	9,579
Gross National Product	60,500	66,852	71,377	79,565	86,955	89,755	102,722	128,415	168,946
Exports of Goods and Services	22,577	27,269	28,356	30,383	33,652	33,106	41,965	56,255	70,900
Imports of Goods and Services	28,347	32,416	31,505	32,581	35,565	34,571	38,387	47,619	58,187
Current Account Balance	- 5,321	- 4,646	- 2,659	- 1,606	- 1,372	- 887	4,617	9,854	14,161
Total Debt Stocks/GNP (%)	48.7	49.3	52.3	50.8	48.4	52.5	45.5	31.5	22.0
Debt Service Ratio (%)*	19.7	21.7	22.4	21.2	21.3	29.3	30.5	31.1	13.5

Source: World Bank, *World Debt Tables 1989-90*, Vol. 2, p. 202.

Note: \* Total Debt Service/Exports of Goods and Services.

the adoption of flexible exchange rate, a comprehensive energy policy which aimed to reduce the dependence on the imported oil, the liberalization both of the trade and financial systems, and so on. This set of policy reforms was supported by a series of IMF stand-by credits as well as by SAL from the World Bank. Aghevli & Márquez-Ruarte evaluated these programs as representing "a significant departure from Korea's traditional development strategy, which had aimed at maximizing growth through substantial recourse to inflationary finance and external borrowing".

Comparing the first structural adjustment period from 1973 to 1977 to that of the period from 1979 to 1983, Park [1985] [1986] made nearly the same evaluation as that of Aghevli & Márquez-Ruarte. He said that in the first adjustment period, Korea adopted an 'expansionary policy response' or 'growth-first policy', which was to promote exports by depreciation of the Won and export subsidies as well as by accepting heavy dependence on foreign borrowing. As a result, while growth and employment were guaranteed, economic stabilization was lost and inflationary trends became institutionalized. Contrasting with these policy responses, he said, in the second adjustment period, Korean government adopted tight demand management policy, devaluation of the Won, an upward adjustment of bank interests, and increases in energy prices to improve the current account.

For the economists of the IMF and the World Bank, the policy response to the crisis after 1979 in Korea is one of the best examples to prove the correctness of the new-orthodox structural adjustment program in line with the Baker Initiative. The process was to work as follows. First would come a stabilization program such as demand management and devaluation of the exchange rate to combat the inflation, and with it or following it, would come a period of structural adjustment such as the liberalization of the supply side, "to combine short-term stabiliza-

tion and long-term structural changes to improve the economy's efficiency" (World Bank [1988] p. 17). For them, Korea's first adjustment experience during 1973 to 1978 should be considered an exception to the typical outward-oriented NIES because it produced misallocations of resources, and that it was Korea's second adjustment experience, which was based on the stabilization program, that should be the model to be studied by other debt ridden developing countries.

#### **4. Applicability of the Korean Experience of Structural Adjustment**

The Baker Initiative, suggesting 'growth-oriented adjustment policy' at the Seoul meetings of the World Bank and the IMF in October 1985, was a landmark for the new stage for seeking solutions to the debt problems of the developing countries. Under this new approach, a symposium titled "Growth-Oriented Adjustment Programs" was organized jointly by the IMF and the World Bank in Washington in 1987 (Corbo, Goldstein & Khan eds. [1987]). At this symposium, Kim Mahn Je, the then Duputy Prime Minister of the Republic of Korea was invited as the guest speaker. He was very proud to present Korea's success story on structural adjustment. In this special speech he concluded that "in addressing the Third World debt problems, we need to adopt a long-term approach, as the Baker Initiative suggests" (Kim [1987]). This statement was to indicate that the experiences of Korea's adjustment during 1980s was to be recognized 'internationally' by the developed creditor countries as the model of structural adjustment to be emulated by other developing countries.

Michalopoulos [1987] paper which represented the World Bank at this symposium suggested four points as the conditions for successful growth-oriented adjustment: first, macroeconomic sta-

bility; second, a rise in productivity and increase in investment; third, a rapid expansion of exports; fourth, additional financing from abroad. His argument was to show that the Korean experience of economic development and structural adjustment was the most representative case supporting the viability of the Baker Initiative.

