

39

# **AN ECONOMIC PROGRAMME FOR KOREAN RECONSTRUCTION**



**PREPARED FOR THE  
UNITED NATIONS KOREAN  
RECONSTRUCTION AGENCY**

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**March 1954**

This report "An Economic Programme for Korean Reconstruction" has been prepared by the Robert R. Nathan Associates in fulfilment of its contract with the United Nations Korean Reconstruction Agency. A preliminary report on the same subject by the Robert R. Nathan Associates was released on 15 December 1952.

In making the present report available, the Agency does so hoping it will be of assistance to all those working to accomplish the important task of Korean reconstruction following that nation's heroic stand against aggression. Distribution of the report by the Agency does not necessarily mean that the United Nations Korean Reconstruction Agency accepts in all respects the positions taken or the recommendations made therein.

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LETTER OF TRANSMITTAL

Washington, D.C.  
February 4, 1954

Sir:

I have the honor to submit herewith the final report, An Economic Program for Korean Reconstruction, in fulfillment of the contract between the United Nations Korean Reconstruction Agency and Robert R. Nathan Associates, Inc.

On December 15, 1952, a preliminary report on Korean reconstruction was submitted in response to the immediate urgency for initiation of the rehabilitation task. The present report includes a far more elaborate and detailed analysis of the Korean economy and a comprehensive program for the rebuilding of the country. In the interim period, many policy memoranda were presented and frequent consulting and advisory services were rendered by our staff.

There is little basis in fact for the frequent comments that have been made to the effect that "Korea has been surveyed to death". We found, especially in the economic area, an almost total lack of economic analysis and plans and a desperate need for work in this field.

The limitations imposed by the paucity of statistical and other information were overcome in considerable measure because of the cooperation received from the staffs of the various United Nations agencies and from Koreans operating at staff levels. The continuity of the work of most of our staff members during the year ending September, 1953 made possible the acquisition of a solid and sound understanding of the country and its problems.

There are three general observations which are worthy of emphasis. First, we sincerely believe that the potentialities do exist in the Republic of Korea for the development of a self-supporting economy at a reasonable standard of living. We were especially impressed with the courage, vigor and determination of the Korean people. The job of reconstruction is a huge and challenging one, but by no means a hopeless undertaking. Given adequate aid and an intelligent utilization of resources, Korea can achieve economic independence.

Second, we believe that the free world should do everything within its power to assist the Korean people in the reconstruction of their economy. The collective action which served to prevent the communist forces from destroying the Republic of Korea, should also serve to rebuild the country. Sympathy, understanding and patience will be needed along with material resources and technical assistance. The volume of aid should be generous, but adequate safeguards must be taken to guarantee the efficient use of this aid. The people of Korea are deserving of adequate assistance and certainly they are also deserving of an economic environment which will assure to them the fruits of freedom and peace.

Third, to achieve the goal of economic self-support, the reconstruction task will require the highest quality of intelligent and dedicated democratic leadership. Every effort must be extended by all parties to fulfill this crucial requirement.

We wish to express our appreciation to the United Nations Korean Reconstruction Agency for the opportunity to participate in this important task and we are hopeful that this report will serve to assist your agency and other United Nations agencies and the Republic of Korea in the difficult days ahead.

*Robert R. Nathan*

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## AN ECONOMIC PROGRAMME FOR KOREAN RECONSTRUCTION

### SUMMARY

#### A responsibility and an opportunity

The free nations of the world joined together in 1950 in a common effort to resist communist aggression against the Republic of Korea. At great cost in men and materials, that resistance has been successful. War-torn and battered, the Republic of Korea continues as an independent member of the family of nations. The collective security action of the United Nations in the heroic fighting in Korea, may historically be recorded as a major step toward preserving peace among the nations of the world.

Now the task of reconstruction lies ahead. Considerable progress has been made in the past year toward providing the essential minimum requirements for day-to-day life. Production in the Republic of Korea increased measurably in 1953. Yet, the biggest part of the job of rebuilding the economy of the country and laying the foundation for an economically independent community is still to be accomplished. Fortunately, this is a feasible undertaking. The Korean people have the capacity to gain a modest but reasonable livelihood, provided adequate assistance from abroad is forthcoming and a well planned programme of reconstruction is pursued with determination and understanding. Given these conditions, the job of reconstruction and self-support may be pressed forward with confidence.

The free nations of the world undertook a grave responsibility when they joined together to defeat the communist invasion of the Republic of Korea. Now these same nations have an equal opportunity to demonstrate to all mankind that common efforts can also erase the ravages of war and build the foundation for the economic well-being of the long-suffering people of Korea. This opportunity, responsibly assumed, can serve as an example of the strength and solidarity of free people everywhere.

The military phase of the Korean war has come to an end, but the job is not finished. A viable and strong economy is indispensable to secure the objective of a sovereign and democratic Korea. The urgencies may not be as readily apparent in peacetime as in war. However, the recognition of the changing needs and responsibilities for reconstruction by free people both in Korea and throughout the world must be counted upon to sustain this peacetime task. Just as the Republic of Korea and the United Nations demonstrated their recognition of the stakes at issue for world peace and freedom in the period of aggression, so they must recognize the stakes at issue in the development of an independent and self-supporting Korean Republic.

