

Integration of Economic Aid with Domestic Resources for Achieving a Self-Sustaining Korean Economy

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I. Prerequisites of a Viable Economy

The ultimate object of the reconstruction and development of Korean Economy may be defined as the setting up of an economic structure independent of the reliance upon foreign economic aid by means of increasing total economic output and by raising the level of national income. In pursuit of such an object, it is necessary to be mindful of the fact that a standard of economic viability is determined by the size and scope of the amount of available resources. Every Korean hopes the standard of viability will be set up as high as possible. However, in view of the meager amount of the indigenous available resources and of the limited supply of resources from abroad in the forms of grants and loans, it cannot be denied that there is a margin beyond which no economic programme for self-sustaining can surpass. We feel, therefore, the following prerequisites are to be understood by those concerned with the economic development planning.

(1) Setting up a Reasonable Consumption and Living-Standard

One of the most important problems in establishing self-sustaining economy is, as mentioned before, the reasonable measurement of the size and scope of the amount of the available resources, both

domestic and foreign. The standard of economic viability chosen will be a function of the capital, resources, labor and technique available to the economy.

The Preliminary Programme for Korean Economic Reconstruction prepared by the Ministry of Reconstruction, Republic of Korea, July 1955 maintains that the investment for reconstruction will take five years, FY 1954-1958 and that the full effects of the investment may appear in FY 1960.

This program aims to raise per capita income level from \$87.02 in FY 1949 to \$100.74 in FY 1960. In order to secure this increase in national income, the program estimates the requirements of foreign exchange at \$2,266 million and that of domestic financial resources at \$1,144 million. It is expected that the \$2,266 million may be financed mostly by the foreign economic aids in grants and partly by the government foreign exchange holdings, as well as by foreign loans. The grants in aid requirements totals \$1,664 million including \$1,472 million of FOA/ICA aid funds, \$109 million of UNKRA aid funds and \$83 million of other aid resources. And among the other foreign exchange resources expected are \$442 million of government holdings, \$30 million of foreign private investment and \$130 million of credits from abroad.

Out of the requirements for foreign grants in aid, amounting to \$1,664 million, the amount of \$1,000 million (\$891 million FOA/ICA Fund, \$109 million UNKRA Fund) is pledged for contribution by the concerned countries, while the remaining \$664 million is the amount which the Korean government is still seeking to obtain. The figure of \$130 million of foreign loans is based on the loan application to the International Bank for Reconstruction and Development for hydroelectricity and irrigation. There is, it seems, no concrete measure to secure \$442 million of government foreign exchange holdings. As to the local currency expenditures for economic development, the planning authorities estimates Hw 205,657 million (equivalent to \$587 million) by the government budget procedures, Hw 184,517 (equivalent to \$527 million) million by the financial credits extension and Hw 0,451 million (equivalent to \$29 million) from the purses of private entrepreneurs and idle money holders.

However, it is very doubtful whether such a vast mobilization of local currency is feasible without accelerating the spiral of inflation. In this respect no one can deny the necessity of the most prudent evaluation of the effects of inflationary trends upon the aspect of economic stabilization.

Even though the economic viability standard is set at \$100 per capita income level, the requirements of monetary resources amounts to \$3,410 million (\$2,266 million of foreign exchanges and \$1,144 million of local currency expenditures). This sum is approximately twice as much as the current gross national product of Korea. The per capita national income level of \$100 belongs to that of the underdeveloped areas. It is true that we set the level of economic development at that of the developed area, but the difficulty of its realization will surely be immense. Therefore, the viability standard must be reasonably established upon the basis of the available resources.

(2) Setting up a balanced development structure

By self-sustaining economy, we do not mean an economy, every field of which is self-supplied and self-supported. It is impossible and not necessary to establish an autarky in this country. If the international payments situation at the aimed viability standard is balanced, we must regard such an economy as self-sustaining. If we can finance the necessary imports and external services with the proceeds of Korean exports and with other invisible income at the international market the aim of viability will be accomplished.

In other words, even if the goal of economic sustenance is reached, the Korean economy will not and cannot supply all commodities and services from the domestic resources. In the case where the imports are more preferable and profitable than the self-supply with the comparison of productive costs, there exists no need to pursue the way of self-supply. Moreover, it goes without saying that many necessary goods are unobtainable in Korea due to the natural or geographic circumstances. For instance, crude oil, raw rubber and bituminous coal are apparently necessities to be imported together with highly specialized machinery chemical products etc. On the other hand, the agricultural, marine and mineral products or other

manufactured goods which have export potentiality must seek out at international markets.

