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Recent Economic Transition of South Korea:
Comparative Perspectives with Latin America*

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South Korea is at an important juncture in its economic development. The paper describes some critical transitional problems of Korea's current economic management. In recent years, ''dependency'' arguments have gained considerable popularity in South Korea in delineating some structural issues relating to worsening income distribution and intensifying labor-management disputes. The paper argues that South Korea would seem about to cross the threshold in the shift from the 'semiperiphery'' toward the ''core'' riding on the track of ''dependency reversal'' rather than dependency deepening. The paper then comes up with a set of new socioeconomic policy orientation to maintain hitherto South Korea's development momentum.

I. Introduction

South Korea (hereafter ''Korea'') is at an important juncture in its economic development. For over 20 years since the early 1960s, Korea has achieved a remarkable economic growth, overcoming challenges at home and abroad. During the 1962-1988 period, Korea's per capita income grew at 6.4 percent per annum in real terms. As a consequence, she has emerged from being a predominantly agrarian society characterized by the vicious circle of poverty to become one of the most advanced newly industrializing countries.

She has successfully weathered the structural problems of the

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1979-1981 period and has begun far-sighted adjustment programs which will facilitate the industrial transition needed to push Korea towards the ranks of the industrialized countries. From the late 1970s up until 1986, Korea had followed a combination of tight monetary and fiscal policies and exchange rate depreciation in pursuit of three targets: price stability, current account balance and high GNP growth.

As a result of the policy adjustments and the favorable international economic conditions which were often referred to in Korea as the "three lows,"[1] Korea in the 1986-1988 period outperformed those achievements obtained during the most of previous years of the modern industrial growth. Indeed, real GNP increased by more than 12 percent per year in each of the three years, far above the 18 years' average growth rate of about 8.5 percent per annum. Most notably, Korea's current account turned from chronic deficit to a surplus of sizable amount. The balance of payment surplus enabled Korea to trim down notably her outstanding foreign debt which made Korea the fourth most heavily indebted countries in the world as late as in 1985.

However, Korea's remarkable economic growth over more than two decades has taken place under authoritarian political regimes which were single-mindedly committed to the value associated with economic growth, leaving behind political and social development with low priorities.

Since the historic June 29th Declaration of Democracy in 1987 which enabled the birth of the current Sixth Republic regime, Korea has been undergoing rapid democratization. In the process, the pent-up discontent on the part of those who believe that they have not shared properly the fruits of economic growth during past decades have been erupted into the open. Most notably, the explosion of labor-management disputes and subsequent frictions in the industrial relations coupled with reduced investments in new facilities within manufacturing and conspicuous consumption behavior specially by the upper income classes have eroded sharply the competitive edge of Korean exports.

Korea's economic performance in 1989 was in sharp contrast to previous three year's performance. The growth rate of real GNP in 1989 dropped to 6.5 percent, about one half of the growth rate registered in the previous year. For the first time since the adoption of the outward looking development strategy, the export sector experienced minus 6 percent growth rate in volume terms, contributing negative factor to the growth of GNP. Most importantly, the whole society including entrepreneurs, workers, and consumers appear to reinforce its adherence to

[1] Refers to low oil prices, low dollar value, and low international interest rates.

rent seeking activities which have been rooted in the previous high growth periods under inflationary pressure. Many Koreans fear that Korea's economic situation is likely to run into a "Latin American syndrome." Price-wage spiral without accompanying improvement of productivity appears to be underway.

The purpose of this paper is to point out some crucial transitional problems facing recent Korean economy and then to compare the development paradigms between Korea and Latin America and finally to draw some policy implications for Korea's future drive toward industrial maturity in the years ahead. The paper is organized as follows: section II describes the transitional problems faced by Korea's economy; section III delineates structural differences and similarities between Korean and Latin American economic development. The paper concludes with some development policy implications for Korea in the context of Latin American experience.

II. Transitional Problems of Korea's Economic Management

Korea's economic performance in 1989 reflects Korea's ongoing economic struggle with (a) the 18 percent rise of the Won since January 1988, (b) an approximately 60 percent rise in wages over the past three years, and (c) persistent labor-management disputes. Although commendable by most countries' standards, Korean GNP growth of 6.5 percent in 1989 was far below not only the 12.4 percent plus on the average in previous three years but also the targeted growth rate of 8 percent at the beginning of the year. Some selected economic indicators are presented in Table 1.