The unification of Korea is a most important objective. Yet, economic reconstruction cannot and need not be delayed pending the achievement of unification. A rehabilitation programme for all of Korea would differ somewhat from programmes for divided sectors. Both parts of Korea would benefit from access to the country's total resources. A unified Korea would be more readily viable than either part. But pending progress toward unification, plans for reconstruction of South Korea can be implemented with confidence that this area can become self-supporting. Further, there is little danger that major investments will be made in South Korea that would be unsuitable in a unified Korea.

#### A feasible undertaking

The overwhelming share of the cost and effort of repelling the aggressors, was borne by the Korean people. But, without the assistance and active participation by free nations, success could not have been achieved. The same co-operation will be needed for reconstruction.

The grievous suffering of the Korean people for more than three years pressed closely on the bounds of human endurance and often exceeded that limit. While this experience has left its heavy mark, the Korean people have at the same time manifested a capacity and a determination which give assurance of their ability to move forward. What they need is help to help themselves. They require more than a generous contribution of goods to provide the bare necessities



of life. Rather, they need substantial and sustained assistance over a sufficient period of time to reach the deeply cherished goal of self-support and economic independence. With the help provided by one and a quarter billion dollars worth of goods from abroad, the Republic of Korea can, in a short space of five years, take its place among the independent and self-supporting nations of the world. This cost is insignificant compared with the many tens of billions of dollars which were spent for the prosecution of the war.

Though the prospects for reconstruction and self-support are favourable, there will be many obstacles in the way of success. The job will not be accomplished easily. The Republic of Korea's unfortunate legacy of foreign domination, war and inflation must be overcome. The facilities damaged by war must not only be rebuilt, but the economy must be expanded to provide for a refugee-swollen population. Korea's slender resources must be carefully managed. Foreign aid must be adequate. A major and sustained effort by Korea and its allies will have to be applied with the same determination and dedication which characterized the costly trial by arms.

The Koreans have had little opportunity to demonstrate their capacity to organize their own resources. When the invaders from the North struck in June 1950, the Republic of Korea was less than two years old. A vigorous and self-reliant people, the Koreans emerged in 1948 eager for modern methods and technology, after decades of foreign control and, before that, long centuries of isolation. The Japanese, in 40 years of domination, had undertaken considerable economic development of Korea, but the pattern of this development was geared primarily to the needs of Japan, rather than to the requirements of an independent nation.

In their short period of independence, the Koreans made considerable progress which, if not interrupted by war, probably would have led to self-support within a reasonably short period of years. Now the task must begin largely anew.

The economic well-being of any nation is determined largely by the talents and the capacities of its people. The Koreans have demonstrated a remarkable capacity for learning and hard work. The experience they have gained in the armed forces working together and using modern equipment will stand them in good stead in the reconstruction effort. Despite restricted opportunities in the past,

when the Japanese held top positions in industry and government, there is an impressive reservoir of managerial and technical talent. This talent, though limited, appears to be more abundant than in any other country in that part of the world save Japan. Of course, further development of this critical resource needs to be fostered. The central task ahead for the Republic of Korea is to establish opportunities and conditions that will enlist the energies and the abilities of all the Korean people squarely behind the reconstruction undertaking.

In addition to its 22 million people, who make up its greatest asset, the Republic of Korea possesses the natural resources for a level of production which will permit self-support at a modest living standard. But, much additional capital equipment will be needed so that these manpower and natural resources can be utilized effectively to serve the needs of a sound economy. The nation's farms, factories and mines, though in a depleted and damaged condition, can be rehabilitated and rounded out to provide the means of livelihood for the Korean people. The resulting living standard will be low by Western criteria, but it can be higher than in most Far Eastern countries. Although the Republic of Korea will long remain a dominantly agricultural country, the industrial pattern, which prevailed prior to the invasion, provides a solid foundation for further industrial development.

Slowly, but measurably, the economy of the Republic of Korea has begun to emerge from the impact of physical destruction and financial chaos associated with the war. Assisted by an increased flow of imports, production has been rising encouragingly. Favourable weather and a larger supply of imported fertilizers yielded a good crop in 1953. The degree of inflation has moderated somewhat in the past year. The progress to date has been impressive and lends greater confidence to the task of reconstruction. But it will take years of dedicated effort and large-scale aid from abroad before the objective of a self-supporting economy will have been achieved.

Pessimism has often been expressed regarding the ability of the Republic of Korea to become self-supporting. Among the grounds commonly cited are the paucity of basic resources; the partition of the country; the difficulties of building virtually anew an adequate export trade; the greatly enlarged needs of the expanded and fast increasing population; the inexperience of the Koreans in the management

of their country; the disorganized state of the economy stemming from the expulsion of the Japanese and worsened by the war; and a decade of disastrous inflation. There is ground for apprehension on all of these and other scores. No one familiar with the Korean economic scene will minimize the seriousness of these problems. Yet the outlook is by no means as bleak as this array of difficulties would indicate.

The Republic of Korea will not be rehabilitated and will not achieve self-support by merely cataloguing the complexities and costs of doing the job. Rather, this can be accomplished only by positive steps to overcome all of the underlying difficulties and to supply the material needs for reconstruction. Satisfactory solutions of Korea's manifold problems come into proper and reasonable focus only when these problems are examined in the perspective of a comprehensive reconstruction plan. This Report presents such a plan.

