

REPUBLIC OF KOREA-UNITED STATES OF AMERICA
ECONOMIC RELATIONS : 1961-1985

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Master of Philosophy

NEERAJ RAWAT

JAPANESE AND KOREAN DIVISION
CENTRE FOR EAST ASIAN STUDIES,
SCHOOL OF INTERNATIONAL STUDIES,
NEW DELHI - 110 067, INDIA

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AWAHARLAL NEHRU UNIVERSITY

New Mehrauli Road : New Delhi-110067
CENTRE FOR EAST ASIAN STUDIES
SCHOOL OF INTERNATIONAL STUDIES

Grams : JAYENU
Telephones : 652282
652114

DECLARATION

This is to certify that the dissertation, entitled "Republic of Korea - United States of America Economic Relations: 1961-1985", submitted by Neeraj Rawat in fulfilment of six credits out of total requirements of twenty - four credits for the Degree of Master of Philosophy (M.Phil) of the University, is his original work according to the best of my knowledge and may be placed before the examiners for evaluation.



Gargi Dutt

[Prof.(Mrs.) Gargi Dutt]
Chairperson

R.R. Krishnan

(R.R. Krishnan)
Supervisor

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PRBFACE

(The various dimensions of the political, ideological and strategic relations between the Republic of Korea and the United States of America have been studied in depth and commented upon by several scholars. However, adequate attention has not been given to the economic dimension of the relations between the two countries.) It was, therefore, felt that it would be useful to make an attempt at examining the nature and pattern of Korea U.S. economic relations during the period 1961-85. It was with this rather ambitious objective that this modest study was undertaken. The fact that Korea and the United States have had "special relations" is fairly well known. What has, therefore, been attempted in this study is to describe and analyze the nature and substance of the changes that took place within the paradigm of "special economic reations" after Korea launched its new strategy of economic development in 1961. To put it differently, the central concern of the study is to find out why and how the readjustment and restructuring of "special economic relations" took place between Korea and the United States during the period 1961-85.

The new strategy was based on planned economic growth and all out efforts to promote exports. Several

policy measures were adopted from time to time to attract foreign capital and technology with a view to financing and modernizing the export-oriented industries. The United States responded positively to Korea's new strategy of development. It encouraged the U.S. investors to invest in Korea and also provided the biggest market for Korean exports. There was a sharp spurt in Korea - U.S. bilateral trade and as a result Korea became the seventh largest trading partner of the United States in 1984, leaving behind even France and Italy. The phenomenal growth of Korea's exports and its trade surplus with the United States since the early 1980s have led to some trade frictions. However, the trade frictions were never allowed to obstruct the overall growth of bilateral economic relations between the two countries.

It is necessary to clarify that in this study Korea refers to the political, economic and administrative entity called the Republic of Korea that emerged on 15 August 1948. However, Korea refers to the area south of the 38th parallel that was under the control of the USAMGIK during the period from 8th September 1945 to 15 August 1948, and it (Korea) refers to the whole peninsula while dealing with the historical ^{period} prior to September 1945.

This dissertation consists of four chapters. The first chapter presents the historical background of Korea - U.S. economic relations from May 1882 to April 1960. It also discusses the emergence of the Republic of Korea in 1948 and the assistance that the United States provided to sustain the fledgling state.

The second chapter is devoted to an analysis of Korea's new strategy of development and the United States response to it, especially the supply of capital and technology to Korea. It also identifies the areas in which the U.S. investors preferred to invest and sought to provide sophisticated technology.

The third chapter discusses the pattern and problems in Korea - U.S. trade relations. It elaborates the phenomenal growth of the bilateral trade. It also examines the circumstances which led the U.S. government to fix quantity limits on Korean exports of certain commodities and the Korean governments reaction to the American government's moves.

The fourth and final chapter summarizes the overall Korea - U.S. economic relations and also presents the conclusion of the study.

ACKNOWLEDGEMENTS

During the course of writing this dissertation I have been helped by a number of individuals. At various stages of preparation, this work was subject to the intellectual scrutiny of my teacher, Prof. R.R. Krishnan. Working with him has been a great pleasure. But for detailed scrutiny of the entire manuscript, and penetrating comments this dissertation may not have acquired the present shape. I owe large intellectual debt to him. He not only took pains to write ^{to} some of his friends and institutions to acquire the required material for this work but also allowed me to use his personal collections. Of course, for his affection I have yet to find words to express my gratitude.

I am grateful to Miss Lee Ock Soon who translated some articles from Korean to English. I would also like to thank the staff members of World Bank, New Delhi for their cooperation. Mr. Dhananjay and Ms. Sharma of KOTRA (Korea Trade Promotion Corporation) New Delhi, deserve special thanks who helped me by providing some important statistical data.

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NEERAJ RAWAT

CHAPTER - I

KOREA - UNITED STATES ECONOMIC RELATIONS:

HISTORICAL SETTING

The leaders from the Republic of Korea and the United States of America have often laid stress on the "special relations" between the two countries that have been maintained since 1948. In economic terms the phrase "special relations" signifies that the interaction has been close and substantial despite the obvious differences in the two economies. However, the nature and pattern of Korea-United States economic interaction have undergone a perceptible change since the emergence of the Park Chung Hee regime in Seoul in May 1961. As a leader of the Newly Industrializing Countries (NICs), Korea has indeed become a major economic partner of the United States. Korea is also among the top ten of the largest trading partners of the U.S. with the volume exceeding those of many important allies in Western Europe. Korea - U.S. economic relations not only developed rapidly but also reinforced the "special relation" that have existed between the two countries in the domains of politics and military since the late 1940s.

To be sure, Korea's economic interaction with the United States did not begin with the emergence of the Republic of Korea on 15 August 1948. It formally began with

the conclusion of the Treaty of Peace, Amity Commerce and Navigation between the Kingdom of Choson and the United States of America. The Treaty, also known as the Shufeldt Treaty, was signed at Chemulp'o (Inch'on) on 22 May 1882, and was the first of its kind between Korea and a Western Country¹. The Treaty was preceded by more than a decade and a half of unpleasant relations marked by the efforts of the Koreans to resist the activities of the United States' vessels to force "open" the "Hermit Kingdom," primarily for the purpose of trade and commerce². The United States had wanted to establish trade relations with Korea since the 1830s and had met with stiff resistance from the Yi dynasty rulers³. The Treaty marked the concluding phase of the circuit of what has been generally considered as unequal treaties, through which the United States "opened" the countries of East Asia to the West. In fact, Commodore Shufeldt claimed that by concluding the Chemulp'o Treaty he had accomplished "the feat of bringing the last of the

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1. Sung Joo Han, ed., After one hundred years: Continuity and Change in Korean American Relations (Seoul, 1982) p. 10.
 2. For details see, Tae Hwan Kwak, et al., U.S. - Korean Relations 1882 - 1982 (Seoul, 1982), pp. 15-53.
 3. "A Historical Summary of United States Korean Relations, Department of State Publication 7446," Far Eastern Series 115 (November 1962), p. 3. cited in Youngnok Koo and Dae Sook Suh eds., Korea and the United States: A Century of Cooperation (Honolulu, 1984), p. 221.

exclusive countries within the pale of western civilization"⁴.

However, the Treaty marked the beginning of a new era in Korea-America economic and cultural relations. It gave an opportunity to American traders to start their business activities in Korea and a significant amount of human traffic also crossed the Pacific Ocean under the provisions of the Treaty. Two years after the Treaty, an American business-man named walter Townsend arrived at the newly opened Treaty port of Chemulp'o (Inch'on), in May 1884⁵. Townsend who represented an American firm in Yokohama, established his trade competing against Chinese and Japanese merchants. Later on other American merchants also joined Townsend. The Americans managed to acquire big and lucrative business in Korea, including concessions to develop Unsan gold Mines (J. Morse, April 1896), to build a railroad from Seoul to Chemulp'o (J. Morse, April 1896), to build an electric railway, an electric plant and a water system in Seoul (Collbran and Botswick, Feb. 1898), and facilities to build an oil tank in Chemulp'o (Standard oil

4. H.G. Appenzeler, "The opening of Korea: Admiral Shufeldt," Korean Repository Vol. 1, 1982, p. 62.

5. See details in, Harold F. Cook, Pioneer American Businessman in Korea (Seoul, 1981), pp. 35-61.

Co., December 1897)⁶. American companies were also engaged in the Kerosene and tobacco business.

Although it has been difficult to gather reliable data about the volume and value of Korea-United States trade for the period from 1890 to 1910, the available evidence suggests that in 1908, Korean imports from the United States amounted to around 10 per cent of the total⁷. Table - 1 gives an idea of the commodity composition of the Korean imports from the United States , in 1908.

The history of Korea - United States economic relations would probably have been different, if the United States, during the Presidency of Theodore Roosevelt, had not changed its policy towards Korea in the interest of developing its relations with Japan. The shift in the policy was seen in the rationale behind the Taft-Katsura Agreement of 1905 in which the United States acknowledged Japan's vested interests in Korea in exchange for Japan's acknowledgement of United States suzerainty over the

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6. In 1908 American enterprises received concessions to develop several mines for copper (Kapsan), gold (Suan, Sakchu, Mongt' aedong), and graphite (Kangnung.). See. Youngrok Koo and Dae Sook Suh, eds., op.cit., p. 224.
 7. For details of Economic interaction between Korea and the United States during this period see Cae-One Kim, "The one hundred Year History of Economic Relations Between Korea and America (1876-1976)", (in Korean) American Study I (Seoul, 1977), pp. 56-60.

TABLE - 1

**Korean Imports from the U.S. (Including Hawaii and the
Philippines): 1908**

Item	Amount
Oil, Kerosene	\$ 684,995
Rails	414,049
Flour, Wheat	186,408
Locomotives & Fixtures	171,735
Cigarettes	53,094
Cotton products	23,236
Lumber and Planks	16,340
Nails	15,034
Sugar (brown & refined)	15,013
Salted fish	13,013
Candles	10,233
Iron & Steel products	7,775
Instruments (telegraphs, telephone, etc.)	5,918
Pipes and tubes	3,183
Bear, porter and stout	1,312
Porcelain and earthenware	292
All other articles	474,609
Total	\$ 2,096,929

Source: Hamilton Austin and Terauchi, Korea, p. 260 as quoted in Yongnok Koo and Dae Sook Suh, eds., Korea and the United States: A century of Cooperation (Honolulu 1984), p. 226.

Philippines⁸. Following the perceptible shift in the American policy towards Korea, about two months after the conclusion of the Treaty of Portsmouth in September 1906, Theodore Roosevelt instructed the American Minister in Korea that he should "pack and come home because the annexation of Korea by Japan will be good for Korea as well as Japan⁹". This shift in the United States policy towards Korea had its negative impact on the growth and development of Korea-U.S. economic relations, as "most of the American business leaders in Korea were forced to leave without proper compensation from either Japan or the United States¹⁰".

Korea became a full-fledged colony of Japan in 1910. The colonial rule lasted until August 1945. During the three and a half decades of colonial rule Japan exercised complete control over Korea's economy. In the changed context, there was hardly any scope for American participation in Korea. A small volume of trade between Korea and the United States, however, continued throughout this period and a few established traders such as Townsend stayed on in Korea after 1910. The Japanese government,

8. Dong Sung Cho, "From Unilateral Assymetry to Bilateral Symmetry" in Youngnok Koo and Dae Sook Su h, Op. cit., p. 226.

9. Andrew C. Nahn, "U.S. Policy and the Japanese Annexation of Korea" in Tae Hwan Kwak, et.al., op.cit., p. 47.

10. Youngnok Koo and Dae-Sook Suh, op.cit., p. 226.

however, seized American interests in Korea when the U.S. and Japan went to war in 1941.

The defeat and unconditional surrender of Japan also brought to an end the colonial rule in Korea on 15 August 1945. The U.S. forces arrived in Korea on 8 September 1945 to accept the surrender of Japanese forces in the area south of the 38 parallel. The U.S. forces established a military government in Korea known by its acronym USAMGIK (United States Army Military Government in Korea). For the next three years, the USAMGIK rule was effective in the area south of the 38 parallel. Thus began a new and extremely significant phase in the economic and political relations between Korea and the United States. There were several important developments during the years 1945-48 both in the Korean peninsula and in its neighbourhood that seem to have led to the emergence of the state of Republic of Korea on 15 August 1948¹¹. These include, the failure of United States - Soviet Union Joint Commission to resolve the political impasse, the controversies surrounding the political involvement of

11. For the background of the emergence of the Republic of Korea see, Gregory Handerson, Korea: The Politics of the Vortex (Cambridge, Mass., 1968) pp. 113-147; Han Woo-Keun, The History of Korea (Translated by Lee Kyung Shik), (Seoul, 1970) pp. 493-509; and Leland M. Goodrich, Korea: A study of U.S. Policy in the United Nations, (New York, 1956), pp. 13-14 and 42-51.

United Nations in Korea, the intensification of civil war in China, the reversal of U.S. policy in Japan and the intensification of coldwar between the United States and the Soviet Union. All these developments inevitably led to a situation in which the United States thought that it was of paramount importance that at least the vital part of Korea should be brought within the fold of the "free-world". It, therefore, helped to create the Republic of Korea as a bulwark against communism¹². Another significant economic development during the USAMGIK rule was the return of American companies to Korea. For example, J. Morse's American trading company reopened its office in Seoul in 1945. A number of American entrepreneurs formed the Chosun Gold Mine company in 1946. In 1948 two shipping companies, Everett Shipping Co. and A.P. Patternson Shipping Co., opened their offices in Seoul and Pusan, respectively¹³.

In view of the tremendous significance that the United States attached to the success and viability of the Republic of Korea it continued to provide economic and

12. For details see, Bruce Cumings, "American Policy and Korean Liberation", in Frank Baldwin, ed., Without Parallel: The American-Korean Relations since 1945 and Leon Gordenker, The United Nations and the peaceful Reunification of Korea: The politics of field operation 1947-1950 (The Hague, Martinus Nijhoff, 1959) pp. 39 - 107.

13. Youngnok Koo and Dae Sook Suh, op. cit., p. 230.

military assistance to the fledgling state. The USAMGIK sought to introduce reforms in the post-colonial economy of Korea in the area that subsequently came under the administrative control of the Republic of Korea. It began with the confiscation of Japanese investment and redistribution of land held by Japanese landlords. It distributed 90 percent of the land formerly owned by Japanese among almost a quarter of Korea's farm population¹⁴. In march 1948 a National Land Administration was established and land sales began. According to one estimate by Septemeber, some 487921 acres had been sold to 502,072 tenants¹⁵. The USAMGIK also instituted a "free market - economy" and poured a total of \$ 410 million of economic aid, under GARIOA (Government Appropriations in Occupied Areas) programme into Korea between 1945 and 1948 to alleviate the economic situation, with much emphasis on relief supplies¹⁶. Out of the total economic aid lent by the United States to Korea during 1945-48, 90 per cent was in the form of food, fertilizer, clothing, fuel and other commodities while only 10 percent went to rehabilitation

14. Paul W. Kuznets, Economic Grwoth and Structure in the Republic of Korea (New Haven, 1977), p. 30.

15. For details regarding the land reforms see Edward S. Mason, et.al., Economic and social Modernization of Republic of Korea (Cambridge, 1980), pp. 209-243.