The careful diagnosis of the disappointing growth performance in 1989 reveals that the Korean economy faces severe structural adjustment problems which might be unprecedented in scale as well as in nature. First of all, the sluggish growth figures were attributed to a decline in export volumes and flagging private investment demand. It is widely recognized that Korea has developed an export-led economy with the export as the engine of growth. Instead of the exports, the domestic demand stemming from the sharp rise of consumer spending related to gains in real wealth effects by those who belong to the upper income brackets and public sector spending led the growth. Quite frequently, consumer spending appears to be geared to leisure related services which in turn causes distortions in the flow of investment funds. Business investments surged in various domestic service sectors rather than in the manufacturing exports. Investment in

Table 1

KOREA'S SOME SELECTED MACROECONOMIC INDICATORS

(unit: % or $)

	1981-82	1983-84	1985	1986	1987	1988	1989
GNP (%)	6.5	10.9	5.4	12.3	12.0	12.2	6.5
Won per U.S.$(1)	—	827.4	890.2	861.4	792.3	684.1	670.0
Current Balance (2)	-3.7	-1.5	-8.9	4.6	9.9	14.4	4.6
Wage rate (%)(3)	17.4	10.2	9.9	9.2	11.6	19.6	23.8
Unit Labor Cost($)(4)	-5.7	-6.4	-6.4	-6.4	7.8	19.3	23.4
CPI (%)	14.1	2.8	2.5	2.8	3.0	7.1	5.8
External Debt (2)	34.8	41.7	—	45.6	40.5	33.4	30.5

Notes: 1.1989 data is at the end of September.
2. billion dollars.
3. manufacturing sector.
4. unit labor cost in Won/nominal exchange rate.

Source: The Bank of Korea, *Monthly Bulletin,* November, 1989, Korea, Economic Planning Board, *Major Statistics of Korean Economy,* 1988.

machinery and equipment in 1989 registered a rise of only 9.7 percent compared to almost 15 percent in 1988.

Second, the weak investment in physical plant and equipment coupled with rapid rise in wage rate and accompanied increase in unit labor cost in last two years and appreciation of the Won has been eroding the international competitiveness of the Korean exports. As a result, Korean exporters are rapidly losing market share to Japan and Taiwan whose currencies have both become more competitive against the Won over the past few quarters.

Through October 1989, the balance of payments statistics mirror trends in the national income accounts as both the trade and the current accounts surpluses narrowed. Merchandise exports (f.o.b.) increased to $49.72 billion, which represents a mere 4 percent increase over the first 10 months of 1988. On the other hand, imports (f.o.b.) remained buoyant rising almost 20 percent $46.43 billion, yielding a $3.3 billion trade surplus versus $8.4 billion for the same period one year earlier. As a result, the current account surplus fell to $4.6 billion against $14.4 billion during the corresponding period of 1988.

Third, investment inflows and outflows reflect the sharp deterioration in the business environment, owing to the drastic appreciation of the Won, steep wage hikes, and persistent difficulty with labor relations especially with foreign firms. In addition, the business environment continues to be beset by tight credit and the perceived ambivalence of the government to foreign investment, except high tech and/or export industries. During the first ten months of 1989, foreign firms invested $885 million abroad compared to $1.3 billion during the corresponding period one year earlier. At the same time, domestic producers are looking abroad for alternative production sites, due to rising costs of operating in Korea as well as fears of protectionism and better access to raw materials. Investment by Korean firms abroad rose to $367 million in the first ten months of 1989 compared to $164 million over the same period of the previous year.[2]

Inflation is another critical issue facing the Korean economy. The consumer price index registered about 6 percent plus in 1989 as increases in money supply, stemming from unsterilized rise in international reserves, along with nearly 20 percent annual wage increase in the past three years have created inflationary pressure. Further, the price level of real estates which is not included in the consumer price index went up drastically in the years of 1986-89. This has caused a sharply growing wealth gap between owners and nonowners of real estate. Therefore, the inflationary pressure experienced seemed to be far stronger than the one due to the consumer price index. The adverse and sudden economic setback has begun to threaten Korea's ability to sustain stable economic growth and has been arousing serious concern that the economy may be running into a serious long-term difficulty.