#### Reconstruction goals

Practically every category of goods has been in serious short supply in Korea since 1950. In the past year, an enlarged flow of aid goods and some improvement in local production have served to overcome the desperate shortages which prevailed in 1951 and 1952. Suffering from food and clothing shortages has been somewhat mitigated. But the rebuilding process was slow in getting under way and is still of limited magnitude. The needs for rehabilitation and reconstruction have been so great relative to the possibilities of meeting them that such rebuilding as was possible to date could be undertaken without risk of serious duplication or the construction of unnecessary capacity. Now there is an increasing and acute need for planning and co-ordination.

The basic determinant of the reconstruction programme for Korea is a set of goals spelling out the requirements of a self-supporting Korean economy. These requirements or goals need to show in detail the production pattern at the time self-support is achieved and the specifications for the capital facilities, raw materials, transportation, equipment, manpower and imports required to produce the indicated level and composition of goods and services. This pattern of an operating, self-supporting economy needs to be tested in many ways to ensure that it represents a feasible set of goals.

Agreement on reconstruction goals plays a critical role in a programme requiring substantial foreign aid. It is essential to mutual understanding and to help ensure an adequate flow of assistance. Well integrated and consistent reconstruction goals also take on a special importance in Korea because of the necessity for compressing into a relatively few years an investment-selection and economic-growth process that would normally be stretched over a much longer period of time.

Reconstruction goals need to be both ambitious and feasible. Goals short of those that can be accomplished would fail to do justice to the urgent needs of the Korean people and to the nations assisting them. On the other hand, goals beyond attainment are not only likely to lead to frustration, but also to bring about a wasteful, unbalanced use of resources and postpone the completion of reconstruction.

The reconstruction goals developed in this Report are designed to meet these requirements. The goals assume that the reconstruction effort will not be hampered by military action. The goals are limited, for the time being, to the present territory and population of the Republic of Korea. It is also necessary to make some assumption regarding the size of the military force that can be supported wholly from Korean resources, when self-support is attained. An approximation of such a normal force is placed at about 200,000 men. Military aid is, of course, not covered in this Report. The objective of complete self-support with a larger armed force than assumed would require modifications of the aid programme and time period set for reconstruction.

A five-year reconstruction programme starting in the present Korean fiscal year - 1 April 1953 through 31 March 1954 - and ending in the fiscal year 1957-58 is believed necessary to achieve the goals proposed. If the start is swift and sure, the planning skillful, and the execution efficient, the goals might conceivably be reached earlier. On the other hand, a variety of difficulties might cause some delay. The reconstruction schedule set calling for a self-supporting status in the year 1958-59, however, is regarded as properly ambitious and, at the same time, realistic.

### Production goals

Production goals need to be high enough to provide the growing population with a reasonable standard of living and to permit the setting aside of sufficient resources for investment to sustain or increase that living standard. Further, they require the production of enough exports to pay for necessary imports. Complete self-support, as noted above, also requires that the economy maintain the necessary normal military forces.

The level of self-support specified in this Report calls for a gross output 40 per cent higher than achieved in the last Korean fiscal year before the invasion, the period from 1 April 1949 through 31 March 1950. This level is 80 per cent above the last fiscal year 1952-53 and about 50 per cent above the anticipated output in the current fiscal year, which has witnessed such a promising recovery.

Agriculture which produces nearly half of the economy's output is counted upon for a 35 per cent gain above the relatively good year of 1949-50. This agricultural objective carries a major responsibility for the success of the reconstruction effort. It is required to meet minimum food needs and to provide a sizeable margin of rice for export. To achieve such an expansion in a country with a highly developed and intensive agriculture, a comprehensive and concentrated programme to improve agricultural yields is proposed, including heavy investments in irrigation, flood control and fertilizer, some shifts in land use away from rice into more suitable crops, and better production incentives and food distribution methods.

Mining output is scheduled for a more than five-fold increase principally to provide much-needed exports and to minimize the needs for coal imports. Manufacturing and construction are projected for increases of about 85 per cent above the pre-invasion level. Construction will have contracted by 1958-59 from the high levels required during the reconstruction effort. Manufacturing will have been expanded by 1958-59 to produce 14 per cent of the enlarged gross national product. Electric power production is programmed for a three-fold increase to meet the needs of an enlarged economy and to eliminate dependence on United States military barges.

### Consumption goals

The projected level of production will yield the Korean people an austere living standard but one that is well above the depths of recent years. At the close of the five-year reconstruction effort, per capita consumption can be restored to about the pre-invasion level of 1949-50. In that year consumption had risen to a post-World War II high after being seriously depressed during the disorganization that followed in the wake of the expulsion of the Japanese. The economy was not self-sustaining in 1949-50. Living standards were, in part, supported by the contribution from the United States Economic Cooperation Administration of some \$110 million compared with a total level of consumption of \$1,440 million and a gross national product of \$1,770 million (valued in 1952-53 dollars).

A higher level of consumption by 1958-59 is, of course, desired by the Koreans and their friends, but it is not consistent with the objective of viability. A population of 24.3 million will have to be supported, an increase of 20 per cent over 1949-50. Importantly, part of the nation's output must be set aside for investment to protect and increase living standards and for exports to pay for needed imports.

