

## Two Economic Success Stories - South Korea and Free China

Hal McKenzie  
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The problem of "development" is probably the chief economic issue of our day. After World War II, much of the developed world, with the exception of the United States, lay shattered by war, and the underdeveloped countries were just coming out from under the yoke of colonialism. The ravaged nations of Europe and Japan, thanks to American aid and their own advanced industrial experience, were able to rapidly rebuild their economies and attain a high level of prosperity. On the other hand, the newly emerging nations of Asia, Africa and South America, with the help of Western aid, have tried with varying degrees of success to become a part of this development boom, but have had to overcome problems of backwardness and lack of industrial experience. How to have the poorer nations participate equitably in the world's prosperity is one of the most urgent problems facing the world at this time.

In looking at the progress of the developing nations, two stand out as the brightest stars on the economic horizon—the countries of South Korea and Free China. These two have not only held the world's records in terms of growth, but have done so after overcoming shocks and hardships which few people thought they would survive.

Free China and South Korea have much in common. The people of both nations are homogeneous, and part of the Chinese cultural sphere; both are proud of their longstanding histories and traditions; both are parts of "divided" nations; and both have suffered grievously from Communist tyranny and aggression. They are also alike in the methods they used to obtain their outstanding economic records, although Taiwan had a head start on Korea, who suffered the devastating Korean War. Both have made use of a judicious balance of government planning and free enterprise, and of foreign know-how and native ingenuity. More fundamentally, they have both effectively mobilized the national respect and vitality of their peoples. The story of these two "rags to riches" nations is inspiring and instructive for rich and poor nations alike.

### **Korea -- From Devastation to Development**

When the shooting phase of the Korean War ended, the country's fragile economy lay in shambles, with little hope of recovery. Its hungry population of over 20 million was crowded into an area about the size of Austria. There had been little industry to begin with in the agricultural South and the iron rule and exploitation of Japan assured that the Korean economy would be too weak to stand on its own. The partition between North and South further enfeebled the crippled nation. Aggravating the problem, a huge stream of nearly five million refugees poured across the 38th parallel in search of freedom, making South Korea perhaps the world's most densely populated area, considering the tiny proportion of arable land in a country which is 74 percent mountainous.

The newly born republic tried to stabilize the economy with the help of American aid, but then the savage war brought almost total economic chaos. Emergency American aid in various forms prevented probable mass starvation. The economy managed to stop reeling when the battle settled along rigid lines in 1952.

Following the signing of the armistice in July, 1953; rehabilitation and reconstruction intensified, and the scale of American and other foreign aid increased to help heal the deep scars of war. By 1957 the level of economic activities slightly exceeded that prior to the war. Yet, poverty and hardship remained

ubiquitous, and the country was beset by a horde of tough problems. The country was caught in a vicious circle of low income leading to low savings and investment, leading to low growth, and back to low income.

With the government at that time incapable of providing dynamic leadership, and official corruption rampant, an air of general pessimism hung thickly over the land. Korea at that time was a shabby, unhappy, prostrate land; the prospect of a viable, self-supporting Korean economy seemed completely out of sight.

But dramatic changes began to take place at the turn of the 1960's.

After the fall of the corrupt and unresponsive Rhee government, confusion reigned for a while, but with the military revolution of Park Chung-Hee, considerable dynamism and modern management began to be injected into the national administration. This combined with an increasingly more positive attitude on the part of the people opened up a decade of vigorous economic activity unmatched in the long history of the country. Assisted by a steadily rising flow of capital from abroad, the economy showed miraculous strides forward. Per capita GNP rose from \$95 in 1959 to \$195 in 1969. During the years 1965-69 the economy grew at an average rate of nearly 12 percent, and manufacturing industries registered an average annual growth of 23 percent, which was the world record for that period.

### **Economic development plans**

The miraculous growth of Korea's economy may be ascribed to the series of five-year plans started in 1962. The purpose of the plans was to foster the growth of the economy by systematically mobilizing all available human and material resources and their optimum allocation to carefully selected sectors and branches of industry. Emphasis was placed on early attainment of economic self-sufficiency, rapid industrialization, and quid "improvement of the income standards of the people.

Government planning has thus been an important fact of economic growth in Korea. The Korean government, with its effective management machinery learned from the military experience of its leaders, has been filling the role of the principal economic leader. The government plans are really "blueprints" in which the government, in conjunction with the general public, set out to build a definite preconceived goal.

Korea's first five-year plan (1962 - 1966) was set in motion at the beginning of 1962. Terming as "too modest" the draft plans inherited by the previous administration, the ambitious rulers beefed them up, revising the annual growth target from five percent to 7.1 percent. Some criticism arose over whether the plan was realistic or not, in view of the economic confusion following the political revolution and the economic inexperience of the military rulers. Nonetheless, the Supreme Council for National Reconstruction boldly set out to achieve a "miracle on the Han River."

