Stabilizing an Economy—A Study of the Republic of Korea

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KOREA'S SUCCESS in recent years in curbing inflation and achieving a high rate of economic growth has attracted considerable international interest as a possible model for other developing countries. This paper analyzes the financial stabilization policies implemented by the Korean authorities from 1963 and their implications, with particular emphasis on a number of special factors that contributed to Korea's success but that may not necessarily be present in other developing countries. Section I of this paper outlines briefly the economic situation prior to 1964 and highlights the changes that have occurred since; the main part, Section II, analyzes the policies followed in the major financial policy areas; Section III lists some of the "exogenous factors" that contributed to the success of the stabilization policies; and Section IV presents some conclusions. It is necessary to add that the so-called exogenous factors include some that are within the broad ambit of economic policy but which may, in this context, be usefully treated as autonomous to the policy decisions in the area of financial stabilization since 1964. Although this separation may appear somewhat artificial at some points, it is useful in comparing Korea's experience with that of other developing countries, where stabilization programs that were broadly similar in content have been far less successful.

I. Background

Korea experienced inflation for nearly two decades following the division of the country in 1945 and the economic disruption caused later by the Korean conflict. Although a number of attempts were made during

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the period to check the inflation, only limited and temporary results were achieved. During the period, the economy was supported substantially by foreign aid, principally from the United States. Between 1953 and 1963, for example, such aid covered nearly 60 per cent of total imports, and counterpart funds generated by foreign aid constituted nearly 40 per cent of the Government's total budgetary revenue.[1] With the massive foreign aid, considerable progress was made during that period toward rebuilding the country's infrastructure and in resettling the postwar refugee population. However, even the large inflow of foreign aid could not cope with the pressing demands for resources for social and economic reconstruction as well as for national defense, and the Government continuously resorted to inflationary finance.

During 1953–63, the annual increase in the money supply and wholesale prices averaged 38 per cent and 21 per cent, respectively. The rate of increase in consumer prices averaged 23 per cent a year and ranged between 68 per cent and a negative 3 per cent. The inflationary situation worsened markedly between 1961 and 1963, as the military regime, which took over the Government in mid-1961, attempted to accelerate the pace of capital formation and to lessen the country's dependence on foreign aid by means of a very high rate of monetary expansion. Between mid-1961 and September 1962 total bank credit increased by 65 per cent and the money supply increased by 60 per cent, despite the blocking in quasi-monetary accounts of a substantial amount of bank deposits as part of the monetary reform of June 1962. The credit expansion continued at a slightly less sharp pace thereafter in 1962–63, and external assets started to decline rapidly, thus moderating the increase in the money supply. On the other hand, the annual growth rate of the gross national product (GNP) in 1961–62 was only about 3 per cent. In 1963 the balance of payments position became so weak that Korea's earnings of foreign exchange accounted for only 26 per cent of total imports, and foreign exchange reserves declined to their lowest point since 1956. Faced with a serious balance of payments situation, the authorities adopted a complex exchange system, which included a network of multiple currency features and extremely severe quantitative restrictions on imports. The full effects of the monetary expansion during 1961–63 were thus felt acutely late in 1963 and early in 1964, when the wholesale price index and consumer prices rose at annual rates of nearly 44 per cent and of 40 per cent, respectively. The deterioration in the price situation was aggravated by a poor harvest in 1963.

Beginning late in 1963, the newly elected Government initiated a firm anti-inflationary financial program. At the same time the First Five-Year

[1] During 1957–63.

Development Plan (1962–66) was scaled down to match a realistic reappraisal of available resources, and maximum priority was placed on the development of exports as a leading growth sector. The anti-inflationary program was implemented from 1963 on a sustained and comprehensive basis and with a growing sophistication in financial techniques. The primary policy emphasis during the years immediately after 1963 was on curbing the pace of monetary expansion and on expanding the role of the pricing system in order to achieve a more efficient allocation of resources. Once a substantial measure of success was achieved on the anti-inflationary front, the Government was able to pay increased attention to its development program, particularly in the context of the Second Five-Year Plan (1967–71). In fact, the original annual growth target of 7.0 per cent set in the Government's First Five-Year Plan (1962–66) was exceeded slightly. An annual growth rate of 10 per cent is targeted in the revised Second Five-Year Plan.

During 1964–67 the Korean economy grew at an annual rate of 9.4 per cent, and the increase in wholesale prices was limited to an annual rate of 7.0 per cent from mid-1964. Rapid economic growth took place in all sectors of the economy, but the most impressive gain was in industrial production and exports, which increased at an annual rate of 16 per cent and 39 per cent, respectively. The gross investment/GNP ratio rose from 13.0 per cent in 1962 to 20.3 per cent in 1967, and the domestic savings/GNP ratio rose from 2.2 per cent to 11.7 per cent. The public sector savings ratio rose from a negative 1.4 per cent to 3.6 per cent, and the private savings ratio, from 3.6 per cent to 8.1 per cent; on the other hand, the ratio of public sector investment to total investment declined. The foreign savings/GNP ratio declined from 11.2 per cent to 8.6 per cent. The ratio of foreign savings to gross capital formation declined from 83 per cent to 42 per cent, and the ratio of grants to total foreign aid also declined. Annual foreign exchange earnings more than tripled between 1963 and 1967, and foreign exchange reserves more than doubled.

II. Financial Stabilization Policies

Annual stabilization programs

Measures to stabilize the economy were implemented in stages, in the form of comprehensive annual stabilization programs. Since March 1965, these programs have been supported by stand-by arrangements with the International Monetary Fund. The annual programs set quantitative ceilings for the financial operations of the public and private sectors and broadly delineated the necessary supporting policies. With the initiation of the Second Five-Year Plan in 1967, the Korean authorities introduced the technique of "annual over-all resources budgets." These reset the Plan target for each year; project annual supply and demand for principal commodities, foreign exchange, domestic liquidity, etc.; and indicate the supporting financial and other policies to be followed during the year. Among the most important of the financial policy tools, which are closely integrated with the annual over-all resources budget, is the Government's budget.

The principal elements of the annual financial programs have been (1) the maintenance of over-all balance in fiscal sector cash operations; (2) credit management and promotion of domestic savings; and (3) a balance of payments policy emphasizing export growth, capital inflow, establishment of a realistic exchange rate, and the progressive liberalization of trade and of exchange payments along with greater reliance on import tariffs. These policies were directed at reducing the gap between monetary demand and available supplies so that the general price increase would be lessened and at enlarging the role of the market system in determining relative prices of goods and services so that a better allocation of resources would be realized. In 1963, an extensive system of direct controls and open or concealed subsidies was in operation. The resulting distortions of the pricing system tended to inhibit efficient allocation of resources. In most areas of the economy, the price distortions and the related direct controls have been either eliminated or greatly reduced. The most important changes in this context were the sharply upward adjustment of interest rates and the progressive shift from a system of credit rationing to indirect monetary controls, the adoption of flexible and realistic pricing policies for public enterprises and the elimination of direct price controls, and the adoption of a unitary floating exchange rate and the progressive dismantling of direct restrictions on foreign exchange and trade transactions.