The consumption level proposed cannot be a precise duplicate of that in 1949-50. It was then seriously deficient, for example, in textiles and food. Consumer habits have clearly changed in many respects since the war. To force them back into the pre-war mould would require a ponderous and unjustified apparatus of direct controls. A per capita consumption goal a few per cent higher than in 1949-50 seems to be the most conservative that can realistically be set - \$73.50 per capita as against \$70.80 in 1949-50 (both valued in 1952-53 dollars).

The food goal provides for a 14 per cent rise in the volume of consumption of staple food to a level that will still be somewhat short of that recommended by the FAO/UNKRA Mission. This increase involving little change in expenditures is to be accomplished by raising the proportion of the less expensive non-rice staples in the diet particularly barley, sweet potatoes and soybeans. Rice is now grown on unsuitable lands which can yield much more food value in other crops.



Because of the preference for rice this shift will not be an attractive one to Korean people; but it seems clearly required on the grounds of maximizing food output, improving the nutritional content of the Korean diet and channelling a sizeable share of the increase in rice output into exports. Rice exports are projected to supply about 45 per cent of foreign exchange income in 1958-59. Another improvement in diet is projected to result from an 18 per cent per capita increase in fish consumption. Along with a larger supply of soybeans this will help reduce the serious protein deficiency in the Korean diet.

Achievement of the indicated consumption goals will require a large measure of restraint on the part of the Korean Government and people during the reconstruction effort as well as later. It would be unwise to allow consumption to rise to levels which leave no room for further improvement. Consumption levels that cannot be maintained after the reconstruction programme is completed should not be reached during reconstruction. The proposed phasing of the year-to-year expansion in consumption takes these considerations into account.

Although the goals permit a 28 per cent increase in per capita spending on textiles, this will still involve continued austerity. Self-support will necessitate a substantial rise in textile exports as well as sizeable rice exports. The inability to provide as much housing as is needed during the reconstruction period also has to be recognized. The Republic of Korea has an enormous requirement for permanent homes to replace the 600,000 dwellings destroyed and to house refugees and provide for a rapidly growing population. Finally, the import goals require considerable restraint in that virtually no consumer goods are provided for and certainly no luxuries.

#### The investment programme

An investment of \$1.9 billion, provided both from the foreign aid programme and from Korean resources including both imports and the dollar equivalent of Korean domestic costs, will be required to achieve the production levels envisaged, including health, education and housing facilities and technical assistance. Excluding the current year, the investment programme will absorb 18 per cent of the total resources projected as being available to the Korean

people. While this is a high proportion for so poor a country as South Korea it is believed to be a feasible programme if adequate policies are put into effect and the expected volume of foreign aid is forthcoming.

The determination of the amount and kinds of investment required to achieve a desired increase in output is the central problem of a programme of economic expansion. This Report's investment programme has been built up industry by industry and is the product of an intensive series of tests to ensure that it is adequate, feasible, balanced and yields the maximum economic return in terms of needed output. The investment programme has been phased by years; integrated with the year-to-year functioning of the economy during reconstruction; checked for feasibility in the economic stabilization, manpower, transportation and energy spheres; and finally tested with respect to the economy's total import requirements, export expectations and resulting requirements for net imports or aid.

Materials, equipment and services produced by the Korean economy provide for slightly over half of the total investment with capital imports making up the remainder. Allowance has been made for the growing ability of the Korean economy during reconstruction to directly contribute to its own investment programme as rehabilitated or new capacity comes into operation. The ratio of foreign exchange costs to Korean hwan costs of the investment programme falls about 1.5 to 1 in the current ROK fiscal year to about .6 to 1 in the last year of the reconstruction programme, 1957-58.

A considerable part of the expected increase in production during the reconstruction programme will not be the result of investment. Existing capacity can be more fully or better utilized as action is taken to end material shortages and eliminate power deficits which have been plaguing production. Better production methods; improved transportation, now a serious bottleneck; more adequate credit facilities; and a host of other improvements will tend to increase output from existing facilities. A more orderly economic environment, particularly the restoration of an effective price system and economic stabilization, will have pervasive effects in raising production. The year-to-year projections of production are predicated on prompt and vigorous action to produce these results. Most of the increased output associated with these causes will come in the early part of the reconstruction programme.

Of the total investment of \$1.9 billion, \$1.3 billion is programmed. Of the non-programmed remainder, \$350 million is allocated to unplanned new investment which cannot be foreseen in detail and in all likelihood will be weighted heavily with private investment in the distribution and services sectors. It is also expected that a sizeable amount of replacement investment will be undertaken which is made up of individual items sufficiently small or routine not to be encompassed in formally programmed projects. An allowance of \$295 million has been made for this purpose.

An investment of \$447 million is devoted to raising the Republic of Korea's long-neglected and depressed health, educational and housing standards. Nearly half of this total is allotted to housing. This will permit the construction of 300,000 homes or an addition of somewhat less than 10 per cent of Korea's stock of permanent homes. While this is an ambitious programme, it will leave an unsatisfied need for about 700,000 homes. Many Koreans, under this programme, will have to continue to occupy temporary dwelling facilities. The solution of Korea's housing problem must be approached on a long-term basis. After the reconstruction period is over, the capacity for producing housing materials will have been increased. Much can be done to encourage the people to improve their living conditions by self-help.