However, the most pressing economic and political problem which Korea's policy makers confronts at this point in time appears to be the industrial relations. Korea began to experience an explosive and militant labor disputes in the Summer of 1987 which were triggered by the popular democratic reform. Workers have been opposing both paternalistic labor-management relations and employers' unilateral determination of wages and working conditions, demanding collective bargaining.

Even though the Korean economy has developed rapidly since the early 1960's, rules and institutions regarding labor-management relations have not developed accordingly. The government has traditionally chosen economic growth and national defense as top national goals. Therefore, industrial policies up to 1987 have been picking up the winners and minimizing industrial instability by all means. On one hand, the government intervened in industrial relations to resolve disputes between labor and management either directly or indirectly. On the other hand, it has kept a low wage policy to maintain a comparative advantage in overseas

2 The WEFA group, *Asia Economic Outlook, South Korea,* January 1990, p. 14.4.

markets.[3]

Since the Summer of 1987, the number of labor unions has exploded. As a result, collective bargaining has become a major means in resolving labor-management conflicts. As the bargaining structure has become more complex and the bargaining scope enlarged, labor disputes have increased both in quantity and in magnitude. Very often, the labor union members have become divided over direction, challenging their leadership to make radical demands. Sometimes, the management has also failed to accommodate properly the workers' demand.

Structural rigidities appears to be a major problem in the adjustment process of Korea even in the wake of the ongoing political and social reforms. The political democratization which began in June 1987 has intensified the conflicts between different interest groups. To be sure, the new labor movement introduced an inertia in wage adjustment and has actually caused over 20 percent wage increases per year since 1987. Large conglomerates have been faced with growing criticism about their role in economic development.

The legitimacy of the economic affluence enjoyed by Korea's rich is questioned more an more by the poor people. In the fear of militant labor movement, businessmen, small and large, tend to lose entrepreneurial leadership. Rather, some of them seem to pay more attention to rent seeking opportunities. Workers no longer display the kind of work discipline which was common from the 1960s through the mid-1980s. Working hours are getting shorter. As a result, the deficiency ratio of the products which are bound to overseas market has been on the rise. Farmers are also very vocal against the government policy to open up the domestic market for agricultural products. In sum, every segment of the society seem to lose the "will to economize." Indeed, the Korean economy is at a crossroads to making another stride in its development and becoming another industrial nation at the turn of the century or on the other hand becoming engulfed in a stagnation trap as observed in the case of some Latin American countries.

III. Comparisons of Development Paradigms between Korea and Latin American Countries

After Korea became liberated in 1945 from Japanese Colonial rule,

[3] For a detailed description on recent developments of Korea's labor movement, see Kim, Taigi (1990).

she immediately also suffered the partition of the country. The Korean War broke out in 1950 and the subsequent three years' fighting destroyed virtually all of the countries' existing industrial facilities as well as physical infrastructure. At the end of the Korean War, the South Korean economy was trapped in total stagnation which can be characterized by a vicious circle of poverty, hyper inflation and heavy dependence on foreign aid.

In the midst of the economic chaos after liberation, Korea implemented land reform on the basis of the cultivator-owner principle. Despite its short run unfavorable effects on agricultural production, land reform in South Korea succeeded in removing a major socio-political obstacle to economic modernization and the creation of a more equitable society. The government also recognized the importance of education at the early stage of modernization and increased the educational opportunities at the elementary and secondary school levels. Coupled with Korea's traditional Confucian values, the education system indeed provided "unlimited but educated" human capital which served as perhaps the greatest resource for the economic growth achieved since the early 1960s.[4]

Korea's industrial policy in the late 1950s was basically inward-looking to complete "easy import substitution" in light manufacturing. The official exchange rate remained overvalued through the 1950s, despite large periodic devaluations. In order to protect domestic industry, the government used both high tariffs and various quantitative restrictions.