Fiscal balance

The first major step taken in 1963 toward stabilizing the economy was aimed at removing the over-all fiscal deficit, which had become the major source of inflation in the immediately preceding years; during 1961 and 1962, net central bank credit extended to the Government contributed about 80 per cent of the increase in the money supply. This step was effected principally through temporary cuts in capital and administrative expenditures. Capital expenditure in the general budget was lowered by 18 per cent in 1963, and a further 20 per cent retrenchment was made in 1964 despite the increase in import costs consequent on the exchange rate depreciation in that year. The expansion in current expenditures was also kept down. This was made possible because wages of government employees were not raised despite a nearly 60 per cent rise in the consumer price index in 1963 and 1964, and because of the limited amount of built-in increases in welfare and other expenditures that were linked to the price level. No major changes were made in the tax structure in 1963 or 1964, except the introduction of the "special customs duty." The special customs duty absorbed 70–90 per cent of the difference between the "total cost" of imported commodities (including the general import duty, commodity taxes and handling costs, and a permitted markup of 30 per cent) and the domestic market price. The tax was designed to collect as government revenue the bulk of the profits that would otherwise have accrued to importers of restricted commodities.

The over-all cash deficit of the Government was almost eliminated by 1964. In the subsequent years the Government achieved a small over-all fiscal surplus by effecting a sharp increase in its domestic tax receipts and in the earnings of public enterprises, which more than counterbalanced the rapid rise in its expenditures. Between 1964 and 1967, current expenditures of the Government in the general budget rose by 150 per cent, owing for the most part to the special increases of 30 per cent a year in wages of public officials effected from 1965 to compensate for the serious loss in their real income in the previous years. Since the rise in revenue was much larger, an expanding surplus was generated in the general budget to help to finance the Government's development outlays. The increase in the charges of public enterprises and their improved operational efficiency also provided a surplus for financing a substantial part of their own capital expenditures through special budget accounts. In addition, foreign borrowing became increasingly important as a source of finance for capital expenditures through special accounts. Total development expenditures (including a substantial amount of fiscal lending for investment) rose by 174 per cent between 1964 and 1967. Despite the rapid increase in the Government's current and capital expenditures, the ratio of total government expenditures to GNP was 13.9 per cent in 1967 (well below the 23.5 per cent in 1962), and the share of government capital formation in the national total declined from about 60 per cent in 1962 to about 30 per cent in 1967.

Since 1964, there has been a spectacular increase of 245 per cent in internal tax receipts, for the most part owing to improved tax administration. The improved tax administration has been achieved mainly through the establishment of a new office of national taxation, an increase in the number of tax offices and officials, and the introduction of speedy techniques of assessment and collection. An important factor in this success was the strong personal support given to the tax drive by the President. Some tax changes consisting of upward adjustments in indirect taxes, including commodity taxes, profits of government monopolies (e.g., tobacco), and revenues from government enterprises, were made in 1965. Since the main thrust was in improved tax administration, it was perhaps natural that indirect tax revenues expanded less rapidly than direct taxes, where evasion was previously greater. Despite the sharp increase in tax revenue in recent years, the ratio of tax revenue (including monopoly profits) to GNP was only 10.3 per cent in 1967, compared with 6.0 per cent in 1964. Only after the potential revenue gain through improved tax administration had been largely exploited did the Government adopt a large-scale reform of the internal tax and tariff structure late in 1967. The direct tax structure was made more progressive, and the level and coverage of indirect taxes were raised. The corporate tax system was changed, favoring openly held corporations and establishing an integrated scheme of incentives for preferred investment. The tariff system was also made administratively flexible and the rate structure rationalized in regard to its revenue-producing and protective functions. As a result of continued efforts toward improved tax administration and higher tax incidence, the tax revenue/GNP ratio is to be stepped up to 14.3 per cent by 1971, the last year of the Second Five-Year Plan period. According to the 1968 over-all resources budget, government savings were expected to increase more rapidly than private domestic savings during the remainder of the Plan period.

Foreign aid in the form of local currency counterpart funds generated by U.S. aid was for many years an important source of budgetary revenue. However, in recent years counterpart fund receipts in the annual budget have declined, despite the depreciation of the won by more than 50 per cent since 1963. In terms of U.S. dollars, such counterpart funds in won declined from $216 million in 1963 to $97 million in 1967. The ratio of won counterpart fund receipts to total government revenue declined from 40 per cent in 1962 to only 10 per cent in the 1968 budget, and their ratio to total defense expenditure declined from 73 per cent in 1962 to 30 per cent in the 1968 budget. While the accrual of counterpart funds generated by U.S. aid in the general budget declined, foreign borrowing for financing capital expenditures through special budget accounts increased sharply from W 0.6 billion in 1964 to W 14.0 billion in the 1968 budget. In addition, the counterpart funds generated by grants under the Treaty on Basic Relations Between the Republic of Korea and Japan are expected to become important in the financing of capital outlays through special budgetary accounts.

While public enterprises have been reformed to operate on a commercial basis and the payment of direct fiscal subsidies (to exporters, etc.) has been eliminated, the Government has not yet been able fully to apply market pricing policies in its grain procurement scheme. The financing needs of the grain procurement program have also been a potential source of fiscal deficit. The Government purchases grain for two main purposes—for use by the armed forces and public institutions and to prevent undue fluctuations in prices between the harvest and the off-season. The Government announces its procurement price for each year, taking into account the changes in farmers' consumer prices, in the cost of production of grain (particularly the cost of fertilizer and credit inputs), and in agricultural productivity. There is little doubt, however, that the procurement price has been fixed also with the broader objectives of improving the terms of trade of the farming sector vis-à-vis the expanding nonfarming sector and of narrowing the difference between per capita incomes in the two sectors.[2] However, the Grain Management Special Account has, in recent years, been managed for the most part with the surplus from the general budget, with recourse to bank credit being limited mostly to the grain procurement season.

Credit policy

Prior to 1964, the Government used a complex system of "credit rationing" consisting primarily of quarterly loan ceilings and selective credit allocation through loan priority schemes and preferential interest rates supported by other devices, such as advance deposit requirements against imports and quotas on central bank rediscounts. This system proved ineffective because preferential terms were extended to many sectors and an increasing amount of bank credit was permitted outside the credit ceilings. The selective credit policy was also unsuccessful in effecting the desired pattern of credit allocation, because there was no effective check on the final use of the bank credit.