The cost of expanding Korea's inadequate and war damaged educational institutions is placed at \$133 million. This will permit the carrying out of the recommendations of the UNESCO/UNKRA Mission. Rehabilitation and expansion of health facilities to meet Korea's urgent problems of disease prevention and medical care - hospitals, veteran's institutions, public health centres, water works, medical schools etc. - are estimated to require \$27 million. This programme is largely based on the recommendations of the WHO/UNKRA Mission.

Technical assistance can play a critical role in Korea's reconstruction. Because of Korea's restricted opportunities enforced by centuries of isolation and forty years of Japanese control, there is great scope and promise in this programme. The shortage of technicians, in particular, limits economic progress. The cost of sending Koreans abroad and bringing foreign experts to Korea is placed at \$41 million.

The social investment programme is the largest single category of investment and accounts for over one-quarter of the total investment programme. The proposed expenditures will permit a vast improvement in the welfare of the Korean people. It nonetheless falls far short of including all of the Republic of Korea's planning proposals. In the ROK Five Year Plan social investment accounts for well over half of a total investment programme about the same size as that presented here. That programme, assuming there would be no bottlenecks preventing its accomplishment, would postpone far into the future the attainment of self-support. There would be a serious imbalance between the availability of social services and the supply of essential consumer goods. The desirability of a much larger social investment programme than included in this Report is undeniable but in relation to competing demands for investment funds and the level of social services sustainable after 1958-59, such a programme would not be realistic.

The investment proposed in this Report for other sectors of the economy is, accordingly, considerably higher than carried in the ROK Five Year Plan. Investment scheduled here in the mining industry, for example, is more than three times that envisaged in the ROK plan and is expected to yield added annual output almost equal to the projected \$67 million investment - a very high return relative to investment. Similarly, the investment in manufacturing is 80 per cent higher than in the ROK programme with a favourable ratio of investment to output. Because of the greater industrial activity contemplated in the present programme, the expansion in electric power capacity needs to be nearly 30 per cent higher than in the ROK proposal. Hydro-electric plants are planned to provide most of the increased capacity. The transportation programme is much smaller than that included in the ROK programme because the proposal to build up a sizeable international merchant marine is felt to be highly uneconomic.

These differences with ROK proposals largely grow out of broad questions of economic balance or feasibility. In its details, the ROK plans represent much useful and important work.

#### The financing of imports

The fulfilment of this investment programme, meeting the minimum needs of consumers, and financing essential government services will create a need for far

more resources during the reconstruction period than can be produced by the South Korean economy. Another way of putting this is to say that substantially more imports will be required than can be paid for by exports. Total Korean requirements for goods and services, the production possible by the Korean economy (both expressed in terms of dollars) and the resulting need for net imports or outside aid are shown below:

	Korean fiscal years ending 31 March					Total
	1953-54	1954-55	1955-56	1956-57	1957-58	1953-58
	(Millions of 1952-53 US dollars)					
Total requirements	1,943	2,255	2,388	2,458	2,532	11,576
Gross National Product	1,659	1,905	2,093	2,279	2,400	10,336
Net import or aid requirements (Arrivals)	284	350	295	179	132	1,240

To bring available resources into balance with requirements thus calls for a five-year total of about \$1,240 million in external aid. Since the investment programme cannot get fully underway in this fiscal year, aid requirements rise sharply in the second year, but thereafter decline rapidly as the expansion of Korean output permits more and more of the reconstruction effort to be borne at home.

Appropriations of aid funds are required sufficiently early to permit the arrival of aid supplies in Korea in accordance with the needs of the reconstruction effort. The financing of the aid programme has gotten off to a good start with the available appropriations and pledges of \$358 million for the fiscal year ending 30 June 1954 including the emergency appropriation of the United States Government. Of this \$200 million United States appropriation, \$52 million is for the direct support of military forces and is hence excluded from the calculations in this Report. However, an additional \$35 million is to be requested of the Congress as part of this programme and this has been included. On 1 April 1953, there was a carry-over of aid funds of \$144 million which is available for the reconstruction programme. Not all of the UNKRA programme of \$118 million included in this total has been subscribed by Member nations.

In addition to funds presently available or in sight, appropriations totalling \$739 million are thus necessary. The largest additional annual appropriation of \$326 million needs to be made in the fiscal year ending 30 June 1954. This sum is required to sustain the reconstruction programme and permit its completion on schedule. Thereafter required appropriations drop off to \$250 million in the fiscal year ending 30 June 1955 and \$163 million in fiscal year 1956.

The Korean economy will be able to finance the balance of reconstruction imports. The five-year total of import requirements comes to \$2.1 billion. ROK foreign exchange is projected as paying for \$886 million of this total. ROK earnings of foreign exchange are estimated as rising steadily from about \$120 million in the current fiscal year to about \$260 million in 1958-59.

At present most of the ROK earnings of foreign exchange come from payments for services to the United Nations Command. This is projected as gradually disappearing over the next three years. The export programme calls for a steady rise from a level of an estimated \$33 million volume in the current fiscal year to about \$260 million in 1958-59. A vigorous effort reaching into many areas of the Korean economy and undertaken early in the reconstruction programme will be required to achieve this export goal.