The inward-looking import substitution stratgies of the 1950s proved to be disappointing for the Korean economy. When the short phase of easy import substitution was completed, opportunities for further moves in this direction had been exhausted to result in economic stagnation with both high unemployment and inflation. As a result, Korea's economic development policy changed fundamentally in the early 1960s from the inward-looking import substitution to outward-looking export substitution. Lacking natural resources and due to limited domestic market size, perhaps the export expansion was the soundest strategy for Korea to achieve speedy economic growth.

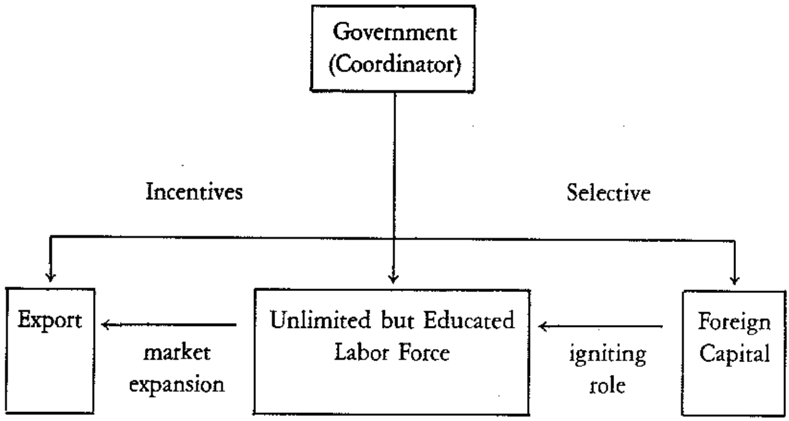
The rationale of the out-looking development strategy was to utilize the "unlimited" but educated labor force and to maximize South Korea's comparative advantage in labor intensive manufactured goods for exports. To overcome the shortage of the domestic savings, Korea continued to rely substantially on foreign capital to finance a large investment requirements. Furthermore, the government became an active player in

4 For details, see Ahn, Choong Yong, "Economic Development of South Korea 1945-85: Strategies and Performance, *Korea and World Affairs,* 10, 1, Spring 1986.

combining an unlimited supply of labor, export expansion activities, and imported foreign capital. Figure 1 shows the schematic diagram of the key factors responsible for Korea's export-led growth.

Figure 1

Schematic Diagram of Key Factors for Export Promotion



To pursue a new growth strategy, the government initiated a variety of economic reforms. The Won was devalued by almost 100 percent, from 130 to 225 Won per U.S. dollar in May 1964. This was followed by a series of large devaluations. In March 1965, a unitary exchange rate system was adopted. Following the exchange rate reform, the government also doubled the interest rate on bank deposits and loans in 1965 to increase voluntary private savings and discourage the unproductive use of bank credits. Since the initiation of the first five year development, which clearly reflected the focus on exports, the export promotion has been further intensified under subsequent Five-Year plans.

In addition to the exchange rate and the interest rate reforms in the early 1960s, an export-import link system was adopted to increase the returns to exporters by giving them the right to use the full amount of their export earnings to purchase imports at the market exchange rate. Among other incentives provided during this period were a) tariff exemption on imports of raw materials for export production, b) domestic indirect-tax exemption on intermediate inputs imports used for export production, c) direct tax reductions on income earned from exports, d) a preferential export credit, e) a system linking import business to export, f) depreciation allowance subsidies, and g) tariff and tax exemptions for domestic suppliers of intermediate goods used in export production. All these incentives were designed to guarantee exporters unrestricted and tariff-free access to imported intermediate inputs needed in export production and to grant automatic access to bank loans for the working capital needed for all export activities. Thus, the underlying objective has been to remove the bias against producing for export and to give exportes only the incentives needed to put them on an equal footing with producers from other coutnries in competing in world markets.[5]

In contrast to the export promotion policy which South Korea has so vigorously pursued, most Latin American countries have traditionally adopted the import substitution industrialization strategy when their primary export markets were severely disrupted, first by the Great Depression of the 1930s and subsequently by the breakdown of commercial shipping during World War II.