From 1964 a firmer policy of credit restraint was implemented, principally by making all bank credit subject to the loan ceilings. The rate of credit expansion to the private sector was sharply reduced, despite the increased demand (in won) for credit after the depreciation in May 1964. Credit ceilings continued to be the prime means of credit control up to October 1965, when they were discontinued. However, throughout 1964 and 1965, increasing use was also made of variable reserve requirements and quotas on central bank rediscounts, to check the credit potential of

[2] Per capita income in the farm sector, which advanced more rapidly than nonfarm income between 1959 and 1964, has been rising less rapidly since 1965. Between 1959 and 1967 per capita farm income (at market prices) increased nearly fivefold, while nonfarm income rose nearly fourfold.

commercial banks. This made possible the gradual simplification of the system of selective credit controls and preferential interest rates.

The shift toward indirect credit control techniques permitted the authorities more freedom in following appropriate flexible monetary policies. This approach was helpful in evolving new monetary techniques to offset the increase in bank liquidity resulting from the rapid increase in time deposits after the interest rate reform in October 1965 and in foreign exchange reserves in 1966 and 1967. In 1965 and 1966, the minimum reserve requirements on deposits were raised several times, and between October 1966 and April 1967 a marginal reserve requirement of 50 per cent was applied. Other techniques used to check credit expansion were the issue of central bank bonds and short-term treasury bonds to commercial banks and the requirement that commercial banks maintain interest-earning blocked deposits with the central bank, in addition to the statutory required reserves against deposits.

On account of the investment boom experienced by Korea in recent years, and particularly the need for domestic funds to match the large inflow of foreign capital, the demand for bank credit has remained high. The authorities have, in terms of their annual financial stabilization programs, attempted to regulate the growth in the primary liquidity of the central bank and the money multiplier so that the final increase in the money supply would be contained within the limits of the stabilization program. In view of the large accumulation of foreign exchange reserves in 1966 and 1967, the monetary authorities implemented broadly offsetting monetary policies through the measures mentioned earlier. Although the central bank's claims on the fiscal sector and on the banking system were reduced somewhat in 1966 and 1967, the increase in commercial bank liquidity caused by the external surplus was large enough to enable them to expand their credit at an annual rate of about 66 per cent. As a result of this rapid credit expansion and the continued external surplus, total money supply increased at an annual rate of 36 per cent during 1966 and 1967, despite an annual increase of 103 per cent in quasi-monetary deposits. The relatively low rate of price increase recorded despite the large credit expansion is due largely to the rapidly expanding demand for money and quasi-money holdings, to the increased inflow of imports, and to possible lags in the price impact. The demand for total domestic liquidity (money supply plus quasi-monetary deposits) has risen in response to the growth in real GNP (9.7 per cent per annum), the monetization of the economy, the higher rates of interest on deposits, and strengthened expectations regarding price stability. The ratio of total domestic liquidity to GNP at market prices rose from 9.2 per cent in 1964 to 18.1 per cent in 1967, after having declined from 13.8 per cent in 1962. The pattern of holding liquid balances also changed with the high interest rate structure; the ratio of time and savings deposits to total liquidity rose steadily from 40 per cent in September 1965 to 57 per cent at the end of 1967.

In framing the stabilization program for 1968 it was considered unlikely that the high rate of growth in imports could be sustained and that the demand for liquidity could continue to increase as rapidly as in the previous two years of exceptionally high economic growth, unless further deceleration of price increase was achieved. The program therefore provided for a tightening of credit restraints and of the restrictions on the build-up of short-term foreign liabilities, which (as will be seen later) was largely responsible for the accumulation of foreign exchange reserves in 1967.

Interest rate reform

Undoubtedly the most significant change effected in the area of monetary policy was the interest rate reform that was introduced in October 1965. The general level of interest rates was raised sharply to reflect the true scarcity value of capital, to encourage savers by providing an adequately attractive "real" interest rate, i.e., the nominal interest rate adjusted for the rate of price increase, and to help the shift in credit policy from quantitative rationing toward indirect regulation. The interest rate reform was also intended to serve as a clear-cut demonstration of the Government's determination to curb inflation. Other objectives were to attract funds from the "curb market" [3] into the banking system in order to strengthen the influence of the monetary authorities and to promote the use of owned capital (in preference to borrowed capital) by the business sector. The standard loan rate of banking institutions was raised from 14 per cent per annum to 26 per cent, and the interest rates paid on time and savings deposits were raised by a roughly corresponding margin. The interest rates on deposits with maturities of 3 months, 6 months, 12 months, and 18 months and above were raised to 1.5 per cent, 2.0 per cent, 2.2 per cent, and 2.5 per cent a month, respectively. However, even the new levels of interest rates were lower than the rates

[3] The large magnitude of the "curb market" operations was referred to by John G. Gurley, Hugh T. Patrick, and E. S. Shaw in their report, *The Financial Structure of Korea* (Preliminary Draft), United States Operations Mission to Korea, July 24, 1965, p. 81. They stated that "the best estimates available suggest that outstanding assets and liabilities in unorganized markets are on the order of 40–45 billion won, all within the private sector. This figure represents close to one-quarter of private-sector liabilities in primary securities and one-third of the private sector's portfolio of assets in primary securities. It is almost double the outstanding amount of commercial bank loans." A comparable estimate is not available for any period after the interest rate reform.

prevailing in the curb market outside the banking system, which ranged mostly between 4 per cent and 5 per cent a month.

The increase in time and savings deposits with banks was most spectacular immediately after the change, presumably as a substantial amount of funds that had been circulating previously in the curb market was transferred to the banking system. In the first quarter after the interest rate reform, these deposits increased by 47 per cent. An annual rate of increase of 103 per cent has been sustained since; a part of this increase reflects the interest credited to deposit accounts, which could, however, be withdrawn. A recent study of the high interest rate policy in Korea indicates that the large increase in the monetary savings was derived mainly from private households. On the basis of multiple regression analysis relating domestic savings after 1965 at three levels (household savings, gross private savings, gross domestic savings) to real income, changes in inventories, and the real rate of interest, the study also establishes a strong correlation between the real deposit rate of interest and household savings.[4] For gross private savings and gross domestic savings, however, the addition of the real deposit rate as an explanatory variable is shown as producing little improvement in the regression results.

While the interest rate reform has been very successful in promoting monetary savings, the application of the high loan rates of interest by banks and other financial institutions has been restricted by a wide range of preferential loan rates of interest. Although the standard loan rate of commercial banks was raised to 26 per cent per annum, approximately one third of total commercial bank credit was extended at preferential rates, mostly for increasing exports or for the import of raw materials by export industries. Since the preferential rates applicable to the export industry range between 6 per cent and 7 per cent per annum, the weighted average lending rate of commercial banks has been estimated to be about 18–20 per cent per annum. Moreover, the total amount of loans extended by specialized financial institutions (such as the Korean Reconstruction Bank, the Medium Industry Bank, and the National Agricultural Cooperative Federation), which receive a substantial part of their resources through budgetary transfer, has ranged between two and three times that

[4] Kwang Suk Kim, *An Appraisal of the High Interest Rate Strategy of Korea* (unpublished, Center for Development Economics, Williams College, Massachusetts, May 1968). Mr. Kim has included "change in inventories" as an explanatory variable because he holds that it affects gross domestic savings independently of current income, in view of the wide variability of inventories of agricultural products in line with agricultural production. The flow-of-funds data prepared by the Bank of Korea also show that time and savings deposits of the private noncorporate sector accounted for about 85 per cent of the total increase in such deposits in 1966 and in the first three quarters of 1967.