The first plan laid emphasis on "austerity" to encourage savings; but if, practice the government had to resort to unbridled deficit spending to carry out large-scale development projects, which set off the worst inflation since Korean War days. Furthermore, a jump in imports threatened to deplete foreign exchange reserves, and gave rise to rampant import speculation which again sent prices skyrocketing. The inflation hit low-income wage and salary earners hardest, but meant increased business profits. A new crop of industrial tycoons emerged during those hectic days, who would later play major roles on the Korean business scene. However, the price spiral and low foreign exchange level threatened to send the economy on the road to bankruptcy, before it was brought under control in 1965 by devaluing the currency, clamping down on imports, adopting a tight money policy, and waging a determined export drive.

Perhaps the most conspicuous achievement under the First Plan was a sharp expansion in exports, from \$54.8 million in 1962 to \$250 million in 1966. This trend was to continue. Also helping the Korean economy was the normalization of relations with Japan, effected in 1965, which opened up a large source of foreign capital, increased trade, and brought an influx of modern technology. Further, Korea's decision to participate in the Vietnam War led to sharp increases in foreign currency earnings because of large sums of homeward remittances by troops, skilled civilian workers and business firms serving in war and reconstruction efforts.

Also, American grant-type aid was a significant factor, though the sums decreased progressively, being replaced by loans and other forms of borrowing. Thus the First Plan saw a transition from a "grant-oriented" pattern to a "loan-oriented" one, reflecting Korea's increased ability to stand on its own. Despite the initial misconceptions in planning, the growth rate attained in the First Plan averaged 8.3 percent, substantially surpassing the target goal of 7.1 percent, due to the national vitality in the face of adversities and the help of international aid. Thus the economy performed even better than expected. However, the working masses found themselves facing a widening gap between rich and poor, and inadequate investment in agriculture made it still more difficult to attain self-sufficiency in food. These problems were carried over into the Second Five-Year Plan.

The Second Plan (1967-71) targeted a growth rate of seven percent, but this target was exceeded by large margins, the actual growth rate averaging 12 percent. The momentum carried over from the First Plan was well sustained by improved government practices, in which the costly lessons of the First Plan were taken into consideration.

The objectives of the Second Plan were to increase national income, balance agricultural and industrial growth, further develop heavy industries, and attain a \$1 billion yearly export target by 1971. Successful efforts were made to increase national savings to stabilize prices, and borrow more and more capital from abroad in order to increase investments. As a result, the Korean economy achieved quite rapid growth during the Second Plan period, centering even more around the urban-industrial sector. The index of industrial production rose almost threefold during this period.

Some samples of production increases are as follows: Food processing, up 300 percent; textiles, up 400 percent; paper and paper products, up 220 percent; chemical products, up 450 percent; basic metals, up 310 percent; machinery, up 170 percent; electrical machinery, up 340 percent; and transport equipment, up 270 percent.

However, the agricultural sector remained the weakest link, achieving a growth of only 2.3 percent. Thus the Second Plan led to a still widening gap between the industrial and agricultural sectors. Also, other problems such as uneven development of infrastructure, many business failures, and small, uneconomical factories leading to high production costs, housing shortages, traffic congestion, and pollution became increasingly serious in large cities on account of rapid urbanization and industrialization. The Third Five Year Plan beginning in 1972 is an attempt to solve these problems.

### **Third Five-Year Plan and future Prospects**

First, the Third Plan is aimed at striking a balance between "growth and stability" in view of the fact that inflation has persisted through the First and Second Plans.

This has moved the government to declare that it will pursue a more prudent fiscal and monetary policy under the Third Plan.

Second, the Third Plan is intended to achieve "Revolutionary development of agriculture" primarily through the "Saemul" (New Village) movement, a revolutionary program of heavy investment and spiritual regeneration in the traditionally stagnant farming populace.

The problem of Korean agriculture has been that too many small farmers were tilling too many small, subsistence plots to make agriculture a viable enterprise. Also chronic poverty has pushed a constant stream of villagers into the cities, increasing urban woes and leading to labor shortages in the agricultural sector. As a result of these problems, Korea is still not self-sufficient in staples such as rice, which is imported in great quantities, mainly from the U. S. To solve these problems, the government is stressing self-help and cooperation among farmers, increasing small industries and crafts in the countryside, improving land use through development of the major river basins, subsidizing mechanization of farms, etc.

Third, the Third Plan places even more emphasis on exports, and fourth, the plan calls for vigorous buildup of heavy industries, with a view to pushing the country into the stage of a more mature industrial nation. Light industries- many of them labor-intensive-have played the leading role in the past industrial progress of Korea, but this type of development is running into limitations, because of increased requirements for imported industrial raw materials and increased difficulty of finding markets for light industry products. Hence the renewed emphasis on high technology industries such as shipbuilding, oil refining, and steel production.

