

SOUTH KOREA'S MIRACLE STUMBLES

Since the assassination of President Park Chung Hee in October 1979, events in South Korea have taken an unpredictable turn. This favourite 'miracle' country of economists from the World Bank to post-Maoist Peking, has found itself tottering from political crisis to a series of economic upsets, which have brought many of the foundations upon which the country's earlier successes were built into a less favourable light.

While for most of the world the past decade has been a period of economic uncertainty, the newly industrialising countries (NICs) of East Asia — Hongkong, Singapore, Taiwan, and South Korea — have enjoyed consistently high growth rates. This they have achieved by rapidly expanding their trade with the rest of the world. In all four cases the basis of these increases in trade has been the export of standardised, labour intensive light manufactures, such as textiles and electronic components. This kind of production has been made possible by the strict control, as well as the abundant supplies of labour, well educated by Third World standards. The very high levels of exports achieved have also been partly due to the receptiveness of the US to exports from these countries for political reasons. The importance of the American relationship is particularly important to South Korea, which has received very high levels of US aid in addition to a substantial military presence since the end of the Korean War in 1953.

It was in the late 1960s and early 1970s that South Korean exports really took off; for example, in 1973 exports were almost twice the previous year's level. Two important external factors spurring this growth were the Vietnam War, during which substantial US military procurements were made from Korean sources, and a large wave of investments from Japanese firms into export industries. In the early 1970s the Park government embarked upon an extremely ambitious programme of investment in heavy industries, such as steel, chemicals, cars and ships. The purpose of this policy was twofold: to substitute for imports of these goods, and to reach a higher and more stable level within the international division of labour, by achieving export capability in more capital and technology intensive products. Light manufacturers, which have been the country's traditional export mainstay, are highly subject to protectionist moves in importing

countries, as well as being undercut by exports from countries with even lower labour costs than South Korea's.

To the Western observer, increasingly accustomed to the flood of exports from the Far East, it is easy to overlook the fact that this 'export based' type of development is also highly import based for the countries concerned. South Korea's large appetite for machinery and technology, most of which it buys from Japan, has kept it in deficit with the rest of the world, despite booming exports. Ironically, the import substitution programme has meant even greater imports, and to pay for these, South Korean banks have turned to the Euromarkets. By the late 1970s, South Korea had become the third largest developing country debtor to Western banks and lending institutions, following Mexico and Brazil.

Park was assassinated in October 1979 by the head of the Korean CIA; what was ostensibly a palace revolution was the sign of much deeper troubles the country was facing as a result of Park's heavy industries policy. Because so much money was being funnelled into the collection of conglomerates involved in the targeted industries, light industries began to lose their international competitiveness, and there were already signs of serious overcapacity in the new heavy industrial sector. Concurrent to these problems were a general fall off of world demand for South Korean exports, due to economic recession, particularly in the US; 1979 was also the year of the second great oil price rise of the decade: South Korea's trade deficit that year was double the previous year's total.



In the winter of 1979, General Chun Doo Hwan, an austere military man very much in the Park mould, emerged as the country's new leader. Under Chun's regime, opposition groups have been in many cases forced underground if not imprisoned; a recent estimate by the *Far Eastern Economic Review* put the numbers of political prisoners currently held at 2,000. The bloody suppression of riots in the southern city of Kwangju in June 1980 in which 189 people were killed, is another indication of the new government's approach to internal dissent. Over the past eighteen months students have fire bombed two US cultural centres. In a country where even the opposition has traditionally been pro-US this indicates a change in attitudes, as well as methods.

Since 1979 the economy has been in an uncertain state. South Korea's GNP shrank for the first time since the Korean war in 1980, but has since made a somewhat shaky recovery. Chun's new government has lowered targets for the development of heavy industries, alongside rehabilitating the light industrial sector. All sectors are suffering from low world demand; one third of all goods produced in South Korea is destined for export, and currently world trade is shrinking rather than growing.

What seems certain is that the halcyon days of the pre-1979 period are over. While the very optimistic projects of the government planning office once seemed surprisingly obtainable, now they have the unconvincing ring of many of Whitehall's projections — generally hinging upon the imminent recovery of the world economy. While the South Korean economy is very far from ruined, the sense of the inevitability of continued substantial development is gone, as is the sense of the unshakeable stability of the government in Seoul.

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