16. Lim Hyun Chin, Dependent Development in Korea 1963-1979 (Seoul, 1985) p. 47.

efforts¹⁷. It has been claimed that GARIOA was having three basic aims: (1) Prevention of starvation and diseases (2) increasing farm output, and (3) supplementing the shortages of consumer goods¹⁸.

The agreement between Korea - United States on Aid was signed in December 1948, replacing the GARIOA with more development oriented Economic Cooperation Administration (ECA) programme. Unlike GARIOA, there was Korean participation at both the governmental and industry level in ECA planning and it consisted of infrastructure projects and technical assistance to industry. Before implementing the pact the U.S. government asked the Korean government to follow certain economic policies. These included "balancing the budget, regulating foreign exchange, effectively disposing of the formerly Japanese owned properties, and establishing a "Counterpart fund" in the bank of Chosun (the existing central Bank) and to use the United States aid funds only for purposes mutually agreed upon with the U.S. government (including the financing of

17. David C. Cole, "Foreign Assistance and Korean Development" in Young Lim, Paul W. Kuznets, David C. Cole, The Korean Economy Issues of Development (Breakeley, 1980) p.3.

18. Tae Hwan Kwak, et.al., U.S. Korean Relations 1982-1982 (Seoul, 1982) p. 326.

local expenditures involved in carrying out the American aid programme)¹⁹".

Less than two years after the emergence of the Republic of Korea it was faced with a war which lasted until July 1953. The United States was deeply involved in the conflict, primarily for ideological reasons and its assistance to Korea took several forms, including economic and military aid.

With the outbreak of Korean War, the ECA decided to readjust its aid plan by concentrating on relief measures and the U.S. Army took charge of much of Korean economy. A military run relief and assistance programme was organized under the U.N. flag and the Civil Relief in Korea (CRIK) programme was launched. How substantial was the United States assistance could be seen in the fact that it contributed \$429 million out of the total \$457 million in relief goods under the CRIK heading²⁰. Another organization, the United Nations Korea Reconstruction Agency (UNKRA) was created in December 1950 by the General Assembly to deal with Korea's rehabilitation and reconstruction problems. Later with the termination of the Korean War following the Armistice Agreement of 27 July 1953, the UNKRA

19. Edward S. Mason, et al., op. cit., pp. 172-173.

20. *ibid.*, p.175.

mission of reconstruction was also taken over by the United States.

The amount of economic assistance to Korea from various sources between the end of Second World War and the end of the Korean war is shown in Table - 2. A substantial portion of the external assistance including from the UNKRA came from the United States. This aid together with the foreign exchange earning from the sale of goods and services to the American and other UN forces in Korea financed practically the total of Korea's imports, as regular commercial exports were negligible during the period from 1945-53.

The three year War was a traumatic and disastrous experience both in terms of the human casualties and damages caused to the Korean economy. According to one estimate, the loss of industries and infrastructure amounted to some 400 million Korean hwan comparable to the levels of 1953 GNP²¹. The extensive destruction caused by the War forced Korea and the United States to shift their attention to the problems of immediate reconstruction and development of the Korean economy.

It is significant to note that at this point of time two kinds of policy recommendations for Korean economy

21. Kuznets, op.cit., pp.37-38.

TABLE 2

Economic Assistance To Korea

(in million US dollars)

YEAR	AGARIOA	ECR	CRIK	UNKRA	TOTAL
1945	4.9				4.9
1946	49.9				49.9
1947	175.4				175.4
1948	179.6				179.6
1949	92.7	23.8			116.5
1950			49.3	9.4	58.7
1951		32.0	74.4	0.1	106.5
1952		3.8	155.2	2.0	161.0
1953		0.2	158.8	29.6	188.6
Total	502.5	109.1	397.8	31.7	1,041.1

Source: David C. Cole, Young Lim and Paul W.Kuznets, The Korean Economy - Issues of Development (Berkeley, 1980), p.9.

emerged from the American side. These were suggested by the two separate planning missions. The first was a consulting firm of Robert R.Nathan and the second was a U.S. Presidential mission sent under the leadership of Henry J.Tasca. The Nathan group engaged in a year-long study of the Korean economy and recommended that Korea launch a Five Year Economic Development Plan aimed at the establishment

of an export-oriented economy based on its "comparative advantage" in agricultural products and raw materials. On the other hand the Tasca mission advocated "unilateral" U.S. economic aid in place of multilateral aid to Korea with the aim of rehabilitating its economy in short run²².

The U.S. government accepted recommendation of the Tasca mission and a new aid agency Foreign Operations Agency (FOA) was created in July 1953 to act as the apex agency in dealing with Korea's economic and defence efforts²³. The United states also continued the unilateral economic aid in place of multilateral aid to Korea and assumed the large burden of economic and military assistance to Korea.

Table 3 and 4 clearly show that during the post-War decade foreign assistance played a major role in the Korean economy. "Nearly 90 percent of Korea's manufacturing industries relied on foreign grants during the post-war reconstruction period, 1953-1960"²⁴, and "almost a half of

22. D.C. Cole "Foreign Assistance and Korean Development" in young Lim, David C.Cole and Paul W.Kuznets, op. cit., p.10-11.

23. *ibid.*

24. Kim-Tae Hwan, "50 Nyontae Hankukkyongcheui Yonku", p.173 cited in. Jong-Jip Choi, "The strong state and Weak Labour Relations in South Korea: Their Historical Determinants and Bureaucratic Structure" in Kyong-Dong Kim, ed., Dependency issues in Korean Development (Seoul, 1987), p.308.

American Economic Assistance to Korea in 1953-1961

(in \$ 000)

ECA & SEC	CRIC	UNKRA	PL 480	FOA & ICA	Total Amount of Non ref- undable Assistance	Development Loan Fund (Refundable)	Total Amount	
1953	232	158,787	29,580	-	5,571	194,170	-	194,170
1954	-	50,191	21,297	-	82,437	153,925	-	153,925
1955	-	8,711	22,181	-	205,815	236,707	-	236,707
1956	-	331	22,370	32,955	271,049	326,705	-	326,705
1957	-	-	14,103	45,522	323,267	382,892	-	382,892
1958	-	-	7,747	47,896	265,629	321,272	-	321,272
1959	-	-	2,471	11,436	208,297	222,204	12,740	234,944
1960	-	-	244	19,913	225,236	245,393	6,100	251,493
1961	-	-	-	44,926	156,628	201,554	3,200	204,754
Total	232	218020	119993	202,648	1,543,929	2,146,222	22,040	2,252,862

Source: Bank of Korea, Statistical Year Book of Economy, 1954-1961, as quoted in Cae-One Kim, "The one Hundred Year History of Economic Relations Between Korea and America (1876-1976)", American Study I (Seoul, 1977), p.75..

TABLE - 4

American Economic Assistance to Korea and other Economic Indicators

	Per Capita Assistance(\$)	Assistance/ GNP (%)	Assistance/ Total Balance of Trade (%)	Assistance/ Imports from U.S.A. (%)
1953	9.59	14.3		
1954	7.39	10.5		
1955	11.05	16.7	73.2	304.0
1956	14.28	22.4	90.4	375.7
1957	16.88	22.9	91.2	349.4
1958	13.77	16.9	88.8	153.7
1959	9.26	11.2	78.2	150.6
1960	9.94	12.3	79.0	183.5
1961	7.90	9.5	73.2	140.6
Average	11.18	15.2	82.0	236.8

Source: Bank of Korea, Korean National Income & Statistical Yearbook, 1969, 1973, as quoted in Cae-One Kim, "The one Hundred Year History of Economic Relations (1876-1976) " in American Study I (Institute of American Studies, Seoul National University, December, 1977), table 8, p.76.

the total general government expenditure was financed by the foreign aid"²⁵. During this period the United States provided a substantial and significant economic aid to Korea. It has been estimated that "during the period 1953-1961, the United States donated 95 percent of the total foreign aid which amounted to some 8 percent of Korea's GNP, 80 percent of capital formation and about 70 percent of total imports"²⁶. It also accounted for the five-sixth of the Korean imports during the 1950s. According to another estimate the amount of the United states aid was two to three times the size of the trade deficit every year between 1955 and 1961²⁷. The United States was also instrumental in starting some new industrial projects. For example, the United states undertook, in fiscal years 1954 and 1955, to assist fifty-one new industrial projects which were mostly small scale enterprises focused largely on import substitution²⁸.

In the case of Korea, PL 480 programme which started in 1956, consisted of aid money derived from the sales of American surplus agricultural commodities, mostly

25. Kwang Suk Kim and Michael Roemer, Growth and Structural Transformation (Cambridge, 1979), ibid.

26. Mason, et al., op.cit., p.185.

27. Youngnok Koo and Dae Sook Suh, op. cit., p.231.

28. Mason, et al., op. cit., p.193.

wheat and cotton²⁹. However, more than any other aid programme, the Agency for International Development (AID) which replaced the International Cooperation Administration (ICA) in 1961, provided capital equipment, industrial raw materials and other wide ranging form of technical assistance. Therefore, on the basis of available evidences one can argue that the U.S. economic aid to Korea during 1953-61 was substantial and vital to the Korean economy.

Another major aspect of the United states assistance to Korea is the military assistance programme. The military assistance took several forms. Military units assisted by the military assistance programme, undertook the construction of roads, bridges and other infrastructure. A large part of the armed forces budget came from the U.S. military aid to Korea. Korean troops were also organized, managed and commanded on modern organizational principles. Table 5 shows that during 1954 to 1961 period as much as \$1.4 billion was transfered to Korea in the form of military assistance. This, in fact, meant that the burden of maintaining huge military apparatus was borne by the United States' tax payers rather than by Korea's fledgling economy.

29. For details of the PL 480 programme to Korea, See. John Chay, ed. The Problems and Prospects of American-East Asian Relations (colorado, 1977), pp.224-226.

TABLE - 5

U.S. Military Assistance To Korea

YEAR	AMOUNT
1954	3
1955	33
1956	226
1957	262
1958	231
1959	189
1960	184
1961	200

Source: Sung Joo Han, "The Republic of Korea and the United states : The Changing Alliance". Korea and World Affairs (Summer 1977).

It is clear from the description above, that a large amount of economic and military aid was provided by the United states to Korea during 1953-1961. However, despite regular injections of foreign aid to Korea little progress was made in acheiving economic growth. Inflation, averaged over 30 percent per annum and the growth rate of GNP was less than 5 percent.

According to one commentator on Korea-United states economic relations of this period. This happened possible because of the lack of objectivity in the U.S. aid Programmes to Korea³⁰. The United States'^{aid} was not designed in the context of long-term economic growth of Korea but rather as a short-run check on economic disorder.

30. D.C. Cole, "Foreign Assistance and Korea Development", in Lim, Cole and Kuznets, op. cit., pp.3-4.

**KOREA'S NEW STRATEGY OF DEVELOPMENT AND THE UNITED STATES'
RESPONSE : INFLOW OF CAPITAL AND TECHNOLOGY**

Korea witnessed two unprecedented political events within a period of thirteen months from April 1960 to May 1961. The causes and consequences of these events have continued to occupy a central place in the political discourse and debates in Korea all these years. The first event was the Students' Revolution of April 1960 or what the Koreans call Sail Ku Hyong Myong (19 April Revolution). The students' uprising toppled the 12 year old regime of Syngman Rhee on 19 April 1960. Rhee left the country never to return. The second event was the military coup d'etat led by Maj. Gen. Park Chung Hee on 16 May 1961 which overthrew the constitutionally and democratically elected government of Chang Myon that had come into power after the Students Revolution. Both these developments cast their shadow on the long standing and close political, ideological, economic and security relations between Korea and the United States.

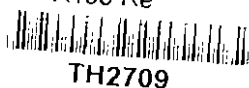
Several factors seem to have contributed to the stability of the Park Chung Hee regime both during the phase when Park headed the military junta that ruled through the Supreme Council for National Reconstruction (SCNR) from 1961

to 1963 and later when Park became the civilian President until his assassination on 26 October 1979. One of the most important factors was the Park regime's ability to initiate and sustain economic development through the twin strategy of Five Year Plans and Export-Oriented Industrialization. In fact, it has been argued that for the military dominated Park regime the only way it could gain political legitimacy and credibility was through its economic policies and performance¹.

During the short lived Second Republic (Chang Myon Government), a Five Year Development Plan was prepared by the Economic Development Council. Although initially the Supreme Council for National Reconstruction (SCNR), which took over all the legislative, executive and judicial powers after the coup, did not lend its approval to the plan. It did, however, provide the basis for the First Five-Year Plan, 1962-66². It also transformed the Economic Development Council into the Economic Planning Board (EPB) in 1961. The EPB began to wield enormous clout and power as it assumed "responsibilities not only for development planning

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1. Paul W. Kuznets, Economic Growth and Structure in the Republic of Korea (New Haven, 1977), p. 49 & 91.
 2. David C. Cole and Princeton N. Lyman, Korean Development: The Interplay of Politics and Economics (Cambridge, Massachusetts, 1971), p.204.

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and coordination but also of budgeting, coordination of foreign aid activities and attracting foreign investments"³.

The Park regime during the SCNR phase formally introduced the "indicative planning" method and launched the First Five Year Plan in 1962. Since then five plans have been successfully completed. However, it is important to note the nature of the planning process from its conception to its execution. Commenting on the nature and effectiveness of the planning process in Korea, a perceptive scholar has pointed out that "it is somewhere between "indicative planning" and "imperative planning". Insofar as planning is concerned with policy formulation, it would be closer to "indicative" planning in the sense that it is viewed as a detailed guide to the private planning of private firms operating within the framework of a capitalist economy. But as far as planning is concerned with the techniques of policy implementation, it is closer to a "command" economy in the sense that the activities of a single firm form the object of state intervention with its powerful command and manipulation system of incentives and sanctions. The key element that makes Korea's economic

3. Jong-Jip Choi, "The Strong State and Weak Labour Relation in South Korea: Their Historical Determinants and Bureaucratic Structure" in Kyong Dong Kim, ed., Dependency Issues in Korean Development: Comparative Perspectives (Seoul, 1987), p.319.

growth extraordinary is just this effective capability of putting plans into effect"⁴. In fact on the level of plan implementation the distinction between the state and private corporations, between public and private came to be "virtually blurred" in the state private corporate or business relations⁵. How effective was the planning process could be seen in the fact that the growth targets of the plans from the first to the fifth were always outstripped by actual growth although high growth targets were set by the Planning Board⁶.