Total requirements for goods and services and hence the estimates of import needs have been calculated throughout the reconstruction period on the basis of the military force of 200,000 men which is projected as being supported wholly by the Korean economy in 1958-59. This force is considerably less than that now in being. With a larger military force, import requirements during reconstruction will be higher than shown in this Report. Continuance of this larger force would, therefore create the need for additional net imports required to support military forces which lie outside the scope of the reconstruction programme as defined here. In fiscal year 1953-54 these additional net import requirements, excluding military end items, are estimated at some \$240 million.

#### Implementing the plan for resource utilization

Accomplishment of the above-outlined plan for using the resources available to Korea is explicitly based on the adoption of a set of economic policies

adequate to achieve the indicated production, investment, consumption and export-import goals. In plotting the course of reconstruction, it is assumed that Korea's available resources will be put to work with a high but realizable level of efficiency. Because of the compelling circumstance of great needs amidst limited resources, the reconstruction plan allows but slender margins for waste and error. A programme for carrying out Korean reconstruction must therefore encompass a formidable set of basic policies that are adequate to achieve the intended results.

This task of policy formulation and action is especially important and far-reaching in Korea where the young Republic has had insufficient time to develop a set of workable economic institutions and practices necessary for the orderly and efficient functioning of its economy. In consequence, the operation of the Korean economy today falls short, by a wide margin, of the efficiency needed for the reconstruction programme. The history of Japanese control and expropriation, war destruction, disruptive inflation, the persistence of feudalistic elements as well as the short life of the Republic all figure in responsibility for lack of economic order and the presence of inefficiencies and obstacles in the Korean economy of today. Sweeping changes and improvements are needed and it is believed that they can be accomplished.

Outside aid can do much to rebuild and raise living standards, but this alone will not create a democratic Korean economy capable of standing on its own. During the reconstruction effort, a set of economic institutions needs to be shaped which can gradually become independent of the special stimulus of a reconstruction and aid programme, and can take hold to manage the nation's economy. Unless Korea is transformed into a self-operating and efficient economic concern, by appropriate policy and institutional changes, the fundamental purpose of Korean reconstruction will not have been accomplished.

Policies for reconstruction, accordingly, occupy a fundamental role in the effort ahead and necessarily concern quite basic aspects of economic organization in addition to those more conventionally associated with a production plan. In this summary it is practicable to identify only the policy problems of more general

importance. Much of the Report, especially Part III, is concerned with a detailed review of policy shortcomings and proposed solutions. Most of these problems must be resolved in the crucible of day-to-day operations by the ROK Government and the United Nations Agencies. Hence, administrative arrangements to assist in reaching sound and co-ordinated decisions also need to be provided for.

#### Stabilizing the economy

Extreme inflation has been the way of economic life in Korea for the past decade. Inflation has corrosive and disruptive effects on people and production. In an attempt to cushion its impact on different groups, the Korean economy has been invaded by a complicated set of inefficient arrangements and subsidies. The functioning of the price system as the regulator of the economy has been most seriously impaired. While less inflation was experienced in 1953, the price rise was substantial and the threat of continued inflation remains.

Reconstruction cannot proceed in an atmosphere of inflation. To put an end to inflation a resolute and concerted programme of action is absolutely essential. With the rising flow of aid, the opportunity is at hand for introducing a comprehensive stabilization programme that will win the confidence of the Korean people. It will also increase the confidence of Korea's allies in her ability to carry out the reconstruction programme.

Thereafter, the demands for reconstruction must be kept within the bounds of the available supply of raw materials, capital goods and labour. The year-to-year pattern of the reconstruction plan has been carefully tested with respect to compatibility with the task of maintaining economic stability. The demands it makes for increased tax yields, limiting government expenditures, and restricting credit seem definitely attainable. The severest test of the stabilization effort is expected in the fiscal year beginning 1 April 1954, when the investment programme is projected for a sharp expansion. The major stabilization reforms, spelled out in considerable detail in this Report, need to be executed in time to have a major impact in fiscal year 1954-55.



### Reviving the price mechanism

Stabilization of the Korean economy will make possible the restoration of the price system and incentives for efficient performance throughout the Korean economy. The attainment of a reasonable measure of price stability is a prerequisite for an effective price system. A rational price system which guides the use of resources in accordance with real economic costs and prices is, in turn, a basic prerequisite for sound economic development.

The Korean economy presents a strange mixture of price and barter arrangements under a multiple price system. Within the controlled price sector it appears that few controls are effective. Though some controls, notably on government and industrial wages, give the appearance of being effective, in effect they have had adverse consequences. Halfway controls have brought inefficiency and black markets. Production has been depressed and business enterprise often either blocked or diverted into speculative channels. Cost-price relationships of domestic goods and imports have usually been ignored in the Government's understandable zeal to keep prices low. Efforts to enforce the artificial arrangements have long since overtaxed the Government's administrative and enforcement machinery.

The only realistic choice is to move rapidly and orderly in the direction of market prices. Control over prices should be largely indirect by means of fiscal, monetary and credit policies. Where transition to market price leads to serious hardships for specific groups or industries some limited corrective measures may be needed but such instances should be few. A single, realistic rate of exchange should be introduced that will bring prices in Korea into line with the cost of imported goods. Prices and wages fixed by the Government should be adjusted to market levels. In-kind arrangements should be largely eliminated. The task of converting incomes to a monetary basis and adjusting prices and wages is difficult but it should be pursued with maximum speed and uncompromising determination.