of commercial banks in recent years. A substantial part of such loans was for long term and medium term and was extended at preferential rates; preferential loan rates were often applied even for "operational loans" for working capital. The standard loan rate also did not apply to loans obtained from foreign sources, private and official, with government approval. The restrictive credit policy of the authorities and the greatly reduced exchange risks that accompanied the relatively stable exchange rate, which has prevailed since 1966, were additional factors responsible for a large expansion in foreign borrowing. As a result of these factors, the average interest cost of all borrowed funds for enterprises was undoubtedly far below the standard loan rate of banks; and with the continued increase in wholesale prices at an average annual rate of about 7 per cent, the real cost of borrowed funds was reduced further.[5] Moreover, with the increased availability of bank credit, partly consequent on the rise in time and savings deposits, business enterprises have been able to reduce their dependence on the curb market. Since interest rates prevailing in that market were substantially higher than even the new standard loan rates of banks, this switch helped the enterprises to keep down the increase in their interest costs resulting from the interest rate reform.[6]

The demand for bank credit therefore remained very strong under the stimulus of the rapid economic expansion.[7] A rather special reason that also contributed to the sustained large demand for loan finance, despite

[5] A survey by the Korean Economic Development Institute of the capital cost of 15 selected industrial establishments in 1965 produced the following results: (1) The average debt/equity ratio was 57:43; (2) nearly 80 per cent of the total debt was from banks and approximately 20 per cent from "usurious sources"; and (3) the average cost of bank loans was 10 per cent and of all borrowed funds, 19 per cent. The higher interest rates applied only for the last three months of 1965. The relatively low ratio of usurious debt was attributed to the fact that the enterprises surveyed were much larger than the average manufacturing enterprises and therefore had less difficulty in obtaining bank loans. In 1965, private borrowings from foreign sources were quite small. The report remarked that the high cost of domestically borrowed funds, particularly after the interest rate reform, "gave rise to an almost frantic urge for borrowing from abroad" and listed some industrial projects approved or pending approval in February 1966 in which the average domestic/foreign capital ratio was 26:74. (The Korean Economic Development Institute, *Analyses of Capital Cost, Selected Industrial Establishments,* 1967.)

[6] With the continuing pressure of demand for funds in the economy, the curb market rates of interest have remained at about the same levels as before the interest rate reform. It is not possible to evaluate the scale of curb market operations from the flow-of-funds data prepared by the Bank of Korea.

[7] The *real* rate of return on capital in Korea has been estimated by Edward S. Shaw in *Financial Patterns and Policies in Korea* (United States Operations Mission to Korea, April 1967) as being about 15 per cent. According to the Bank of Korea's *Monthly Statistical Review,* the ratio of net profits to total capital in manufacturing industry was about 8 per cent in 1965 and remained stable in 1966.

the high loan rates of interest, was the nature of the tax system. Interest paid on borrowed funds was allowed as cost in determining profits that were subject to tax at a corporate tax rate of about 40 per cent, whereas interest income—for example, on time and savings deposits—was subject to tax at only about 10 per cent. This system, therefore, further reduced the effective cost of borrowed funds and offered a strong incentive to enterprises to make maximum use of loans and to deposit their own funds in time and savings deposits accounts with banks. Alternatively, entrepreneurs had an incentive to employ their own funds in the enterprise in the form of loans at high interest rates to the enterprise rather than as equity capital.

The narrowed difference between the average deposit rate and the effective loan rates progressively imposed a strain on the profit position of commercial banks.[8] This strain was not felt in the initial stages of the interest rate reform because of the preponderance of demand deposits (on which no interest was payable) in the deposit structure and the relatively low level of reserve ratios applied to deposits. However, the continued rise in the ratio of time and savings deposits to total deposits and the successive increases in the reserve requirements against deposits increased the stress on bank profits. The monetary authorities therefore supported bank profits principally by the payment of interest (at 5 per cent and 10 per cent per annum, respectively) on commercial bank special deposits required to be maintained with the central bank and on issues of central bank bonds. In addition, beginning in October 1967, the Government issued short-term treasury bills with interest at 18 per cent per annum, freezing the proceeds in a deposit account with the central bank.

The disparity between the standard loan rate of banks on the one hand

[8] As is to be expected in a country that has experienced prolonged inflation, the amount of outstanding income-yielding financial assets (e.g., government bonds, bank debentures) is quite small, and trading in such securities is even more limited. Thus, the interest rate reform did not create problems of effective capital loss to holders of such assets. In countries where ownership of financial assets is more developed, a sharp increase in interest rates would create problems, at least in the short run, of adjustments in the capital value of financial assets and of shifts from one type of financial asset to another. However, even in developing countries where a considerable volume of transferable and income-yielding financial assets (other than bank deposits) is outstanding, the major part of it is held by financial intermediaries, often until maturity. Moveover, because these countries are not likely to have undergone serious price inflation, the extent of upward adjustment in domestic interest rates that is needed to provide an attractive *real* rate of interest to savers will be substantially less than in Korea. An integral part of the Korean experience with the interest rate reform was also the enforcement of over-all balance in the government budget, which eliminated the need for the Government to borrow domestically, except temporarily from the central bank. Thus, the authorities did not face the commonly experienced pressures to keep down the cost of government borrowing.

and preferential loan rates and foreign interest rates on the other hand resulted in a *de facto* system of credit rationing, which subjected financial institutions and the government departments approving foreign loans to severe pressure from potential borrowers. When the interest rate reform was introduced in 1965, the Korean authorities intended progressively to reduce the disparities between the domestic loan rates and gradually to lower the general level of interest rates as financial stability was more firmly established, as had been done earlier in Taiwan. By the time the interest rate structure was eventually "normalized," it was hoped that a structural change would have occurred in the financial asset-holding habits of the population and that a high rate of personal savings would be sustained. In April 1968 the Korean authorities took some steps to simplify the structure of interest rates on deposits and also to lower their general level slightly in the process. The rates of loan interest were not reduced, however, thereby providing some direct relief to the hard-pressed profit position of the banks.

THE BALANCE OF PAYMENTS

The impressive change in the balance of payments achieved since 1963 was associated with a sharp increase in the export of goods and services and in the inflow of private and official capital, mostly in the form of project loans. Between 1963 and 1967, exports increased from $87 million to $320 million, and earnings on invisibles (largely sales to the UN Command in Korea and exchange remittances of Koreans abroad, particularly in Viet-Nam)[9] increased from $89 million to $323 million; total imports (f.o.b.) rose from $497 million to $909 million, and payments on invisibles, from $82 million to $155 million. Although foreign exchange earnings on goods and services account covered nearly 55 per cent of imports in 1967, compared with less than one third in 1963, the deficit on goods and services account was widened. Private transfers and total loan capital inflow increased from about $52 million and $95 million in 1963 to $91 million and $299 million, respectively, in 1967; in contrast, official grants-in-aid from the United States declined from $206 million to $97 million, but grants from Japan under the treaty signed by Japan and Korea in October 1965 amounted to $37 million in 1967. In 1967, foreign exchange holdings increased by $111 million, compared with a decline of $37 million in 1963.