Two more important aspects regarding the plans need to be mentioned. While the First, Second and Third Plans "set specific, numerical targets for the development of industries and infrastructure and the government backed up the targets with its financial and organizational capabilities", the later plans tended to be more indicative, setting forth the economic orientation of the government and the direction of policies during the plan period⁷. Beginning with the Fourth Plan there was considerable emphasis on social policy tasks, such as health care,

4. *ibid.*, pp. 316-317.

5. *ibid.*, p.317.

6. *ibid.*, p.320.

7. A Handbook of Korea, p.360.

education and housing programmes. In fact from the Fifth Plan (1982-1986) onwards the plan was termed "Economic and Social Development Plan". In otherwords, "the importance of social welfare objectives in the overall plan has grown over the past decade, just as the emphasis given to specific economic targets has declined"⁸.

The Export-Oriented Industrialization (EOI), however, formed the most significant aspect of the new economic strategy. Within the EOI framework, several policy measures were adopted. All these policy measures were, targeted at achieving spectacular and striking rate of growth of exports of manufactured goods. Emphasis was given on the export - oriented industries and electronics, textiles, footwear, steel, chemicals, and others were considered "strategic"⁹ for the export led growth. Thus export promotion became an absolute priority with the Park regime and later with the Chun Doo Hwan regime. Some of the more important policy measures that were adopted, from time to time, to promote exports may be mentioned. During the early years of the Park regime, it announced a package policy on the lines of the "Nineteen-Point Reform Package"

8. *ibid.*, p.361.

9. Jon Woronoff, Asia's "Miracle" Economies (Seoul, 1986),p.100

promulgated by Taiwan in 1960¹⁰. The package included extensive changes in monetary, fiscal, taxation and trade policies. More specifically, it included devaluation of currency to cheapen exports, drastic lowering of tariff barriers that had protected native industries, tax holidays, exemption and reduction across the board for firms willing to export and state guarantees for foreign investment and foreign loans.

Another critical component of the new strategy of development was the promulgation of series of laws regulating most areas of economic life including foreign investment, technology induction, "reasonable" wages, Bank credits, strike bans in foreign enterprises etc. The Foreign Investment Encouragement Law(FIEL) was promulgated in 1960 to introduce direct investment by foreign business, either independently or joint with the Korean Partners¹¹. This was the first attempt by the Korean government to provide a legal basis for the attraction of foreign capital. The law provided various incentives, including equal treatment with domestic firms, tax holidays, guarantee of

10. Bruce Cumings, "The Origins and development of the Northeast Asian political economy: industrial sectors, product cycles, and political consequences" International Organization (Vol. 38, No.1, Winter 1984) p.27.

11. Peter Drysdale, ed., Foreign Direct Investment in Asia and the Pacific (Canberra, 1972), p.244.

profit remittances and withdrawal of principal, and tax rebates for technology licences¹². The law was revised in 1962 to enable the newly established Economic Planning Board (EPB) to co-ordinate and promote the inducement of foreign loans and investment in Korea as part of its overall economic planning mission. The Korean government further liberalized the incentives in the FIEL by promulgating the Foreign Capital Inducement Law in 1965. The percentage of shares that investors had to hold to qualify for the benefits under the FIEL was deleted. A clause to oblige investors to employ at least 90% Korean personnel under the old law was removed. Again in 1966 the investment law and regulations on foreign loans were incorporated into a new Foreign Capital Inducement Law. The 1966 law emphasized promotion of foreign loans as a means of securing the capital needed for investments critical to the growth of the Korean economy. "In 1969 the Korean government started to regulate the quality of loans, while re-emphasizing foreign investment, by declaring a policy to encourage foreign investment and the successful development of foreign-invested enterprises"¹³.

12. Walter Galenson, Foreign Trade and Investment (London, 1985), p.177.

13. Korea Annual, 1982, p.166.

However, there was a noticeable change in the Korean government's policy towards foreign direct investment in 1973. In that year, the law was amended in such a way that it provided a greater priority to joint ventures than to wholly owned foreign firms¹⁴. In addition the EPB issued 'General Guidelines for Foreign Direct Investment'. The guidelines set a maximum of fifty percent equity participation in principle¹⁵, specified the industries eligible for foreign investment and imposed various other conditions, such as minimum investment size of \$50,000.

The government policy changed again in 1981 as the responsibility for handling foreign investment affairs was transferred from the EPB to the Ministry of Finance¹⁶. Out of 855 industrial sectors, in the Korean Standard Industrial Classification, 521 were made eligible for foreign investment. In 56 sectors, 100 percent investment was made permissible, while facility of 50 percent investment continued in the others. The government again revised the Foreign Capital Inducement law in July 1984 to encourage the inducement of advanced technology and foreign capital

14. For details of amendments in Foreign Capital Inducement Act see, Korea Annual, 1984 pp. 359-371.

15. Korea Annual, 1982, p.165.

16. Karl Moskowitz, ed., From Patron to Partner: The Development of U.S. -Korean Business Trade Relations (Lexington, 1984)

inflow. It introduced a negative list system accompanied by an increase in the share of Korea's 999 industrial subsectors open to foreign investment. In January 1985, the government opened 20 partly restricted industrial subsectors to additional foreign investment and the full review of the negative list in June 1985 led to the liberalization of 133 more subsectors in July 1985. In Oct. 1985 the government yet again revised the negative list system and liberalized 102 more industrial sectors for foreign investments¹⁷. In otherwords, within the framework of the new strategy of development, the Korean government policy toward direct foreign investment by foreign entities seem to have progressed through several distinct stages.

First Period :	
1957 to 1962	Establishment of the system
Second Period :	
1962 to 1965	Active Promotion
Third Period :	
1966 to 1969	Loan-first, investment second policy/
Fourth Period :	
1969 to 1972	Institution of incentives
Fifth Period :	
1973 to 1981	Imposition of restraints
Sixth Period :	
1981 to the present	Liberalization.

 17. Korea Trade & Business, Vol.5, No.5, No.1, 1987, p.7.

Apart from attracting direct foreign investment the technology induction and indigenisation also formed one of the most important and critical ingredients of the new strategy of development in Korea. It has also been a controversial issue and the Korean government policies in this regard witnessed considerable fluctuations. The general trend of economic management in Korea is toward liberalisation of both the domestic economic management and the import of technology. However, in 1973 the Industrial Technology Promotion Law was promulgated. Under this law a producer in Korea importing a technology was supposed to set aside a specific amount of money usually equal to the cost of importing the technology for adopting and absorbing the technology. This law also helped in increasing the local R & D efforts. In line with the new strategy of development, the Korean government policy towards the technology importation seem to have eased in several stages. "The first liberalization of 1978 divided industries into two categories; one where technology importation was automatically approved and the other where technology importation had to be approved by the government. The second stage of liberalization came in 1980 when automatic approval was applied on all the industries. However, even at this stage, formal applications had to be made to the government outlining all the major features related to

technology transfer contracts. In 1984, the third stage of liberalization was put into effect, and technology transfer became completely liberalized, and thus, the approval system has disappeared altogether"¹⁸.

Apart from this legislative framework for promoting foreign capital and technology investments other measures were also taken to attain the comparative advantage in light manufactured goods. Most important of them was the wage policy. Wage rates were controlled by "the system of administrative adjustment by the Law Concerning Special Measures for Safeguarding National Security (the LSMSNS) and the intermittent announcements of "reasonable" wage rates by the Economic Planning Board minister"¹⁹. Another special law governing the foreign company is, in effect till today, which eliminates the possibility of strikes or demonstrations by the unions in their negotiations with management. Apart from these laws the Korean government also established two Free Export Zones at Masan and Iri in 1970 and 1973 respectively. With very few natural resources and limited domestic capital but with abundant and inexpensive labour, the Park regime pursued the policy of economic

18. U.K. Park, "Technology Transfer to Korea and Determinants of Success" in Korea and World Affairs (Vol.10, No.4, Winter 1986) pp.691-692.

19 Kyong-Dong Kim, ed., op.cit., p.317-318.

growth through export-oriented industrialization²⁰.

It is also necessary to locate the new strategy of economic development pursued by Korea since the early 1960s and the successes it achieved in the broader context of changes in the world capitalist system, the new pattern in the international division of labour and international trade and the strategic triangular relationship between Korea, U.S. and Japan. In the sixties and upto the early seventies, the world capitalist economy was on an upswing cycle and the advanced capitalist countries were willing to invest in developing countries like Korea. Private medium and long-term credit was more easily available and the international rates were low and there were fewer trade barriers against third world manufactures. For example, Private medium and long term credit which accounted for only 37 percent of the net capital flow to the developing countries in 1970, went upto 50 percent in 1980²¹. The major borrower happened to be the export-oriented economies²². This was the time when trade liberalization

20. Kyong-Dong Kim, Rethinking Development: Theories and Experiences (Seoul, 1985), p.196.

21. S. Griffith Jones and E. Rodriguez, "Private International Finance and Industrialization of LDC's" in The Journal of Development Studies (Vol.21, No.1, Oct.1984), p.48.

22. Five countries (Mexico, Brazil, Venezuela, South Korea and Algeria) accounted for over half of all LDC

and expansion became significant issues in world economic policy discussions, when Kennedy round of 1960 was being negotiated and the Generalised System of Preferences(GSP) was gaining acceptance in UNCTAD. There was an overall growth in the international trade in general and a high demand for labour intensive goods in particular. It should also be pointed out that the early 1960s saw perceptible changes in the global division of labour, the "new parameters of comparative advantage emerged suggesting relocation of the labour intensive processes to the labour rich production areas, hence the industries like textile, leather, electronics came to the soil of the raw material exporters of third world economies"²³. Thus the international economic order in the 1960s was also conducive to Korea's outward looking growth strategy. Foreign trade, capital flow, technology transfer and so forth all took place in a stable international economic order.

Fn.22 contd...Eurobank loans.see,Jeff Frieden, "Third World Industrialization: International Finance and state Capitalism in Mexico, Brazil, Algeria and South Korea" in International Organization, Vol.35, No.3, Summer 1981, p. 411.

23. Girijesh Pant, " Political Economy of 'Korean Miracle'" Social Scientist (New Delhi), Vol. 13 No. 5,May 1985, p. 22.

The United States did not consider its strategic interests in Korea in anyway threatened by either the military seizure of power in 1961 or the new economic strategy of development pursued by the Park regime. In fact the United States appreciated the anti-communist ideological orientation and resolve of the military regime, even if it had misgivings about the manner in which the Chang Myon government was removed. Before long the American government established a close rapport with the Park regime. This was evident in the fact that around 3,12,853 Korean troops came to be deployed in the war in Vietnam at the behest of the United States during the years 1964-73, and the United States also continued its military assistance to Korea.²⁴ Upto 1980 it provided more than \$7.6 billion worth of military assistance in term of loans and grants to Korea²⁵. The United States was also instrumental in the rapprochement between two of its strongest and long standing allies in Asia, Japan and Korea, that led to the conclusion of Seoul-Tokyo normalization treaty of 1965. The treaty marked the beginning of a new era of triangular relationship between Japan, Korea and the United States. It also opened a new chapter in Japan's economic role in Korea.

24. Korea Herald, 1 Oct, 1987.

25. Chae-Jin Lee and Hideo Sato, U.S. Policy Toward Japan and Korea: A Changing Influence Relationship (Praeger, 1982), P.24-25, Table 1.2.

The United States welcomed the new strategy of development announced by the Park regime because it sought to further strengthen Korean economy's linkages with world capitalist system in general and with advanced countries like Japan and the United States in particular. It was, therefore, not surprising that the U.S. lent its active support in several ways to the Korean government in realizing the goals set in the new strategy of development. In other words, it was not a fortuitous conjunction that when the United States had almost abandoned its policy pursued in the 1950s of giving grants in aid and had adopted the policy of encouraging loans, both public and commercial, to NICs, the Park regime had come out with Foreign Capital Inducement Laws and State guarantees to foreign investment. It should be remembered that in 1957 the U.S. government instituted the Development Loan Fund based on the Foreign Assistance Act in order to substitute loans from grants - in-aid previously provided to underdeveloped countries, including Korea.

The preparation of Korea's Second Five Year Plan in 1965 and 1966 was supported by the USAID mission and a number of American economists and technicians²⁶. A second Nathan team and staff members from the Aid mission also

26. For details see David C. Cole and Princeton N. Lyman, Op. Cit., pp.203-221.

participated with Korean officials in joint working groups that formulated the basic guidelines for the plan as well as the detailed projects and policies. The USAID played active role in devising export-oriented industrialization strategies in Korea. It has been argued that the United States' assistance in the mid 1960s shifted away from the micro allocative decisions of the Korean government to broader concerns for research and economic policy and planning²⁷. For example the United States supported the creation of the Korea Institute of Science and Technology (KIST) in 1966, and the Korea Development Institute(KDI) in 1971. The KIST was created to help Korean industry with the adoption and adaptation of modern technology and the KDI was to assist the Korean government in research and analysis of critical economic policy and planning problems. Furthermore, the United States was willing to pursue liberal trade policy which ensured an assured market for manufactured goods from developing countries like Korea. The United States, therefore, encouraged American business to invest in Korea (there was no private American investment in the 1950s) and enter technology transfer agreements and joint ventures with Korean private corporate sector and state enterprises.

27. E.S. Mason, et al., The Economic and Social Modernization of the Republic of Korea (Cambridge, Massachusetts, 1980), p.200.

It is against this background that the United States' response to Korea's new strategy, in particular in the areas of foreign loans, direct investment and technology transfer to Korea, should be seen.

INFLOW OF LOANS AND DIRECT INVESTMENT

Foreign capital had been channeled into Korea in the form of grants-in-aid in the 1950s. However, a large part of this aid was spent on the consumption needs of the people rather than on financing independent industrial projects. The grant type foreign aid from the United States was reduced significantly in the late 1950s and it was replaced by a large sum of public and commercial loans. From 1962 to 1980 a total of \$18992.4 million of foreign capital was imported by Korea in the form of public and private loans and direct investment. During this period, i.e., 1962-80, the United States provided around \$11921.0 million in the form of public and private loans(see Table 6).