Korea is already building 300,000-ton tankers for foreign customers in its rapidly expanding shipbuilding industry, and the recently built Pohang Steel Mill will assure a domestic supply of industrial raw materials, the basis for a modern industrial nation. If the projected targets are reached, and the problem of rural poverty finally solved by 1976, the Third Plan can be regarded as an even greater success than the previous plans. Korea would then continue to be a "model developing country."

### **Causes for rapid growth**

After a single generation, Korea has emerged from the ashes of war like the legendary phoenix. It is now one of the fastest developing countries in the world, with its exports soaring at a rate unparalleled on the face of the globe. Even if Korea is still one of the lower income countries (per capita GNP in 1970 was \$223), it has now begun to move forward with increasing self-confidence. What have been the main factors in transforming the once underdeveloped, badly crippled economy into the state of growth which it now shows?

Simply stated, it appears that the cause has been the combination of the Koreans' own native intelligence and energy with a heavy inflow of external capital. The Korean people have shown a remarkable ability to adapt to new ways and to get things done, if only they are given the means to do so. Unlike other developing countries, Korea had a long history of cultural development; it had been a homogeneous national unit for centuries; and its people had a strong sense of national identity and independence. The Koreans' traditional zeal for education has led to the attainment of one of the highest literacy rates in Asia, and an exceptionally large college population for a developing nation. Koreans also have shown a tremendous enthusiasm for productive enterprises, and are willing to work sacrificially, even when the reward is poor. The Korean people in general now seem to have an amazing self-confidence that inspires them to launch into ambitious projects. Even farmers, who in the past have been the most tradition-bound segment of the population, often boldly try to cultivate unfamiliar crops to improve their income. Today Korea is a modern, bustling country with a forward-looking, united, well-educated populace, ready to take on any problem that may arise, domestically or internationally.

### **Free China -- Island of Progress**



Since Japanese annexation in 1895, the island of Taiwan (also known as Formosa, Portuguese for "beautiful island"), was an economically backward possession of Japan until being returned to the Chinese mainland in 1945. Then in 1948-49, two million followers of Generalissimo Chiang Kai-shek, fleeing the Communist take-over of the mainland, arrived in Taiwan to set up a government in exile. A large proportion of the emigres were highly trained and educated technical, administrative, and professional personnel.

At first, the Republic of China's economy was plagued by rampant inflation, a critical shortage of basic necessities, rapid population increase, war-crippled industries, a heavy defense burden, and social and political upheaval compounded by the strained relations between the Mandarin-speaking emigres and the Fukien-speaking Taiwanese. At first tensions were kept under control only by the stern hand of the generalissimo, but increasingly successful economic policies on the part of the government began to impress upon the islanders that their rapidly rising prosperity due to Chiang's regime, as compared to the regimented poverty of the mainland, merited their grateful cooperation and support.

Taiwan emerged in the early 1960's with a healthy, vigorous economy maintaining a real growth rate of nine percent annually, which jumped to 11.5 percent in 1971. Per capita income reached \$470 as of 1972, which is four times that of the mainland. In 1953, the difference in median income between the top fifth and the bottom fifth of the population was 15-1; by 1969 it had narrowed to 3.5-1, a remarkable achievement when compared to the economies of other developing nations.

Free China's economy has become so strong that even the severe political setback of Taiwan's expulsion from the U.N. with the admission of Red China, accompanied by increased diplomatic isolation, did not deter foreign investors from increasing their involvement in Taiwan's booming economy. This economic strength has enabled the embattled republic to stand confident in the face of the political buffetings it has received from the outside world.

China's success story began with a sweeping land-reform program in 1949. Up until then most of Taiwan's farmland has been for centuries in the hands of absentee landlords, with tenant farmers paying exorbitant rents, sometimes as much as 70 percent of the crop. The government first cut down rents to 37.5 percent, then broke up the large landholdings and sold them back to the tenants in lots of no more than 7.5 acres per family on an easy ten-year mortgage arrangement.

The landlords were compensated in the form of shares in industries which the government had expropriated from the Japanese, who had developed them during their 50-year occupation. This "land to the tiller" policy helped some 700,000 farmers become agricultural capitalists of sorts, willing to work harder and invest more in the development of their own plots, thus vastly increasing productivity. In addition, the government helped the farmers with new varieties of seeds, improved fertilizers, easy loans for cooperatively owned machinery, and instruction in raising new crops such as mushrooms and pineapples. As a result of these enlightened policies Taiwan now raises enough food to support its population (with Asia's healthiest diet) as well as a substantial surplus for export.