Exports have risen since 1963 at a fairly steady rate of about 40 per cent a year. The increase has covered a wide range of light industry

[9] Total foreign exchange earnings from Viet-Nam in 1967 were about $130 million, including remittances of Korean soldiers and technicians and U.S. offshore procurements connected with Viet-Nam.

products—e.g., textiles, clothing and footwear, veneer sheets and plywood, and electrical appliances. In 1963, exports of manufactured goods (Standard International Trade Classification—SITC—categories 5–8) were $39 million, or 45 per cent of total exports; in 1967 the comparable figures were $198 million and 62 per cent, respectively. Approximately 82 per cent of Korea's exports went to industrial countries in 1967.

Imports have increased at an average annual rate of 37 per cent during 1965–67 after having declined temporarily in 1964. The bulk of the increase in imports since 1965 has been in industrial raw materials, semiprocessed or intermediate goods and machinery, and equipment for industry. Of the total increase of $592 million in imports (on a c.i.f. basis) between 1964 and 1967, $145 million was in fuel and industrial raw materials (SITC 2–5), nearly $150 million was in intermediate goods (SITC 6)—consisting mainly of such partially processed items as iron and steel, nonferrous metals, yarn and synthetic fibers—and $240 million was in machinery and transport equipment (SITC 7).

The ability of the Korean economy to effect a rapid expansion in imports contrasts with the experience of other developing countries that have attempted stabilization programs. While Korea's exports have grown rapidly and their ratio to imports has increased in recent years, it is unlikely that Korea would have been so successful without the large increase in receipts from invisibles (owing to such a factor as the conflict in Viet-Nam) and in capital inflow. In addition, Korea has made practically no foreign debt service payments in recent years, because nearly all of the foreign aid received in previous years was in the form of grants. As a result, imports could fully match the increase in exchange earnings and the gross capital inflow. In contrast, most developing countries that have experienced prolonged inflation have accumulated a substantial foreign debt service burden, limiting the flow of imported goods and services. A second important difference was the fact that Korea has not, in contrast to other developing countries, experienced a serious erosion of import capability through an adverse movement in external terms of trade, resulting from the decline in the price of many primary products.[10]

Depreciation and the fluctuating exchange rate

The development of export and import-substitute industries as the leading growth sector in the Korean economy was associated to a considerable extent with the policies adopted to make the Korean economy more "open" by allowing the exchange rate to reflect the supply

[10] According to the Bank of Korea's *Monthly Statistical Review*, Korea's index of terms of trade has, in fact, improved from 100 in 1963 to 115 in 1967 with the structural change in foreign trade.

and demand for foreign exchange and by progressively dismantling quantitative controls on foreign exchange and trade transactions. Prior to 1964 the overvalued exchange rate did not provide an adequate incentive to produce for export, while the domestic market was too small to provide an adequate base for expanded and efficient production. The tight import restrictions on raw materials constituted an additional constraint, even resulting in some underutilization of existing infrastructure and industrial capacity. In May 1964, as part of the Government's over-all financial stabilization program, the exchange rate was depreciated approximately 50 per cent (from W 130 to W 255 per US$1). Simultaneously, all existing multiple exchange rate devices (e.g., cash subsidies for exports and barter and export-import linking arrangements)[11] were eliminated, and quantitative import restrictions were relaxed, particularly for industrial raw materials, from their extreme severity in 1963. In addition, the import tariff system was strengthened by the introduction of the special customs duty in January 1964 in order to restrict the demand for imports, to curtail importers' profits on restricted import items, and to increase government revenue.

The depreciation of the won had a directly favorable effect on the fiscal situation by sustaining the counterpart fund receipts, despite a drop of $67 million in foreign grants between 1963 and 1964, and by increasing the revenue from the general and special import duties. On the other hand, it increased the demand for bank credit and also the liquidity position of the banking system and the public, because of the increase in foreign exchange holdings that occurred subsequently. As noted earlier, tightened monetary restraints were applied, and credit expansion was held down in 1964. Despite the 50 per cent depreciation, the wholesale price index of imported goods rose by only 13 per cent in the following three months, because the market prices of imported goods had already been adjusted upward to reflect their scarcity value under the tight import restrictions and the *de facto* depreciation under the previous multiple currency system. The improved supply situation associated with the dishoarding of imported goods following the liberalization of imports of industrial raw materials[12] and with the favorable grain crops helped to restrain the price increase. Another factor was the operation of the special customs duty, which served as an important deterrent to profiteer-

[11] Export-import linking in the form of marketable rights to import specified commodities was eliminated. An indirect "linking" of imports and exports continued through the preferential treatment of exporters in the issue of import licenses (which were, of course, not transferable), as referred to in a subsequent paragraph on export incentives.

[12] Korean data on inventory investment (at 1965 prices) show that inventories of imported raw materials were reduced by W 4.6 billion in 1964, following an increase of W 10.3 billion in 1962 and 1963.

ing on restricted imports. The anti-inflationary measures taken and the improved harvest in 1964 also temporarily reduced imports by $156 million in that year. The import of foodgrains was reduced by $46 million; other major declines were registered in manufactured goods (reflecting the tightening of import restrictions on them late in 1963) and in machinery and equipment (reflecting the temporary decline in the level of real capital formation in 1964).

In March 1965, a floating exchange rate system was introduced in the form of an exchange certificate market. A recipient of foreign exchange could obtain exchange certificates from an authorized bank or sell the foreign exchange to the bank for won at the daily buying rate posted by the Bank of Korea. Exchange certificates were not issued for aid provided under U.S. Public Law 480 and for exchange bought from the UN Command; the Bank of Korea's posted rates were applied to these transactions. On the other hand, exchange certificates were required for all exchange payments except those for P.L. 480 imports and payments of less than $50. The market price of exchange certificates was to be determined freely and was to serve as the guide for the eventual establishment of a fixed exchange parity for the won. The Bank of Korea's intervention was to be limited to preventing excessive short-term fluctuations, without interfering with fundamental trends in the market. In order to ensure this, the Bank of Korea's posted rates were required to be kept within 2 per cent of the weighted average certificate market rate of the previous day, unless otherwise approved by the Minister of Finance; also, in order to limit the extent to which the central bank could support the rate, the net foreign exchange holdings of the Bank of Korea were not to be reduced by more than a specified amount during the year. As a precaution against any speculative hoarding of exchange certificates, the validity period of certificates was limited to 15 days. The high interest rate structure adopted in September 1965 was an additional deterrent to speculative holdings of certificates.