Table 6 shows that during 1959-1961, Korea received a total of \$ 4 million foreign capital and 100 percent of it came from the United States in the form of public loans. However, during the First Five Year Plan, i.e., 1962-1966, commercial loans also made their entry into Korea. It has been reported that foreign capital formed 52

TABLE - 6

FOREIGN LOANS TO KOREA (in \$ million)

YEAR	Public Loan		Commercial Loan		GRAND TOTAL
	TOTAL	From U.S.	TOTAL	From U.S.	
1959-61	4	4			4
1962-66	117	65	176	41	293
1966-71	810	495	1355	501	2165
1972-76	2389	798	3043	1119	5432
1977	626	123	1242	259	1868
1978	818	176	1929	303	2747
1979	1085	236	1622	180	2707
1980	1330	268	1351	393	2681
TOTAL	7179	2165	10718	2796	17897

Source : Taken from table 12.6 in Youngnok Koo and Dae Sook Suh eds., Korea and the United States: A Century of Cooperation (Honolulu, 1984) p.254. Data for 1980 is from Korea Annual, 1981, pp.164-165.

percent of the total investment during the First Five Year Plan²⁸. Possibly the ratio of foreign capital increased in response to the overtures made by the Korean government to

28. Korea Development Institute, Korea's Economy Past and Present (Seoul, 1975), p.21.

induce foreign capital including investments on "attractive" terms. The United States accounted for more than 36 percent of the total loans coming to Korea by the end of the first Five Year Plan. The United States' share again increased during the Second Five Year Plan, i.e., 1967-1971, from 36 percent to 45 percent²⁹. In other words upto the end of the first two five year plans the United States remained a top supplier of foreign capital to Korea. A large portion of the United States' loans was provided as concessionary loans by the U.S. Agency for International Development³⁰.

After Korea normalized relations with Japan in 1965, Japanese private loans began to supplement U.S. loans. Aid loans from the U.S. and Japan helped Korea to finance three new fertilizer plants and to pay for the expansion of power-generating and transportation facilities and other infrastructures in the later half of the 1960s. In the later years Japanese share in the commercial loans to Korea, continued to rise and it reached upto 39 percent for

29. It should be remembered that the U.S. also assisted the EPB in formulating the Second Five Year Plan. To realize the high targets of the plan the U.S. provided the major share of the required capital to Korea, in the form of loans as well as direct investments.

30. Youngnok Koo and Dae Sook Suh, eds., Korea and the United States: A Century of Cooperation (Honolulu, 1984), p.255 and also see E.S. Mason et.al., op.cit., p.198.

the year 1985. Between 1959 and 1985, Korea induced a total of 16.8 billion dollars in commercial loans on an approval basis. The largest portion (30.8 percent) came from the EEC member countries, followed by the United States (23.3 percent) and Japan (22 percent)³¹.

Over three quarters of borrowing during the early 1980s was financed by the commercial banks. Lending by foreign commercial banks to Korea increased at a rapid pace during the 1970s and the early 1980s. As a result, Korea's debt increased from \$2.3 billion in 1970 to \$45 billion in 1985³². The US banks have provided the bulk of bank credit to Korea in the past and even assisted Korea in taking risky ventures. For example, Export-Import (EXIM) Bank of the United States and Bank of America together with the Lazard Brothers Bank of U.K. provided the loans for the construction of the nuclear plant Kori-1³³. The U.S. Exim Bank credited a \$79 million loan and \$157 million loan guarantee for the construction of the second nuclear power plant

31. Korea Annual, 1986, p.150.

32. Korea : Managing the Industrial Transition, Vol.1 (World Bank, Washington, D.C., 1987), p.18.

33. Young-Sun Ha, Nuclear Proliferation, World Order and Korea (Seoul, 1983), p.89.

(Kori-2) on March 20, 1975³⁴. Again in June 1978 the U.S. Congress approved a \$ 976,100000 Exim Bank loan and guarantee for two Korean nuclear power plants (Kori-5 and Kori-6)³⁵. However, lending to Korea by the U.S. banks declined in 1980s.

The table 7 shows that net lending to Korea by the U.S. banks declined continuously from 1981 to 1985. The amount declined from \$2.3 billion in 1981 to \$400 million in 1983 and it became even negative in 1984 and 1985. In 1984 and 1985 the net lending amounted to -\$1.25 billion³⁶.

Thus during 1960s and 1970s Korea received enormous amount of loans from the United States for in that period the U.S. was a net capital exporter. But in 1980s the U.S. loans to Korea declined because during that time the U.S. became a capital importer country.

34. For a detailed discussion on the role of the U.S. Exim Bank in Korea's nuclear programme, see, Peter Hayes and Tim Shorrocks. "Dumping Reactors in Asia : The U.S. Export-Import Bank and Nuclear Power in South Korea" AMPO Japan Asia Quarterly Review (Tokyo), Vol. 14, No.1, 1982, pp.30-35 and Vol.14, No.2, 1982, pp.16-23.

35. Korea and World Affairs ,Vol.6 No.2, Summer 1982, p.362.

36. Korea; Managing the Industrial Transition. Vol.1 (World Bank, Washington, D.C.,1987), p.18.

TABLE - 7

INTERNATIONAL BANK NET LENDING TO KOREA^(a)

	1981	1982	1983	1984	1985
<u>Net Lending (\$bln)</u>					
U.S. Banks	2.3	1.5	0.4	-1.5	-1.0
Other Banks	1.1	2.0	1.8	3.5	n.a
Total	3.4	3.5	2.2	2.0	
<u>Growth of Claims (%)^b</u>					
US Banks	32	16	4	-13	-9
Other Banks	14	24	17	30	n.a
Total	23	20	10	9	

(a) Changes in cross-border claims adjusted for exchange rate changes.

(b) Net lending as a proportion of the stock of claims.

Source : Country Exposure Lending Survey, Federal Financial Industries Examination Council, federal Reserve Board as quoted in Korea : Managing the Industrial Transition, Vol.1 (World Bank, Washington, D.C., 1987), p.19.

In addition to loans, foreign direct investment from the United States was also a major source of capital imports. It assumed preeminent position in the 1960s. At

the end of May 1970, the total number of approved projects in Korea reached 215 amounting to \$U.S. 158 million (as shown in the table 8). The United States investment was the largest with 89 cases valued at \$U.S. 93 million, ranking first in both respects.

TABLE - 8

Korea : Foreign Investment by Country Upto May 1970

Country	Projects Approved	Equity (\$US'000)
United States	89	92,938
Japan	60	26,212
Overseas Residents	44	22,204
Panama	7	5,510
West Germany	4	864
Netherlands	4	6,293
HongKong	2	1,530
Others	5	2,835
TOTAL	215	158,386

Source : Economic Planning Board, Korea as quoted in Peter Drysdale, Direct Foreign Investment in Asia and the Pacific (Canberra, 1972), p.244.

In 1965, however, after the normalization treaty between Korea and Japan was signed, Japanese started investing more and more in Korea. By 1971, Japan took over the United States' position of number one, and continued to maintain the position, both in terms of amount of investment and in the number of actual instances of investment in Korea till 1980s.

The total number of foreign investment cases between 1962 and 1985 reached 1186 amounting to 2.65 billion dollars. Japan accounted for 51.6 percent of the total (1.37 billion dollars in 772 projects), followed by the United States with 29.1 percent (771.5 million dollars in 248 projects)³⁷.

The table 9 shows that the United States dominated the foreign direct investment in Korea upto 1966, by taking more than 95 percent of the share, although its share went down during the 1970s. However, Japan and the United States each accounted for 37 percent of the inflows during 1977-1983, while investments from Japan slowed down in the early 1980s, those from the United States accelerated³⁸. The United States direct investments in Korea appear to be quite

37. Korea Annual, 1986, p.152.

38. Pradumna B. Rana, "Foreign Direct Investment and Economic Growth in the Asian and Pacific Region" Asian Development Review (Manila), Vol.5, No.1, 1987, p.108.

TABLE - 9

KOREA : FOREIGN EQUITY INVESTMENT

(Mil US\$)

Year	Total	From U.S.	U.S. Share of total (%)
1962-66	16.7	16.0	95.9
1967-71	96.4	32.7	33.9
1972-76	557.0	87.5	15.7
1977	102.3	11.8	11.5
1978	110.5	14.8	13.4
1979	126.0	28.9	22.9
1980	96.2	60.4	62.8
1981	105.4	62.2	58.9
1982	187.7	107.0	57.3
1983	267.7	53.4	19.9
1984	419.0	190.9	45.5
1985	531.7	109.1	20.5
TOTAL	2616.6	774.7	29.6

Source : EPB, Handbook of Korean Economy, 1980, quoted in Tae Hwan Kwak, ed, US Korean Relations 1882-1982 and Ministry of Finance as quoted in Korea Trade & Business, Jan.1987.

different from Japanese and other investments. The average value of the U.S. investments has been much higher (\$500000) than Japanese investments and they also seem to prefer investing in heavy manufacturing and capital intensive industries. The U.S. investment in Korea has been largest in chemicals, electronics, petroleum refining, automobiles and fertilizer industries.

The table 10 shows that during 1962-85 the U.S. direct investment was highly concentrated in manufacturing industries accounting for \$680.5 million for 88.2 percent of the total U.S. investment in Korea. Again in manufacturing sector, industries like electric and electronics. (\$211.1 million), machinery (\$157 million), chemicals (\$121.7 million), transportation (\$49.6 million) and medical products (\$42.3 million) took the lion's share. In otherwords the United States' investment in manufacturing sector was appreciably high. it has been observed that in Korea "growth of aggregate output has been led by the industrial sector, the industrial sector by manufacturing, and manufacturing by exports"³⁹. Thus manufacturing sector ; was very crucial for export oriented industrialization in Korea. Manufacturing sector has also been important in providing employment to the educated unemployed youth of Korea. The

39. P.Kuznets "Korea's Emerging Industrial Structure", (ILCORK working paper, No.6, Social Science Research Institute, University of Hawaii,1971), p.30.

TABLE - 10

FOREIGN INVESTMENT (ON APPROVAL BASIS)
BY COUNTRY AND INDUSTRY, CUMULATIVE, 1962-85

INDUSTRY	U.S.A.		TOTAL	
	\$Mill.	Percent	\$Mill.	Percent
Agriculture & Fisheries	7.1	0.9	19.3	0.7
Agriculture	6.6	0.9	10.3	0.4
Fisheries	0.5	--	9.0	0.3
Mining & Manufacturing	680.8	88.2	1574.9	59.3
Mining	0.3	--	4.4	0.2
Manufacturing	680.5	88.2	1570.4	59.1
Foodstuff	24.4	3.2	70.8	2.7
Textiles & Garments	0.8	--	72.5	2.7
Wood Products	--	--	1.1	-
Chemicals	121.7	15.8	378.4	14.3
Medical Products	42.3	5.5	77.0	2.9
Fertilizer	23.5	3.0	42.0	1.6
Petroleum	5.7	0.7	36.5	1.4
Ceramics	4.9	0.6	28.5	1.1
Metals	8.0	1.0	72.6	2.7
Machinery	157.5	20.4	277.5	10.5
Electric & Electronics	211.1	27.4	386.2	14.5
Transportation	49.6	6.4	66.6	2.5
Others	30.9	4.0	60.6	2.3
Social Overhead Capital	83.6	10.8	1060.8	40.0
Financing	29.9	3.9	121.3	4.6
Construction	31.0	4.0	111.2	4.2
Electricity	3.2	0.4	3.4	0.1
Transport & Storage	14.3	1.9	32.0	1.2
Hotel & Tourism	5.3	0.7	793.0	29.9
Total	771.5	100.0	2,655.0	100.0

Source : Ministry of Finance, 1986, Appendix Two, Table II, p. 99. Taken From Table - 23, in Industrial Development Review Series The Republic of Korea (UNIDO, 30 March 1987), pp. 36-37.

share of the manufacturing in total employed population increased from 9.9 percent in 1966 to 23.4 percent in 1985⁴⁰.

The American firms have preferred to invest more in heavy manufacturing and chemical industries possibly because in these industries the United States has dominated in terms of technology and market share. Some of the important Korea-United States joint ventures in the specific areas are mentioned here.

The first case of direct investment in Korea was the registration of an American firm, Chemtex, Inc., which participated in a joint venture to produce nylon filament with Korea Nylon Company Ltd., in Aug. 1962⁴¹. After that the Gulf Oil Corporation initiated an active foreign participation with an investment of \$5 million in Korea Oil Corporation in 1963. With the successful completion of first and second five year economic development plans, demand for petroleum was increasing rapidly. To meet this increased demand for petroleum Korea also participated in joint ventures with the United States. For example, Lucky Group of Korea and the Caltex Petroleum Corporation of the United States came together in 1969. Another joint venture

40. UNIDO, Industrial Development Review Series, The Republic of Korea (March 30, 1987), p.116, Table A-30.

41. Youngnok Koo and Dae Sook Suh, eds., op.cit., p.233.

was established, when Kyung-In Energy Company, Ltd. of Korea and Unoco, Ltd. of the United States went on stream in 1971.

In automobiles, the big three multinational corporations of the United States (GM, FORD, CHRYSLER) Selected Korea as the most appropriate country to manufacture small cars and auto parts. Thew Shinjin Motor Co. Ltd. of Korea broke relations with Toyota, in late 1960s, and established G.M. Korea Co. Ltd, with General Motors of America as partners in a joint venture ⁴². The G.M. established a joint venture of auto parts for \$9.9 million and an assembly factory for \$100.5 million ⁴³. Ford had a joint agreement with a Korean firm to have a joint venture for the world car (Y-type) from 1987. Chrysler also had an agreement with another Korean company (Samsung) to have a joint venture for auto parts from 1986.

In electronics, Samsung Electronics of Korea established a joint venture with Corning Glass Works of the United States, in 1973, to manufacture the glass bulbs for the Braun tubes. Another major Korea-U.S. joint venture was

42. Korea Development Institute, Korea's Economy Past and Present (Seoul, 1975), p.71.

43. Kark-Bum Lee, "International Division of Labor and the Small Scale Industry: The Case of Korean Automobile-Parts Industry" in Kyong-Dong Kim, ed.,op.cit.,p.424.

established in September 1979, when American Telephone and Telegraph and the Lucky Goldstar Group came together to make telecommunications equipment, electronic switching systems and integrated circuits.

The above mentioned cases of Korea-United States joint ventures are generally in the areas of heavy manufacturing and chemical industries. In a study it was found that upto 1978, the U.S. investments in Chemicals and Petroleum Products was highest amounting to 61.3 percent of the total amount invested in manufacturing industries⁴⁴. It has been observed in another study that the United States DFI has been carried out by large "oligopolistic" firms which tend to be a large-scale investment, and ownership share of American firms (60.1 percent) was also larger than other foreign firms including the Japanese firms⁴⁵.

In Korea manufacturing sector has received the major portion of DFI averaging about 72 percent a year of the total inflow during 1977-83. The United States has also invested a major portion of its total investment in manufacturing sector. About 90 percent of U.S. DFI in Korea is domestic-market-oriented, however, American DFI in

44. Tae-Hwan Kwak et al., Op. Cit., p. 355.

45. K. Kojima, "Japanese and American Direct Investment in Asia: A comparative Analysis" Hitotsubashi Journal of Economics (Vol. 26, No. 1, June 1985). p. 18.

the manufacturing of metal and non-metal minerals, food and live animals, and electric and electronic equipment is heavily export-oriented⁴⁶.