The Korean economy can be regarded as self-sustaining if the international payments situation is balanced. Therefore, we must do our utmost to import those articles which can save the foreign exchanges and to maximize the foreign exchange earnings in those domestic industries, as well as to maximize the size and scope of the foreign grants in aid and loans.

It is, therefore, reasonable that the Preliminary Programme allots the large requirements of external resources to the enlargement of the economic infrastructure such as electricity, transportation and other public facilities as well as in agriculture and some of the manufacturing industries which have the potentiality of maximization of foreign exchange earnings and savings.

In addition to the balance of Korean international payments, it must be stressed that the investment for self-sustaining economy is to be vertical, not horizontal. This means that the investment programme is to be primarily for economic purposes not for less-economic ones. This will be dealt with in detail in the latter part of this article. It is obvious that the investment for the economic development and expansion should exceed that for social welfare.

In setting up a balanced pattern of economic development, consideration of the rate of the natural growth of population and consequently the necessity of annual additional investment is of prime importance.

In other words, the economic pattern put forth in the reconstruction programme must be flexible and elastic in proportion to the economic growth and expansion of domestic population.

The approach to the effective incorporation of indigenous resources with the external resources (mainly in the form of grants-in-aid) will be possible only in the light of the above considerations and elementary factors.

II. Integration of Economic Aids with the Development Programme

The preliminary Programme is not an officially authorized one. It is nothing but a general outline of government intention for economic development. Without any officially authorized programme, we can not give a firm and complete analysis. We, therefore, analyze the economic aids we now enjoy apart from the general development programme. In the absence of any officially authorized operational procedures, for aids, it seems to us that the prime importance or consideration should be given to the aspects of distribution of goods and services supplied in accordance with FOA/ICA and UNKRA programmes and of the local currency proceeds rather than to their incorporation with domestic resources. In other words, aids are not so closely related with the achievement of an economic viability.

In view of the shortage of available resources, therefore, the problem of maximum imports of aids regardless of their usefulness, the quality and impacts upon domestic industries will be next to the integration problem. Even so, such a situation must be improved by the efforts of both donors and recipient. Therefore, the planning authorities should try to approach a constructive and scientific mobilization of materials.

In regard to aid in the form of grants, the donors play a decisive role in the selection of goods and in the determination of their quantity. The development programme of the recipient party is, therefore, greatly influenced by the quantity and quality of goods given by the donors.

From time to time, the programme will be forced to be revised in accordance with the proposals of the aid authorities. It is desirable for donors to avoid the frequent revision of the donation programme agreed with the recipient. This will, in the long run, decrease the burden of the tax-payers of the donor countries.

The rapid realization of the economic viability in the recipient country by way of utilization of economic aid contributes to the decrease of the economic burden of the donors.

In order to secure this purpose, the stress must be put upon the following respects.

(1) Incorporation of Aid Projects within the General Development

As to the current aid programme to Korea, the ICA programme by the United States is classified into two categories, i.e. the project assistance and the non-project assistance, while the UNKRA aid programme consists mainly of project assistance.

The present implementation status of the ICA programme is as follows:

**The Implementation Status of ICA Aid
(In thousands of US Dollars) As of 31 March 1956**

		FY Programme Obligations		Contracts Arrivals	
Total		750,350	699,776	470,296	388,309
	1954	186,786	186,786	181,696	147,151
	1955	269,564	269,564	221,027	176,477
	1956	304,000	304,000	67,573	14,861
Project Assistance Component	-	337,673	294,815	200,412	128,163
	1954	87,345	87,345	88,128	51,234
	1955	147,770	147,770	112,714	74,518
	1956	102,558	59,700	4,570	2,411
Non-Project Assistance Component	-	212,677	404,961	269,884	210,146
	1954	99,441	99,441	92,568	95,917
	1955	111,794	111,794	108,313	101,958
	1956	201,442	193,726	63,003	12,270

Source: United Nations Command, Office of the Economic Coordinator for Korea

As indicated above of the US economic aid to Korea under the Defense Support Assistance Programme in accordance with the Mutual Security Act, totalling \$750 million of programmed amount of assistance, \$338 million (equivalent to 45% of the amount) is for project assistance, while \$412 million, (equivalent to 55%) is for the non-project assistance. The Project assistance covers all field activities of the ICA to assist the recipients in the implementation of the

specific enterprises. This includes the technical assistance in the fields of industry, mining and agriculture. The non-project assistance is intended mainly to transfer the resources for the emergent economic and defense needs of the general purposes to the recipient country. The transfer of consumers goods, including raw materials and semiprocessed products occupies of the largest proportion of this assistance.