The exchange certificate rate depreciated from W 255 per US$1 to about W 270–275 per US$1 by mid-1965, where it remained with minor fluctuations, reflecting the strengthened balance of payments position. With the relative stability of the certificate rate and the high interest rates, an increasing proportion of foreign exchange earnings tended to be sold directly for won rather than against exchange certificates, thereby limiting the volume of certificate transactions in the market. In 1966 and 1967, the Korean authorities therefore implemented a number of measures to make the exchange certificate market more active and the exchange rate more responsive to changes in the foreign exchange supply and demand situation. The validity period of certificates was extended to 45 days, commercial banks were authorized to operate as certificate dealers (holding certificates as part of their exchange positions) in addition to their previous function as certificate brokers, and the spread between the posted buying and selling rates of the Bank of Korea was widened, offering a direct incentive for an exporter to obtain exchange certificates and for an importer to purchase certificates in the market rather than at the rates quoted by the Bank of Korea. Following these measures the turnover in the exchange certificates market increased markedly, with certificates being obtained against nearly 90 per cent of export earnings.

The relative stability of the exchange rate brought some criticism from exporters, because of the rise in domestic prices and wages since mid-1965. However, the criticism was relatively subdued for the following reasons. First, productivity of the export industries had increased as a result of the heavy investment in new facilities as well as the higher utilization ratio of installed capacity; in addition, with the increased export volume, substantial economies had been gained in costs of sales promotion, etc. A second reason was the high import content in export products and the increasing amount of foreign exchange liabilities incurred by export manufacturers to finance the import of machinery and equipment. Nearly all medium-term and long-term foreign loans obtained by the private sector were denominated in foreign exchange. Therefore, the pressure from the export sector was mainly to step up other export incentives, such as special credit facilities at concessional rates of interest, tax remissions, and favored treatment in the licensing of imports of raw materials for production for export as well as for the domestic market and in regard to advance deposit requirements against imports. Although the structure of direct export incentives remained more or less unchanged since the exchange reform in 1964, the interest rate reform and higher corporate tax rates widened the preferential margins applicable to the export sector; the continuing rise in domestic prices, while the exchange rate has remained relatively stable, also increased the advantage to exporters gained from the preference given to them in the licensing of imports. Export industries have also received the highest priority in the allocation by the Government of foreign borrowings and "foreign exchange loans" denominated in U.S. dollars made from Korea's foreign exchange reserves for the financing of imports of machinery and equipment. The system of foreign exchange loans was initiated in 1967 with the intention of discouraging the build-up of foreign borrowings, often on nationally disadvantageous terms, at a time when official exchange reserves were rising rapidly. These loans were extended at interest rates comparable with foreign rates and were repayable in foreign exchange.

The relative stability of the "floating exchange rate" since mid-1965 was due to the abnormally high level of earnings on invisibles connected with the conflict in Viet-Nam and the large capital inflow and to the operation of quantitative restrictions on imports and of export incentive measures. As some of these influences diminish, the exchange rate should become more responsive to movements in domestic prices and wages. The authorities have already taken some steps to reduce direct controls on imports and to tighten the system of approval of short-term foreign borrowings; but the pressure of external borrowings will be materially reduced only as the domestic interest rate structure is progressively lowered, or if a general deterrent measure, such as an interest equalization tax, is adopted.

Liberalization of imports

Late in 1963, when the balance of payments situation was extremely difficult, the import control system was made so restrictive that the automatic approval procedure was suspended completely and later was limited only to end-users of industrial raw materials. The first installment of import liberalization effected in 1964 permitted a somewhat freer flow of raw materials and contributed to a gain in industrial production. The seasonally adjusted (quarterly) index of industrial production, which was virtually stagnant throughout 1963 and the first quarter of 1964, increased by 13 per cent during the remainder of 1964. The import liberalization also greatly reduced the costly need to maintain large inventories of imported materials. The scope of import liberalization was gradually widened to include items manufactured in Korea, in order to help to stabilize their domestic price and to improve the efficiency of domestic industry. By the first half of 1967, about 87 per cent of imports programed against Korean foreign exchange (as distinguished from foreign aid) was in the automatic approval category, compared with 30 per cent in 1964, but the automatic approval list still covered mainly capital and intermediate types of goods. In August 1967 an important further step taken by the adoption of the "negative-list system" would leave all other items eligible for automatic import. (Previously, only items eligible for import either automatically or by prior approval were listed, leaving a wide range of "unclassified" items ineligible for import.) At the same time the Government announced its intention to eliminate import restrictions completely for balance of payments reasons in a three-stage operation, after a reform of the tariff system was effected. The first two installments were implemented in August 1967 and January

1968. In December 1967, there was also a major revision of the tariff system in order to make it more administratively flexible and to restructure it on a more rational basis. Imports were divided broadly into "protected" and "revenue" items. In principle, nonprotected items would be subject to a uniform rate of tariff, with exemptions for machinery and raw materials. Protective tariffs would be determined on an individual commodity basis, taking into account the value added domestically, the cost difference between domestic and international products, and the degree of essentiality of the goods.

The import liberalization was to some extent responsible for the large increase in imports since 1966. Most of the increase, however, was in the form of raw materials, intermediate goods, and equipment inputs for the expanding industrial sector and was substantially supported by the inflow of foreign loans. Import liberalization of finished consumer goods was certainly not extensive. Moreover, the Ministry of Commerce and Industry continued to exercise a considerable influence over imports indirectly, through a system of registering qualified importers and through its many informal contacts with business enterprises, which in many instances operate both as exporters and importers. The import restrictions on consumer goods operated as a restraint on consumption of nonessential imports and as a powerful protectionist measure. As a parallel device to restrict consumption of Korean products, the Government made extensive use of commodity and other indirect internal taxes, thereby also reducing the protective effects of import restrictions. In any event, since a large number of consumer product industries are producing not only for the domestic market but also for export, their productivity has steadily improved with the expanding markets and the large-scale modernization through new investment. The Government's intention is to switch to tariffs for protective purposes so that the extent of protection given to industry will become open and more identifiable.

INFLOW OF FOREIGN PRIVATE CAPITAL [13]

The main reasons for the rapid increase in private capital inflow were the normalization of relations between Korea and Japan, the promotional efforts of the Korean authorities as well as of the governments of the

[13] The total of committed medium-term and long-term *private* loans outstanding increased from $129 million at the end of 1963 to $458 million at the end of 1967; by the end of 1967, total import arrivals against such committed loans amounted to $304 million. The total amount of committed short-term private import credits outstanding increased from $58 million at the end of 1966 to $240 million at the end of 1967; on the basis of import arrivals the amount outstanding at the end of 1967 was $148 million. The total of committed *official* loans outstanding at the end of 1967 was $430 million, and the total of import arrivals was $246 million.

principal lending countries, the high interest rate structure within Korea, and the increased international confidence in the Korean economy. Approximately half of the committed private medium-term and long-term loans at the end of 1967 were negotiated with Japan. The treaty signed by Japan and Korea in October 1965 after more than 15 years of difficult negotiations and against considerable political opposition within Korea provided that medium-term commercial credits totaling $300 million, official grants totaling $300 million, and official long-term loans on soft terms totaling $200 million would be given by Japan over a 10-year period. In fact, a large part of the commercial credits under the agreement was rapidly committed to projects in 1966 and 1967, and in August 1967 Japan agreed to provide additional credits of $200 million. The commercial credits cover the import cost of machinery, etc., from Japan for related industrial projects and were negotiated between the Japanese and Korean enterprises subject to the approval of the two Governments.