In the meantime, the industrial shares given to the ex-landlords, capitalizing on the managerial expertise of this most educated sector of the population, created a bumper crop of entrepreneurs who would later play a major role in the industrial boom of the 1960's.

The government employs a series of four-year plans in guiding Taiwan's economy. The theme of the first three was land reform and the starting of light industries. Then in the 1960's the theme became expansion into more sophisticated manufacture such as electronics, chemicals, and plastics. Finally, the Fourth through Sixth Plans are to make a transition to heavy industry and high technology enterprises. To encourage foreign investment, trade missions were dispatched all over the world, even to nations maintaining diplomatic relations with Peking. Inducements included wage rates of \$1 per day (compared with \$ 2 in Hong Kong and \$4 in Japan), along with a five-year tax holiday on profits. Expansion of imports has also been a cardinal principle of Taiwan's development policy, and foreign trade had increased at an almost incredible rate.

In 1971 Taiwan's foreign trade total was about equal to the mainland, but by the end of 1973 Taiwan's trade topped \$8 billion, about 50 percent more than the mainland, according to current estimates. Much of this growth was accomplished with the help of American aid, but this ceased in 1965, since which time Taiwan has been itself dispensing aid to lesser developed nations in Africa and Southeast Asia.

Instrumental in Taiwan's rapid development is the high literacy rate (85 percent compared with 25 percent on the mainland, as recorded in *The Peoples Republic of China Atlas*, U.S. Government Printing Office) encouraged by the government's zealous support of universal education. Schooling is free and compulsory through the ninth grade, and admission to public high school and college is on merit through competitive exams.

Lately, improvements in the right to dissent and increased political participation of the native Taiwanese has been noted by many reputable journals such as *The Washington Post*, *New York Times*, *Readers' Digest*, and *Wall Street Journal*.

Chiang Ching-kuo, eldest son of Chiang Kai-shek, succeeded his father as premier on June 1, 1972, leading to many progressive changes, including a crackdown on corruption and favoritism in the government, appointment of younger Taiwanese officials to important posts, and a concerted effort to further boost the incomes of the farmers.

In looking toward Taiwan's future, all indications are that the current prosperity will undeniably spread. The next several years will see Taiwan progressing toward a higher level of industrialization. The government, in its Fifth and Sixth Four-Year plans, will emphasize the advanced industries such as petrochemicals, machinery, and metals. Attention will also be directed toward the labor-intensive manufactures such as electronics, building materials, and canned goods. With this base, Taiwan hopes to expand its international market just as the advanced countries such as Switzerland, Belgium, Israel, and Japan have done in a comparable stage of development.

### **A fruitful comparison**

In comparing the success stories of Taiwan and South Korea, we notice common points which give valuable lessons about the key factors in effective development.

First of all, it shows that the free market economy is far and away superior to any Communist or Marxian-socialist system, as long as free enterprise is protected, guided, and channeled equitably to all sectors of the population. A comparison of Free China's land reform program with that of Red China is enlightening. The Communists "redistributed" the land by slaughtering the landlords to give the land to the peasants, but then they took the land away from the peasants to make into communes, accompanied by much bloodshed and famine.

The Free Chinese, on the other hand, achieved just distribution of land, adequate food for everyone as well as a surplus for export, with no harm or inconvenience to anyone, except perhaps for the expropriated Japanese colonial tycoons, who lost only their businesses. It also shows the value of strong, positive leadership. Even though Chiang Kai-shek and Park Chunghee, both military men, have been

branded as dictators by liberal Western critics, it is hard to see how success could have been attained without the dynamic leadership and discipline that they provided. Both leaders may rightly be faulted for abusing their power in suppressing criticism of their regimes, but one only has to compare them with their Communist counterparts in Red China and North Korea to see that a much higher degree of dissent and freedom of expression is allowed under the Free Asian regimes. It is really unfair to compare democracy in Taiwan and South Korea with the rich, secure, and powerful Western liberal democracies. Western critics should ask themselves how well America could survive shocks and hardships such as these countries had to endure while maintaining the almost irresponsible freedoms that Americans enjoy today.

Another important lesson to be learned, especially for Americans, is the tremendous importance of American aid in getting these nations started, and the necessity of continued American support against the threat of Communist tyranny. This lesson should impress upon Americans the tremendous responsibility that they have to these nations, and also the tremendous amount of good American help can do, if it is used properly.

Other factors are also important in economic success, such as the high level of literacy in both countries, the fortuitous rise of a managerial and entrepreneurial elite, the cohesive, Confucian ethic of both systems, which stresses the "extended family" concept of society, and so forth. A more extensive analysis and comparison would yield rich insights into the development process, but is beyond the scope of this article. We hope that the lessons to be learned from successfully developing nations such as Taiwan and Korea can be effectively applied in helping other struggling nations, and even in helping the rich nations understand some of their own problems.