The importation of US surplus agricultural commodities in accordance with section 402, MSA also belongs to this category. UN-KRA assistance is being utilized under the approximately the same purpose as that of the ICA project assistance. The ICA project assistance covers the following activities.

Summary of the ICA Project Assistance

(In thousands of US Dollars; As of 31 March 1956)

	Programme	Obligations	Contracts	Arrivals
Grand Total	337,673	294,515	200,412	128,163
Agriculture and Natural Resources	16,044	72,970	5,402	4,637
Industry and Mining	138,832	109,995	84,464	36,949
Transportation	134,399	129,574	86,014	71,659
Health and Sanitation	7,602	7,431	4,440	2,804
Labour	27	27	-	-
Education	6,886	5,529	768	183
Public Administration	515	353	127	36
Community Development, Social welfare and Housing	29,256	25,896	17,223	10,019
General and Miscellaneous	4,104	3,066	1,974	1,876

Source: United Nations Command Office of the Economic Coordinator for Korea

As indicated above it is necessary that project assistance is channeled into economic project rather than into social welfare projects. Even though non-project assistance has no direct relation with the development programme, it must not be forgotten that it contributes

to increasing stable circumstances for the economic development. The underestimation of the effects of the non-project assistance is as dangerous as their overestimation.

A period of time is required in order to accurately estimate the economic value of the project assistance in view of the fact that only \$128 million out of \$338 million has so far been provided for the development of the infrastructure and major industries.

(2) Development projects and Economic Aids

It may be clear that the development programme will be most effective when economic assistance is combined with individual projects. The individual projects should be so reasonably selected as to contribute to the general development of the economy. Economic assistance combined with well-selected projects will increase the rate of capital formation and will aid the development of other economic factors. The ICA projects of a cement plant, a fertilizer plant and three thermal electricity plants and the UNKRA project of a flat glass plant will greatly contribute to the completion of the self-sustaining economy, since the deficit balance of Korean international payment will be much lessened with their completion.

Thus, the economic aid must be integrated with the individual development projects which secures the largest possible multiplier effects in the overall economy.

(3) Economic Aid and Development Programme other than Project Components.

We have already seen that the ICA programme provided the goods and services amounting to \$210 million out of the programmed \$413 million for non-project assistance. The import of the necessary raw materials, fuels, oil products and of other products for domestic sale made a great contribution to the stabilization of Korea's war-battered economy. The friendship and benevolence of the American taxpayers well deserve the gratitude of the Korean people.

However Korea desires to decrease the dependency on America's goods and services and to subdue the effect on the Korean con-

sumption habits which is a negative element in domestic capital formation. Therefore, this assistance will be most effective when it is given in the form of importation of saleable investment goods, raw materials, fuels and oil products which cannot be geographically produced in Korea. The effects of the import of the US surplus agricultural products amounting to \$144 million in accordance with the US Public Law 480 and to Section 402, MS Act should be reappraised, though this may be unavoidable measure in view of the US Agricultural trade policy and of the Korean necessity of stockpiling a vast quantity of agricultural goods for defense purpose.

(4) Utility of the Counterpart Fund

The counterpart fund is a system to integrate the foreign aids with the domestic development programme.

The proceeds of aid goods sold in the indigenous market should be provided to private enterprises through a special banking institution and to the government enterprises for the development of major industries and social overhead capital. However, this is not rigidly practised in Korea, because the necessity of maintaining a powerful defense forces is superior to that of economic reconstruction because of the threat of the Communist re aggression even after the Korean armistice in July 1953.