Park [1987] commented on Michalopoulos paper. He questioned if Michalopoulos's argument was valid and if the liberalization policy would facilitate adjustment with reasonable growth. He asked, "Why haven't many countries embarked on economic liberalization?" The reasons he suggested were: first, that international environment was not suitable; and second, economic liberalization could cause considerable macroeconomic instability. He also stated that although "the Korean experience has been heralded in many places as the prime example of a successful case of adjustment through liberalization, it is not clear whether liberalization is the result of good economic performance or vice versa". He stressed the gap between 'economic theory' and 'actual policy making'. An actual policy maker himself, he suggested on the issue of the sequencing of liberalization that "the best policy is to choose the [target] that is most convenient and practical to liberalize first". Also he stressed that the World Bank's operation should not have forced the policymakers of aid receiving countries to accept the World Bank policies as a package, but should encourage governments "to develop programs themselves". He criticized the excessive belief in economic theory which the economists of the IMF and the World Bank tended to embrace.

Nam [1987] [1988] noted that not only demand management policy but also income policy was used in the stabilization efforts in 1980s in Korea. That is, the Korean government adopted low-wage policy to maintain the international competitiveness of her manufactured exports.

On the other hand, Zaman [1989], the Economic Advisor of the Government of Pakistan, made very interesting comments on Nam's argument. His comments are from the viewpoint of "assessing the relevance of the Korean miracle to countries like Pakistan and India". At first he focused his attention on the non-economic factors which could contribute to the economic miracle of Korea: first, massive military assistance from the US to Korea which amounted to US\$ 6.4 billion between 1962-83 (the comparable figure for Pakistan was US\$ 469 million, and for India, US\$ 147 million); second, Korea received preferential access to markets in OECD countries because of her close political relations with the countries of NATO. Added to these points, he made four further observations: first, for countries that truly had a choice, the pursuit of an export-promotion strategy should have been based not so much on the logic of comparative advantage, but on the appropriateness of lowering protection for the industry in question, in the light of a realistic assessment of their initial conditions—political, social, and economic; second, the pursuit of an export-promotion strategy required only that the average level of effective exchange rates for exports and imports be equal, so that it was possible to pursue import substitution in certain industries where it seemed warranted, while opening stronger industries to competition; third, it was desirable that a trade strategy be formulated in concert with a long-term industrial strategy; fourth, the timing and sequencing of stabilization policies in relation to trade liberalization should have been carefully tailored to individual circumstances, i. e., a uniformly applicable policy package did not exist. His argument is to stress Korea's unique international political ties, and also to stress the fact that the factors which have contributed to Korea's success were beyond export-promotion strategy *per se*.

Haggard & Moon [1983] focused attention on the political prerequisites of export-led growth, and questioned what the

domestic political basis which made possible the policy shift to export-led growth in Korea were. According to them, the domestic political prerequisites ignored by 'liberal economists' were: first, the strong government which was able to impose stabilization and to resist pressures from domestic business and other groups favored by closure; second, the ability of the government to have channelled adequate resources which it possessed selectively to ease the reorientation of the economy in an outward direction; third, the existence of a reformist leadership which saw economic reform in its long-term political interest. They concluded that these political prerequisites could not be easily transferable to other cases.

Today it has been widely accepted that the nature of the structural adjustments are in essence political-economy. In this situation Streeten [1987] [1988] advocated that the 'Radical/Reformist Adjustment Loans (RAL)' which supported the political leaders of reformist beliefs was more important than the Structural Adjustment Loans (SAL). His assertion is that it is necessary to go 'beyond adjustment' to make any adjustment.

Sachs [1985] proposed the political economy of exchange rate management. He compared macroeconomic management and economic performance in developing countries of Latin America and East Asia. In doing so, he compared economic policy in both regions, and found that, in contrast with Latin America, where both importables and non-tradables have benefited at the expense of exportables, in East Asia, both exportables and importables have benefited at the expense of non-tradables. Again he compared exchange rate management in both regions from the viewpoint of resource distribution and income distribution. And he asserted that it was the rural political power that made possible the devaluation of exchange rate in East Asia, while in Latin America, it was the urban industries and urban workers who got benefits from the overvalued exchange rates and impeded the

devaluation of exchange rate. So, according to Sachs, "the difference in labour market organization certainly plays an important role in the political calculus". His argument suggests the importance of the analysis of class structure which might limit the choice of economic policy of the developing countries.