Of the promotional measures implemented by the Korean authorities the most important are (1) a repayment guarantee liberally extended by the Government to private loans (nearly 95 per cent of all outstanding private medium-term and long-term loans have a government guarantee), (2) considerable advance work in the Economic Planning Ministry in regard to feasibility of projects, interindustry linkages, and in particular the availability of satisfactory infrastructure facilities, and (3) liberal terms offered to equity capital relating to tax treatment, transfer of profits, capital, and majority capital holdings, particularly after the revision of the Foreign Investment Law in 1966. In addition, intervention by the Government is kept to a minimum once approval is granted to a project and the associated foreign loan, provided that satisfactory progress is shown in the execution of the project. The confidence shown by foreigners in providing increasing amounts of capital is related largely to the close involvement of the foreign governments concerned (mainly Japan and the United States), the still relatively low external debt service burden in Korea, and the generally satisfactory performance of the projects financed with the foreign capital. The remarkable capability shown by the construction industry in Korea in completing industrial projects, the satisfactory availability so far of infrastructure facilities and of technicians and managers needed to operate the projects, and the adaptability and discipline of Korean labor, which are important elements in the absorptive capacity shown by Korea, have helped to sustain the inflow of private capital. An additional attraction for equity capital has been the low wage structure in Korea. The inflow of equity capital has so far been relatively small, but the changes in the Foreign Investment Law in 1966 and the demonstrated momentum of economic progress in Korea have recently generated greater interest among foreign investors.

Despite the rapid increase in its external indebtedness in recent years, Korea's debt service burden remains relatively small. In 1967, debt service payments amounted to only 5 per cent of total foreign exchange receipts. Debt service payments in respect of the total medium-term and long-term debt outstanding at the end of 1967 were estimated to reach a peak of $83 million in 1971, which would be less than 8 per cent of total earnings projected for that year in the 1968 over-all resources budget. There is a statutory limit of 9 per cent of total annual exchange earnings on the debt service burden in respect of all government and government-guaranteed foreign debt. In 1967 the latter category included practically the whole of private medium-term and long-term commercial credits. In view of the rapid increase in external debt, the Korean Government has adopted a more selective policy in regard to new debt approvals, placing greater priority on official loans with longer maturities and softer terms and on private equity investment.

III. Exogenous Factors

The results achieved by the Government's economic policies were due largely to a number of favorable environmental factors in Korea.[14] The most important of these factors were as follows: (1) The

[14] Some of the environmental factors referred to in this section did exist prior to 1963. However, their beneficial effects on the country's economic development were stifled by the absence of some of the crucial ones. Reference may be made in this context to "Performance Criteria for Evaluating Economic Development Potential: An Operational Approach," by Irma Adelman and Cynthia Taft Morris, in *The Quarterly Journal of Economics,* Vol. LXXXII (1968), pp. 260–80. Based on the growth experience between 1950 and 1962 of 73 developing countries (which were classified in three groups—high, intermediate, and low), the authors found that out of 29 economic, sociocultural, and political indicators used, a discriminant function of four variables accounted for 97 per cent of the variance among the three groups. The four variables, listed in order of their importance, were (1) the degree of improvement in financial institutions (measured by "the success of the economy in increasing the flow of domestic savings through financial institutions and the extent to which these institutions provide medium and long term credit for investment"); (2) the degree of modernization of outlook; (3) the extent of leadership commitment to economic development; and (4) the degree of improvement in physical overhead capital (such as power and transport). A slightly different ranking of the countries into the three growth categories also resulted in a discriminant function of four variables that explained 97 per cent of the variance among the groups; however, "the rate of improvement of agricultural productivity" became the fourth variable in order of importance, and positions of the first and second variables were reversed.

absence of disruptive internal tensions in society, e.g., racial, religious, or language divisions. The existence of a hostile regime in North Korea also served as a unifying factor and provided its own impetus toward economic growth. The Korean Government has frequently stressed that rapid economic development should precede and would promote the eventual unification of Korea. (2) The strategic importance of Korea in international geopolitics, which has been largely responsible for the inflow of foreign aid. (3) Stable political leadership with clear-cut economic programs and policies. The political system is highly centralized and invests enormous power in the hands of a President, who has attached primary importance to the Government's economic program and has shown a high degree of personal involvement in its implementation. Political opposition to the Government has been relatively weak, particularly in its criticism of the Government's economic policies, the emphasis of which on rapid economic modernization and national self-reliance has had great public appeal. It is also significant that the Government, unlike those in many other developing countries, has not had to face strong pressures to expand public welfare expenditures. (4) The absence of powerful pressure groups, e.g., trade unions, who felt their economic interests threatened by the Government's anti-inflationary program. Further, with the quick gain in domestic production following the introduction of the anti-inflationary program and the continued large supply of goods financed by foreign loans and aid, no important section of the population, excepting government officials, suffered even a temporary loss of real income of any significant magnitude. Beginning in 1966, however, the salaries of public servants have been increased by 30 per cent a year in order to compensate them for the loss of real income incurred in the previous years. (5) Public confidence in the Government's economic program generated by the early and impressive results achieved, from which all sectors of the population benefited in various degrees. Although the concentration of ownership of new industries and the heavy reliance on indirect taxation is resulting in an unequal distribution of the expanding income, there is relatively little visible evidence yet of the provocatively ostentatious high consumption by richer classes and government officials to be seen in many other developing countries. (6) The emergence of young, pragmatic career economic administrators enjoying considerable prestige within the government bureaucracy and with the public.[15] (7) The growth of a dynamic entrepreneurial class, which has rapidly proved its capability to construct and to manage

[15] It is perhaps not without significance that most senior officials of the rank of Bureau Directors in the economic ministries are in their thirties. Also, the range of offices available to career officials has been widened, giving more stability to the bureaucratic system.

large-scale industrial enterprises and to compete successfully in international markets. Significantly, a large proportion of the foreign aid negotiated by the Government is channeled directly into the private sector, producing a relatively quick expansion in investment and production. (8) Because of the broad pervasiveness of educational facilities, a relatively large supply of labor has been available with many of the skills needed to build an expanding industrial society. (9) The policy of population control actively followed by the Government in recent years. The growth rate of population has declined from 2.7 per cent in 1962 to 2.4 per cent in 1967 and is projected to decline to 2.0 per cent by the end of the Second Five-Year Plan in 1971.