In accordance with the US-Korean agreements, the counterpart fund system has been practised in Korea since December 1953. As of 30 April 1956, Hw 98 billion was deposited in the counterpart Account. The aggregate proceeds of aid goods and services is Hw 72 billion, while the transferred amount is Hw 44 billion. Out of Hw 44 billion Hw 18 billion was transferred to the war account, while Hw 15 billion was transferred to the loan account for private and government enterprises. Out of this Hw 15 billion, Hw 11 billion was extended to the private business enterprises through the Korean Reconstruction Bank, a long-term credit bank for specified development purpose, and the remaining Hw 4 billion was provided to government enterprises mainly in the economic infrastructure such as transportation and communication. The local currency proceeds of

US surplus agricultural commodities are to be spent to the same effect as the counterpart deposits. However, owing to the defense pressure 90% of them are earmarked to finance the defense expenditures, and so the usage of the disinflationary financial fund for the development of the industries and social overhead facilities is much restricted. Little as it may, however, Hw 15 billion transferred to the loan account will play an effective role if this amount is incorporated and coordinated with the investment goods provided by the US aids.

(5) Incorporation of Development Programme with the Credit Basis Assistance

As indicated at the foregoing part, the Korean Government submitted a loan application to the World Bank, amounting to \$130 million. Out of \$130 million, \$120 million is for financing the hydroelectricity development, while the remainder is for the land reclamation and irrigation. This assistance will no doubt contribute to the development of the Korean economy. So the government should do its best for the realization of this loan.

It is necessary to pay attention to the potential availability of the Special United Nations Fund for Economic Development (SUNFED), whose plan is now under review of the Committee of Experts, appointed by the UN Secretary-General. According to the Report of the Committee of Experts (official Records: Tenth session Supplement No. 17 (A/2906)), it is intended to extend its fund for the development of the underdeveloped area in the forms of grants-in-aid, low-interest-rate loans and combination of grants and loans. Moreover, it intends to permit the borrowing countries to refund the loans with their local currencies in case of loan extensions. Therefore, the feasibility of access to the availability of the fund deserves the attention of the Korean government authorities. In addition, there is the availability of the assistance by the International Finance Corporation (IFC) to domestic private enterprises which should be energetically sought by the government authorities.

In conclusion, the availability of the funds of various international financial institutions will make the development programme easy and smooth in approaching its final targets.

III. Conclusion: Current Progress of Economic Development and Its Prospect

Mr. C. Tyler Wood, United Nations Economic Coordinator, said that the Republic of Korea has made substantial economic progress in 1956, on the basis of year-end reports by his chief assistants on 10 January 1956. He also predicted even greater progress in 1956. In his statement, he predicted that aid-goods deliveries would be at an average daily rate not far below \$1,000,000. He pointed out six major achievements of the US aids-(1) contributions to self-sufficiency in food, (2) increase in electric power output, (3) expansion of the transportation network, (4) rise in coal production, (5) progress in bringing the forces of inflation under more effective control, and the beginning of the building boom. The electric power output has been increased to a rate equal to the great pre-invasion rate, and this even with the withdrawal of two U.S. power barges from Korean harbour. With three new steam plants financed with US aid, average power production will increase another 5 per cent. With the more extensive use of the fertilizer, Korea's rice production has reached to the level of self-sufficiency. The completion of the railway network connecting the Seoul and Incheon industrial area and the Samchok coal area will accelerate the industrial output. As Mr. Wood stated, American aid coupled with the dedicated energies of the Korean people is steadily adding to the economic strength of the country. Meanwhile one of the most serious bottlenecks, is the inflation. During the 10 years from December 1945 to June 1955, money supply increased 675 times, while wholesale price increased 1200 times. The economic devastation resulting from the Korean hostilities and the necessity of the maintenance of the large defense forces compelled the government to issue new money for the deficit financing. Difficult as it may be, the inflation must be subdued not only for the purpose of economic stability, but also for the providing of circumstances favorable to the reconstruction. The inflation decreases the propensity to invest and forces capital-holders to seek other ways to trade the finished commodities to produce the goods and services indispensable to the

reconstruction works.

The most important tasks Korea now faces are to minimize the said negative trends with reasonable anti-and dis-inflationary measures, and to pursue the goals of a self-sustaining economy with a firm leadership through the joint efforts of Korea and her benevolent doners.

When these tasks are fulfilled, the prospect of the Korean economy will be much improved.