Such writers as Prebisch and Singer chronicled the export pessimism and reinforced protectionist sentiment. The protectionist doctrine was clearly reflected in the publication of comprehensive analysis of economic development by the Economic Commission of Latin America in 1950. Based on this doctrine, Latain America developed import substitution regimes within structuralist economic approach with a multitude of protective techniques that were emulated by other Asian developing countries such as India and Turkey. By the 1960s import substitution had become the dominant strategy of economic development for most developing countries.

Structuralism found favor in the vast majority of Latin American countries during 1950's. It was a diagnosis that seemed to accord with the historical experience of the 1930's and 1940's. When Latin American countries applied trade controls and exchange restrictions in response to the crisis of the Great Depression, and expanded internal demand, the result was rapid recovery led by the industrial sector. Wartime shortages called new manufacturing capacity into being and continued protection of the old. The foreign exchange reserves which had been accumulated from export surpluses earned during the war however evaporated rapidly subsequent to the end of hostilities and the return to freer international trade.

The import substitution strategy provoked deliberate distortions in

5 See Rhee, Y.W., et al., *Korea's Competitive Edge: Where It Came From*, The Johns Hopkins University Press, 1985, pp. 9-15.

order to induce the desired response, which brought about several indirect and unwanted effects. Among these were 1) increasing imbalance of the external accounts, 2) increasing sectoral disequilibrium and 3) the inflationary bias of more rapid growth.[6]

The import substitution industrialization (ISI) was advocated because it enabled the countries to escape from the foreign exchange constraint but paradoxically caused even greater foreign exchange vulnerability. In the first place, overvalued exchange rates adversely influence the supply of future exports. Second, import substitution produced an increased reliance on imports and at the same time export were discouraged. As competitive import were progressively produced domestically, the complementary import that remained became ever more essential. Interruption in their supply would prejudice domestic production. Furthermore, once countries passed the easier phase of import substitution, and many had done so by the early 1950's because of their prior industrialization, complementary import requirements might very well begin to rise.

The resultant balance of payment problems in the 1950's were solved in part by direct foreign investment by the multinational corporations. Inflows on capital account helped compensate for the stagnation of and resistance to import compression. The critical role which the direct foreign investment was foced to play was an ironic consequnce of a strategy advocated on grounds of domestic self-sufficiency.

In addition to balance of payments problems, import substitution policies caused serious sectoral imbalances. Industrial production was emphasized at the expense of agricultural output. Another disequilibrium was developed in the fiscal sector. As the initial real resources transferred from the agricultural sector began to give out, the state was increasingly called upon to subsidize the continuing investments in industry from its own revenues. Tax rebates and exemptions, as well as limited capacity to impose and collect new levies, constrained the receipts. However, expenditures were being rapidly expanded to satisfy the needs of the industrialization strategy. Governments in Latin America increased their participation not only to provide complementary capital inputs but also to absorb potential urban unemployment. The fiscal deficits reflected a growing disparity between commitments and the resources available for satisfying them.

Monetization of these deficits led to excess demand inflation. Price increases generated an inflation tax that helped to finance the higher and

6 Fishlow, Albert, "The State of Latin American Economics," 1985, p. 126.

increasing rates of investment. But accelerating inflation in turn aggravated the external problem by further overvaluing the exchange rate, while limiting the appetite of private sector entrepreneurs for productive investment. Workers then recognized the reduced real wages that followed from the inability of nominal payments to keep pace with inflation. On the other hand, attempts to slow the inflationary process produced declines in output without paralle progress in stemming price rises. Inflation then became a cost-push phenomenon that was insensitive to the effors to reduce demand. Without a capacity to tax and to restrain consumption, the state could play the role of capital accumulator only by stimulating inflation.

Following the East Asian style of the outward-looking orientation, the economics of the post-import substitution popualism, most prominent in Brzail since the early 1960's but with vestiges elsewhere, was nothing but state capitalism that did not radically alter the import substitution framework it inherited.[7]

One of the most popular elements on the Latin American "development of underdevelopment" literature which is currently held by many Korean intellectuals including college studengs might be dependency theory. This theory gained prominence in the 1960's in Latin America in response to the deficiencies of modernization theory as well as the observed limitations of import substitution industrialization. The contribution of dependency theory derives from its use of position within the international system as a determinant of class behavior. It is much more a contribution to socio-political analysis than to economic modeling in the narrow sense.