### Managing Korea's business enterprises

Stabilization and the restoration of the price system will make possible a more efficient operation of business enterprises. Unrealistic pricing practices and inflation are responsible for much of the inefficiencies in the operation of government enterprises and for the situation where sound private business operations cannot be carried on. Reconstruction efforts of the Government and the United Nations have been retarded by the consequent inability to mobilize support among the business community.

Despite progress in turning over the former Japanese business properties to private ownership and operation before the invasion, little has been done during the past three years. Factories still under Government control account for a substantial proportion of industrial capacity. The inefficient operation of these enterprises is a major sore spot in the Korean economy.

A better distribution of responsibility is required, as between the Government and private business, for the operation of the nation's enterprises. The Government is literally overwhelmed with the task of running the bulk of the nation's businesses. The Republic of Korea needs to embark on a positive programme for encouraging the growth of responsible private enterprise. Many policies, particularly price stabilization and market pricing, will help. The sale of the former Japanese industrial properties to competent, responsible individuals and groups should be undertaken promptly. Reconstruction should be conducted in a manner that permits the effective participation of private business. An independent investment and commercial banking system will help. The tax system should provide adequate incentives. A sound programme for technical assistance and training in industry should be put into effect.

Enterprises which are specifically reserved for public ownership by the ROK Constitution and others still under Government control should be managed more efficiently. Plant managers should be carefully selected, paid adequate salaries and offered special incentives for high calibre performance.



### Balancing exports and imports

Korea must take the necessary steps to solve its foreign trade problem simultaneously with building the productive capacity to meet the minimum needs of its people. This is one of the severest tests of the reconstruction effort. The import-export balancing problem needs to be weighed in virtually every aspect of the reconstruction programme. Because of limited resources and the lack of a significant export trade for the last eight years, the export goals call for an effort of the highest order and a skillful meshing of policies in many areas.

Apart from the development of export capacity, the required eight-fold increase in exports will necessitate the maintenance of economic stability, great care in determining the composition of imports and a tenacious implementation of export policies. Most important is the early establishment of a single realistic exchange rate to help promote exports, discouraging excessive imports and generally guide reconstruction by relating Korean prices to world prices. The continuance of the present makeshift set of exchange arrangements constitutes a heavy burden on the Korean economy.

Developing markets for Korean goods will require a sustained and far-flung effort. Sound trade relationships will be promoted by purchasing the most suitable imports in markets offering the best prices. Trade with Japan, Korea's most logical trading partner, can now be conducted under vastly different conditions than in the past and needs to be approached realistically.

Private trade should be encouraged and adequate provision of commercial credit for importers is needed. Foreign exchange and trade controls should be simplified and administered impartially. Tariffs should be used in a highly selective manner to meet the needs of reconstruction, especially by keeping costs of imported raw materials low in the export industries and by strengthening the competitive forces making for an efficient Korean industry. Steps need to be taken during reconstruction which will eventually make it possible for Korea to attract foreign investment. Along with an adequate volume of domestic investment, these funds can perform a critically important role in expanding output to meet the rising needs of the growing population and to permit an increase in living standards. While the

export of food accounts for over half of the value of exports projected for the first year of reconstruction, great stress needs to be placed on non-food exports in the long run. A rising population combined with inevitable limitations on agricultural output will necessitate increasing emphasis on exports other than food.

### The overriding need for policy integration

The overriding and central requirement for reconstruction policies is adequate co-ordination and integration. This requirement stems basically from the complex interrelations inherent in the functioning of a large economy and is reinforced by special problems encountered in South Korea. The economy, though dominantly agricultural, is large and diversified. About 8 million are engaged in a wide range of activities to provide goods and services for a population of 22 million. The problem of achieving a rapid expansion among these varied activities, balanced relative to the requirements of self-support, is compounded by the difficult organizational problems confronting the Government and the United Nations agencies.

All sectors of the economy - including over-all levels of production, consumption and investment - should move ahead in orderly balance. Ministries of the Government, United Nations agencies, and productive enterprises cannot plan and implement operations independently. A decision to finance a textile plant, for example, must be carefully integrated with all other elements in the economy - imports of other textile products, raw materials imports, training and availability of workers, power and transportation facilities etc. Output of this plant needs to be related to total domestic and export needs. Completion of the plant needs to be scheduled in light of needs in other sectors of the economy or unnecessary waste and delays will occur. These are merely illustrative of the more obvious demands for balance. The financial aspects open onto an even more complex set of interrelations including effects on stabilization.

All participants in the reconstruction effort must understand the need for integrating policy and action in all fields with the basic plans for reconstruction. It is equally important to establish the administrative arrangements whereby this co-ordination can take place.

An intensive, continuing joint planning effort in Korea will be essential during the entire reconstruction period. This Report cannot provide a substitute for a process that must necessarily be a continuing one. Moreover, no outside organization can or should determine what the Koreans want or what is best for them. Conversely, the ROK Government cannot determine the amount of aid that will be contributed or deny to United Nations Members an interest in how aid is used. It is hoped that this Report will make two contributions to the joint planning process. First, it can serve as a working basis from which modifications can be tested in the process of achieving agreement on the reconstruction programme. Second, it can serve as a demonstration of the planning techniques that an authoritative body can continuously employ and as a model into which improved and detailed data can be fitted as these become available.