### **Conclusion**

We can conclude from the survey above that the political economy of the structural adjustment changed its main analytical framework from the Balassa type to the Sachs type. Although the effectiveness of export-oriented strategy is still supported, the active state and class structure which made export-oriented strategy feasible in Korea have become the main interests of the new political economists.

In this analytical framework of the new political economy, the lessons which can be drawn from Korea's experience of economic development and structural adjustment are as follows.

For the export-oriented economic development of Korea, it has been imperative to maintain the international competitiveness of her manufactured products. The Korean government has always been able to devalue the real exchange rate of the Won and to restrain the real wages to maintain her international competitiveness. Korea's miraculous economic development and her successful structural adjustment was possible only in a politico-economic system by which the state suppressed the labour movements and the human rights of the labourers to create and maintain 'free labour markets'. These are the characteristics of a Leviathan today, a new merchantalist state. That is a dictatorial state whose superior objective is to maximize trade surpluses to accelerate primitive capital accumulation and industrialization.

### References

- Adelman, Irma & Robinson, Sherman [1978]: *Income Distribution Policy in Developing Countries, A Case Study of Korea*, Stanford: Stanford University Press.
- Aghevli, Bijan & Márquez-Ruarte, Jorge [1987]: "A Case of Successful Adjustment in a Developing Country: Korea's Experience during 1980-84", in: Sir Frank Holmes ed., *Economic Adjustment: Policies and Problems*, IMF.
- Balassa, Bela [1981]: "The Newly-Industrializing Developing Countries after the Oil Crisis", in: B. Balassa, *The Newly Industrializing Countries in the World Economy*, New York: Pergamon Press.
- [1982]: "Structural Adjustment Policies in Developing Economies", *World Development*, Vol. 10.
- [1983 a]: "Outward versus Inward Orientation Once Again", *World Economy*, Vol. 6, No. 2.
- [1983 b]: "The Adjustment Experience of Developing Economies after 1973", in: John Williamson ed., *IMF Conditionality*, Washington D. C.: Institute for International Economics.
- [1984]: "Adjustment Policies in Developing Countries: A Reassessment", *World Development*, Vol. 12.
- [1985]: "The Role of Foreign Trade in the Economic Development of Korea", in: Walter Galenson ed., *Foreign Trade and Investment: Economic Development in the Newly Industrializing Asian Countries*, Wisconsin: The University of Wisconsin Press.
- & McCarthy, F. Desmond [1984]: *Adjustment Policies in Developing Countries, 1979-83, An Update*, World Bank Staff Working Papers No. 675.
- & Williamson, John [1987]: *Adjusting to Success: Balance of Payments Policy in the East Asian NICs*, Washington D. C.: Institute for International Economics.
- Bhagwati, Jagdish [1987]: "Outward Orientation: Trade Issues", in: Corvo, Goldstein & Khan eds. [1987].
- Black, Stanley W. [1981]: "The Impact of Changes in the World Economy on Stabilization Policies in the 1970s", in: William Cline & Sidney Weintraub eds., *Economic Stabilization in Developing Countries*, Washington D. C.: The Brookings Institution.
- Bradford, Colin I. Jr., [1987]: "Trade and Structural Change: NICs and Next Tier NICs as Transitional Economies", *World Development*, Vol. 15, No. 3.
- Cline, William R. [1982]: "Can the East Asian Model of Development be Generalized?" *World Development*, Vol. 10, No. 2.
- Collins, Susan M. & Park, Won-Am [1989]: "External Debt and Macroeconomic Performance in South Korea", in: Sachs ed. [1989].