Within the "dependency" label theories, there exist diverse approaches. Some writers argue that it is misleading to look at dependency as a formal theory, and that no general implications for development can be abstracted from its analyses. Some of those who argue for such a theory flatly assert that it leads inescapably to the conclusion that development is impossible within the world capitalist system, thus making development irrelevant within that system. Others, on the other hand, who speak in terms of a theory of dependency, argue that it can be operationalized into a practical development strategy for dependent countries.[8]

7 *Ibid.*
8 For details, see Palma, Gabriel, "Dependency: A Formal Theory of Underdevelopment or a Methodology for the Analysis of Concrete Situations of Underdevelopment?" *World Development*, vol. 6, pp. 881-884.

Three economic propositions are integral to a dependency perspective. One is the principle of unequal exchange. The second is the adverse consequences of private foreign investment. The third is the disarticulation of the peripheral capitalist economy due to its skewed consumption pattern copied from that of the advanced industrial countries.[9]

According to the theory of unequal exchange, low wages in developing countries artificially reduce the prices of exports from LDCs which benefits the purchasers rather than the sellers. It can be rendered in neoclassical terms as an unfavorable division of the gains from trade, whether the result of excess supplies of labor or high income elasticities of demand for imports. Trade can then impoverish rather than enrich. Staying in the international economy is a mistake rather than a blessing under such conditions. Direct foreign investment provides an opportunity for multinational firms to pursue their global strategy at the expense of national concerns. There is conflict rather than coincidence among interests and the greater power of the foriegn enterprise in conjunction with domestic class collaboration is likely to prevail. Dependency analysis saw the fatal flaw in import substitution to be the concession of favorable treatment to foreign firms. Further, dependistas hold that there can be no autonomous development so long as technology is externally supplied rather than indegenously created.

Up to this point, we have discussed some crucial differences in development paradigms between Korea and some Latin American countries. In sum, Korea followed an extreme form of the outward, industry-oriented strategy whereas Latin American countries, for example Argentina adopted a prototype inward-oriented development path. Table 2 clearly exhibits the difference in the trade orientation between two countries.

Table 2

TRADE ORIENTATIONS OF KOREA AND ARGENTINA IN 1975

	Actual Export Shares			Predicted Export Shares		
	E_p	E_m	E	E_p	E_m	E
Korea	0.044	0.196	0.240	0.089	0.044	0.133
Argentina	0.056	0:018	0.074	0.079	0.073	0.152

Source: Hollis Chenery et al, "Industrialization and Growth: A Comparative Study" Oxford University Press 1986, p. 116.

9 Fishlow, Albert (1985), p. 132.

In Korea, the merchandise export ratio of 0.240 (E = merchandise export/GDP) greatly exceeded the predicted share (0.133) for a country of its characteristics in the worldwide scale. Both the primary export share (E_p) and the manufactured export share (E_m) in Korea show far greater values than their respective predicted shares in 1975. In contrast to the case of Korea, the export ratio of Argentina in 1975 fell short of its predicted value, whereas its composition was biased substantially toward primary exports.

Both the export growth and per capita GNP between Korea and key Latin American countries are presented in Table 3.

Table 3

GROWTH RATES OF EXPORT AND GNP PER CAPITA

	Export Growth Rate		Per Capita GNP	
	1965-80	1980-87	Growth Rate (1965-87)	Value (1987 U.S.$)
Argentina	4.7	–0.3	0.1	2,390
Brazil	9.3	5.6	4.1	2,020
Mexico	7.6	6.6	2.5	1,830
Chile	7.9	4.3	0.2	1,310
Colombia	1.4	7.5	2.7	1,240
Peru	2.3	14.3	6.4	2,690

Source: World Bank, World Development Report 1989.

Korea clearly outperformed the Latin American countries in terms of both export and economic growth for the period of 1965-1987.

It was pointed out that direct foreign investment has played a critical role in pursuing inward-oriented strategy in Latin America. Historically, the great surge of DFI in Latin America took place between 1940 and 1960 and was closely linked to the strategy of import substitution industrialization.

Cross-country comparisons in Table 4 reveal some differences between Korea and three Latin American countries.