A comprehensive financial budget is required as an operating tool to manage reconstruction, to integrate decisions, and to achieve agreement among the participants in Korean reconstruction. This budget needs to be consonant with the entire reconstruction programme and should relate all financial availabilities to all resources. Present budgetary tools are sorely deficient because of limited scope. In addition, a comprehensive system of national income accounts provides an indispensable tool for the intelligent planning and execution of the reconstruction programme. A beginning has been made in this area but much more remains to be done.

The full Report reviews in considerable detail the whole series of quite complicated understandings and arrangements that are required to facilitate the smooth operation of the reconstruction programme. As is attested by the serious inflation that resulted largely from the inability of the Republic of Korea and the United Nations Command to reach satisfactory agreement on a rate of exchange for hwan withdrawals, delay and lack of co-ordination can well have disastrous effects. The reconstruction task will require continuous collaboration on many equally complex issues and relations need to be placed on a high plane of effectiveness.

Adequate reconstruction policies and effective progress of reconstruction are contingent, in good part, on a reasonably firm understanding on the volume of aid. By staking out the dimensions and character of the task ahead, this Report is intended to contribute to such an understanding.

### Opportunity and leadership

The Korean people have before them the opportunity of transforming their battered and disorganized economy into an expanded, self-sustaining economy capable of yielding them a reasonable livelihood. For the first time they have free access to the resources of technology and knowledge in the outside world. They have before them the opportunity of creating a strong economy which will permit them to realize their highly valued goal of independence and self-determination. Adversity and misfortune has long been their lot. A change is long overdue.

To the free world, Korean reconstruction affords an opportunity to constructively participate in a great endeavour - an endeavour to build a progressive and dynamic economy in a part of the world where millions are unable to eke out a bare subsistence, where competing systems of government and economics threaten freedom and peace. They have an opportunity to help in a practical demonstration of the immeasurable benefits of a free economy and a democratic way of life. The stakes are so high as to dwarf the sums and sacrifices required.

The Members of the United Nations need to act on this responsibility and opportunity by providing adequate assistance. They need also to bring to the task the patience and effort necessary to gain an understanding of the Korean problem. They need to distinguish the feasible from the ideal in a country different from the Western World and to support vigorously the necessary and feasible. They need to provide aid and technical assistance in a manner adapted to the requirements of the new Republic of Korea. Many able people need to make the sacrifices of leaving their homes to help in the rebuilding of a country that is in many ways strangely different.

The responsibility for translating this opportunity into actuality, however, falls overwhelmingly on the Government of Korea. The task requires leadership that is fired by a vision measuring up to the possibilities and the needs, a leadership that is, at once, practical and motivated by the highest ideals.

The plans for reconstruction and proposals for appropriate policies have been set forth in full awareness that achievement will require much understanding and courage. The present situation in Korea has created many interests which may oppose the changes required either for real or fancied reasons. Many may feel that

they benefit or are protected by existing economic arrangements. Opposition may come from fear of the unknown, lack of confidence and inadequate understanding. This places a great responsibility on a government leadership with the vision to pierce the fog of confusion, uncertainty and fear and a leadership that is responsive to the needs and opportunities confronting the Korean nation. The rewards are far greater than the risks.

The role of government is inevitably of crucial importance in Korea. The responsibility of government for the detailed operation of the economy can be reduced to manageable proportions by creating more workable economic institutions. A market pricing system by eliminating the need for detailed regulation, will free the energies of government leadership for more important tasks. The transfer of the responsibility for operating many of the nation's business enterprises to private hands will have similar desirable results. These reforms are in accord with the requirements of a democratic society.

The qualities of vision and courage needed for economic reconstruction have been handicapped by wartime conditions and its aftermath. They were also handicapped by impractical objectives. The objective of fighting inflation and keeping prices low with a set of unworkable controls is one example. Another is the policy on salaries for government officials. It is impractical to expect the required level of integrity in public service as long as officials receive salaries inadequate for bare subsistence. An important practical step, therefore, is to help raise the level of integrity in government by an adjustment of salaries to realistic levels as well as by the institution of such other measures as have proved useful in meeting this problem common to all countries.

Enlightened leadership to achieve these and many other objectives is the indispensable ingredient for successful reconstruction policies and for the achievement of a self-sustaining and strong Korea. The need is for a leadership that responds to the needs of democracy which are the needs of this historic opportunity in Korean history; a leadership that is practical in its recognition of the reforms required for a sound and productive economy and that is capable of grasping the economic complexities of reconstruction; a leadership that recognizes that the handicaps of the Korean people are a product of their cruel history and

is not deterred in utilizing fully the technical assistance offered by the more fortunate nations of the free world; a leadership that takes the necessary measures to establish a high level of integrity required in a government that is confronted with such a large and important task.

This clearly calls for a dedicated effort carried out wisely. No one who knows Korea and the Koreans well can doubt that they are capable of providing it.

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PART I

KOREA'S RESOURCES FOR RECONSTRUCTION AND SELF-SUPPORT