The United States industrial investment relevant to arms production of Korea accelerated during the 1970s. This was not surprising because in 1973 the Korean government decided "to push further into heavy industrial development of the kind that would sustain a more broadly based arms production effort"⁴⁷. Along with the United States' direct investment in the Korean armament industry, Korea also secured some sub-contracts through the U.S. government to manufacture combat equipment. For example Korea received contracts for production of the M-16 rifle in 1971 and 7.62 mm ammunition in 1972⁴⁸. Apart from this, the Korean troops were also sent to Vietnam on behalf of the United States during the years 1964-73. One of the economic consequences of this deployment needs to be mentioned, because payments to these troops were made by the United

46. C.H. Lee, "United States and Japanese Direct Investment in Korea: A Comparative Study" in Hitotsubashi Journal of Economics (vol.20, No.2, Feb. 1980),p.29.

47. J.E.Nolan, "South Korea: An ambitious Client of the United States" in Arms Production In The Third World, ed. by Michael Brzoska and Thomas Ohlson (London & Philadelphia, 1986), p.216.

48. *ibid.*, p.217.

States in dollars. According to one expert on Korea-U.S. relations.

"Under the terms of the extraordinary Brown memorandum of March 4, 1966 the U.S. agreed to pay virtually all the expenses of the ROK troops for Vietnam, plus providing billions of dollar worth military equipment assistance to South Korea's businessmen in Vietnam and employment of South Korea's civilian workers in Vietnam. Nearly all aspects of official U.S-South Korea involvement were interwoven with various forms of payments. It is estimated that the U S paid more than \$10 billion for the South Korea's troops including \$3.16 billion in military assistance since 1966"⁴⁹.

On the basis of the above analysis, it can be said that the U.S. investment came into all the industries of "strategic" importance for Korea. The proportion of the overall foreign direct investment to the total foreign capital inflows was small, but its impact on the Korean economy was substantial. In 1978, for example, nearly 20 percent of Korea's manufacturing output was contributed by firms in which foreign capital participated⁵⁰. In otherwords direct investment by the foreign entities in manufacturing was of great importance for achieving high growth rates of the Korean economy.

49. Frank Baldwin, ed., Without Parallel: The American Korean Relationship Since 1945 (New York, N.Y., 1973), pp.29-30.

50. E.Y. Park, "Foreign Trade Behaviour of Foreign Firms in the Korean Manufacturing Industry", Korea Development Review (Vol.3, No. 1, Sept. 1980),pp.52-70.

Since the late 1970s Korea has made several investments in the United States. The first case of investment, however, by a Korean in the United States was Korea Tungsten Company's purchase of an office building in New York city in 1959⁵¹. At the end of 1978 Korea's equity investment was only \$2.5 million in 34 projects. Yet there was no Korean presence in manufacturing or mining.

Korean investments in large projects began in 1979 with in a coal mining properties in Tanoma, Pennsylvania as part of its long-term strategic moves to secure vital natural resources from overseas⁵². Through these type of other investments Korean overseas investment found a turning point in 1979 by surpassing the level of US\$ 100 million for the first time⁵³, the United States being the leading offshore investment site for Koreans.

Another type of Korean investment in the United States began in 1981, when Goldstar Electric Company established a local manufacturing subsidiary in Huntsville, Alabama⁵⁴. This was 100 percent owned and operated by

51. Youngnok Koo and Dae Sook Suh, eds., op.cit.,p.233

52. Korea Herald, May 12, 1981.

53. Korea: Trade & Business, Jan. 1987.

54. New York Times, May 12, 1981

Goldstar Management and Korean government did not intervene in this project. However, the authorities at the state (Alabama) and local (Huntsville) levels were heavily involved. "The local authorities of Huntsville provided a \$5.5 million loan to Goldstar's American subsidiary, while the State Department of Alabama granted exemptions from property taxes and transaction taxes for products shipped out of the state from the bonded factory and also agreed to provide a training programme for labourers"⁵⁵.

With the growing economy the Korean Overseas investment also kept on increasing. As of the end of 1985, the total overseas Korean investment came to U.S. dollars 626.3 million in 604 projects, of which lion's share (211 projects) went to North America, particularly to the United States⁵⁶. Thus with the growth of the Korean economy its overseas investment, "as well as in the United States is also increasing and Korean companies are making their efforts to diversify their investment area as well as sector.

TECHNOLOGY TRANSFER

Technology is one of the most important and critical ingredients for any economic development effort.

55. Moskowitz, ed., op.cit., pp.55-56.

56. Korea: Trade & Business, Vol. 5 No.1, 1985, p.4.

It can be developed either through indigenous R & D efforts or can be imported from the advanced countries, i.e., one country transferring technology to the other. R & D activity is an enormously expansive and time consuming process. In early 1960s Korea was a capital poor country and Korean industrialists could not afford to invest in R & D efforts to develop sophisticated technology required for export-oriented-industrialization. Therefore with the adoption of the new growth strategy, the technology transfer to Korea increased rapidly. The United States has been a major source of technology for Korea and therefore it occupies important place in economic relations between Korea and the United States.

Foreign direct investment, Foreign loans and Technical Assistance have been the most prominent means of technology transfer to Korea. To regulate the import of foreign capital and technology and partly to assist its absorption, the Korean government established, the Korea Institute of Technology (KIST) in 1966, the Ministry of Science and Technology(MOST) in 1967 and the Korea Advanced Institute of Science in 1971.

In the beginning the United States was the biggest source of technology and capital for many key industries of Korea. But after Korea normalized relations with Japan in

1965, Japan quickly surpassed the United States as a source of technology, although the most sophisticated and advanced technologies continued to come from the United States. The United States has contributed to Korea's technological development in two ways. First, it has been a source of technological knowledge (information) and second, it has been the principal overseas location of the training of human resources that Korea has utilized in its technological efforts. According to one study, in Korea, "... fully 80 percent of scientific and engineering leaders are products of higher education in the U.S."⁵⁷ In fact, acquiring foreign technology through sending students abroad has been very important for Korea. It has been observed that "a key source of this type of transfer in Korea has been product design technology and technical assistance in process technology and management received "free of charge" from foreign buyers of Korea's exports"⁵⁸.

57. Lim Hyun Chin, "Dependent Development in the World System : The Case of South Korea 1963-1979", Doctoral Dissertation, Harvard University, Cambridge, May 1982, p. 95; cited in Kyong-Dong Kim, ed., Op. Cit., p. 135.

58. For details see the sample survey results of Korean exporters and the case studies reported in Larry E. Westphal, Linsu Kim, and Carl J. Dahlman, "Reflections on Korea's acquisition of technological capability", Development Department Discussion Paper No.DRD 77(Wrold Bank, Washington, D.C., 1984).

It has been reported that, during the period 1962-1985 a total of 3,527 cases for which foreign technologies were introduced, those from Japan accounted for 54.7 percent (1,929 contracts) followed by the United States for 23.3 percent (823 contracts). Technological importation from Japan grew most rapidly during the second and third economic plan periods, i.e., 1967-1976. Although Japan has dominated in terms of number of contracts, the United States has dominated in value per contract.

TABLE - 11

TECHNICAL ASSISTANCE TO KOREA

Years	Total No. of Cases	No. of Cases with U.S.	Total Value (in US\$1000)	From the U.S.	U.S. Share of the Value
1968-71	93	14	16,798	12,136	72.2%
1972-76	205	38	18,496	7,674	41.5%
1977-82	676	182	74,299	29,527	39.7%
Total	974	234	109,594	49,338	45.0%

Source : EPB, as quoted in Moskowitz, op.cit. p.82.

The U.S. has played an important role during the initial stages of Korea's modernization and was a major source of technology for Korea until mid. 1960s. However,

the importation from the United States registered the highest growth rate during the fourth plan period, as is evident from the Table 11. The second plan period saw Korea achieve a most rapid industrialization in the light manufacturing industry sector and the fourth plan period witnessed a time when Korea invested a large amount in heavy and chemical industries. This indicates, indirectly, that while Japan concentrated on assisting Korea technologically at the early stages of modernization, the United States came on strong at a more mature stage in Korea's progress providing her with sophisticated heavy industrial technologies.

The areas in which the United States had assisted Korea are the areas in which American technology has an edge over other countries. The areas in which the United States has achieved pre-eminent position are precision high-tech products, aircraft and aircraft manufacturing facilities and components precision measuring instruments, genetic engineering, fine chemicals, semi-conductors, computers, R & D facilities, high-tech telecommunication equipments and nuclear energy development programmes. For the development in above mentioned areas Korea has relied heavily on the United States. For example in petrochemical industry the technology transfer from the United ^{States} till June 1986,

was 30 percent of the total⁵⁹. Similarly, in the case of nuclear energy development programmes Korea relied heavily on the U.S. For the development of nuclear energy programmes in Korea, the "Agreement for cooperation between governments of the Republic of Korea and the United States concerning the civil uses of Atomic Energy" was signed on February 3, 1956⁶⁰. After that in 1959, the Korean Atomic Energy Authority was established and work on the country's first nuclear reactor began. In January 1969 the Korean government selected Westinghouse Electric International Company (WEICO) of U.S. as a prime contractor for the turn-key based construction of the first Korean nuclear power plant⁶¹. In the 1970s substantial development took place in Korea's nuclear energy programmes. By the end of 1970s construction was in progress on seven nuclear power plants. Korea relies heavily on the United States for the supply of the enriched Uranium-235 for its nuclear power plants presently in operation⁶². Thus it can be said that Korea's

59. PEEC Forum on Minerals and Energy (Seoul, 29-30, Oct. 1987), p. 7-17.

60. Young-Sun Ha, Nuclear Proliferation, World Order and Korea (Seoul, 1983), p.82, and also see, Namiki Nozomi "South Korea The Nuclear Industry's Last Hurrah" AMPO Japan Asia Quarterly Review, Vol.13 No.1, 1981, p.43.

61. Young-Sun Ha, Nuclear Proliferation, p. 89.

62. .bid., p.103

nuclear industry has been dominated by the United States capital and technology. Besides the chemical and nuclear industries the US also assisted Korea in developing its other "strategic" industries like machinery, transportation, electronics and electrical equipment and armament industry. Particularly in developing the electronic and electrical equipment sector, the United States has helped Korea in achieving the highest level of the technological development. The picture becomes more clear from the following table.

TABLE - 12

U.S. TECHNOLOGY IN THE ELECTRONICS AND ELECTRICAL
EQUIPMENT SECTOR

Type of Technology	1972-76 (5 Yrs)	1977-80 (4 Yrs)
Assembly	12	16
Components fabrication	4	15
Material Production	3	8

Source : Karl Moskowitz, From Patron to Partner (Lexington, D.C. Heath, 1984), p.89.

The above table very clearly shows the change in the composition of U.S. technology induced by the

electronics and electrical equipment industry during the period 1972-80. As the technological capability of the Korean industry increased, the level of U.S. technology coming to the industry also changed from the lowest level (assembly) to the highest level (materials production) of technology development. It is apparent from the table 12 that during the earlier period (1972-76) technology coming from the U.S. was concentrated in the lowest stage of the development of technology, i.e., assembly, while in the later period the share of second and third stage of technology grew rapidly.

The U.S. technology has been crucial in modernizing Korea's industries. The U.S. technology has also been costlier. Total payments upto 1981 stood at \$565 million in which Japan's share was 36.0 percent as against the United States' 33.4 percent⁶³, though, in terms of number of contracts Japan's share is much higher than that of the United States. A large number of technology imports have taken place in heavy industries, and the United States has provided highly sophisticated technologies⁶⁴ and in -----

63. R.R. Krishnan, "South Korean Export Oriented Regime: Context and Characteristics" Social Scientist (Vol.13 No.7-8, July-August 1985),p.101.

64. C.H. Lee also found Kojima's hypothesis consistent with the results of his study that technology transferred from the U.S. to Korea was more sophisticated. For

particular to large scale firms⁶⁵. It has also been argued that the American firms have transferred the technology by the patent or in 'unpacked' form⁶⁶. But technology transfer from the United States to Korea in oil refining and chemicals was done in packaged process systems rather than 'piece'.

From the foregoing analysis it should be clear that the United States played a very significant role in Korea's industrial development since the early 1960s. In concrete terms the role has been varied in terms of furnishing substantial loans both public and commercial, investments in crucial capital goods and manufacturing sector and transferring wide ranging sophisticated technologies. All this contributed to the rapid development of Korea's productive forces and generated a substantial portion of the industrial working force especially in the mining and manufacturing sector. The number of employed persons in mining and manufacturing rose from 913000 in 1966

Fr. 64... details, see C.H.Lee, "Transfer of Technology from Japan and the United States to Korean Manufacturing Industries: A comparative Study" Hitotsubashi Journal of Economics, Vol. 25 Np. 2, Dec. 1984. pp. 125-136.

65. Karl Moskowitz, op.cit., p.86.

66. For a discussion on American Type Technology Transfer, see, K. Kojima, "Transfer of Technology to Developing Countries - Japanese Type versus American Type - ", Hitotsubashi Journal of Economics, Vol. 17, No. 2, February 1977, pp. 5-9.

to 3,654,000 in 1985. Finally, since export led industrialization rested on the development and diversification of manufactured goods the American economic interests in Korea contributed to the phenomenal growth of exports. In order to understand the impact of the United States contribution in Korean economic development, it is necessary to examine the pattern of Korea-U.S. bilateral trade.

CHAPTER - 3

KOREA - UNITED STATES

TRADE RELATIONS: PATTERN AND ISSUES

Beginning with the early 1960s Korea's trading activities increased at an extraordinary speed reflecting the close linkages of the Korean economy with the world economy. The total trade volume of Korea expanded more than 128 times between 1962 and 1985, with its export-import volume totalling \$ 61.4 billion¹. As a consequence, the ratio of foreign trade to GNP increased from 34.8 percent in 1968 to 60.8 percent in 1985². As Korea began to export manufactured goods, its imports also continued to grow rapidly. Korea's total import volume increased exactly 100 fold from \$316 million in 1961 to \$ 31.6 billion in 1986³, however, in 1985 total import volume was \$ 31135.7 million. During the period the exports also registered a spectacular growth from \$ 100 million in 1964 to more than \$ 1 billion

1. Korea Herald, march 31, 1987.

2. UNIDO, Industrial Development Review Series, The Republic of Korea (Regional and country Studies Branch, march 30, 1987), p.4. While according to another estimate the share of total trade in GNP in 1985 was 73.9 percent, see Korea Herald, March 31, 1987.