Table 4

COMPARISONS OF FOREIGN DIRECT INVESTMENT BETWEEN KOREA AND LATIN AMERICAN COUNTRIES

Country	GNP (1976 billions of dollars)	Net Foreign Direct Investment		Profit Repatriations from Direct Foreign Investment (1972-76)	
		(millions of U.S.$) 1972-76	(% of net foreign capital in flow) 1972-76	% of GNP	% of Exports
Korea	25.3	460.2	7.9	0.1	0.4
Brazil	143.0	6,158.3	22.9	0.5	6.5
Colombia	15.7	148.3	10.2	0.7	3.9
Mexico	65.4	2,617.5	16.0	1.2	12.5

Source: World Bank, "Consolidated Balance of Payments." May 19, 1978.

First, the three Latin American countries have had relatively large DFI compared to Korea, in magnitude as well as in percentage of net foreign capital inflow. The comparison of rates of profit repatriation also indicates far higher levels for Mexico, Brazil and Colombia than for Korea.

In Latin America, industrial production as a whole was geared primarily to the domestic market, and most MNC investment was undertaken to meet local demand, taking advantage of government protection of local markets.

Since the mid-1960s, however, the inefficiency of ISI has become increasingly evident. Under ISI strategies, imports of equipment, raw materials, and intermediate inputs have risen rapidly, as have outflows of profits, royalties, and interest payments. These have led to growing foreign indebtedness and balance-of-payment difficulties, which have been one of major causes of the current Latin American economic crisis.

Unlike Korea, Latin America received much DFI during the ISI period through international subcontracting to subsidiaries of the large MNCs. Subsequent export promotion by DFI in Latin America took place within a similar framework. Korea, on the other hand, has started to export complete automobiles produced by wholly domestic firms with no involvement by the large MNCs. Korea's approach undoubtedly means slower growth of automotive export and higher costs in the short run. But in the long run, having an independent sector under wholly Korean management may well pay off.

The share of DFI in total foreign capital has been much smller in Korea than in Latin American countries. This is largely because in general, the Korean government has placed much more severe restrictions on the introduction of foreign capital than have its Latin American counterparts. As a result, foreign investment has played a far more important role in the development of the industrial structure in Latin America than it has in Korea. A natural consequence is that foreign penetration into dynamic sectors of the economy is much more significant in Latin America than in Korea.[10]

In the case of Korea, foreign investment policies have been formulated to be compatible with the indigenous development strategies. Korea's export-led industrialization has overwhelmingly been directed and controlled by Koreans. DFI has played only a marginal supportive role not only in investment finance, but also in technology transfer and export promotion.

Korea has relied on indigenous efforts to gain industrial competence through various forms of learning by doing and has emphasized transactions at arm's length in the use of foreign resources. Korea's abundance of entrepreneurial resources which were developed through widely rooted educational systems in industry as well as in government has made much of this possible. Transfer of technology from abroad constitutes only the initial stage in acquiring technology mastery. Of far greater importance are local efforts to adopt the technology that is transferred and to apply the mastery in other undertakings, thereby fostering locally based innovative activity.

Relatively little reliance on DFI in Korea during the industrial transformation process could be explained by the tremendous efficacy of export activity as a means of acquiring industrial competence. Merely through export activity, Korean firms have enjoyed costless access to a wide range of information and have been oriented toward international standards in changing product design, upgrading quality, and improving management practices.

One of the most crucial institutional rigidities in Latin America is the traditional land ownership system namely the Latifundia system, which has not been seriously subject to modern land reform. In the case of

10 For details, see Ahn, Choong Yong, "Foreign Investment and Trade Promotion Schemes: With Some Comparisons between Korea and Latin American Countries," *Journal of Economic Development, vol. 13, no. 2, December 1988.*

Southern Brazil, extremely skewed distribution is quite evident in Table 5.

Table 5

FARM SIZE DISTRIBUTION IN THE WHEAT REGION OF RIO GRANDE DO SUL OF BRAZIL IN 1967

From size (in hectares)	Number of farms	Percentage	Total land use (in hectares)	Percentage
0-25	65,054	67.32	753,155	13.76
26-50	15,807	16.35	541,606	9.89
51-100	7,485	7.74	506,092	9.25
101-1,000	7,558	7.82	2,112,646	38.61
1,000-10,000	729	0.77	1,557,794	28.49
Total	96,633	100.00	5,471,283	100.00

Source: Singh and Ahn (1978).