The successful organization and management of the Five-Year Development Plans, in particular the generally balanced structure of the expanding investment programs, can be regarded also as an important "exogenous factor" that contributed to the success of the stabilization policies. In this context, three aspects are especially noteworthy. First is the long-standing emphasis placed by the Government on increased agricultural production. It is significant that Korea is one of the few densely populated developing countries where agricultural production has increased faster than population.[16] Second is the advance development of infrastructural facilities, which provided the base for the rapid industrial expansion in recent years. Since industrial production has grown at a faster pace than had been envisaged under the Development Plans, a shortage of infrastructural facilities has emerged, requiring larger investment in this sector. Third is the very strong export orientation given to industrial development.

IV. Conclusions

The crucial elements in Korea's anti-inflationary financial program can be identified as follows: in the fiscal area they would clearly include the drive to increase the Government's internal tax revenue and to implement a realistic pricing policy in regard to public enterprises; in monetary policy, the interest rate reform and the development of indirect monetary control techniques; in balance of payments policy, the implementation of a range of measures—including the fluctuating exchange rate, liberalization of import controls, and reform of the tariff system—directed toward the progressive opening up of the Korean economy.

[16] An institutional factor that made this possible was the land reform implemented in 1946.

It is apparent, however, that Korea's economic success was not so much due to the novelty of its financial policies as to the fact that they were implemented generally in a balanced and sustained manner. This was helped largely by particular social, political, and institutional factors, some of which are referred to in this paper. The second key feature was the rapid increase achieved since 1964 in the supply of goods and services from domestic industry, agriculture, and imports. The increase in domestic production was due in large measure to the reserve of infrastructural facilities, industrial labor, and underutilized industrial capacity that was available for immediate exploitation, with the help of the increased import of intermediate and capital goods. The increase in agricultural output was the result of policies emphasizing agricultural productivity over a number of years and to some extent of chance elements, such as favorable crop conditions. The large expansion in imports was supported mostly by the inflow of foreign grants and loans and the increase in foreign exchange earnings associated with the conflict in Viet-Nam. During 1965–67, the merchandise deficit in the balance of payments amounted to about 9.5 per cent of the total national expenditure. The third important feature was the very rapid increase in the demand for monetary and quasi-money balances as a function of the increase in the real national product, the strengthened confidence in price stability, and the high interest rate structure. In this context, it has to be noted that the price inflation in Korea was not of the extreme type experienced by some other countries, which causes a complete loss of public confidence in the monetary system. Because of these features, it was not necessary for the Korean authorities to impose extreme financial stringency in the economy, except very briefly in the initial stages of the stabilization program in 1963/64, thus avoiding the disruption of production and distribution experienced by many other countries.

La stabilisation d'une économie: étude sur la République de Corée

Résumé

Les efforts déployés depuis 1964 par la Corée pour freiner l'inflation et parvenir à un taux d'accroissement élevé de son produit national brut ont connu un succès remarquable. Cette étude décrit les politiques financières suivies en vue de stabiliser l'économie et dresse aussi un tableau de certains des principaux facteurs exogènes qui ont contribué à leur succès.

Les mesures de stabilisation ont été mises à exécution par étapes successives dans le cadre de programmes annuels financés par des lignes de crédit du Fonds Monétaire International. Les éléments décisifs de ces programmes financiers furent les suivants : élimination du déficit budgétaire grâce à l'augmentation des recettes publiques et à la mise en œuvre, dans les entreprises d'Etat, d'une politique des prix réaliste; adoption de taux d'intérêt élevés et de techniques de contrôle monétaire indirect afin de restreindre l'expansion monétaire; et, en ce qui concerne la balance des paiements, introduction d'un taux de change fluctuant, libéralisation des contrôles sur les importations et réforme du système douanier.

L'auteur attribue le succès coréen en grande partie au fait que les politiques choisies furent appliquées d'une manière équilibrée et soutenue et mentionne certains des facteurs sociaux, politiques et institutionnels qui y ont contribué. Le second facteur clé du succès coréen fut l'accroissement rapide de la production intérieure et des importations rendu possible par la réserve de facilités infrastructurelles, de main-d'œuvre et de capacité de production industrielle sous-utilisée qui a pu être exploitée immédiatement en augmentant les importations de produits semi-manufacturés et de matières premières. L'accroissement considérable des importations fut financé par les entrées d'aide étrangère et les recettes en devises associées au conflit du Vietnam. Le troisième facteur important a été l'augmentation rapide de la demande de monnaie en tant que fonction du produit national réel, la confiance accrue dans la monnaie nationale et, tout particulièrement, le taux d'intérêt élevé. Les autorités purent ainsi pratiquer une politique de forte expansion du crédit qui leur permit de financer les investissements dans l'industrie et dans l'infrastructure sans susciter de pressions excessives sur les prix.

Estabilización de una economía—un estudio sobre la República de Corea

Resumen

Desde 1964 Corea ha tenido un éxito destacado en su empeño por coartar la inflación y conseguir una elevada tasa de crecimiento del producto nacional bruto. En este trabajo se examinan las medidas financieras seguidas para estabilizar la economía y se enumeran también algunos de los principales factores exógenos que contribuyeron al éxito de las mismas.

Las medidas estabilizadoras se llevaron a cabo por etapas, mediante programas anuales apoyados por acuerdos de crédito contingente (*stand-by*) con el Fondo Monetario Internacional. Los elementos cruciales de los programas financieros fueron los siguientes: la eliminación del déficit fiscal mediante el aumento de las rentas tributarias internas y la puesta en práctica de una política realista de tarifas de las empresas públicas; la adopción de tasas de interés elevadas y de técnicas de control monetario indirecto para restringir la expansión monetaria; y, en cuanto a la balanza de pagos, la introducción de un tipo de cambio fluctuante, la liberalización de los controles de importación y la reforma del sistema arancelario.

En este trabajo, el éxito de Corea se atribuye principalmente al hecho de que las medidas se implantaron de una forma equilibrada y continuada. También se contó con la ayuda de determinados factores sociales, políticos e institucionales, haciéndose referencia aquí a algunos de ellos. Otro factor clave en la consecución del éxito coreano fue el rápido aumento alcanzado en la producción interna y en la importación. El rápido aumento en la producción interna fue debido a la reserva de instalaciones de infraestructura, de mano de obra industrial, y de capacidad industrial subutilizada, de todo lo cual se pudo disponer para su explotación inmediata con la ayuda de unas mayores importaciones de bienes intermedios y materias primas. Al gran aumento en las importaciones contribuyó la corriente de entrada de ayuda exterior y las ganancias en divisas derivadas del conflicto de Viet-Nam. El tercer factor importante lo constituyeron el rápido aumento de la demanda de dinero en función del producto nacional real, una fortalecida confianza en la moneda, y en especial los altos niveles de las tasas de interés. Esto permitió a las autoridades emprender una expansión sustancial del crédito para financiar la inversión industrial y de infraestructura sin ejercer una presión excesiva sobre los precios.