3. Kim Chulsu, "U.S. Exports to Korea: Prospects and Opportunities for 1987 and Beyond" in Korea-U.S. Economic Relations: Current Issues and Future Possibilities (The Ilhae Institute, Seminar Series 87-03, March 15-20, 1987), p.36.

in 1971 to \$ 10 billion in 1977 and finally to \$ 30 billion in 1985. Exports have contributed about 40 percent of its GNP since the early 1980s. More importantly, its export profile has mirrored its diversified economic structure, because manufactured goods have accounted for over 90 percent of all exports and chemicals for more than 50 percent in recent years.

It is all the more significant that during the 1970s when the world economy was relatively stagnant and protection policies were spreading, Korea managed to expand its exports in international market. The extraordinary growth of exports during the six year period 1971 (\$1 billion) and 1977 (\$ 10billion) broke the record of fourteen years set by Japan and ten years by West Germany. In realizing the extraordinary growth of exports, the United States played an important role by providing the biggest market for Korean exports. In the 1960s and 1970s the United States was the leading importer of LDCs' manufactured goods and Korea's export strategy took advantage of its partner's global trade policy⁴. As a result the United States' share in total Korean exports grew rapidly from 22 percent in 1962 to 50 percent in 1971 (see table/3). In the later years the

4. Jayati Datta-Mitra, "Structure of Exports and Imports" in Korea, edited by Parvez Hasan and D.C. Rao (Baltimore, Maryland, 1979), p.431.

United States share in total Korean exports decreased to slightly above 26 percent in 1980 and 1981. It however, again increased to above 35 percent in 1984 and 1985. The United States is thus the largest market for Korean exports. Similarly, Korean imports from the United States also grew rapidly in real terms but the share in total Korean imports went down from 52.2 percent in 1962 to 20.8 percent in 1985. Two way trade between Korea and the United States has grown more than 100 fold in 25 years from just \$ 150 million in 1961 to more than \$ 17 billion in 1985⁵.

As shown in the table 13 the United States absorbed the average of 35 percent of total Korean exports annually, between 1962 to 1985. The importance of the U.S. market to the Korean economy is underscored by it's heavy dependence on exports for growth. As mentioned earlier exports account for about 40 percent of Korea's GNP and about 10 percent of its GNP is accounted for by exports to the United States⁶. The United States also took a major chunk of the products of the "strategic" industries, which played a crucial role in export-oriented industrialization of Korea. For example, the United States took 20 percent of

5. Korea-US. Economic Relations: Current Issues and future Possibilities (The Ilhae institute seminar series No.87-03),p.24.

6. Ki-Hoon Kim, "The Development of Contemporary U.S.-ROK Economic Relations" Tae-Hwan Kwak, et al., U.S.-Korean Relations 1882-1982 (Seoul, 1982), p.343

TABLE - 13

KOREA-UNITED STATES TRADE: 1961-1985 (\$millions)

YEAR	EXPORTS			IMPORTS			Balance
	TOTAL	To the U.S.	% of	Total	From the U.S.	% of	
1961	40.9	6.8	16.6	316.1	143.4	45.4	-136.5
1962	54.8	12.0	21.9	421.8	220.3	52.2	-208.3
1963	86.8	24.3	28.0	560.3	284.1	50.7	-259.8
1964	119.1	35.6	29.9	404.4	202.1	50.0	-165.6
1965	175.1	61.7	35.2	463.4	182.2	39.3	-120.6
1966	250.3	95.8	38.3	716.4	253.7	35.4	-157.9
1967	320.2	137.4	42.9	996.2	305.2	30.6	-167.8
1968	455.4	237.0	52.0	1462.9	449.0	30.7	-212.0
1969	622.5	315.7	50.7	1823.6	530.2	29.1	-214.5
1970	835.2	395.2	47.3	1984.0	584.8	29.5	-189.6
1971	1067.6	531.8	49.8	2394.3	678.3	28.3	-146.5
1972	1624.1	758.9	46.7	2522.0	647.2	25.7	-111.8
1973	3225.0	1021.2	31.7	4240.3	1201.9	28.3	-180.7
1974	4460.4	1492.2	33.5	6851.8	1700.8	24.8	-208.7
1975	5081.0	1536.3	30.2	7274.4	1881.1	25.9	-344.8
1976	7715.1	2492.5	32.3	8773.6	1962.9	22.4	529.6
1977	10046.5	3118.6	31.0	10810.5	2447.4	22.6	671.2
1978	12710.6	4058.3	31.9	14971.9	3042.9	20.3	1015.3
1979	15055.5	4373.9	29.1	20338.6	4602.6	22.6	-228.7
1980	17504.9	4606.6	26.3	22291.7	4890.2	21.9	-283.6
1981	21253.8	5660.6	26.6	26131.4	6049.7	23.2	-389.1
1982	21853.4	6243.2	28.6	24250.8	5955.8	24.6	287.4
1983	24445.1	8245.4	33.7	26192.2	6274.4	24.0	1971
1984	29244.9	10478.8	35.8	30631.4	6875.5	22.4	3603.3
1985	30283.1	10754.1	35.5	31135.7	6489.3	20.8	4264.8

Source: Economic Planning Board, Major Statistics of Korean Economy, 1982 and 1986.

Korea's textiles and 40 percent of the total exports of electronics from Korea⁷. Both are major industries and leading foreign exchange earners for Korea.

From the United States stand point, imports from Korea are a small share of total imports, accounting for less than 3 percent of the total in 1984⁸. In several specific areas, however, Korean imports loom fairly large. This is primarily true in labour-intensive, low to medium technology manufactured goods at the lower end of the price scale which account for the bulk of U.S. imports from Korea. Korea's share in some commodities such as clothing, plywood, television and shoes is very high and frequently it has been argued that Korean supplies were substantial enough to influence the level of domestic production, employment and the price of American products⁹.

The U.S. share in Korea's imports was already very high in the 1950s, because American foreign aid financed

7. *ibid.*

8. Ernest H. Preeg, ed., Hard Bargaining Ahead: U.S. Trade Policy and Developing Countries (U.S.-Third world policy perspectives No.4, Overseas Development Council, 1985),p.

9. These are the typical arguments made by U.S. industries seeking protection. see U.S. International Trade Commission, Footwear Industry: Report to the president (Washington,D.C.) as quoted in Youngnok Koo and Dae Sook Suh, eds., *op.cit.*, p.250.

most of the Korean imports during the period¹⁰. The value of Korean imports from the United States increased from \$ 220 million in 1962 to \$ 678 million in 1971 and \$ 4.9 billion in 1980 to \$ 6.4 billion in 1985 (see table 13). The share was gradually reduced, however, from 52 percent in 1962 to 28 percent in 1971 and slightly above than 20 percent in 1985. The diversification of Korea's export and import markets was quite significant, especially after the Korea-Japan normalization treaty in 1965. In the late 1960s, Korea's imports from Japan grew rapidly and since 1971 Japan has replaced the United States as the largest market for Korean imports. At present, the United States is Korea's second most important import source behind Japan. In 1985, the United States accounted for 20.8 percent of total Korean purchases from abroad and particularly grain, machinery and chemical products have been the major Korean imports from the United States. Agriculture commodities have comprised the largest category of Korean imports from the United States since 1945. Although agricultural imports as a percentage of total Korean imports from the U.S. has declined over the past decade, in 1980 it still accounted for about one-fifth of total purchase from the U.S.¹¹ and in 1982 it accounted for some 29 percent of the U.S. exports to

11. Thomas A. D'Elia, "U.S.-Rok Economic Interdependence" in Tae-Hwan kwak, ed., op.cit, p.344

Korea¹². Agriculture products such as wheat, corn, soybean and cotton comprised about 40 percent of Korean imports from the United States¹³. Korea's rank as a market for American agricultural exports has been quite high. For example in the year 1982, it stood second in hides and skins, sixth in wheat, fourth in corn, second in cotton and third in rice¹⁴. Thus, Korea has remained traditionally a major market for American agricultural exports.

The United States is also a key supplier of industrial raw materials and capital equipment, electrical machinery, industrial machinery and chemicals. According to one estimate, the U.S. share of the Korean market in the five areas ranged from 18 percent to 38 percent¹⁵.

In the early 1980s the U.S. share of the Korean market in several industrial areas has risen appreciably as Korea has sought move away from Japan. In 1978, Japan had a more than 40 percent market share of Korean imports in all major industrial areas. In an attempt to reduce its large

12. Moskowitz, ed., From Patron to Partner (Lexington, 1984), p.151.

13. Kim Chulsu, "U.S. Exports to Korea: Prospects and opportunities for 1987 and Beyond", Korea-U.S. Economics Relations, p. 40

14. Karl Moskowitz op.cit., p.152, Table 8-1.

15. Tae-Hwan Kwak, et al., op.cit., p.344.

Tabl. 14
Exports to and Imports from the U.S. (Commodity wise)

Goods	1981	1982	1983	1984	1985
Mineral Products	413394	1184143	4395414	12871485	13709904
Products of the Chemical and Allied Industries	4057927	5333676	5889527	3752156	2703561
Organic Chemicals	24957600	23956286	34364310	3950362	40216063
Textiles and Articles there of	14922119	10315433	9010347	9288889	9258777
Man Made Fibre	63515555	83364091	97186997	111801549	141157661
Articles Made up of Leather	32878246	395635278	496931937	619605137	590340403
Base Metals and Articles there of	786785848	583334480	890711648	1147468215	1068855923
Machinery and Mechanical Appliances	166440946	213231952	295591334	450391507	552269125
Vehicles for transport of goods or passengers (other than railways)	17254714	21994827	28254033	84489628	140617092
Imports From U.S.					
Cereals	1415101076	849084975	968549333	760821074	540357888
Mineral Products	94219388	110872470	89208068	80178247	82340482
Products of the Chemical and Allied Industries	30111742	59380117	61392617	8744757	106276308
Organic Chemicals	281369383	322061071	328184403	395441841	358804548
Fertilizers	90348	18698515	3544241	12328212	11148719
Hides and Skins and Articles there of	196070356	233624751	259830456	343309694	342382580
Electrical Machinery and equipments	535805849	829892347	967427448	1033841693	87392728.9
Machinery and Mechanical Appliances	583174876	735361723	774297811	840762734	84835856
Base Metals and Articles there of	258047498	282185629	266716833	337044016	315995043

Source: Office of Customs Administration, Republic of Korea, Statistical Yearbook of Foreign Trade, 1981, 1982, 1983, 1984, 1985.

bilateral trade deficit with Japan, the Korean government sought to purchase more of its industrial raw materials and capital equipment from the United States. As a result the Japanese share came down to 24.3 percent in 1985¹⁶. The shift in the emphasis from light manufacturing exports to heavy and chemical products, has inevitably led to arise the United States' share in heavy industrial exports.

It is apparent from the table 14 that as Korea exports more and more heavy industrial products to the United States, its imports from the United States has also grown in the same category. Excluding the cereal sales, a great deal of the United States' export growth to Korea is generated as a result of Korea's own export drive. In fact, this is the reason why the U.S. exports and Korean exports in heavy industry category rose simultaneously. Korea imports industrial raw materials from the United States, adds value, then exports finished manufactured goods abroad. For example, Korea imports hides and skins from the United States and sells leather goods to the U.S. and other countries. In addition, Korea imports much of the machinery and capital equipment from the United States, needed to manufacture its textiles, electronics etc. (see the growth

16. Trade data are from, Economic planning Board, Major Statistics of Korean Economy, 1986.

of imports of machinery and appliances in table 14). In return Korea exports television sets and clothings to the United States. The U.S. economy benefits from these purchases because of the lower labour costs in Korea which may be one of the factors in containing the rate of inflation in the United States. According to one estimate Korean labour productivity is higher than American in light industries such as textiles and electronics, at 20 percent of the cost¹⁷. In steel labour costs per metric tonne in 1980 were about \$ 15 in Korea compared with \$ 172 in the United states¹⁸. The Korean economy has benefited by importing the required industrial materials and sophisticated technology for the rapid industrialization. It is obvious from the above description and the table 14 that "Korean economic development entails increased imports from the United States, particularly of the heavy industrial products that provide the necessary capital equipment for the Korean industrialization process"¹⁹.

17. L.L. Wade and B.S. Kim, Economic Development of South Korea: The political Economy of Success (New York: Praeger, 1978), p. 100.

18. Thomas A. D'Elia, "U.S.-ROK Economic Interdependence". Tae-Hwan Kwak, ed., op.cit., p.344.

19. U.K. Park, "U.S.-Korea Economic Relations in Trade and Technology Transfer" Korea and World Affairs (vol.5, No.4, winter 1981), p.593.

Issues in Bilateral Trade*

To be sure, the phenomenal development of Korea-U.S. trade relations during 1961-1985 was not without frictions. However, the trade disputes or for that matter irritants in other domains, were never allowed to impair the overall strategic, political and economic relations between the two governments that had been so carefully nurtured since 1948.

As discussed in the previous section that there was a phenomenal growth in the Korea-U.S. bilateral trade during the years 1961-85. It is significant to note that Koreans exports to the U.S. grew at a faster rate than the U.S. exports to Korea. As a result of which the U.S. experienced trade deficit with Korea.

A look at Table 15 indicates that Korea has run trade surplus, with the U.S. since 1982. The United States' increasing trade deficits have created an atmosphere of hostility against the Korean exports. The U.S. government imposed protectionist measures on Korean exports

* For this section we have relied mostly on John.S. Odell, "Growing Trade and Growing Conflict Between South Korea and the United States" in Korean Journal of International Studies (vol.17, No.1, winter 1985/86), pp.1-15 and Chae Jin Lee and Hideo Sato, U.S. Policy Toward Japan and Korea: A Changing Influence Relationship (New York: Praeger, 1982), pp.164-175. But our conclusion may not essentially be the same as of theirs.

TABLE - 15

Korea's Bilateral Trade Balance with the U.S.

(\$billion)

Year	Amount
1975	-0.3
1980	-0.3
1981	-0.4
1982	0.3
1983	2.0
1984	3.6
1985	4.3

Source: Taken from Table 1.5 in Korea: Managing the Industrial Transition, Volume 1 (World Bank, Washington, D.C., 1987), p.12.

and asked the Korean government to open up its markets. It also accused that Korea's average tariff rate of 20 percent was too high for foreign products to get into the Korean market.²⁰ In an effort to minimize the U.S. protectionist moves, Korea opened up its economy including areas of the service sector to the U.S. investors, so that in response the U.S. government may also lift the barriers on Korean exports. Although trade balance became unfavourable to the

20. Wontack Hong, "Trade Growth and Economic Problems of Asian NICs" Hitotsubashi Journal of Economics, Vol. 27, Special Issue, October, 1986, p. 99.

U.S. in 1980s only, there were some trade disputes between Korea and the United States even in 1960s and 1970s. We shall now, therefore, discuss the Korea-U.S. trade disputes that originated between the years 1961 and 1981.