Ahn and Singh (1978) and Singh and Ahn (1978) demonstrated that development policies resulted in increased income differentials largely due to differences in land ownership and over-capitalization on larger farms. In the absence of land reform, the inequity of land ownership appears to cause under-utilization of growth potential.

Another factor attributable to Latin America's economic downturn could be found in the long history of political instability which very often resulted in inconsistencies of economic policies as well as effective policy implementation.

V. Conclusion

In contrast to the Latin American development paradigm, Korea's development strategy since the early 1960's to date has been outward and industry-oriented. Active participation in international trade allowed Korea to grow faster than the Latin American countries, substantially to reduce its external debt and finally to emerge as early creditor country. This is clearly opposite results of the economic consequences advocated by the dependistas based on the criteria suggested by Fishlow (1985). Borrowing the terminology coined by Wallerstein, Korea would seem about to cross the threshold in the shift from the "semiperiphery" toward the "core," riding on the track of the "dependency reversal" rather than dependency deepening which she experienced during Japanese colonial period and post-Korean War reconstruction period. Dependency analysts perhaps exaggerate the compatibility of the desired objectives of greater equality and sustained autonomous growth through inward-oriented style of development.

Latin American development experiences provide us with a number of valuable lessons. Forst, it is essential for Korea to continue to reinforce and supplement the efficacy of the export promotion in the future. An economic growth strategy featuring growth in domestic consumption is simply insufficient for maintaining developmental momentum and international competitiveness. In the process of modernization and development, Korea must learn as many lessons as it can from the experiences of advanced countries and must exploit the advantage of the late comers.

Second, perhaps Korea should learn from the hard fact that once the world's eighth largest economy, Argentina in 1987 ranked 84th in the global order, just ahead of Panama.[11] Once a semiperiphery country becomes mismanaged and its economic agents subject to disintegration without economic consensus, it is easier for the country to slip away to the status of the periphery. Often, such a country may be unable to reach the core. As a matter of fact, we have yet to witness the advent of the latter case among developing countries since World War II.

Third, Korea's further development toward industrial maturity depends on Korea's ability to generate a consensus and to channel people's energy toward industrial development. In this regard, the establishment of harmonious industrial relations seems to be most crucial in Korea at this point in time. This of course can occur if and only if democracy can flourish and exert the following ingredients: freedom and stability; affluence and equity; and fairness and balance.

The current economic, social, political unrest in Korea is deeply related to the popular demand for greater equity in the distribution of income and wealth and for greater balance in regional and sectoral growth. The institutional failures that went unnoticed during the rapid growth of the past years can no longer be tolerated if Korea wishes to obtain industrial maturity.

Fourth, Korea needs to set "new rules of game" which will eradicate rent seeking mentalities and opportunities prevailing among many Koreans, rich and poor. The new rules of the game appear to be crucial

11 *Time*, July 10, 1989, cover story, "Can He Save Argentina?," pp. 10-15.

for establishing mutually supportive labor-management relationships. The economic incentive system needs to be firmly institutionalized in every economic activity and arrayed so as to maximize individual's productivity. We need to pay special attention to the fact that land is distributed more unevenly than financial assets the distribution of which is more skewed than income. Considering Korea to have one of the highest man/land ratios in the world, structural rigidities due to skew distribution of land ownership might exercise a substantial limit on growth as evidenced in Latin America. In this context, both "public concept of Land Ownership" and "Real Name Financial Transactions" which are still under hot debate must be institutionally introduced in due course of Korea's economic restructuring. Maintaining balance and equity is essential to enhancing efficiency, motivation and vitality in development.

Last, but not least, Korea needs to revitaliz its human capital which in the past generated a pool of dynamic entrepreneurs, high caliber scientists, able administrators, and highly disciplined workers crucial to achieve industrial progress. Again, the human resources in Korea will be the ultimate key in determining whether Korea can establish a competitive high technology society in the years ahead.

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