- Corbo, V., Goldstein, M. & Khan, M. eds. [1987]: *Growth-Oriented Adjustment Programs*, IMF/World Bank.
- Datta-Chaudhuri, M. K. [1981]: "Industrialization and Foreign Trade: The Development Experiences of South Korea and the Philippines", in: Eddy Lee ed., *Export-Led Industrialization and Development*, Singapore: ILO.
- Dell, Sidney [1980]: "The International Environment for Adjustment in Developing Countries", *World Development*, Vol. 8.
- Dornbush, Rudiger & Park, Yung Chul [1987]: "Korean Growth Policy", *Brookings Papers on Economic Activity*, 2.
- Haggard, Stephan & Moon, Chung-In [1983]: "The South Korean State in the International Economy: Liberal, Dependent, or Merchantile?", in: John Gerald Ruggie ed., *The Antinomies of Interdependence: National Welfare and the International Division of Labor*, New York: Columbia University Press.
- Helleiner, Gerald K. [1986]: "Balance-of-Payments Experience and Growth Prospects of Developing Countries: A Synthesis", *World Development*, Vol. 14.
- Khan, Mohsin S. & Knight, Malcolm D. [1982]: "Some Theoretical and Empirical Issues Relating to Economic Stabilization in Developing Countries", *World Development*, Vol. 10.
- & ——— [1983]: "Determinants of Current Account Balances of Non-Oil Developing Countries in the 1970s", *IMF Staff Papers*, Vol. 30.
- Kim, Mahn Je [1987]: "Korea's Adjustment Policies and Their Implications for Other Countries", in: Corbo, Goldstein & Khan eds. [1987].
- Krueger, Anne O. [1978]: "Alternative Trade Strategies and Employment in LDCs", *American Economic Review*, Vol. 68, No. 2.
- Kuznetz, Pawl W. [1988]: "An East Asian Model of Economic Development: Japan, Taiwan, and South Korea", *Economic Development and Cultural Change*, Vol. 36, No. 3.
- Lewis, Arthur [1980]: "The Slowing Down of the Engine of Growth", *American Economic Review*, Vol. 70, No. 4.
- Michalopoulos, Constantine [1987]: "World Bank Programs for Adjustment and Growth", in: Corbo, Goldstein & Khan eds. [1987].
- Nam, Sang Woo [1987]: "Comment", in: Holmes ed., *Economic Adjustment: Policies and Problems*, IMF.
- [1988]: "Alternative Growth and Adjustment Strategies of Newly Industrializing Countries in Southeast Asia", in: Streeten ed. [1988].
- Nelson, Joan M. [1990]: *Economic Crisis and Policy Choice: The Politics of Adjustment in the Third World*, Princeton: Princeton University Press.
- Park, Yung Chul [1986]: "Foreign Debt, Balance of Payments, and Growth Prospects: The Case of The Republic of Korea 1965-88", *World Devel-*

- opment*, Vol. 14.
- [1987]: “Discussion”, in: Corbo, Goldstein & Khan eds. [1987].
- [1990]: “Development Lessons from Asia: The Role of Government in South Korea and Taiwan”, *American Economic Review*, Vol. 80, No. 2.
- Ranis, Gustav [1985]: “Can the East Asian Model of Development be Generalized? A Comment”, *World Development*, Vol. 13, No. 3.
- Rao, D. C. [1978]: “Economic Growth and Equity in The Republic of Korea”, *World Development*, Vol. 6, No. 3.
- Sachs, Jeffrey D. [1985]: “External Debt and Macroeconomic Performance in Latin America and East Asia”, *Brookings Papers on Economic Activity*, 2.
- [1987]: “Trade and Exchange Rate Policies in Growth-Oriented Adjustment Programs”, in: Corbo, Goldstein & Khan eds. [1987].
- ed. [1989]: *Developing Country Debt and the World Economy*, Chicago: The University of Chicago Press.
- Sen, A. K. [1981]: “Public Action and the Quality of Life in Developing Countries”, *Oxford Bulletin of Economics and Statistics*, Vol. 43, No. 4.
- Streeten, Paul [1982]: “A Cool Look at Outward-Looking Strategies for Development”, *World Economy*, Vol. 5, No. 2.
- [1987]: “Structural Adjustment: A Survey of the Issues and Options”, *World Development*, Vol. 15.
- ed. [1988]: *Beyond Adjustment: The Asian Experience*, IMF.
- Westphal, Larry E. [1978]: “The Republic of Korea’s Experience with Export-Led Industrial Development”, *World Development*, Vol. 6, No. 3.
- World Bank [1988]: *Adjustment Lending: An Evaluation of The Years of Experience*, Policy and Research Series 1.
- Zaman, Arshad [1988]: “Comments”, in: Streeten ed. [1988].

(本稿作成にあたっては1990年度法政大学特別研究助成金の交付を得た)