Most of the trade conflicts in the 1960s and the 1970s predictably enough arose in the three major areas textiles and apparel, footwear and colour television receivers. From Korea's point of view, the three sectors were extremely important in terms of their value and volume not only in the overall foreign trade but also in its trade with the United States. The large number of trade conflicts originated from the American government's moves to set quantitative limits on Korea's exports of the above commodities to the U.S. and the Korean government's unwillingness to appreciate and abide by the American moves. The Korean government, therefore, tried to frustrate or stall the American moves resulting in prolonged and vexatious trade negotiations especially in the 1970s:

Textiles and Apparel

In the fifties and early sixties there was a rapid increase in the exports of cotton textiles from the underdeveloped countries to the developed countries²¹. This

21. Deepak Nayyar, India's Exports and Export Policies in the 1960s, (Cambridge, 1976), p.63.

resulted in attempts by the developed countries to control the flow of textiles into their countries. The same happened in the case of Korean textile exports to the United States. In December 1962 the United States for the first time raised the issue of quantity limits on the Korean exports of textiles. The United States had by then concluded a multilateral cotton textile trade accord, the Long Term Arrangement (LTA)²². It has been argued that, "The LTA which ostensibly aimed at an orderly expansion of world trade in cotton textiles, was neither meant to be permanent nor to encourage protectionism in the developed countries... However, in practice, the arrangement has essentially been used as a protectionist device by the developed capitalist world"²³. The LTA laid down rules by which cotton-textile importing countries could limit exports from any country by bilateral agreement or unilateral action. The U.S. keenness to conclude the L.T.A. was understandable because by 1960 US imports of cotton cloth exceeded exports for the first time since 1978²⁴. Invoking

22. The LTA Claimed to recognize the need for increased export earnings for the less developed countries and stipulated a 5 percent annual increase in quotas. *ibid.*, p.77.

23. C.P.Chandrashekhar, "Growth and Technical Change in the Indian Cotton-Mill Industry: 1947-77" (Ph.D.thesis. submitted to Jawaharlal Nehru University, School of Social Sciences, New Delhi, Nov. 1981), p.456-457.

24. Chae Jin Lee and Hideo Sato, *op.cit.*, p.165

the provisions of LTA the United States asked, among other countries, Korea to restrain its exports of textile and apparel and complained that the Korean products were disrupting the American market. Korea, however, maintained that its exports accounted for negligible portion of only 11 million square yards out of 1165 million square yards of the total U.S. imports. It, therefore, argued that such a miniscule of the total U.S. imports of textiles should not be seen as harming the American market²⁵. Unable to persuade the American government of its point of view in the textile negotiations in 1963, the Korean government agreed upon the annual limits on ten specific fabrics and garments identified by the U.S. government.

Although in 1963 Korean exports of textile apparel were larger than those of the previous years, the Korean government, for the first time, had to face the reality of the imposed quantitative limits and its consequences on the domestic textile and apparel industry²⁶. In January 1965, Korea signed a comprehensive bilateral agreement with the United States for three years, setting the limits on cotton

25. J.S. Odell "Growing Trade and Growing Conflict between the Republic of Korea and the United States" in Karl Moskowitz, op.cit., p.127.

26. Imposition of quantitative limits for exports to U.S. caused a large number of lay offs in apparel companies of Korea, Far Eastern Economic Review, 25 July 1963.

fabrics and garment exports. It also agreed to eighteen specific items to be controlled instead of ten in 1963²⁷. As a result from 1963 to 1966 Korean cotton textile exports to the United States remained stagnant in quantitative terms.

The Korean government, however, did not give up its efforts either to increase the aggregate quantity of limit or to circumvent it. Again in the third round of textile negotiations in December 1967, the basic terms of the cotton agreement were extended for another four years. However, Korea succeeded in securing some relaxations, and "the aggregate limit was boosted by 34 percent compared with 1966 trade, and provisions were added allowing Korea to 'swing' small amounts of quota from one item to another"²⁸. The tempo of conflicts in quantity limits of Korean textile exports to the United States began to increase in the 1970s. It also became a more complex issue involving the other textile exporting countries of Asia in a far greater measure than in the 1960s.

27. John S. Odell "Growing Trade and Growing Conflict Between South Korea and the United States" Korean Journal of International Studies (Vol.17 No.1, winter 1985/86), p.7.

28. *ibid.*

In January 1969, President Nixon instructed David Kennedy to first work-out with Korea, Taiwan and HongKong, further restrictions on their exports of wool and textile goods as well as cotton. Earlier Kennedy had failed in persuading Japan to restrict its non-cotton exports to the United States. Korea also insisted that it did not see much point in negotiations until Japan, the largest textile exporter, agreed to a curtailment of its exports. As a way out of the impasse, the United States in September 1971 threatened to invoke the "trading with enemy act" to unilaterally impose strict quotas. The threat seem to have worked because Japan, Korea and other Far Eastern textile exporting countries accepted the U.S. proposal²⁹. The terms however, were not uniform for all the countries. In the case of Korea the number of controlled products rose from eighteen to thirty five and these limits were in effect for five years³⁰. Growth for man-made fibres was limited on the sliding scale to 10 percent. The limit of annual growth of synthetic textile imports was settled at 7.5 percent with the grace of 10 percent in first year³¹. However, Korea secured an important benefit from the United States in return for its new restrictions on textile and apparel

29. Chae-Jin Lee and Hideo Sato, Op. Cit., pp. 165-166.

30. Karl Moskowitz, ed., op.cit., p.129.

31. Lee and Sato, op.cit., p.166.

exports in the form of a \$ 100 million concessional development loan and \$ 275 million worth of food aid for the next five years under the PL 480 aid programme³². In otherwords, Korea did not suffer from the net loss in trade because whatever it lost was more than offset by the loan and food aid totaling \$ 315 million.

The conclusion of Multifiber Arrangement (MFA) in Geneva in 1973 by some fifty governments marked a new phase in the international textile trade. The MFA rules provided for the terms that were more favourable to exporter states than the 1972 bilateral settlements that the United States had entered into with a number of countries. The new situation led to renegotiating the 1974-77 Korea-U.S. agreement within the MFA framework. Korea was able to persuade the United States to reduce the number of restricted items from 34 to 21. The growth limit was set at 7 percent in the first year, 6.25 percent in the second and 6.75 percent in the third year of the agreement³³. A greater flexibility to swing from one item to another was agreed in addition to the new provisions of what was

32. "Republic of Korea: Economic Assistance", U.S. treaties and other International Agreements, 28 UST 7591-92 16 October 1971. cited in John S. Odell "The outcomes of International Trade Conflicts: The U.S. and South Korea, 1960-1981". International Studies Quarterly, Vol.29 No.3, Sept.1985, p. 280.

33. *ibid.*, p. 281.

described as carry forward and carry over. The successful conclusion of the 1974-77 agreement on terms more favourable to Korea than the earlier agreement helped it to increase its textile exports from \$ 495700 in 1975 to \$ 987178 in 1977, although the percentage of U.S. share in total textile exports declined from 26.5 percent in 1975 to 24.8 percent in 1978³⁴. It is also significant to note that in 1976 the value of Korean textile exports to the U.S. of \$ 754 was more than that of Japanese textiles to the United states (\$ 597)³⁵.

There were several factors that contributed to the rapid development of textile sector particularly during the 1970s. Undoubtedly one of the most important reasons was that during the 1972-1976 period the textile setor was able to induce \$ 58 million in FDI. This later declined in the period 1977-1981 when it induced only \$ 3 million³⁶.

The sharp increase in the value of textile exports to the United States during 1975-1977, in a way, gave rise to yet another phase of textiles dispute. The United States wanted Korea to accept a greater measure of controls for

34. Data are from Lee and Sato, op.cit., table 4.6, p.166.

35. Korea Annual, 1978,p.

36. Karl Moskowitz, ed., op.cit., p.200.

another five years and also wanted to make the controls more severe. It asked Korea to forgo all growth in the textile exports in 1978 and also to reduce subsequent growth to 1 percent in large volume items that were seen as harmful to the U.S. producers. Korea viewed the U.S. demand of slashing down annual growth to 1 percent not only harmful to its textile industry but also far below the 6 percent annual growth that the MFA had provided for. The Korean government's view on the issue was reflected in an editorial in a leading english newspaper:

"Any substantial reduction in the annual increase rate will throw many Korean workers out of work, not to mention hurting the nation's effort to increase overall exports. It would be grossly unfair if the United States attempted to solve its unemployment problem at the expense of Korean textile workers and industries. In managing export restrictions, the U.S. government has to take into account the economic and other conditions of each affected country. Any expedient or unilateral approach to the problem of textile-import restrictions would not serve the interest of the United States, and Korea is probably the very country which deserves the U.S. government's generous consideration when taking import-restrictive moves"³⁷.

37. Korea Herald, July 29, 1977.

Korea did succeed to a great measure in the intense bargaining before accepting another five-year textile agreement. The 1978 agreement included among other things quantitative limits on twenty-nine specific items instead of twenty-one in 1974, elimination of growth in 1978, and limiting annual growth rate to an average of 6.5 percent in the aggregate during subsequent years and the annual growth rate in apparel exports to be between 1 and 3.9 percent³⁸.

Even as the Five year agreement was being implemented, the Carter Administration sought to tighten the restrictions on Korean exports of textiles and apparel. At the insistence of the United States, Korea agreed to forego the use of the provisions for carry forward and carryover during 1979. It managed to get the American approval for raising the limits on certain synthetic garments for the next few years. However, the Carter Administration remained unsatisfied with the Korean government's measures in this regard in 1979. Four rounds of Korea-U.S. textile negotiation were held during 1980 starting with the first round in January and culminating in the last round in December before the 1980 agreement was concluded³⁹. But the

38. John S. Odell, "Growing Trade ...", p. 10.

39. Korea Annual, 1981, p. 163.

signing of this agreement was delayed by seven months due to unprecedented political developments in Korea. The 1980 agreement "eliminated carryover and carry forward for 1980, reduced swing by 1 percent on eleven clothing items, including four of the most important ones, and cut sharply the quota on sweaters"⁴⁰.

Footwear

As mentioned earlier that apart from disputes over Korean exports of textiles and apparel there were conflicts over footwear. In the early 1970s the United States complained that the Korean government's preferential export financing policies in the footwear industry aimed at lowering its prices in international market was causing problems to the American footwear industry. Faced with the prospect of the U.S. imposing countervailing duties on Korean footwear products the Korean government re examined some of the export-financing policies in the footwear sector. It also agreed to impose quantitative limits on rubber footwear during 1973-75. The U.S. government was however, not satisfied with the measures taken by the Korean government. This became clear in July 1975 when the U.S. Treasury Department ruled that the Korean government was

40. John S. Odell, "Growing Trade ...", p. 12.

granting 1 percent subsidy on shoe exports⁴¹. It wanted Korea to end the subsidy or to neutralize its effects on the U.S. economy. Korea took strong exception to American threats and pointed out that the U.S. had also pursued similar policies⁴². In January 1976 the United States went ahead and imposed a countervailing duty of 0.7 percent on non-rubber shoe imports from Korea. However, the United States waived the imposition of countervailing duty on rubber shoes and Korea agreed to continue its "Voluntary" restraints on rubber shoes in 1976⁴³. Despite Korea-U.S. agreement on the nature of restraints on footwear exports in 1976, a major trade dispute arose in 1977, when "the U.S. International Trade commission sided with the American industry and ruled that imports of non-rubber shoes were causing serious damage. The ITC proposed a tariff-rate quota to relieve the pressure"⁴⁴. A tough round of Korea-U.S. negotiations began to finalize a five-year agreement on footwear and Korea initially maintained that it could not accept a limit lower than 1977 export capacity of 60 million

41. Moskowitz, op.cit., p.131

42 Odell, "Growing Trade....", p. 13.

43 U.S. department of Commerce, Countervailing Duty File 580-028; *ibid.*

44. Moskowitz, op.cit.,p.131.

pairs⁴⁵. Finally both sides agreed that the aggregate limit could be set at 33 million pairs for the next first year and at an average of 36.25 million over the life of the agreement. Although Korea had to lower down its aggregate limit, it managed to secure "a provision allowing 9 million more pairs to be admitted during the first quota year without being counted against the limit, on the grounds that they were already "in the pipeline" on the starting date. The agreement also included provisions for the administration to be in Korean hands and for swing, carryover, and carry forward. Both governments achieved their objectives to some extent"⁴⁶.

Colour Television Sets

The third important sector where trade disputes arose between Korea and the United States was the colour television receivers. The Japanese had enjoyed a dominant position in colour television receivers in the United States market, in the 1970s. For example, in 1976, Japanese exports of colour T.V. to the U.S. grew nearly 150 percent over 1975, thus taking almost 40 percent of the U.S. market⁴⁷. Alarmed at the striking growth of

45. David Yoffie, Power and Protectionism (New York, 1983), p.183.

46. Odell, "Growing Trade ...", p. 15.

47. Lee & Sato, op.cit., p.171

Japanese colour television imports, the Committee to Preserve American Colour Televisions (COMPACT) complained that the Japanese imports had caused serious damage to American colour T.V. industry in several ways including depriving job opportunities for the American workers⁴⁸.

During the later half of the 1970s Korean exports of colour T.V. sets rose from a negligible 1976 level to \$ 72 million in 1978⁴⁹. This was because electronic industry in general and colour television industry in particular showed a remarkable growth in the mid 1970s. The significant inroads that the Korean colour T.V. sets had made in the U.S. market predictably enough led to a situation in which the United States was keen to enter into an Orderly Marketing Agreement (OMA) with Korea as it had done in the case of Japan. However, Korea resisted and conducted a series of tough negotiations with the United State from August to December 1978.

In negotiations with the Koreans the American representative emphasized that increased imports of the colour T.V. sets in 1978 have resulted in the 7 percent

48. *ibid*

49. Odell, "Growing Trade", p. 15. While in units the number rose from 52000 to 520,000 during the same period, see Lee & Sato, *op.cit.*, p.173.

reduction in employment in the U.S. colour T.V. industry⁵⁰. Later the United States threatened that if Korea failed to accept an Orderly Marketing Agreement it will apply the 1972-75 base period unilaterally to control television imports. In December 1978, the Korean government accepted the Korea-U.S. Orderly Marketing Agreement (OMA), which allowed Korean exports of colour T.V. sets to the United States at a lower level (204,000) than its initial offer of 482011 sets per year⁵¹. The reduction in sale of colour T.V. sets to the U.S. had a negative impact on the capacity utilization in Korean factories. According to an estimate in 1979 capacity utilization in Korean factories fell to 34 percent⁵².

This prompted the Koreans to request the United States to lift the quantitative restraints in June 1980. The Korea-u.S. agreement of July 1980 set the ceiling on bigger screen sets at 385000 for the next one year and 565000 for the year beginning in July 1981. The agreement, however, exempted the quantitative limits on small screen

50. International memorandum on colour television negotiations, South Korean Ministry of Commerce and Industry; cited in lee & Sato, op.cit., p.173

51. *ibid.*, p.174

52. EIAIK, "U.S. Restraints on Korean Televisions". cited in Karl Moskowitz, ed., op.cit., p.134.

sets. Korea also managed to secure provision for carry over of 11 percent and carry forward of 10 percent.

One of the major factors that had enabled Korean manufactures to expand in the U.S. market was the benefits of GSP provided by the U.S. since 1974. As 1970 was coming to a close the U.S. began to reduce the benefits of GSP to Korean exports by using the "graduation policy"⁵³. Five products were taken off the GSP list in 1981, seven in 1982 and ten in 1983⁵⁴. In the last three years or so Korea-U.S. trade controversies have also arisen over opening up of the Korean market for American investment, intellectual property rights, photo album, etc. We have not examined these issues as these have assumed some importance only after 1985.

53. This resulted in the withdrawal of the preferential tariff concessions and in the imposition of quota limits in respect of several developing countries and products when developing countries had acquired a comparative advantage.

54. Hang Yul Rhee "The new protectionism and the Korean Trade in the world political Economy" Korea observer vol.16, No.3, Autumn 1985, p.286 .

CHAPTER - 4

SUMMARY AND CONCLUSIONS

The main objective of the study is to examine the structure of economic relations between the Republic of Korea and the United States of America during the years 1961-85. There was substantial and significant change in the nature of relationship after Korea launched its new strategy of economic development in 1961. In order to understand the dynamics, determinants and direction of the changes, an attempt has been made in the introductory chapter to trace the economic relations between the two countries as it evolved during the years 1882-1960.

The eight decades history of economic relations between the two countries, prior to 1961, could be divided into four distinct phases, 1882-1910, 1910-1945, 1945-1948 and 1948-1961. The first phase began when Kingdom of Choson concluded the Treaty of Peace Amity and Navigation with the United States of America in 1882 at Chemulp'o. It was the first treaty of its kind that Korea had concluded with a Western country. The Treaty was the outcome of efforts made by the U.S. since 1830 to "open" the "Hermit Kingdom", primarily for the purposes of trade and commerce.

The Treaty opened up enormous economic opportunities for enterprising American traders to exploit the industrial resources of Korea. And before long the American businessmen were able to wrest a series of economic concessions in Korea. These included, concessions to develop Unsan gold mines, Kapsan Copper mines, Kangnung graphite mines, rail-road from Seoul to Chemulp'o and facilities to build an electric plant and a water system in Seoul. In addition to a sharp spurt in American business activities in Korea in the two decades following the Treaty, the American exports of Kerosene, Rails, Wheat Flour, Cotton and Sugar also registered a substantial increase. Although Korea was primarily trading with China and Japan, its imports from the U.S. accounted for 10 percent of the total imports in 1908. It could thus be seen that the pattern of economic relationship during the period 1882-1910 was undoubtedly favourable to the United States. However, the development of bilateral economic relations came to an abrupt end with the perceptible shift in the U.S. policy towards Korea during the presidency of Theodore Roosevelt. The shift in the policy was seen in the rationale behind the Taft-Katsura Agreement of 1905 in which the U.S. acknowledged Japan's vested interests in Korea in exchange for Japan's acknowledgement of U.S. suzerainty over the Phillipines. The shift in the U.S. policy facilitated the imposition of

Japanese protectorate over Korea in 1905. Five years after the Treaty of Portsmouth Japan annexed Korea and imposed its colonial rule. The Imposition of Japanese Colonial rule not only brought to an end the independent sovereign existence of Korea but also terminated the first phase of Korea- U.S.. economic relations that had begun in 1882.

The second phase of Korea U.S. economic relations lasted from 1910-45 and it synchronized with the period when Korea was under the Japanese colonial rule. As the Colonial power Japan exercised complete control over Korea's economy. In the changed context, there was hardly any scope for America's active economic interaction with Korea. However , a small volume of trade between Korea and the U.S. continued throughout this period. The only new American presence in Korea was through the Japanese operation of large American multinationals such as Standard Oil and Singer. The Japanese government seized American interests in Korea when the United States and Japan went to War in 1941. The defeat and unconditional surrender of Japan on 14 August, 1945 brought to an end the Far Eastern theatre of Second World War. It also brought to an end the Japanese colonial rule in Korea.

The third phase of Korea-U.S. economic relations began with the arrival of the U.S. forces in Incho'n on 8

September 1945 ostensibly to accept the surrender of Japanese forces stationed in the area south of the 38th parallel. Soon after the arrival of the U.S. forces the United States Army Military Government in Korea (USAMGIK) was established. The USAMGIK exercised effective power in the area south of the 38th parallel. It not only sought to intervene in the political processes in Korea but also took control of the post colonial economy. Among the several economic measures introduced by the USAMGIK four were of great significance and had a far reaching effect. It confiscated the Japanese enterprises and initiated land reforms as a result of which 90 % percent of the land formerly owned by the Japanese land lords was distributed among a quarter of Korea's farm population. It instituted a "free-market" economy and poured more than \$400 million of economic aid during the years 1945-48. It also encouraged the resumption of private American business that had received a severe set back during the Japanese colonial rule in Korea. The significance of this phase lies in the fact that the USAMGIK sought to restructure the inherited colonial economy. It made efforts to ensure that atleast the southern half of Korea did not deviate from the capitalist path of development and that it remained a bulwark against communism. It could thus be said that this phase was crucial in terms of laying the foundations of a

new era of economic relations between Korea and the United States that began with the emergence of the state of Republic of Korea in August 1948.

The United States helped to create the state of Republic of Korea in August 1948. It wanted to ensure the economic viability of the fledgling state. It, therefore, sought to provide economic and military assistance to the Seoul government led by President Syngman Rhee. With the termination of U.S. Military Government in Korea, the first government-to-government assistance pact was signed in late 1948. However, as a condition for continuation of assistance the United States required the Korean government to follow certain stable economic policies, notably, balancing the budget, regulating foreign exchange, effectively disposing of the formerly Japanese-owned properties and establishing a "counterpart fund" in the Bank of Choson and to use those funds only for purposes mutually agreed upon.

In 1950 the War broke out in the Korean peninsula which had serious implications for the global politics and economy . The United States was deeply involved in the conflict primarily for ideological and strategic reasons. It supplied massive economic and military aid to the Republic of Korea and during the war and also continued to

lend its assistance even after the conclusion of the Armistice Agreement on 27 July 1953. Korea received more than \$ 4 billion in military and economic assistance in the form of grants from the U.S. during the years 1953-61. It is difficult to say what would have happened to Korea's economy, in particular the structure of its production, government policies and even the government itself, in the absence of substantial U.S. assistance. How substantial was the U.S. assistance could be gauged from the fact that it constituted around 95 percent of the total foreign aid during the period 1953-62. In turn, the foreign aid accounted for some 8 percent of Korean GNP, 80 percent of fixed capital formation and financed about 70 percent of imports. It was, however, seen that despite regular injections of foreign aid to Korea little progress was made in achieving economic growth. This probably happened because of the lack of strictly defined objective in the U.S. aid programmes. Although the economic relations were "assymmetrical" and "patron - client" in nature the fact remained that governments of Korea and the United States endeavoured to forge special economic relations. The special economic relations reinforced the close, ideological, political and strategic relations that had subsisted between Korea and the United States during the Syngman Rhee period.

The advent of the military regime led by Park Chung Hee in May 1961 marked a turning point in the political and economic history of Korea. Soon after the seizure of power by the military a new strategy of economic development was launched based on the planned economic growth and export-oriented industrialization. The rationale of the new strategy lay in the fact that the aggregate growth of industrial sector was to be led by the manufacturing and manufacturing by exports. Thus, to capture the international market, Korea wanted to export manufactured goods at a highly competitive price. In comparative advantage lay in the fact that it had abundant, literate, disciplined and motivated labour at low wages to produce manufactured goods for export. It was not a fortuitous conjunction that Korea launched the new strategy at a time when significant changes were taking place in the international economic environment. In the early 1960s the world capitalist economy was growing and developed countries were willing to invest in developing countries like Korea. There were also fewer trade barriers against the third world manufactures. The success of the strategy, therefore, largely depended upon the Korean government's ability to attract foreign capital and technology and to secure an international market for the manufactured goods.

The two unprecedented developments, namely, the military seizure of power and the new economic strategy had their profound impact on Korea - U.S. relations in general and bilateral economic relations in particular. It is significant to note that the U.S. did not consider its strategic interests threatened by the military seizure of power in Seoul. It felt assured that the military regime's ideological orientation was stridently anticommunist and it therefore, stepped up its military and economic assistance to Korea. More significantly it welcomed the new strategy of economic development because it provided new opportunities to restructure the bilateral economic relations. It also lent its active support in several forms to the Korean government in realizing the goals set in the new strategy of developments. The US AID mission and a number of American economists played a major role in preparing the Second Five Year Plan of Korea.

In response to Korean overtures, the U.S. took lead in providing capital and technology. The positive response of the U.S. had two notable features. The grant type foreign aid was reduced significantly and it was replaced by a large sum of public and commercial loans. Secondly, unlike the 1950s the United States began to make direct investment in Korea. Upto the end of the first two five year plans (1962-71), the U.S. remained a top supplier

of foreign loans to Korea, amounting to \$ 564 million in public loans and \$ 542 million in commercial loans. In addition to loans, the U.S. was also the most important source of equity investment and technology until the end of 1960s . Its investment was largest both in terms of number of projects (89) and total amount (\$ 158 million). However, after Korea normalized relation with Japan in 1965, Japan also began to emerge as a major supplier of capital to Korea. During 1962-85 Korea received a total of \$ 2596.6 million in the form of equity investment and the U.S. share accounted for \$ 775.3 million . The average value of the U.S. investments have been much higher than the investments made by other countries in Korea. The U.S. investors also seem to have preferred investing in heavy manufacturing and capital intensive areas like chemicals, electronics, petroleum refining, automobiles and fertilizers. In manufacturing sector the U.S. invested \$ 680.5 million which in turn accounted for 88.2 percent of the total U.S. investment in Korea during 1961-85. The impact of this overwhelming share of investment in manufacturing can be seen in the fact that the share of manufacturing in GDP rose to 30 percent in the early 1980s. The share of manufacturing in employment also grew from 10 percent in 1962 to 25 percent in 1985. The U.S. investment was mostly undertaken by the "oligopolistic" firms and their ownership share was

well over 60 percent in Korea. The substantial investment made by the United States in heavy manufacturing and capital intensive areas became a decisive factor in the pace, pattern and process of structural transformation of the Korean economy. It contributed significantly to the creation of employment opportunities and also helped to sustain the rapid growth of exports of manufactured goods.

With ^{growing} Korean economy, the Korean overseas investment also grew, rapidly. The United States became the leading offshore investment site for the Koreans. Although, since the late 1970s Korea has made several investments in the United States, the major investments began only in the early 1980s. One of the major Korean investments was made by the Goldstar Electric Company in Alabama in 1981. Thus with the growth of the Korean economy its overseas investment, particularly in the United States has been on increase.

To realize the objectives of the rapid industrialization policy Korean government sought to induce sophisticated technology from abroad, especially from the technologically advanced countries. The United States contributed to the technological developments of Korea in two ways. First it provided technical knowledge (information) and second, it has been the principal overseas location of the training of human resources that Korea has

utilized in its technological efforts. The principal channels of technology flow from the United States to Korea were Foreign Direct Investment, foreign Loans and Technical Assistance. During the period 1962-85, out of a total number of 3,527 cases for which foreign technologies were introduced, the U.S. accounted for 23.3 percent with 823 contracts. Although Japan dominated in terms of number of contracts, the U.S. has dominated in value per contract. The difference could be attributed to the fact that technologies coming from the U.S. were more sophisticated and therefore, more expensive than the Japanese technologies. Another chief characteristics of the U.S. technology was that it came generally in unpacked form and was transferred particularly to large scale and heavier industries. The U.S. technology has undoubtedly played a crucial role in modernizing Korea's industries such as chemicals, electronics petroleum refining, automobiles and fertilizers.

The impact of the major role played by the United States as a supplier of capital and technology may be seen in the phenomenal growth of the overall foreign trade of Korea. The total trade volume of Korea expanded more than 128 times between 1962 and 1985. The share of exports in GNP rose from 4 percent in the early 1960s to 40 percent in

the early 1980s. This was possible because exports kept increasing much more rapidly than the overall production. The biggest portion of this naturally came from manufactured exports whose share rose from 20 percent in 1962 to 95.4 percent in 1985. Thus, there was a direct correlation between the nature of U.S. investment and the technology transferred to Korea and the successes achieved in export oriented industrialization.

There was a 100 fold increase in the Korea- U.S. trade during the 25 years, which increased from \$ 150 million in 1961 to more than \$ 17 billion in 1985. Since the launching of the export-oriented growth the United States has remained the largest market for the Korean exports. More than 10 percent of Korea's GNP was accounted for by exports to the U.S. in the mid 1980s. The US takes 35 percent or more of Korea's exports of electronics, footwear, leather products, toys and games, plywood, and machinery all of which are Korea's important foreign exchange earners and sources of employment. Along with the increasing Korean exports to the U.S., Korean imports from the U.S. rose simultaneously. As a result of which Korea became the United States' seventh largest trading partner in 1984. Among Korean imports from the U.S. agriculture commodities have comprised the largest category. Agriculture products such as wheat, corn, soybean and cotton comprised about 40

percent of Korean imports from the U.S. It has also been a major supplier of industrial raw materials and capital equipment such as, electrical machinery, industrial machinery and chemicals. The balance of trade between the two countries was more favourable to the United States until the end of 1970s. However, Korea's huge trade deficit in bilateral trade narrowed down in subsequent years and since the early 1980s it began to enjoy trade surplus with the United States.

To be sure, the phenomenal expansion of Korea-United States economic relation has not been free from frictions. These frictions have most visibly been in the three major areas, of textile and apparel, footwear, and colour television receivers. These three sectors were most crucial for Korea's export-oriented economic growth. Most of these issues originated from the United States' side when it sought to fix quantitative limits on the Korean exports to the U.S. market and the Korean government's unwillingness to appreciate and abide by the American moves. As of 1985 about 46 percent of Korean exports to the U.S. were under one sort of restrictions or another. Korean government very well understands the importance of access to the U.S. market for its exports. It, therefore, sought to minimize the impact of U.S. protectionist actions. At the

end of 1985 facing rising protectionist moves from the American side the Korean government further opened up its economy including areas of the service sector to the U.S. investors. The frictions over commercial issues were, however, not been allowed to impair the strategic, ideological and economic relations that have been forged between the two countries since 1948.

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